



## Elia System Operator SA/NV

*Boulevard de l'Empereur 20, 1000 Brussels, Belgium*

### **Rights Offering of maximum 7,628,104 New Shares of Elia System Operator SA/NV (the “Company”)**

**€57.00 per New Share in the ratio of 1 New Share for 8 Preferential Rights**

### **Request for admission to trading of the New Shares and Preferential Rights on Euronext Brussels**

This prospectus (the “**Prospectus**”) relates to the public offering to existing shareholders (as defined below) and any holders of an extra-legal preferential right (“**Preferential Right**”) (the “**Rights Offering**”) to subscribe to newly issued ordinary shares in the Company (the “**New Shares**”) and the Scrips Private Placement (as defined below) (together, the “**Offering**”). The issue price for the New Shares is €57.00 (the “**Issue Price**”).

Each shareholder holding shares of the Company at closing of Euronext Brussels on June 5, 2019 (the “**Existing Shareholders**”) will be granted 1 Preferential Right per 1 existing share in the Company held at that time. The Preferential Rights will be represented by coupon nr. 16, which will be separated from the underlying shares on June 5, 2019 after closing of Euronext Brussels. The Preferential Rights are expected to trade on Euronext Brussels from June 6, 2019 up to and including June 13, 2019 and will be listed on Euronext Brussels under the ISIN code BE0970172756 and trading symbol ELI16. The holders of Preferential Rights are entitled to subscribe to the New Shares in the ratio of 1 New Share for 8 Preferential Rights (the “**Ratio**”). The subscription period for the New Shares will be from June 6, 2019 up to and including June 13, 2019, at 3 p.m. CET (the “**Rights Subscription Period**”). Once exercised, the holders of Preferential Rights cannot revoke the exercise of their Preferential Rights, except as set out in section “*Information on the Offering – Supplement to the Prospectus*”. Holders of Preferential Rights who have not exercised their Preferential Rights during the Rights Subscription Period will no longer be able to exercise their Preferential Rights.

Preferential Rights that are not exercised during the Rights Subscription Period will be converted into an equal number of scrips (the “**Scrips**”). The Scrips will be offered for sale in a private placement to institutional investors that is expected to start on or about June 14, 2019 and to end on the same date (the “**Scrips Private Placement**”). The net proceeds of the sale of the Scrips (if any) will be divided proportionally between all holders of Preferential Rights who have not exercised them, unless the net proceeds from the sale of the Scrips divided by the total number of unexercised Preferential Rights is less than €0.01. Purchasers of Scrips in the Scrips Private Placement will irrevocably undertake to subscribe to the corresponding number of New Shares at the Issue Price and in accordance with the Ratio. The statutory preferential subscription right of the Existing Shareholders has been cancelled with respect to the Offering, but the Preferential Rights, each representing an extra-legal preferential subscription right, are being granted as described above. The result of the subscription with Preferential Rights will be announced through a press release before market opening on or about June 14, 2019. The results of the Offering, detailing the subscription with Preferential Rights and with Scrips, the results of the sale of the Scrips and the amount due to holders of unexercised Preferential Rights (if any) will be published on or about June 14, 2019. No minimum amount has been set for the Offering.

The Company has applied to have the New Shares admitted to trading on Euronext Brussels under the trading symbol “ELI”. The Company has applied to have the Preferential Rights admitted to trading on Euronext Brussels under the trading symbol “ELI16”.

---

**An investment in the New Shares involves economic and financial risks, as it is the case for every investment in shares. A prospective investor must consider, when taking its investment decision, that it may lose all or part of its investment. See section “Risk Factors” for a description of the factors that should be considered before subscribing for the New Shares or trading in the Preferential Rights. All of these factors should be considered before investing in the New Shares. Specifically, potential investors should be aware that an adverse regulatory decision or early termination of the necessary TSO license in both Belgium and/or Germany may have an adverse impact on the profitability of the Group. Also, if the Group would not meet the conditions precedent for the contemplated internal reorganization, this may have an adverse impact on the profitability of the Group and may hinder the Group’s ability to make new investments in activities regulated outside of Belgium or non-regulated activities.**

---

Neither the Preferential Rights, nor the Scrips, nor the New Shares have been or will be registered under the US Securities Act of 1933 (the “**Securities Act**”) or with any securities regulatory authority of any state or other jurisdiction in the United States, and they may not be offered, sold, pledged, delivered or otherwise transferred, directly or indirectly, in or into the United States unless the New Shares, the Preferential Rights or the Scrips are registered under the Securities Act or an exemption from the registration requirements of the Securities Act

and applicable state securities laws is available. The New Shares and the Preferential Rights are being offered and sold (i) within the United States to “qualified institutional buyers” (“**QIBs**”) as defined in Rule 144A (“**Rule 144A**”) under the Securities Act in reliance on Section 4(a)(2) under the Securities Act and only by persons that have executed and timely returned an investor letter to the Company and (ii) outside the United States in offshore transactions (as defined in Regulation S under the Securities Act (“**Regulation S**”)) in reliance on Regulation S. The Scrips Private Placement (if any) will be made only outside the United States in reliance on Regulation S.

None of the Preferential Rights, Scrips or New Shares have been approved or disapproved by the US Securities and Exchange Commission or any securities commission or authority of any state or other jurisdiction in the United States, and no such commission or authority has passed upon the adequacy of this Prospectus. Any representation to the contrary is a criminal offense in the United States.

The New Shares, the Preferential Rights and the Scrips have not and will not be registered under the securities laws of any jurisdiction other than Belgium and Germany. The distribution of this document and the offering and delivery of shares in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required to inform themselves about and observe any such restrictions. For a description of these and further restrictions, see section “*Information on the Offering – Plan of distribution and allocation of the New Shares*”.

Delivery of the New Shares is expected to take place through the book-entry facilities of Euroclear Belgium against payment therefor in immediately available funds on or about June 18, 2019.

This document constitutes an offer and listing prospectus for purposes of Article 3 of Directive 2003/71/EC of the European Parliament and of the Council of the European Union (as amended, including by Directive 2010/73/EU, the “**Prospectus Directive**”) and has been prepared in accordance with Article 20 of the Belgian Law of June 16, 2006 on the public offering of securities and the admission of securities to trading on a regulated market as amended (the “**Prospectus Law**”). The English version of this Prospectus was approved by the Belgian Financial Services and Market Authority (the “**FSMA**”). The FSMA’s approval does not constitute an appreciation of the soundness of the Offering proposed to investors nor on the situation of the Company and the FSMA assumes no responsibility as to the economic and financial soundness of the Offering and the quality or solvency of the Company.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any of the New Shares, Preferential Rights or Scrips in any jurisdiction or to any person to whom it would be unlawful to make such an offer. Distribution of this Prospectus may, in certain jurisdictions, be subject to specific regulations or restrictions. Persons in possession of this Prospectus are required to inform themselves of any such restrictions which may apply in their jurisdiction and to observe them. Any failure to comply with these restrictions may constitute a violation of the securities laws of that jurisdiction. The Company disclaims all responsibility for any violation of such restrictions by any person.

***Joint Global Coordinators and Joint Bookrunners***

**J.P. Morgan**

**KBC Securities**

***Joint Bookrunners***

**Belfius Bank NV**

**ING Belgium NV**

Prospectus dated June 4, 2019

## IMPORTANT INFORMATION

### Responsibility statement

The Company, acting through its Board of Directors, assumes responsibility for the content of this Prospectus. The Company declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to its knowledge, in accordance with the facts and contains no omission which would affect its import.

None of J.P. Morgan Securities plc, KBC Securities, Belfius Bank NV and ING Belgium NV (the “**Underwriters**”) makes any representation or warranty, express or implied, as to, or assumes any responsibility for, the accuracy or completeness or verification of the information in this Prospectus, and nothing in this Prospectus is, or shall be relied upon as, a promise or representation by the Underwriters, whether as to the past or the future. Accordingly, the Underwriters disclaim, to the fullest extent permitted by applicable law, any and all liability, whether arising in tort, contract or otherwise, in respect of this Prospectus or any such statement.

### Notice to investors

In making an investment decision, investors must rely on their own assessment, examination, analysis and enquiry of the Company, the terms of the Offering and the contents of this Prospectus, including the merits and risks involved. Any purchase of the New Shares should be based on the assessments that an investor may deem necessary, including the legal basis and consequences of the Offering, and including possible tax consequences that may apply, before deciding whether or not to invest in the New Shares. In addition to their own assessment of the Company and the terms of the Offering, investors should rely only on the information contained in this Prospectus, including the risk factors described herein, and any notices that the Company publishes under applicable law or the relevant rules of Euronext Brussels.

Investors must also acknowledge that: (i) they have not relied on the Underwriters or any person affiliated with the Underwriters in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; and (ii) they have relied only on the information contained in this Prospectus, and that no person has been authorized to give any information or to make any representation concerning the Company or its subsidiaries or the Shares (other than as contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Company or the Underwriters.

None of the Company or the Underwriters, or any of their respective representatives, is making any representation to any offeree or purchaser of the Shares regarding the legality of an investment in the Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Shares.

No person has been authorized to give any information or to make any representation in connection with the Offering other than those contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized. Without prejudice to the Company's obligation to publish supplements to the Prospectus when legally required (as described below), neither the delivery of this Prospectus nor any sale made at any time after the date hereof shall, under any circumstances, create any implication that there has been no change in the Company's affairs since the date hereof or that the information set forth in this Prospectus is correct as of any time since its date.

The Underwriters are acting exclusively for the Company and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Offering and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to herein.

The distribution of this Prospectus and the Offering may, in certain jurisdictions, be restricted by law, and this Prospectus may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. This Prospectus does not constitute an offer to sell, or an invitation of an offer to purchase, any New Shares in any jurisdiction in which

such offer or invitation would be unlawful. The Company and the Underwriters require persons into whose possession this Prospectus comes to inform themselves of and observe all such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Neither the Company nor the Underwriters accepts any legal responsibility for any violation by any person, whether or not a prospective purchaser of Shares, of any such restrictions. The Company and the Underwriters reserve the right in their own absolute discretion to reject any offer to purchase Shares that the Company, the Underwriters or their respective agents believe may give rise to a breach or violation of any laws, rules or regulations.

### **Prospectus approval and supplement**

The FSMA approved the English version of this Prospectus on June 4, 2019 in accordance with Article 23 of the Prospectus Law. The FSMA's approval does not constitute an appreciation of the soundness of the Offering proposed to investors nor on the situation of the Company and the FSMA assumes no responsibility as to the economic and financial soundness of the Offering and the quality or solvency of the Company.

The Prospectus has been translated into French and Dutch. The Company is responsible for the consistency between the French, Dutch and English versions of the Prospectus. Without prejudice to the responsibility of the Company for inconsistencies between the different language versions of the Prospectus or the summary of the Prospectus, in the case of discrepancies between the different versions of the Prospectus, the English version will prevail. However, the translations may be referred to by investors in transactions with the Company.

The information in this Prospectus is current as of the date printed on the front cover, unless expressly stated otherwise. The delivery of this Prospectus at any time does not imply that there has been no change in the Company's business or affairs since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

In accordance with Article 34 of the Prospectus Law, a supplement to the Prospectus will be published in the event of any significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus, or changes not relating to the Offering as such but to the Company, which is capable of affecting the assessment of the New Shares and which arises or is noted between the time when this Prospectus is approved and the trading of the New Shares on Euronext Brussels begins. Investors who have already agreed to subscribe to the New Shares in the Rights Offering or the Scrips Private Placement, before the supplement is published, shall have the right, exercisable within the time limit set forth in the supplement which shall not be shorter than two business days after publication of the supplement, to withdraw their subscriptions in accordance with Article 34, § 3 of the Prospectus Law. The supplement is subject to approval by the FSMA. A supplement to this Prospectus will be published if, among other things: (i) the Rights Subscription Period is changed; (ii) the maximum number of New Shares is reduced prior to the allocation of the New Shares; (iii) the Underwriting Agreement is not executed or is executed but subsequently terminated; or (iv) to the extent required, the Company decides to revoke or suspend the Offering (see section "*Information on the Offering*").

## **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES**

None of the Preferential Rights, the Scrips or the New Shares have been or will be registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States. The Preferential Rights may not be exercised, and the Scrips and New Shares may not be offered, sold, pledged or otherwise transferred directly or indirectly, in or into the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, and in compliance with any applicable securities laws of any state or other jurisdiction in the United States.

Accordingly, none of the New Shares or the Preferential Rights may be offered, sold, pledged or otherwise transferred, directly or indirectly, in or into the United States, except to persons reasonably believed to be QIBs in transactions exempt from, or not subject to, the registration requirements of the Securities Act; provided that any such QIB that wishes to exercise Preferential Rights or purchase New Shares in the United States has executed and timely delivered an investor letter. Outside of the United States, the Rights Offering is being made in reliance on Regulation S. The Scrips Private Placement (if any) will be made only outside the United States in reliance on Regulation S under the Securities Act. Any New Shares or Preferential Rights offered or sold in the United States will be subject to certain transfer restrictions as set forth in "Information on the Offering".

None of the New Shares, the Preferential Rights or the Scrips have been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of them passed upon or endorsed the merits of the Rights Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense in the United States.



## NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

This Prospectus has been prepared on the basis that all offers of New Shares, Preferential Rights and Scrips, other than the offers contemplated in Belgium and Germany, will be made pursuant to an exemption under the Prospectus Directive (2003/71/EC), as implemented in Member States of the European Economic Area (“**EEA**”), from the requirement to produce a prospectus for offers of New Shares, Preferential Rights and Scrips. The Prospectus has been approved by the competent authority in Belgium and passported into Germany, and published in accordance with the Prospectus Directive, as implemented in Belgium and Germany. Accordingly, any person making or intending to make any offer within the EEA of New Shares, Preferential Rights and Scrips which are the subject of the placement contemplated in this Prospectus should only do so in circumstances in which no obligation arises for the Company or any of the Underwriters to produce a prospectus for such offer. Neither the Company nor the Underwriters have authorized, nor do the Company or the Joint Bookrunners authorize, the making of any offer of New Shares, Preferential Rights and Scrips through any financial intermediary, other than offers made by the Underwriters which constitute the final placement of New Shares, Preferential Rights and Scrips contemplated in this Prospectus.

The New Shares, Preferential Rights and Scrips have not been, and will not be, offered to the public in any Member State of the European Economic Area that has implemented the Prospectus Directive, except for Belgium and Germany (each, a “**Relevant Member State**”). Notwithstanding the foregoing, an offering of the New Shares may be made in a Relevant Member State:

- to any legal entity that is a qualified investor as defined in the Prospectus Directive;
- to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Underwriters for any such offer;
- in any other circumstances falling within Article 3(2) of the Prospectus Directive; or
- provided that no such offer of New Shares, Preferential Rights and Scrips shall result in a requirement for the publication by the Company or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer to the public**” in relation to any New Shares, Preferential Rights and Scrips in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the New Shares, Preferential Rights and Scrips so as to enable an investor to decide to purchase New Shares, Preferential Rights and Scrips, as that definition may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

It should be noted that the Offering has been extended to Germany since the Company operates in Germany through 50Hertz and, accordingly, it comprises a number of shareholders among its employees in Germany. However, the Company has not appointed any centralising agent in Germany, nor have any specific procedures been foreseen to accommodate the financial service in Germany. The Underwriters’ role in the context of the transaction will not extend to the offer to the public in Germany and they will not accept any responsibility in this respect. No financial institution has been appointed in Germany to provide financial services in relation to the Offering. Accordingly, German investors wishing to participate in the Offering need, as in any other jurisdiction, to ensure that the financial institution with whom they hold their Shares or through whom they wish to participate in the Offering has the requisite processes in place to timely process their subscription. The financial intermediary with whom they hold their Shares or through whom they wish to participate in the Offering is solely responsible for obtaining the subscription request and for duly transmitting such subscription request together with all necessary documentation and the appropriate number of Preferential Rights. Given the time that may be required to process their subscription, they are encouraged to reach out to their financial institution as soon as possible (see section “*Subscription procedure*”).

## NOTICE TO INVESTORS IN THE UNITED KINGDOM

Offers of the New Shares, Preferential Rights and Scrips pursuant to the Offering are only being made to persons in the United Kingdom who are “**qualified investors**” or otherwise in circumstances which do not require publication by the Company of a prospectus pursuant to section 85(1) of the U.K. Financial Services and Markets Act 2000.

Any investment or investment activity to which the Prospectus relates is available only to, and will be engaged in only with, persons who: (i) are investment professionals falling within Article 19(5); or (ii) fall within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations, etc.”) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or other persons to whom such investment or investment activity may lawfully be made available (together, “**relevant persons**”). Persons who are not relevant persons should not take any action on the basis of the Prospectus and should not act or rely on it.

## AVAILABLE INFORMATION

### Availability of the Prospectus

#### **Prospectus**

This Prospectus is available in English, French and Dutch. This Prospectus will be made available to investors at no cost at the registered office of the Company, at Boulevard de l'Empereur 20, B-1000 Brussels, Belgium. Subject to selling and transfer restrictions, this Prospectus is also available on the internet at the following websites: [www.eliagroup.eu/offering](http://www.eliagroup.eu/offering), [www.kbc.be/elia](http://www.kbc.be/elia), [www.belfius.be/elia2019](http://www.belfius.be/elia2019) and [www.ing.be/equitytransactions](http://www.ing.be/equitytransactions).

Posting this Prospectus and the summary on the internet does not constitute an offer to sell or a solicitation of an offer to purchase, and there shall not be a sale of any of the New Shares in the United States or in any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to its registration or qualification under the laws of such jurisdiction or to or for the benefit of any person to whom it is unlawful to make such offer, solicitation or sale. The electronic version may not be copied, made available or printed for distribution. Other information on the website of the Company or any other website does not form part of this Prospectus.

#### **Company documents and other information**

The Company must file its (amended and restated) Articles of Association and all other deeds that are to be published in the Annexes to the Belgian Official Gazette with the clerk's office of the Enterprise Court of Brussels (Belgium), where they are available to the public. A copy of the most recently restated Articles of Association and the Company's corporate governance charter is also available on the Company's website.

In accordance with Belgian law, the Company must also prepare audited annual statutory and consolidated financial statements. The annual statutory financial statements, together with the report of the Board of Directors and the audit report of the statutory auditor, as well as the consolidated financial statements, together with the report of the Board of Directors and the audit report of the statutory auditor thereon, will be filed with the National Bank of Belgium, where they will be available to the public. Furthermore, as a listed company, the Company must publish an annual financial report (comprised of the financial information to be filed with the National Bank of Belgium and a responsibility statement) and a semi-annual financial report (comprised of condensed financial statements, the report of the statutory auditor, if audited or reviewed, and a responsibility statement). These reports will be made publicly available on: (i) the Company's website; and (ii) STORI, the Belgian central storage mechanism, which is operated by the FSMA and can be accessed via [stori.fsma.be](http://stori.fsma.be) or [www.fsma.be](http://www.fsma.be).

As a listed company, the Company must also disclose "inside information", information about its shareholder structure and certain other information to the public. In accordance with MAR and the Belgian Royal Decree of November 14, 2007 relating to the obligations of issuers of financial instruments admitted to trading on a regulated market (*"Arrêté royal relatif aux obligations des émetteurs d'instruments financiers admis aux négociations sur un marché réglementé"* / *"Koninklijk besluit betreffende de verplichtingen van emittenten van financiële instrumenten die zijn toegelaten tot de verhandeling op een gereguleerde markt"*), such information and documentation will be made available through press releases, the communication channels of Euronext Brussels and STORI or a combination of these media. All press releases published by the Company will be made available on its website. The Company's website address is [www.eliagroup.eu](http://www.eliagroup.eu).



## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Statutory Auditors

Ernst & Young Réviseurs d'Entreprises/Bedrijfsrevisoren BCVB, a civil company having the form of a cooperative company with limited liability (*société civile coopérative à responsabilité limitée/burgerlijke coöperatieve vennootschap met beperkte aansprakelijkheid*) organized and existing under the laws of Belgium, with registered office at De Kleetlaan 2, B-1831 Diegem, represented by Patrick Rottiers, and KPMG Réviseurs d'Entreprises/Bedrijfsrevisoren BCVBA/SCCRL, a civil company having the form of a cooperative company with limited liability (*société civile coopérative à responsabilité limitée* / *“burgerlijke coöperatieve vennootschap met beperkte aansprakelijkheid”*) organized and existing under the laws of Belgium, with registered office at Luchthaven Brussel Nationaal 1K, 1930 Zaventem, represented by Alexis Palm, were reappointed as statutory auditors of the Company on May 16, 2017 for a term of three years ending immediately after the closing of the General Shareholders' Meeting to be held in 2020 that will have deliberated and resolved on the statutory financial statements for the financial year ended on December 31, 2019. Ernst & Young Réviseurs d'Entreprises/Bedrijfsrevisoren BCVB and KPMG Réviseurs d'Entreprises/Bedrijfsrevisoren BCVBA/SCCRL are both members of the Belgian Institute of Certified Auditors (*“Institut des Réviseurs d'Entreprises”* / *“Instituut van de Bedrijfsrevisoren”*).

The statutory financial statements of the Company as at December 31, 2016, December 31, 2017 and December 31, 2018, in each case, for the financial years then ended, were prepared in accordance with generally accepted accounting principles in Belgium (**“Belgian GAAP”**) and have been audited by the Company's joint statutory auditors. Unqualified opinions for the years ended December 31, 2017 and 2018 were delivered and an unqualified opinion with an emphasis of matter was delivered for the year ended December 31, 2016.

All of the consolidated financial statements prepared in accordance with IFRS, as endorsed by the EU, have been audited by the Company's joint statutory auditors, who delivered unqualified opinions for the years ending December 31, 2017 and December 31, 2018. An unqualified opinion, with emphasis of matter was provided for the year ended December 31, 2016. The emphasis of matter related to the fact that regulatory balances are subject to a review by the regulator which could result in adjustments, as described in the risk factor *“Deviations between actual and budgeted volumes of electricity transmitted and between effectively incurred and budgeted costs/revenues may have a negative short-term effect on the cash position of the Group as well a negative medium-term impact on the tariff-setting for the next period”*. The same matter has not given rise to any emphasis of matter in the audit opinions for the following years as a result of changes in applicable auditing standards, which apply as from 2017 and no longer require such a classification.

### Financial information and information included by reference

The audited consolidated financial statements of the Company for the years ended December 31, 2018, 2017 and 2016 prepared under IFRS, the press release dated February 22, 2019 on the “Elia Group full year 2018 results” and the press release dated May 17, 2019 on the “Q1 2019 Interim Statement” are incorporated by reference in this Prospectus and form an integral part of this Prospectus, save to the extent that a statement contained in this Prospectus modifies or supersedes any earlier statement contained in a document incorporated by reference (whether expressly, by implication or otherwise).

The table below sets out the relevant pages of the Company's audited consolidated financial statements for the year ended December 31, 2018 that are incorporated by reference in this Prospectus:

Consolidated income statement	Page 26
Consolidated statement of comprehensive income	Page 27
Consolidated statement of financial position	Page 28
Consolidated statement of changes in equity	Page 29
Consolidated statement of cash flows	Page 30
Notes to the consolidated financial statements	Page 31
Statutory auditors' report on the consolidated financial statements	Page 94

The table below sets out the relevant pages of the Company's audited consolidated financial statements for the year ended December 31, 2017 that are incorporated by reference in this Prospectus:

Consolidated income statement	Page 2
Consolidated statement of comprehensive income	Page 3
Consolidated statement of financial position	Page 4
Consolidated statement of changes in equity	Page 5
Consolidated statement of cash flows	Page 6
Notes to the consolidated financial statements	Page 7
Statutory auditors' report on the consolidated financial statements	Page 59

The table below sets out the relevant pages of the Company's audited consolidated financial statements for the year ended December 31, 2016 that are incorporated by reference in this Prospectus:

Consolidated income statement	Page 2
Consolidated statement of comprehensive income	Page 3
Consolidated statement of financial position	Page 4
Consolidated statement of changes in equity	Page 5
Consolidated statement of cash flows	Page 6
Notes to the consolidated financial statements	Page 7
Statutory auditors' report on the consolidated financial statements	Page 56

Any information not listed in the tables above but included in the document incorporated by reference is given for information purpose only.

The information incorporated by reference is available on the website of the Company ([www.eliagroup.eu](http://www.eliagroup.eu)).

The audited consolidated financial statements of Eurogrid GmbH for the year ended December 31, 2018 are attached as Annex A to this Prospectus.

As set out in the Company's 2018 audited consolidated financial statements, there have been a number of changes that have occurred in the Group's 2018 consolidated financial statements compared to its 2016 and 2017 consolidated financial statements. First, the Group opted for the full retrospective application of IFRS 15. This implies that comparative figures for financial year 2017 were restated to give effect to such retrospective application of IFRS 15.

Secondly, the presentation of the consolidated financial statements of the Company for the year ended December 31, 2018, is affected by the acquisition of an additional 20 per cent stake in Eurogrid International CVBA ("**Eurogrid International**"), which Elia acquired on April 26, 2018. This transaction increased Elia's shareholding in Eurogrid International from 60 per cent. to 80 per cent., giving Elia control over Eurogrid International. The consolidation method of Eurogrid International and its affiliates was consequently switched from the equity method, which applied for the first four months of the 2018 financial year, to a full consolidation as from acquisition May 1, 2018 following completion of the acquisition of the additional 20 per cent. stake. Since the actual 2018 income statement only fully consolidates Eurogrid International as from May 1, 2018, *pro forma* profit and loss accounts for 2018 have been included in this Prospectus assuming full consolidation of Eurogrid International as from January 1, 2018 (see section "Unaudited *Pro Forma* Financial Information").

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

#### **Foreign currency information**

In this Prospectus, references to "EUR" or "€" are to the currency of the member states of the European Union participating in the European Monetary Union and references to "U.S. dollars" or "\$" or "U.S.\$" are to the currency of the United States.

## ENFORCEABILITY OF CIVIL LIABILITIES

The documents governing the New Shares, Preferential Rights and Scrips will be governed by the laws of Belgium. The Company has expressly submitted to the jurisdiction of the courts of Belgium for the purpose of any suit, action or procedure to enforce the New Shares, Preferential Rights and/or Scrips.

The Company is a public limited liability company governed by the laws of Belgium. All of the Company's directors and officers reside outside the United States. In addition, a substantial portion of the assets of such persons and the assets of the Company are located outside the United States. As a result, it may be difficult or impossible for investors to effect service of process within the United States upon the Company's directors or officers named in this document, or enforce, in the US courts, judgments obtained outside US courts against the Company's directors and officers in any action.

The United States and Belgium currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon US federal securities laws, would not automatically be recognised or enforceable in Belgium. In order to enforce any judgment of a US court in Belgium, proceedings must be initiated by way of an action on the judgment of the US court under common law before a court of competent jurisdiction in Belgium. In such an action, a Belgian court generally will not (subject to the following sentence) re-examine the merits of the original matter decided by a US court and will order summary judgment on the basis that there is no reasonable prospect of a defence to the claim for payment. The entry of an enforcement order by a Belgian court is typically conditional upon, amongst other things, the following:

- the US court having had jurisdiction over the original proceedings according to Belgian conflict of law rules;
- the judgment of the US court being final and conclusive on the merits in the court in which the judgment was pronounced;
- the judgment of the US court being for a definite sum of money;
- the judgment of the US court not being for a sum payable in respect of a tax or other charge or in respect of a fine or other penalty;
- the judgment of the US court not being for multiple damages arrived at by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damage sustained;
- the judgment not having been obtained by the fraud of the party benefiting from it nor having been affected by any fraud of the US court itself;
- there not having been a prior inconsistent decision of a Belgian court between the same parties;
- the judgment not having been obtained in proceedings which breached principles of natural justice; and
- the judgment of the US court not otherwise contravening Belgian public policy.

Subject to the foregoing, investors may be able to enforce in Belgium judgments in civil and commercial matters obtained from US federal or state courts. However, the Company cannot assure investors that those judgments will be recognised or enforceable in Belgium. In addition, it is doubtful whether a Belgian court would accept jurisdiction and impose civil liability in an original action commenced in Belgium and predicated solely upon US federal securities laws.

## FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus (including the information incorporated by reference into this Prospectus) are not historical facts and are forward-looking statements. Forward-looking statements appear in various locations, including, without limitation, under the heading “*Summary*” and sections “*Risk Factors*”, “*Legal and arbitration proceedings of the Group*” and “*Outlook 2019*”. From time to time, the Company may make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning the Company’s plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditure, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, business strategy and the trends the Company anticipates in the industries and the political and legal environment in which it operates, and other information that is not historical information.

Words such as “believe”, “anticipate”, “estimate”, “expect”, “intend”, “predict”, “project”, “could”, “may”, “will”, “plan” and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under the heading “*Summary*” and section “*Risk Factors*”, as well as those included elsewhere in this Prospectus. Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social, industry and legal environment in which the Company operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, other than as required by applicable laws, rules or regulations. The Company makes no representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

## TABLE OF CONTENTS

	Page
AVAILABLE INFORMATION	8
SUMMARY	15
RISK FACTORS	32
RATIONALE OF THE OFFERING AND USE OF PROCEEDS	52
CAPITALIZATION AND INDEBTEDNESS	53
THE GROUP'S BUSINESS	55
SELECTED FINANCIAL INFORMATION	101
UNAUDITED <i>PRO FORMA</i> FINANCIAL INFORMATION	106
OPERATING AND FINANCIAL REVIEW	120
DIVIDENDS AND DIVIDEND POLICY	158
MANAGEMENT AND GOVERNANCE	159
RELATIONSHIP WITH SIGNIFICANT SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	192
DESCRIPTION OF SHARE CAPITAL AND ARTICLES OF ASSOCIATION	195
TAXATION	205
INFORMATION ON THE OFFERING	222
UNDERWRITING AGREEMENT	234
GLOSSARY OF SELECTED TERMS	236



## SUMMARY

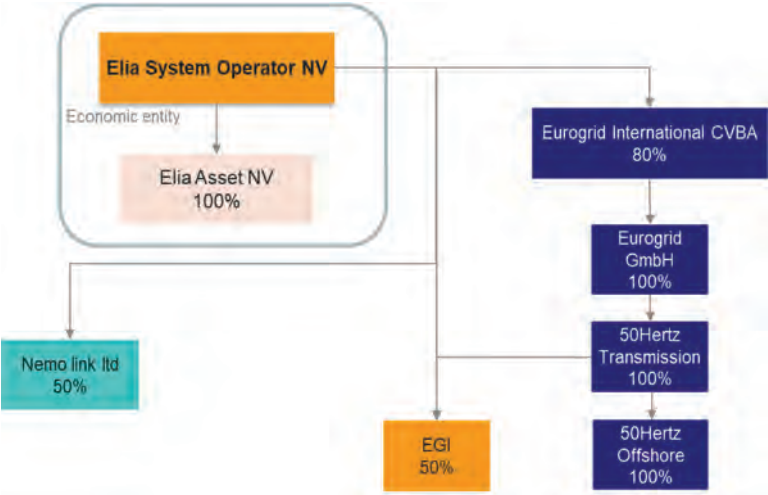
*Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A – E (A.1 – E.7).*

This summary contains all the Elements required to be included in a summary for this type of securities and company. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and company, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of “Not applicable”.

Section A – Introduction and warnings		
Element	Disclosure requirement	
A.1	Introduction and warnings	This summary should be read as an introduction to this Prospectus. Any decision to invest in the New Shares should be based on consideration of this Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the relevant Member State, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or if it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in such Shares.
A.2	Consent for use of the prospectus for subsequent resale	Not applicable. The Company does not consent to the use of the Prospectus for the subsequent resale or final placement of securities by financial intermediaries.
Section B – Issuer		
Element	Disclosure requirement	
B.1	The legal and commercial name of the Company	Our legal name is Elia System Operator SA/NV (the “ <b>Company</b> ”, and references to “we”, “us”, “our” or the “ <b>Group</b> ” are to the Company together with its consolidated subsidiaries; references to “ <b>Elia</b> ” are to the Company together with its subsidiary Elia Asset NV/SA). We carry out our business under the name of Elia System Operator.
B.2	Domicile, legal form, legislation and country of incorporation of the Company	The Company currently has the form of a public limited liability company (“ <i>société anonyme</i> ” / “ <i>naamloze vennootschap</i> ”) and is governed by the laws of the Kingdom of Belgium. We have our registered office at Boulevard de l’Empereur 20, 1000 Brussels.

<b>B.3</b>	<b>Current operations and principal activities of the Company and the principal markets in which it competes</b>	<p>With its two regulated transmission system operating companies (“Elia” in Belgium and “50Hertz” in Germany), Elia Group operates 18,990 km of high-voltage connections that secure the power supply of 30 million end users. The Group is active in three core activities:</p> <ul style="list-style-type: none"> <li>• As <i>grid owners</i>, Elia and 50Hertz prepare to deliver the infrastructure of the future by developing, building and maintaining the transmission grids according to long term needs, investing significantly in the integration of renewable energy, the development of an offshore high-voltage grid and the construction of interconnectors (for example the Nemo Link interconnection between the UK and Belgium).</li> <li>• As a <i>system controller</i>, Elia Group maintains the balance of the system to ensure a reliable supply and efficient operational management of the grids by monitoring the electricity system in real time. With a reliability level of 99.999 per cent, the Company provides society with a robust electricity grid that connects generation and distribution.</li> <li>• As a <i>market facilitators</i>, Elia Group is part of the European integrated markets and plays a role to facilitate the integration of the European energy market by developing services and mechanisms allowing the market to trade on different platforms, which fosters economic.</li> </ul>
<b>B.4a</b>	<b>Significant recent trends affecting the Company and the industries in which it operates</b>	<p>In the future, to support reduction of CO<sub>2</sub> emissions, TSO's will have to make massive investments in their grid infrastructure (interconnections, backbone, etc.). In this decarbonized and progressively digital world, managing the power system becomes increasingly complex and demands massive investments in the existing and new transmission infrastructure. Not only will electricity generation become ever more weather-dependent, but it will also be produced by millions of assets connected everywhere in the European grid. Both transmission and distribution system operators will need more flexibility to keep the system in balance and to manage congestions and voltage issues.</p> <p>Another trend is the trend towards a more incentive-based remuneration schemes for TSO's. This could decrease the predictability of profits for the Group. Opposite, the risk free rate applicable in Belgium for the regulatory period starting in 2020 has been fixed ex-ante for the entire period 2020-2023 at the level of 2.40 per cent, while currently this depends on the 10-year average OLO of the year.</p>

<b>B.5</b>	<b>Description of the Group and the Company's position within the Group</b>	<p>The Company is the parent company of the Group. The following diagram depicts, in simplified form, the organizational structure of the Group, as at the date of this Prospectus:</p>  <pre> graph TD     ESONV[Elia System Operator NV Economic entity] -- 100% --&gt; EANV[Elia Asset NV]     ESONV -- 50% --&gt; Nemo[Nemo link ltd]     ESONV -- 50% --&gt; EGI[EGI]     ESONV -- 80% --&gt; EICVBA[Eurogrid International CVBA]     EICVBA -- 100% --&gt; EGmbH[Eurogrid GmbH]     EGmbH -- 100% --&gt; 50HT[50Hertz Transmission]     50HT -- 100% --&gt; 50HTOff[50Hertz Offshore] </pre> <p>The Group includes two regulated transmission system operating companies ("Elia" in Belgium, consisting of the Company and Elia Asset, and "50Hertz" in Germany) operating under a regulatory framework.</p> <p>In addition to its activities as transmission system operator, the Company also participates in the Nemo Link joint venture, which operates the first subsea interconnector between Belgium and the United Kingdom (collaboration with the British system operator National Grid). With Nemo Link in operation since the beginning of 2019, the Group is subject to a third regulatory framework.</p> <p>Elia and 50Hertz also provide various consulting services to international customers through their joint subsidiary Elia Grid International sa/nv ("EGI").</p>
<b>B.6</b>	<b>Relationship with major shareholders</b>	<p>Elia System Operator is listed on Euronext Brussels and is part of the BEL Mid-Index. Core shareholder is the municipal holding Publi-T (44.87 per cent.). Other core shareholder is Publi-part (3.24 per cent.).</p> <p>The Electricity Act requires that at least 50% of the members of the Board of Directors of the Company as TSO be independent directors. Publi-T's shareholding gives it the right to propose candidates for the other 50 per cent. of the members of the Board of Directors of the Company. Under the Articles of Association of the Company and a shareholder's agreement, Publi-T's shareholding and board representation allows it to block certain board resolutions and all shareholder's resolutions.</p> <p>According to a transparency notification received by the Company on October 29, 2014, the participation of Katoen Natie Group SA in the Company's shares amounts to 5.21 per cent.</p> <p>Since June 2005, the Company has been listed and the free float shares (being the shares of the Company other than those held by Publi-T, Publi-part and Katoen Natie Group SA) today represent 46.68 per cent. of total shares.</p>

B.7	<b>Summary historical key financial information</b>	<p>The summary historical financial information presented below as of and for the years ended December 31, 2018, 2017 and 2016 has been derived from the Group's audited consolidated financial statements, which were prepared in accordance with IFRS.</p> <p>As set out in the Company's 2018 audited consolidated financial statements, there have been a number of changes that have occurred in the Group's 2018 consolidated financial statements compared to its 2016 and 2017 consolidated financial statements. First, the Group opted for the full retrospective application of IFRS 15. This implies that comparative figures for financial year 2017 were restated to give effect to such retrospective application of IFRS 15.</p> <p>Secondly, the presentation of the consolidated financial statements of the Company for the year ended December 31, 2018, is affected by the acquisition of an additional 20 per cent stake in Eurogrid International, which the Company acquired on April 26, 2018. This transaction increased the Company's shareholding in Eurogrid International from 60 per cent. to 80 per cent., giving the Company control over Eurogrid International. The consolidation method of Eurogrid International and its affiliates was consequently switched from the equity method, which applied for the first four months of the 2018 financial year, to a full consolidation as from acquisition May 1, 2018 following completion of the acquisition of the additional 20 per cent. stake. Since the actual 2018 income statement only fully consolidates Eurogrid International as from May 1, 2018, <i>pro forma</i> profit and loss accounts for 2018 have been included in this Prospectus assuming full consolidation of Eurogrid International as from January 1, 2018.</p> <p>The summary historical financial information presented in the tables below should be read in conjunction with the Company's audited consolidated financial statements and its accompanying notes.</p>
-----	---	--

### **Consolidated Statement of profit and loss**

The table below presents the Groups's summary consolidated income statement for the years ended December 31, 2018, 2017 and 2016.

	Year ended December 31,			
	2018	2017 (restated)	2017	2016
	(€ million)			
<b>Continuing operations</b>				
Revenue	1,822.8	808.2	828.5	800.1
Raw materials, consumables and goods for resale	(41.5)	(9.6)	(9.6)	(18.8)
Other income	109.0	59.0	59.0	68.0
Services and other goods	(945.7)	(344.4)	(344.4)	(336.6)
Personnel expenses	(229.3)	(147.2)	(147.2)	(143.9)
Depreciations, amortizations and impairments	(252.3)	(131.2)	(131.2)	(124.8)
Changes in provisions	4.4	0.4	0.4	(5.3)
Other expenses	(30.4)	(19.6)	(19.6)	(22.1)
<b>Results from operating activities</b>	<b>437.0</b>	<b>215.5</b>	<b>235.9</b>	<b>216.6</b>
Share of profit of equity accounted investees (net of tax)	65.6	109.1	108.7	78.4
<b>Earnings before interest and tax (EBIT)</b>	<b>502.6</b>	<b>324.6</b>	<b>344.6</b>	<b>295.0</b>
Net finance costs	(93.3)	(76.5)	(76.5)	(82.8)
<b>Profit before income tax</b>	<b>409.3</b>	<b>248.1</b>	<b>268.2</b>	<b>212.2</b>
Income tax expense	(102.2)	(39.6)	(39.1)	(32.0)
<b>Profit for the period</b>	<b>307.1</b>	<b>208.6</b>	<b>229.1</b>	<b>180.2</b>
Profit attributable to:				
Equity holders of ordinary shares	275.2	208.6	229.1	179.9
Hybrid securities	6.2	0.0	0.0	0.0
Non-controlling interest	25.7	0.0	0.0	0.3
<b>Profit for the period</b>	<b>307.1</b>	<b>208.6</b>	<b>229.1</b>	<b>180.2</b>

EBIT = result from operating activities and share of profit of equity-accounted investees (net of income tax)

The 2017 Group's consolidated revenues have been restated in order to reflect the changes imposed by IFRS 15

### **Consolidated statement of financial position**

The table below presents the Group's summary consolidated financial position for the years ended December 31, 2018, 2017 and 2016.

	As at December 31,			
	2018	2017 (restated)	2017	2016
	(€ million)			
<b>NON CURRENT ASSETS</b>	<b>11,362.8</b>	<b>6,079.1</b>	<b>6,093.3</b>	<b>5,653.9</b>
Property, plant and equipment	8,456.2	3,202.4	3,202.4	2,956.5
Intangible assets and goodwill	2,502.3	1,738.6	1,738.6	1,735.8
Trade and other receivables	177.0	147.8	147.8	63.0
Other non-current assets	227.3	990.5	1,004.5	898.6
<b>CURRENT ASSETS</b>	<b>2,391.5</b>	<b>503.2</b>	<b>503.2</b>	<b>587.7</b>
Trade and other receivables	558.9	281.1	281.1	379.6
Cash and cash equivalents	1,789.3	195.2	195.2	176.6
Other current assets	43.4	27.0	26.9	31.5
<b>TOTAL ASSETS</b>	<b>13,754.3</b>	<b>6,582.3</b>	<b>6,596.5</b>	<b>6,241.6</b>
<b>EQUITY</b>	<b>3,748.9</b>	<b>2,564.4</b>	<b>2,641.8</b>	<b>2,512.6</b>
Equity attributable to ordinary shares	2,741.3	2,563.3	2,640.7	2,511.4
Hybrid securities	706.2	0.0	0.0	0.0
Non-controlling interest	301.4	1.1	1.1	1.2
<b>NON CURRENT LIABILITIES</b>	<b>6,289.0</b>	<b>3,047.9</b>	<b>2,984.5</b>	<b>2,728.0</b>
Loans and borrowings	5,773.8	2,834.7	2,834.7	2,586.4
Other non-current liabilities	515.2	213.1	149.8	141.6
<b>CURRENT LIABILITIES</b>	<b>3,716.4</b>	<b>970.0</b>	<b>970.2</b>	<b>1,001.0</b>
Loans and borrowings	621.1	49.5	49.5	147.5
Trade and other payables	1,989.1	378.5	378.6	390.8
Other current liabilities	1,106.2	542.0	542.1	462.7
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13,754.3</b>	<b>6,582.3</b>	<b>6,596.5</b>	<b>6,241.6</b>

The 2017 Group's consolidated revenues have been restated in order to reflect the changes imposed by IFRS 15



		<b>Consolidated statement of cash flows</b>			
		The table below presents the Group's summary consolidated cash flow for the years ended December 31, 2018, 2017 and 2016.			
		As at December 31,			
		2018	2017 (restated)	2017	2016
		<i>(€ million)</i>			
	Cash flows from operating activities	516.7	430.3	430.3	487.6
	Cash flows from investing activities	(155.2)	(463.1)	(463.1)	(388.7)
	Cash flow from financing activities	1,232.6	51.4	51.4	(548.7)
	<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,594.1</b>	<b>18.6</b>	<b>18.6</b>	<b>(449.8)</b>
	Cash & Cash equivalents at 1 January	195.2	176.6	176.6	626.4
	Cash & Cash equivalents at 31 December	1,789.3	195.2	195.2	176.6
	<b>Net variations in cash &amp; cash equivalents</b>	<b>1,594.1</b>	<b>18.6</b>	<b>18.6</b>	<b>(449.8)</b>
		The 2017 Group's consolidated revenues have been restated in order to reflect the changes imposed by IFRS 15			

### **Additional information of the Group**

The following table presents additional financial and operational figures of the Group for the years ended December 31, 2018, 2017 and 2016.

	Year ended December 31,			
	2018	2017 (restated)	2017	2016
	(€ million)			
Total revenues	1,931.8	867.2	887.5	868.1
Equity accounted investees	65.6	109.1	108.7	78.4
<b>EBITDA</b>	<b>750.5</b>	<b>455.4</b>	<b>475.4</b>	<b>425.1</b>
<b>EBIT</b>	<b>502.6</b>	<b>324.6</b>	<b>344.6</b>	<b>295.0</b>
Non-recurring items	28.1	0.1	0.1	12.0
Normalized EBIT	474.5	324.7	344.5	283.0
Net finance costs	(93.3)	(76.5)	(76.5)	(82.8)
<b>Normalized net profit</b>	<b>280.8</b>	<b>203.4</b>	<b>216.6</b>	<b>168.0</b>
<b>Net profit</b>	<b>307.1</b>	<b>208.6</b>	<b>229.1</b>	<b>180.2</b>
Hybrid securities	6.2	0.0	0.0	0.0
Non-controlling interests	25.7	0.0	0.0	0.3
<b>Net profit attributable to owners of ordinary shares</b>	<b>275.2</b>	<b>208.5</b>	<b>229.1</b>	<b>179.9</b>
Total assets	13,754.3	6,582.3	6,596.5	6,241.6
Equity attributable to owners of the company	3,447.5	2,563.3	2,640.7	2,511.4
Net financial debt	4,605.6	2,689.0	2,689.0	2,557.3
Total RAB (Regulated Asset Base)	9,188.0	7,397.0	7,397.0	7,108.0
RAB (Belgium)	4,269.0	3,914.0	3,914.0	3,908.0
RAB (Germany)	4,919.0	3,483.0	3,483.0	3,200.0
<u>Key figures per share</u>				
Reported earnings per share (EUR) (Elia share)	4.52	3.42	3.76	2.95
Return on equity (adj.) (%) (Elia share)	10.04	8.14	8.67	7.17
Equity attributable to owners of the company per share (EUR)	44.9	42.1	43.4	41.2

EBIT = result from operating activities and share of profit of equity-accounted investees (net of income tax)

EBITDA = EBIT + depreciation/amortisation + changes in provisions

Net financial debt = non-current and current loans and borrowings less cash and cash equivalents

Reported EPS = Net profit attributable to owners ordinary shares / weighted average number of shares

Return on Equity (adj.) = Net profit attributable to owners ordinary shares / equity attributable to owners of ordinary shares

RAB = includes RAB of 50Hertz, at 60% until 2017 and 80% as of 2018

There has been no significant change in the financial or trading position of the Group since December 31, 2018 and no material adverse change in the prospects of the Group since the same date.

B.8	<b>Selected key <i>pro forma</i> financial information</b>	<p>The presentation of the consolidated financial statements of the Company for the year ended December 31, 2018, is affected by the acquisition by the Company of an additional 20 per cent stake in Eurogrid International, which the Company acquired on April 26, 2018. This transaction increased the Company's shareholding in Eurogrid International from 60 per cent. to 80 per cent., giving the Company control over Eurogrid International. The consolidation method of Eurogrid International and its affiliates was consequently switched from the equity method, which applied for the first four months of the 2018 financial year, to a full consolidation as from acquisition May 1, 2018 following completion of the acquisition of the additional 20 per cent. stake. Since the actual 2018 income statement only fully consolidates Eurogrid International as from May 1, 2018, an unaudited <i>pro forma</i> statement of profit or loss for 2018 has been included in this Prospectus assuming full consolidation of Eurogrid International as from January 1, 2018.</p> <p>Because of its nature, the <i>pro forma</i> financial information addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results.</p>
-----	--	---



		<p>In Belgium, a regulated return between 5 per cent. and 6 per cent. is expected. This compares with a regulated return on equity based (based on the normalised results, i.e., excluding non-recurring items) for 2016, 2017 and 2018 of, respectively, 5.0 per cent., 5.2 per cent. and 6.5 per cent.</p> <p>In Germany, a regulated return between 8 per cent. and 10 per cent. is expected. This compares with a regulated return on equity based (based on the normalised results, i.e., excluding non-recurring items) for 2016, 2017 and 2018 of, respectively, 8.8 per cent., 13.0 per cent. and 14.5 per cent.</p>
<b>B.10</b>	<b>A description of the nature of any qualifications in the audit report on the historical financial information</b>	<p>The Company's joint statutory auditors delivered unqualified opinions, with an emphasis of matter for the historical financial information over financial year 2016. The emphasis of matter related to the fact that regulatory balances are subject to a review by the regulator which could result in adjustments. The same matter has not given rise to any emphasis of matter in the audit opinions for the following years as a result of changes in applicable auditing standards, which apply as from 2017 and no longer require such a classification.</p> <p>The Company's joint statutory auditors delivered an unqualified opinion for the historical financial information for financial year 2017 and 2018.</p>
<b>B.11</b>	<b>Working capital</b>	<p>In the Company's opinion, the working capital as of the date of this Prospectus is sufficient for the Company's present requirements, that is, for the 12 month period following the date of this Prospectus.</p>
<b>Section C – Shares</b>		
<b>Element</b>	<b>Disclosure requirement</b>	
<b>C.1</b>	<b>Type and class of the securities being admitted to trading</b>	<p>The New Shares subscribed to by a holder of class A shares will be class A shares provided that the New Shares are issued as a result of such holder exercising its Preferential Rights separated from class A shares. The New Shares subscribed to by a holder of class C shares will be class C shares provided that the New Shares are issued as a result of such holder exercising its Preferential Rights separated from class C shares. A holder of different classes of shares cannot combine Preferential Rights separated from shares of a different class to receive New Shares.</p> <p>The New Shares subscribed to by any other person will be class B shares. The New Shares will be delivered in registered and dematerialized (book-entry) form, depending on their preference, except for the Existing Shareholders holding registered shares, who will receive New Shares in registered form.</p>
<b>C.2</b>	<b>Currency of the New Shares</b>	Euro.
<b>C.3</b>	<b>Numbers of Shares issued</b>	7,628,104
<b>C.4</b>	<b>Rights attached to the New Shares</b>	<p>All shares have the same rights irrespective of their class, except as otherwise provided in the Articles of Association. Pursuant to the Articles of Association, the class A and class C shares are conferred with special rights regarding the nomination of candidates for appointment to the</p>

		Board of Directors and the voting of shareholders' resolutions. Each share is entitled to one vote. And all shares participate in the same manner in the Company's profits (if any).
C.5	<b>Restrictions on the free transferability of the New Shares</b>	<p>The class B shares are freely transferable.</p> <p>Each holder of class A shares or class C shares may freely transfer part or all of its class A or class C shares: (i) to an affiliated or associated person as defined in Articles 11 and 12 of the Belgian Companies Code, who agrees to be bound by the terms of and by the transferor's obligations under the Shareholders' Agreement; and (ii) to the persons indicated in the Shareholders' Agreement, subject to the terms set forward in the Shareholders' Agreement being fulfilled.</p>
C.6	<b>Applications for admission to trading on a regulated market and identity of all the regulated markets where the New Shares are or are to be traded</b>	The New Shares will be listed on the regulated market of Euronext Brussel under the ISIN code BE0970172756. The expected date for the issue of the New Shares is June 18, 2019.
C.7	<b>A description of dividend policy</b>	<p>The Company's dividend policy involves optimizing dividend payments while still bearing in mind that the Company should respect the reservation from a legal perspective and a part of the profit resulting from offsetting the decommissioning of fixed assets in the tariffs will be reserved. Reserving this part of the profit as equity supports the Company's self-financing capacity, enabling it to finance the investments needed for carrying out its tasks.</p> <p>A new dividend policy was formally approved by the Board of Directors on March 21, 2019. Under this policy, the full-year dividend growth is intended not to be lower than the increase of the Consumer Price Index ("inflation") in Belgium. It represents the formalization of the current dividend practice applied by the Company and supports the long-term ambition to target a secure dividend in real terms for the shareholders while enabling the Company to sustain a strong balance sheet that is needed to fund the Company's investment program.</p>
<b>Section D – Risks</b>		
<b>Element</b>	<b>Disclosure requirement</b>	
D.1	<b>Key information on the key risks specific to the Group and its industry</b>	<p><b>Risk related to the adverse changes to the regulatory framework</b></p> <p><b><i>Changes in law or the regulatory framework may negatively impact the Group's profit</i></b></p> <p>Given the specificities of its activities, the Group is subject to extensive European, federal and regional legislation and regulation. Unplanned and/or inconvenient changes or misinterpretations in regulatory or policy mechanisms in Belgium or Germany could conflict with the Company's existing and envisioned strategy causing severe financial and organizational impacts.</p>



	<p><b><i>Some parameters for the determination of the fair remuneration of the Group under the tariff-setting regulations are subject to specific uncertainties which may negatively impact the Group's profit</i></b></p> <p>The remuneration of the Group is almost entirely driven by the regulatory framework applicable to Elia, 50Hertz and Nemo. Changes to the regulatory parameters could impact the profitability of the Group. In addition, the realisation of certain parameters defined in the tariff methodology are subject to specific uncertainties that could affect the Group's financial position.</p> <p><b><i>The TSO licences may be terminated early</i></b></p> <p>Both Elia and 50Hertz are permitted to operate as a TSO in respectively Belgium and Germany. Although the recent renewal of the TSO license in Belgium until 2042, the early termination of the appointment of Elia as the single Belgian TSO may have a material adverse effect on the Company's activities, profits and financial situation. 50Hertz is permitted to operate as a TSO in Germany and, while this authorization is not limited in time, it can be revoked by the Energy Authority of the State of Berlin. Such revocation of the permit will have a material adverse impact on 50Hertz, including ability to meet its obligations with regards to network operation, and hence putting the Company's revenues and profitability at risk.</p> <p><b>Risks related to the contemplated internal reorganization of Elia</b></p> <p>In the event that one or more of the conditions precedents for the reorganization could not be satisfied, the implementation of the internal reorganization project of Elia may be delayed or may need to be made at more onerous conditions for Elia or, even, may be impossible. Such circumstances may hinder Elia's ability to make new investments in activities regulated outside of Belgium or non-regulated activities as from the financial year 2021 and impact negatively the valuation of the financing of activities regulated outside of Belgium or non-regulated activities for regulated tariffs purposes.</p> <p><b>Risks related to the operations of the Group</b></p> <p>The operational risks to which the Group is exposed are mainly related to power outages risks, energy balance risks and transmission disruption or system breakdown. With the higher unpredictability of energy flows due to higher share of variable renewable energy sources and the number of cogenerating units, the risk of transmission disruption may further increase and as such impact the Group's profitability.</p> <p><b>Risks related to the Group's ability to maintain and grow its Regulatory Asset Base</b></p> <p>Since the remuneration of the Group is in part based on its ability to realise projects (as the current remuneration in both Belgium and Germany is subject to the Regulatory Asset Base), its future profits will in part depend on its ability to maintain and grow such asset base (after amortisations and depreciations). To that effect, it will need to realise its contemplated organic growth (including its envisaged capital expenditure) and realise its various projects. In case the group would not be able to realise or not timely realise its various projects and investment program, this could have a negative impact on the Group's future profits.</p> <p><b>Risk related to new business development</b></p> <p>Another key risk lies in any negative results from new business developments, as those are entirely born by the Company and represent an additional financial risk compared to other (regulated) activities.</p>
--	---

		<p><b>Risks relating to negative changes in financial markets</b></p> <p>The ability of the Company to access global sources of financing to cover its financing needs or repayment of its debt could be impacted negatively by the deterioration of financial markets. In particular, the Group is dependent on its ability to access debt and capital markets in order to raise the funds necessary to repay its existing indebtedness and meet its financing needs under its future investments.</p>
<b>D.3</b>	<b>Key information on the key risks specific to the New Shares</b>	<ul style="list-style-type: none"> <li>— The market price of the Company's shares may be volatile and may decline below the Issue Price. There can be no assurance that the Issue Price will correspond to the market price of the shares following the Offering or that the market price of the shares available in the public market will reflect the Company's actual financial performance.</li> <li>— The capital increase may be lower than the contemplated Issue Amount if the Offering is not fully subscribed. The Company might therefore have to look for further external funding.</li> <li>— The market price of the Company's shares or Preferential Rights could be negatively affected by sales of substantial numbers of shares or Preferential Rights in the public markets.</li> <li>— If the Rights Offering is discontinued or there is a substantial decline in the price of the Shares, the Preferential Rights may become void or worthless.</li> <li>— There may not be an active public market for the Company's shares (and the Offering may not substantially improve such activity), which may cause the shares to trade at a discount to the Issue Price and/or make it difficult to sell the shares.</li> <li>— Certain significant shareholders of the Company after the Offering may have interests that differ from those of the Company and may be able to control the Company, including the outcome of shareholder votes.</li> </ul>
<b>Section E – Offer</b>		
<b>Element</b>	<b>Disclosure requirement</b>	
<b>E.1</b>	<b>Net proceeds and total expenses of the issue</b>	<p>The gross and net proceeds of the Offering estimated at up to €434,801,928.00 and €429,134,671.23, respectively. The expenses related to the Offering, which the Company will pay, are estimated at up to €5,667,257 and include, among other things, underwriting fees and commissions of €3,802,257, the fees due to the FSMA and Euronext Brussels and legal and administrative expenses, as well as publication costs.</p>
<b>E.2a</b>	<b>Use of proceeds</b>	<p>The proceeds from the Offering will be partially used for the Nemo Link project, which was entirely financed with debt during the construction phase and which operations have started in January 2019. €110 million of the proceeds will be used to replace with equity the portion of the Nemo Link project which was funded internally. The remaining portion of the proceeds from the Offering will be used to finance the regulated activities in Belgium (and increase the equity portion thereof) in accordance with the new regulatory framework and for general corporate purposes.</p>

E.3	<b>Terms and conditions of the offer</b>	<p>The offering by the Company of the New Shares is carried out with extra-legal preference rights for the Existing Shareholders. The Preferential Right is represented by coupon nr. 16. The Preferential Rights will be detached from the Existing Shares on June 5, 2019 after closing of Euronext Brussels and, provided they are in dematerialized form, will be negotiable during the entire Rights Subscription Period on Euronext Brussels under the ISIN code BE0970172756. The Rights Subscription Period shall be from June 6, 2019 up to and including June 13, 2019, 3 p.m. CET. Each Share will entitle its holder to receive one Preferential Right.</p> <p>At the Closing Date of the Rights Subscription Period, the unexercised Preferential Rights will be automatically converted into an equal number of Scrips and these Scrips will be sold to institutional investors by way of a private placement. The Scrips Private Placement is expected to last for one day and is expected to take place on June 14, 2019.</p> <p>Both the initial holders of Preferential Rights and any subsequent purchasers of Preferential Rights, as well as any purchasers of Scrips in the Scrips Private Placement, may subscribe for the New Shares, subject to restrictions under applicable securities laws.</p> <p>The holders of Preferential Rights can subscribe to the New Shares in the Ratio of 1 New Share for 8 Preferential Rights, it being understood that a holder of different classes of shares cannot combine Preferential Rights separated from shares of a different class to receive New Shares. The Issue Price is equal to €57.00 per New Share and represents a discount to the closing price of June 4, 2019 (which amounted to €62.60) of 8.95 per cent. Based on the closing price, the theoretical ex-right price ("TERP") is €61.98, the theoretical value of a Preferential Right is €0.62, and the discount of the Issue Price compared to TERP is 8.03%.</p> <p>Persons interested in trading or purchasing Preferential Rights should be aware that the trading and exercise of Preferential Rights by holders who are located in countries other than Belgium may be subject to restrictions.</p> <p>Existing Shareholders whose holding of shares in the Company is registered in the share register of the Company will receive, at the address indicated in the share register, a letter or e-mail from the Company informing them of the procedures that they must follow, subject to the restrictions in this Prospectus and subject to applicable securities laws.</p> <p>Existing Shareholders who hold dematerialized shares in the Company will automatically be allocated, by book-entry into their securities account, a corresponding number of Preferential Rights in the securities account they hold with their bank, subject to the restrictions in this Prospectus and subject to applicable securities laws. They will, in principle, be informed by their financial institution of the procedure that they must follow.</p>
E.4	<b>Material interests to the issue including conflicting interests</b>	<p>There is no natural or legal person involved in the Offering and having an interest that is material to the Offering, other than the Underwriters. The Underwriters are expected to enter into an Underwriting Agreement with the Company on or about June 14, 2019.</p>
E.5	<b>Name of the entity offering to sell the New Shares</b>	N/A

	<b>Lock-up agreements</b>	<p>Publi-T agreed to a lock-up undertaking pursuant to which it agrees to not, directly or indirectly, without the prior written consent of the Underwriters, at any time prior to the date which is 90 days after the Closing Date:</p> <ul style="list-style-type: none"> <li>(i) offer, sell, transfer, contract to sell, charge, lend, assign, grant any option, right or warrant to purchase or agree to offer, sell, lease, transfer, contract to sell, charge, mortgage, pledge, create liens, gift, lend, hypothecate, encumber, enter into any swap or other agreement or transaction which transfers, in whole or in part, any of the voting rights or economic consequences of ownership of the shares, assign, grant any option to purchase or otherwise dispose of, directly or indirectly, any shares or any interests in any shares (or any other securities convertible into or exchangeable for shares or which carry rights to subscribe or purchase Shares); and</li> <li>(ii) enter into any transaction (including a derivative transaction) having an effect on the trading of the shares similar to that of a sale; and</li> <li>(iii) publicly announce any intention to do any of such things referred to in subclauses (i) or (ii) above.</li> </ul> <p>However, nothing in the foregoing will prohibit Publi-T from (i) accepting a public tender offer made to all or substantially all holders of shares, or (ii) transferring shares to a third party provided that the transferee shall enter into similar lock-up arrangements with the Joint Global Coordinators prior to the transfer for the remainder of the lock-up period, or (iii) maintaining any pledge, charge, lien or encumbrance on any shares in the context of any existing financing or creating any pledge, charge, lien or encumbrance on any shares in the context of one or more transactions aimed at financing or re-financing any acquisition or subscription by Publi-T of shares in the Company.</p> <p>The Company has committed to the Underwriters that it will not, directly or indirectly, for a period of 180 calendar days after the first listing date of the New Shares, except with the prior written consent of the Joint Global Coordinators (acting on behalf of the Underwriters), (i) issue or sell, or attempt to dispose of, or solicit any offer to buy any shares, warrants or other securities or grant any options, convertible securities or other rights to subscribe for or purchase shares or enter into any contract (including derivative transactions) or commitment with like effect or (ii) purchase any of its securities or otherwise reduce its share capital, except within the framework of employee incentive plans in line with past practice.</p>
<b>E.6</b>	<b>Dilution resulting from the Offering</b>	<p><b><i>Consequences in terms of participation in the share capital</i></b></p> <p>Assuming that an Existing Shareholder holding 1.0% of the Company's share capital prior to the Rights Offering does not subscribe for the New Shares, such Existing Shareholder's participation in the Company's share capital would decrease to 0.89% as a result of the Rights Offering.</p> <p>If a shareholder exercises all Preferential Rights allocated to it, there will be no dilution in terms of its participation in the Company's share capital or in terms of its dividend rights.</p> <p><b><i>Financial consequences</i></b></p> <p>Shareholders who decide not to exercise all of their allocated Preferential Rights should take into account the risk of a financial dilution of their portfolio. Such risk is a consequence of the fact that the Offering is priced at an Issue Price lower than the market price of the Share. The table below sets out the extent of such a dilution. Theoretically, the value of the Preferential Rights should compensate for the reduction in the financial value caused by the Issue Price being lower than the market price. Existing Shareholders may suffer a financial loss if they cannot trade (sell)</p>

		<p>their Preferential Rights at their theoretical value (and the price at which the Scrips will be sold during the Scrips Private Placement does not lead to a payment equal to the theoretical value of the Scrips), please see table below for illustration purposes.</p> <table> <tr> <th></th> <th>Price before Rights Offering<sup>(1)</sup></th> <th>Theoretical ex-Right price</th> <th>Theoretical Right value + 50%</th> <th>Theoretical Right value - 50%</th> <th>Theoretical Right value - 100%</th> </tr> <tr> <td>After the issue of 7,628,104 New Shares</td> <td>€62.60</td> <td>€61.98</td> <td>€0.93</td> <td>€0.31</td> <td>€0.00</td> </tr> <tr> <td>% of financial dilution</td> <td></td> <td></td> <td>0.50%</td> <td>(0.50%)</td> <td>(0.99%)</td> </tr> </table> <p>Notes: (1) Price of the shares in the Company as of June 4, 2019</p>		Price before Rights Offering <sup>(1)</sup>	Theoretical ex-Right price	Theoretical Right value + 50%	Theoretical Right value - 50%	Theoretical Right value - 100%	After the issue of 7,628,104 New Shares	€62.60	€61.98	€0.93	€0.31	€0.00	% of financial dilution			0.50%	(0.50%)	(0.99%)
	Price before Rights Offering <sup>(1)</sup>	Theoretical ex-Right price	Theoretical Right value + 50%	Theoretical Right value - 50%	Theoretical Right value - 100%															
After the issue of 7,628,104 New Shares	€62.60	€61.98	€0.93	€0.31	€0.00															
% of financial dilution			0.50%	(0.50%)	(0.99%)															
E.7	Estimated expenses charged to the investor by the Company	Not applicable. No fees or expenses in connection with the Offering will be charged to investors by the Company.																		

## RISK FACTORS

*An investment in the New Shares involves substantial risks. You should carefully consider the following information about certain of these risks, together with the information contained in this Prospectus, before deciding to subscribe to New Shares. If any of the following risks actually occurs, the Group's business, results of operations, financial condition and prospects could be adversely affected. In that case, the trading price of the Company's shares could decline and subscribers for the New Shares could lose all or part of their investment. An investment in the New Shares is only suitable for investors who are capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which might result from such investment. A potential investor who is in any doubt about the action it should take should consult a professional advisor who specializes in advising on the acquisition of shares and other securities.*

The risks and uncertainties that the Company believes are material are described below. However, these risks and uncertainties may not be the only ones faced by the Group and are not intended to be presented in any assumed order of priority. Additional risks and uncertainties, including those currently unknown, or deemed immaterial, could have the effects set forth above.

### **Risks related to the regulatory framework at the European, federal and regional levels**

#### ***Changes in law or the regulatory framework may negatively impact the Group's profit***

The activities of the Group are subject to extensive European, federal and regional legislation and regulation. Unplanned and/or adverse changes or diverting interpretations in regulatory or policy mechanisms (tariffs, incentives, renewable energy targets, operating rules) could conflict with the Group's existing and envisioned strategy causing severe financial and organizational impacts.

The regulated activities of the Group depend on licenses, authorizations, exemptions and/or dispensations in order to operate its business. Such licenses, authorizations, exemptions and/or dispensations may be withdrawn or amended and/or additional conditions may be imposed on the regulated activities of the Group. Any such withdrawal or amendment and/or the imposition of any additional conditions could affect the revenue, profits and financial position of the Group.

Additionally, the Company's income depends on dividends received from its subsidiaries. In particular, a significant portion of the Company's net income derives from the revenues of the regulated activities of its subsidiaries. The regulated activities of the Company's subsidiaries depend on government regulations and European legislation and, therefore, ultimately, the Group's net income is sensitive to regulatory amendments and decisions. The principal related risks include the following:

#### *European framework*

The Belgian regulatory framework governing the activities of Elia (being the Company and Elia Asset NV/SA) and the German regulatory framework governing the activities of 50Hertz Transmission GmbH ("**50Hertz**") is subject to extensive European legislation and regulation. The current national regulatory framework is based, *inter alia*, on the Third Energy Package, consisting of a set of European Union (EU) Directives and Regulations relating to the European internal energy market. New Directives and Regulations in preparation at the European level or existing Directives awaiting transposition into national law may modify the existing regulatory framework and could have a negative impact on the Company and/or 50Hertz. Even though the Group proactively tries to anticipate European legislation, new directives and regulations to be enacted at the European level (notably as part of the "Clean Energy Package" published by the European Commission on November 30, 2016 – see section "*Elia Group's business – Third Energy Package and Clean Energy Package*"), or existing regulations and directives awaiting transposition into national law, may cause uncertainty. Changes to the regulatory framework on a national and European level (including, where relevant, transposition into Belgian and/or German law) may have a negative impact on the Belgian and/or German activities of the Group and, therefore, the Company's own revenues.

#### *Belgian Federal framework*

The Belgian federal regulatory framework for the electricity market was established when the first EU Directive on the internal electricity market was transposed by the Belgian Law of April 29, 1999 on the organization of the electricity market (*loi relative à l'organisation du marché de l'électricité*).



*wet betreffende de organisatie van de elektriciteitsmarkt*) (the “**Electricity Act**”). The Law of January 8, 2012 amended the Electricity Act to comply with the Third Energy Package legislation.

In accordance with Article 258 of the Treaty on the Functioning of the European Union (“**TFEU**”), the European Commission oversees the transposition of European Directives into national law. On October 16, 2014, the European Commission put Belgium on notice for incorrect transposition of the Third Energy Package Directives. On February 25, 2016, the European Commission published a press release revealing that it issued a so-called reasoned opinion to Belgium on the incorrect transposition of the Third Energy Package Directives (the “**Reasoned Opinion**”). According to the press release, Belgium had not correctly transposed certain unbundling rules (requiring a full separation of the ownership and accounting of the transmission system in Belgium from any generation or supply activities), as a result of which other companies, other than the established Belgian Transmission System Operator (TSO) for electricity (i.e. the Company), had been prevented from developing and operating interconnectors with other EU Member States. In addition, the European Commission argued that the rules on the powers of the federal energy regulator, the CREG (“*Commission de regulation de l’électricité et du gas*” / “*Commissie voor de regulering van de elektriciteit en het gas*”) and certain rules pertaining to consumers had not been transposed correctly.

On December 25, 2016, the Electricity Act was amended to reinforce the power of the CREG (raising the amount of the penalties the CREG can impose for non-compliance with legal or regulatory obligations), in line with the European Commission’s comments made in the Reasoned Opinion. With respect to the other elements mentioned in the Reasoned Opinion, Belgian authorities provided the European Commission with their views and arguments in respect of the appropriate transposition of the relevant European provisions into Belgian law.

To date, the further consequences (such as further amendments to the Electricity Act or other applicable legislation) that may result from the Reasoned Opinion are unknown. Should a change of the Electricity Act occur, it could potentially include a formal process where another company than Elia would be explicitly authorized to develop interconnections from Belgium to foreign countries. This evolution could give more confidence to promoters (if any) for the development of such projects (that they already can develop based on a direct application of the European legal framework). Construction of interconnections by other companies than Elia would restrain the wideness of future investments Elia would consider.

#### *Belgian Regional framework*

In addition to the federal regulatory framework, Elia is subject to the regional regulatory frameworks governing aspects of the electricity markets in the three Belgian Regions (Flanders, Wallonia and Brussels). This can give rise to contradictions between the various regulations, which can hinder the performance of Elia’s activities. The further development of, and changes to, regional regulations could have an impact on Elia’s activities. In addition, any amendment to the Belgian institutional system, including in relation to the division of competence between federal and regional authorities (especially those relating to the approval of transmission tariffs, currently a federal competence and performed by the CREG) may also impact Elia’s roles and responsibilities.

In the framework of their respective competences, the regional regulators (VREG (*Vlaamse Regulator van de Elektriciteits- en Gasmarkt*) in Flanders, CWaPE (*Commission Wallonne pour l’Energie*) in Wallonia and Brugel (“*Bruxelles Gas Electricité*” / “*Brussel Gas Elektriciteit*”) in Brussels-Capital) have taken measures to support the further development of renewable energy by introducing different mechanisms of green certificates. Elia is involved in this activity through public service obligations imposed on it (see section “*Public service obligations in Belgium*”). The regional regulators are entitled to request from Elia to purchase green certificates at a pre-defined price. Elia may not be in a position to re-sell those green certificates at a similar price, which may have negative impact the Group’s cash flows.

#### *German framework*

The German legal framework for electricity markets is laid down in various pieces of legislation. The key law is the German Energy Industry Act (*Energiewirtschaftsgesetz* — “**EnWG**”), which defines the overall legal framework for the gas and electricity industry in Germany. The EnWG is supported by a number of laws, ordinances and regulatory decisions, which provide detailed rules on the current regime of incentive regulation, regulatory accounting methods and network access

arrangements. Any changes to the legal framework on a national level may have a negative impact on the German activities of the Group and, therefore, the Company's own revenues.

In July 2016, the Digitalization Act, the core of which is the new *MsbG (Messstellenbetriebsgesetz – German Smart Meters Operation Act)* entered into force. The main aspects of the Digitalization Act which have an impact on the TSOs are the redesign of communication systems and processes to ensure the processing of a high volume of smart meter data. The responsibility for the aggregation of the metering data for better balancing energy generation with consumption is given to the TSOs. However, remuneration of the respective costs is not regulated by the law and currently under discussion with the Federal Network Agency for the energy sector in Germany (the *Bundesnetzagentur* or the “**BNetzA**”). The outcome of these discussions is unclear and could have a negative impact on profitability of 50Hertz. Should costs linked with investments resulting from this act not be considered as investments and covered by this scheme, but only be treated as part of the cost basis of 50Hertz and therefore covered via basis year scheme, a time lag may apply in getting the remuneration for those costs.

**Some parameters for the determination of the fair remuneration of the Group under the tariff-setting regulations are subject to specific uncertainties which may negatively impact the Group's profit**

*Belgium*

The vast majority of revenues (approximately 90 per cent.) and profits (approximately 99 per cent.) of Elia are generated by the network tariffs set pursuant to the legislation in force and to the tariff methodology established by the CREG, which in turn is based on tariff guidelines set out in the Electricity Act. These tariff guidelines have been amended by a Law of June 28, 2015 to incentivize demand-side response and increase the efficiency of the market and the energy system (including energy efficiency). Two Laws of July 13, 2017 have further amended the tariff guidelines to incentivize storage and to protect the competitive position of electro-intensive industry in relation to the costs for the modular offshore grid. The Law of July 13, 2017 also introduced the principle of transfer of energy, which is important to create a level playing field for demand-side participation. In December 2014, the CREG published the tariff methodology for the current regulatory period, running from 2016 to 2019. On the basis of this methodology, the Group drafted for its Belgian activities a tariff proposal which was subsequently approved by the CREG. The level of each tariff for each of the four years is fixed for the entire regulatory period. If applicable tariffs were, however, no longer proportionate due to changed circumstances, the CREG may require the Company to, or Elia may at its own initiative, submit an updated tariff proposal for approval to the CREG.

According to current rules, the Group's remuneration for its Belgian activities is largely determined by a “fair remuneration” mechanism (which in turn is based on the average Regulated Asset Base (“**RAB**”)) combined with certain “incentive components” (see section “*Elia Group's business – Tariffs applicable for the tariff period 2016-2019*”). As the CREG considers strategic investments (i. e. investments mainly aimed at enhancing the integration of EU energy markets and systems) to be of primary importance for the community, the CREG agreed with the Company to introduce (for a selected list of projects) a mark-up on investments as one of the key incentives in the current tariff methodology 2016-2019. As such a key incentive is based on the realization of large investment projects, which are not fully under the Company's control, a portion of Elia's activities under the applicable tariff guidelines and methodology is subject to specific uncertainties that could have either a positive or an adverse impact on the Group's net profit. Other incentives, less significant in amount, are also subject to factors beyond Elia's control and may affect the level of remuneration payable to Elia that, again, could have either a positive or an adverse impact on the Company's net profit.

In July 2017, the Electricity Act was amended in order to enable the extension of the transmission network in the Belgian North Sea and to assign the task of developing, building and operating the “Modular Offshore Grid” (“**MOG**”) to Elia. Thereby, Elia will connect four future wind farms between 2019 and 2021.

The law and the related Royal Decree foresee that, in case Elia commissions the MOG later than September 30, 2019, or in case the MOG is unavailable during operation, compensations will be paid by Elia to wind farms for the energy they were not able to inject on the grid. According to the law, the cost of such compensations is covered by network tariffs, unless they result from gross

negligence or willful misconduct from Elia. In such cases, Elia's financial responsibility is capped to its fair remuneration related to the MOG for the year concerned.

On the other hand, on March 29, 2018, the CREG decided to adapt the current tariff methodology to introduce specific provisions related to the MOG. Among these provisions, the CREG acknowledged the higher-risk profile of the MOG with respect to onshore transmission activities and granted Elia a premium of 1.4 per cent. applicable to 33 per cent. of the regulated asset value of MOG assets (40 per cent. as from 2020). This premium is applicable for the entire net asset value of the MOG.

The tariff methodology applicable for a four-year period from 2020 (2020-2023) (see section "*The Group's business – New tariff methodology applicable for the period 2020-2023*") was published by the CREG on June 28, 2018. This new methodology is mainly based on similar drivers to those stipulated in the tariff methodology for the period 2016-2019 (see section "*Elia Group's business – Tariffs applicable for the tariff period 2016-2019*"). Although the drivers are similar, the definition, the calculation and the remuneration of the underlying elements have been modified. The most important changes are: (i) changes in the formula for fair remuneration; (ii) the replacement of some incentives with new incentives; (iii) changes in the setting, the calculation and the remuneration of incentives that are currently applicable for the tariff period 2016-2019; and (iv) the modification of the cost allocation mechanism for activities regulated outside of Belgium or non-regulated activities. The important incentive related to the realization of strategic projects ("**mark-up**"), which is currently applicable for the tariff period 2016-2019, has been replaced by new incentives and changes in the underlying elements of the tariff methodology (as described above and in the below section "*The Group's business – New tariff methodology applicable for the period 2020-2023*"). The realization of these incentives is sometimes subject to factors beyond the Company's control and may affect the level of remuneration payable to the Company, which could have a positive or negative impact on the Company's net profit for the year 2019. Some of the parameters defined in the 2020-2023 tariff guidelines and methodology are subject to specific uncertainties and misinterpretations that could have a positive or negative impact on the Company's financial position. In this respect, see section "*Proceedings involving the CREG*".

Future changes to the Belgian federal regulatory framework may have a negative impact on the Company's business and activities.

#### *Germany*

In Germany almost the entire profit (99 per cent.) is generated from regulated activities. The regulatory framework in Germany governing the tariffs of 50Hertz includes certain factors which may negatively impact the Company's ability to meet its financial obligations. The primary source of revenues for 50Hertz are: (i) grid tariffs for access to and usage of the 50Hertz transmission system (network user charges); and (ii) several surcharges (*Umlagen*). 50Hertz primarily derives its profit regarding the onshore assets from the grid tariffs, whereas the profit regarding the offshore assets is derived from the offshore grid surcharge, both subject to regulation by the **BNetzA**. The decisions made and the actions taken by the BNetzA under the current regulatory framework may have a negative impact on 50Hertz and thus on the Company (see section "*The Group's business – Tariff setting in Germany*" for more information on the tariff-setting mechanism in Germany). These tariffs and surcharges are subject to several regulations and can have a direct impact on the profitability of the German activities of the Company and hence on the Company's own revenue. Changes to the regulatory parameters (e.g. allowed return on equity, individual efficiency and general productivity factor) could impact the profitability of the German regulated activities. For example, the regulatory return on equity has been reduced from 9.05 per cent (pre-tax) to 6.91 per cent. (pre-tax) with the start of the third regulatory period in 2019. At the same time, the Group has sought to diversify across various regulatory regimes, such as for example with the start of Nemo Link operations in January 2019. While this mitigates the effect of the decrease to a certain extent, the diversification cannot be viewed as a compensation measure since adverse changes to the regulatory framework in one country will not necessarily be compensated at Group level.

**In order to mitigate the potential negative financial impact of the new tariff methodology on investments in the business regulated outside of Belgium or non-regulated business as from 2020, Elia contemplates implementing an internal reorganisation, the completion of which depends on the fulfilment of certain conditions which if not fulfilled could have a negative on the Group**

On 28 June 2018, the Belgian regulator approved the new tariff methodology that will be applicable for the period 2020-2023. Elia lodged an appeal against a new provision of this methodology defining the impact on regulated tariffs of loans contracted to finance activities regulated outside of Belgium or non-regulated activities of Elia (being the activities other than those that are regulated in Belgium). According to this provision, the financing of activities regulated outside of Belgium or non-regulated activities is valued on terms equivalent to a financing that would be fully ensured by equity. On 10 January 2019, Elia received a copy of the judgment of the 'Markets Court' dated 9 January 2019, which declared its appeal admissible but unfounded.

It is anticipated that, for regulated tariffs purposes, the new tariff methodology will not generate any material financial impact on the valuation of the financing of Elia's past investments in activities regulated outside of Belgium or non-regulated activities for the financial years 2018 and 2019, taken together. If no appropriate measures are taken by Elia by 31 December 2020, the application of the new tariff methodology will however generate, as from 2020, an adverse financial impact on the valuation of the financing of Elia's past investments in activities regulated outside of Belgium or non-regulated activities or, as the case may be, on new investments in activities regulated outside of Belgium or non-regulated activities.

Elia will nevertheless be able to prevent the adverse financial impact of the new tariff methodology on its investments in activities regulated outside of Belgium or non-regulated activities as from 2020 if, by no later than 31 December 2020, it implements an internal reorganisation project aimed at isolating and ring-fencing its Belgian regulated activities (i.e. the operation of the Belgian transmission system) from its activities regulated outside of Belgium or non-regulated activities. This internal reorganisation project is described in Section *"Contemplated internal reorganization of Elia in light of potential impact of the new tariff methodology"*.

The CREG confirmed to Elia that such internal reorganisation project is appropriate to achieve a ring-fencing of the Belgian regulated activities of Elia from its activities regulated outside of Belgium or non-regulated activities. For Elia, this internal reorganisation would also be the right measure in order to enable the development of its activities regulated outside of Belgium or non-regulated activities in the future.

Completion of such internal reorganisation project is subject to certain conditions precedent. This includes the certification and designation of the newly incorporated subsidiary of Elia as the new federal and regional transmission system operator in the three Regions by the CREG, local regulators and competent Minister, a positive decision of the Ruling Commission regarding certain tax matters, the approval of the shareholders' meeting on the transfer of the shares in Elia Asset and certain consents from shareholders and certain third parties.

In the event that one or more of these conditions precedent could not be satisfied, the implementation of the internal reorganisation project of Elia may be delayed or may need to be made at more onerous conditions for Elia. Such circumstances may hinder Elia's ability to make new investments in activities regulated outside of Belgium or non-regulated activities and may negatively impact the valuation of the financing of activities regulated outside of Belgium or non-regulated activities for regulated tariffs purposes and its rating.

***Deviations between actual and budgeted volumes of electricity transmitted and between effectively incurred and budgeted costs/revenues may have a negative short-term effect on the cash position of the Group as well a negative medium-term impact on the tariff-setting for the next period***

In Belgium, transmission tariffs are set pursuant to forecasts of volumes of electricity transmitted, costs and other revenues. Deviations between real volumes of electricity transmitted and budgeted volumes and between effectively incurred costs/revenues and budgeted costs/revenues can result in a receivable to be recovered in the future. The financial settlement of any such deviation is taken into account when setting tariffs for the next period. However, in the short term, this process may have important temporary effects on the cash position of the Group.



Regardless of deviations between forecasted parameters for tariffs setting (Fair remuneration, Non-controllable elements, Controllable elements, Influenceable costs, Incentive components, Cost and revenue allocation between regulated activities and activities regulated outside of Belgium or non-regulated activities) and effective incurred costs or revenues related to these parameters, the CREG takes the final decision as to whether the incurred costs or revenues are deemed to be reasonably borne by the tariffs. This decision can result in the rejection of elements incurred and, in the event that such elements incurred are rejected, the amount will not be taken into account for the setting of tariffs for the next period. Despite the fact that the Company can ask for a judicial review of such decision, if such judicial review would be unsuccessful, it cannot be excluded that any such rejection will have an overall negative impact on the Company's profitability.

Also in Germany, the mechanism is similar, as the permanently non-influenceable costs are adjusted for differences between forecasted and realised volumes generally with a time delay of two years and consideration of the differences in later revenue caps.

### ***The TSO licenses may be terminated early or may not be renewed***

#### ***Belgium***

The Company was appointed as the Belgian TSO for a renewable period of 20 years from September 17, 2002. The renewal process is described in Article 10 of the Electricity Act and can be launched at Elia's request as from five years prior to the expiry of the mandate, in accordance with Article 10, §2 of the Electricity Act. Following such request, the procedure laid down in Article 10, §1 of the Electricity Act applies. Pursuant to Article 10, §1 and §2 of the Electricity Act, if the Company has requested the renewal of its mandate, the federal regulator shall issue advice on this and this request shall be discussed by the Council of Ministers, following which the competent Minister shall decide on the renewal. On April 26, 2019, the competent Minister has decided to renew the Company's mandate for twenty years and this starting from September 17, 2022.

The Electricity Act provides that one single TSO can be appointed to manage and operate the electrical transmission system, provided that it is proposed for appointment by one or several network owners which own, alone or jointly, a substantial part of the network that covers at least three-quarters of the national territory and at least two-thirds of the territory of each Region. To date, only the Company meets this condition and therefore has been appointed as TSO. In practice, however, the transmission system is owned by Elia Asset NV/SA, a subsidiary wholly owned by the Company, with the exception of one share.

The Electricity Act further provides that the Company needs to act as a fully unbundled transmission system operator, implying a full separation of the network operation and the ownership from the generation and the supply activities/undertakings.

As a precondition to the appointment as a TSO, compliance with these requirements is assessed pursuant to a certification procedure run by the CREG. The Company was certified as a fully ownership unbundled TSO by a decision of the CREG dated December 6, 2012. The Company, being a certified, fully ownership unbundled transmission system operator, is required to stay in line and comply with the criteria and obligations required to obtain such certification on an ongoing basis and is therefore monitored by the CREG. Certification can be re-initiated upon the initiative of another candidate TSO, the CREG, the European Commission or the current TSO (the Company) itself, under certain circumstances.

In the event of bankruptcy, winding-up, merger or demerger of the Company, its appointment will be terminated. In addition, the appointment can be revoked by the Belgian federal government following the advice of the CREG and consultation with the Company under certain circumstances, including:

- a significant change in shareholding without prior certification, which could jeopardize the independent network operation;
- serious breach of the Company's obligations under the Electricity Act or its implementing decrees; or
- where the Company is no longer certified as a fully ownership unbundled system operator.

Five years prior to the expiry of the appointment, the Company can request a renewal, provided that it still complies with the criteria set out above.

In the course of September 2018, Elia submitted a request to the Minister of Energy to renew its appointment for a new period of 20 years. In December 2018, the CREG gave a positive opinion on this renewal. It is now up to the Minister of Energy to adopt a Ministerial Order confirming this renewal, which has been confirmed on April 26, 2019 for a period of twenty years, starting from September 17, 2022.

The early termination or non-renewal of the appointment of the Company as the single Belgian TSO would have a material adverse effect on the Company's activities, profits and financial situation.

#### *Germany*

50Hertz is permitted to operate as a TSO in Germany and, while this authorization is not limited in time, it can be revoked by the Energy Authority of the State of Berlin (*Senatsverwaltung für Wirtschaft, Technologie und Forschung (Energiewirtschaft/Energieaufsicht)*) if 50Hertz, *inter alia*, does not have the personnel, technical and financial means to guarantee the continuous and reliable operation of the network in accordance with the applicable legislation. Such revocation of the permit will have a material adverse impact on the German activities of the Company, including ability to meet its obligations with regards to network operation, and hence putting the Company's revenues and profitability at risk.

The unbundling regime in the German Energy Industry Act (the EnWG) provides for different models (Ownership Unbundling, Independent Transmission Operator, Independent System Operator). In a certification process, the BNetzA assesses if the unbundling provisions are met by the respective TSO. The certification as ownership unbundled TSO was granted to 50Hertz by the BNetzA by a decision of November 9, 2012 after it notified its draft decision to the European Commission. The certification can be revoked if 50Hertz no longer meets the unbundling provisions. The BNetzA could also impose a fine. However, after the revocation of the certification, 50Hertz would still be able to operate the network. Nevertheless, the revocation would have a negative impact on the reputation of 50Hertz and the Group.

#### ***The Group is subject to certain public service obligations as TSO***

##### *Belgium*

In connection with its role as TSO, the different Governments in Belgium have imposed a number of public service obligations on the Company. These obligations are mainly related to security of supply (including the procurement and contracting of a strategic reserve) and financial support for the development of renewable energy.

The latter includes an obligation for the Company in Belgium to purchase "green certificates" at a guaranteed minimum price as a financial support instrument for the producers of renewable energy in Belgium. For some produced offshore energy, the scheme defines a mechanism of prepayments before attribution of green certificates. The costs, including the prepayments, incurred for the performance of public service obligations by the Company are fully passed on to the Company's customers (and eventually to the end customers) through the dedicated tariffs for public service obligations (subject to the approval of the CREG). The Company is able to ask CREG (usually every year) to adapt the tariffs to cover any gaps between expenses and tariff revenues caused by the execution of public service obligations. To the extent that there would be a timing difference between the incurrence and the recovery of such costs, the costs would have to be pre-financed by the Company and, consequently, may negatively impact the Company's cash flow.

In the Walloon region, the Walloon Government introduced two schemes which are, in each case, designed to alleviate the likelihood of the Company increasing the tariffs to be paid by customers in the Walloon region (as a result of the Company passing on the costs of its obligation to purchase "green certificates"). The schemes introduced by the Walloon Government are: (i) using a special purchase vehicle (Solar Chest) to purchase "green certificates"; and (ii) a phased purchase of "green certificates" by a Walloon Governmental Agency for Climate and Air (AWAC). Each scheme is intended to delay the Company's obligation to purchase "green certificates" by several years. Both schemes require administrative support of the Company and, ultimately, the Company may be required to purchase a large amount of "green certificates" in the Walloon region. To the extent that: (i) the Company is required to purchase a large amount of "green certificates"; and (ii) there is a delay in recovering the costs incurred in purchasing such "green certificates", the costs would have to be pre-financed by the Company and, consequently, there may be a negative impact on the Company's cash flow.

It has to be mentioned that the Walloon Government is about to introduce a third scheme in the Walloon Decree for Electricity, which has the same purpose as the two first ones. This new scheme, called the “mobilization mechanism”, allows Elia, at the request of the Walloon Government, to sell the tariff claims corresponding to the right to cover the purchase cost of Walloon green certificates through the tariffs to a debt investment company (SIC). This company (SIC) would issue long-term bonds, the proceeds of which would be paid to Elia to cover the actual purchase cost of the certificates. This SIC would be remunerated through a new tariff component perceived by Elia in addition to its transmission tariffs to cover the financing of the bonds issued. In case of mismatch in timing and/or amount in the mobilization mechanism, this could result in a pre-financing by Elia and consequently this may impact Elia’s cash flow.

The Company does not provide any guarantees to third parties involved in these transactions.

#### *Germany*

In Germany, as 50Hertz is not subject to specific public service obligations, this specific risk does not apply. As 50Hertz operates within the legal framework as it is described in the section “*The German legal framework*” risks linked with German legal framework may apply as described in the section “*Changes in law or the regulatory framework may negatively impact the Group’s profit*”.

### **Risks related to the operations of the Group**

#### ***Higher unpredictability of energy flows due to higher share of variable renewable energy sources may increase the risk of transmission disruption***

##### *The Group*

Every year, the Group seeks to contract the reserves (ancillary services) needed to ensure continued balance between supply and demand in the relevant control areas, taking into account exports to and imports from neighbouring countries. The Group then analyzes, both at national and European level, how the growing proportion of intermittent renewable energy generation units can be safely integrated into the grid without compromising the energy balance.

The growth across Europe in the number of cogeneration and renewable energy units connected to distribution systems and the connection of large offshore wind farms also creates new challenges for operational grid management and requires the further development of the infrastructure of the Company and its relevant affiliates.

##### *The Company*

An important development has been the negative trend of Belgium’s national electricity generation capacity as a consequence of the mothballing of generation units resulting in an overall decrease in the production capacity available to Belgian end customers and a growing dependence on imports of electricity from foreign markets. The need to continue to resort to a strategic reserve and/or other mechanisms therefore remains a major concern for the future. To enhance security of supply and address generation adequacy concerns, a strategic electricity reserve mechanism has been put in place by the Electricity Act which has led to Elia’s appointment to organize this mechanism and is thus responsible for the correct execution thereof. This reserve consists of identified and reserved electricity generation capacity (the latter sitting outside the electricity market), to be called upon by the Company in the event of electricity shortages as well as demand-side response provided by large end customers or aggregators. The mechanism allows such capacity to be (re)activated to bridge shortages in available production capacity, in order to match the load required to ensure the country’s security of supply. The costs associated with contracting the strategic reserve (including the remuneration to the producers for keeping production capacity available) are recuperated through a surcharge on the tariff for public service obligations. The contracting of the strategic reserve constitutes a public service obligation for the Company (see also “*Public service obligations in Belgium*”).

In parallel, the Belgian public authorities are considering the introduction of a capacity remuneration mechanism (CRM) to guarantee the country’s security of supply by 2025, the year as from which electricity production via nuclear power plants will no longer be authorized in Belgium. A draft law is currently being submitted to the Federal Parliament, aiming at establishing a general framework for the official creation of this CRM.

Finally, the increased volumes of decentralized intermittent electricity generation, the decreasing centralized generation capacity, the increasing importance of the distribution system operators



(“DSOs”) in that context and the fact that the Company is also facing an ageing asset base are all factors that make it more challenging to manage the energy balance.

This potential increased risk of transmission disruption may affect Company’s profitability.

***Power consumption could evolve negatively given energy efficiency initiatives***

Energy efficiency is one of the key measures outlined by the EU in respect of Union-wide CO2 footprint reduction. Significant energy efficiency measures in Belgium and Germany can potentially affect power consumption and thus reduce the volumes of electricity transmitted via the Group’s networks.

In Belgium, if the transmitted volumes are higher (or lower) than those forecasted, the deviation is booked to an accrual account during the year in which it occurs and such deviation from budgeted values creates a so-called “regulatory debt” (or a “regulatory receivable”). The same mechanism applies to non-controllable elements. The regulatory framework provides that, at the end of the regulatory period, the above-mentioned deviations are taken into account by the Company as part of the budgeted amounts for setting the tariffs for the next regulatory period. Consequently, in case of volumes lower than forecasted in a given regulatory period, any difference would be recovered by the Company in the next regulatory period.

In Germany, all deviations within the revenue cap (planned costs/volumes vs. actual costs/volumes) are transferred to the regulatory account. The difference thus determined is subject to interest and taken into account in the revenue cap over the next three years.

***Slowing down of the economic activities of industrial clients and reduction of the consumption by residential clients may impact the Company’s and 50Hertz’ business operations and financials***

Economic growth has slowed since the summer of 2018 mainly in Europe. This was due mostly to the sharp decline in German car production, concerns about Brexit and the Italian budgetary policy, and the trade war between the US and China.

Looking forward, the main macroeconomic risks are related to external factors, due to heightened geopolitical tensions, the possible tightening of financial conditions worldwide causing elevated indebtedness, disruptions caused by intensifying patterns of automation and digitalization, and a build-up of mercantilist and protectionist pressures.

Further instability due to the uncertain geopolitical environment cannot be ruled out. A further economic downturn may have an adverse effect on the financial condition of the Company. If the Company’s suppliers face financial difficulties, they may no longer be able to comply with their obligations and, as a result, infrastructure projects may be delayed or not be completed which could impact the Company’s profitability.

***Any negative results from new business developments are entirely born by the Company and represent an additional financial risk***

*The Company strives to anticipate new business opportunities relating to its core businesses within and beyond the Belgian regulated framework. Such new business activities can also include acquisitions.*

The Company agreed with the Belgian regulator on a “transfer pricing” framework in the tariff methodology for both its regulated activities and the activities regulated outside of Belgium or non-regulated activities (being the activities other than those that are regulated in Belgium), which also provides a mechanism to determine whether or not the results of these activities can be included in the profit available for distribution to the shareholders or should be used for future tariff reductions. For the participations included in the RAB (see section “*Tariffs applicable for the period 2016-2019/2020-2023’ – (b) parameters for the determination of the tariffs, Other incentive components – Market integration*”) the Company agreed with the CREG that at least part of the positive results of these activities can be counted as profit and should not be used for tariff reductions. Losses deriving from these activities, however, are entirely borne by the Company. Additionally, the financing costs and potential losses linked to activities regulated outside of Belgium or non-regulated activities are not covered by the Belgian regulatory framework and therefore are entirely borne by the Company.

The development of new activities regulated outside of Belgium or non-regulated activities by the Company may therefore represent an additional financial risk for the Company.

For 50Hertz, participations in EEX and EGI are qualified as non-regulated activities in the German regulatory framework, for which financing costs and potential losses are not recoverable in the tariffs. These non-regulated activities could impact the profitability of 50Hertz.

***The Group may be held liable in case of a transmission disruption or a system breakdown***

The transmission systems operated by the Group are very reliable. Nonetheless, unforeseen events, such as unfavorable weather conditions, may occur which interrupt the smooth operation of one or more infrastructure components. In most cases, these incidents have no impact on end customers' power supply because the meshed structure of the grids operated by the Group, as the case may be, means that electricity can reach end customers via a number of different connections in the system. However, in extreme cases, an incident in the electricity system may lead to a local or widespread electricity outage (known as a blackout) provoking liability claims and litigation which could negatively impact the financial position of the Company.

Additionally, transmission disruptions on the network of the Company and/or transmission disruptions on the network of 50Hertz may also be caused by operational hazards or unforeseen events, including, but not limited to, an overload of the very high-voltage network caused by major unscheduled foreign electricity flows, accidents, breakdowns or failures of equipment or processes, human errors, sabotage, acts of a terrorist nature, Information and Communication Technology ("ICT") system and process failures, intrusions in the ICT network (including computer viruses) and performance below expected levels of capacity and efficiency. The presence of such aforementioned unscheduled electricity flows on the network of the Company and/or unscheduled electricity flows on the network of 50Hertz are considered an emergency situation, allowing the TSO to take any emergency measures it deems appropriate, such as disconnecting some or all electricity exports, requesting electricity-generating companies to increase or decrease their electricity production or requesting from the competent Minister a reduction in the electricity consumption in the relevant area. The probability of the occurrence of one or more of the above-mentioned events may increase if the competent authorities do not approve the necessary operational procedures and/or investments as proposed in the development plans of the Company and its relevant affiliates.

The Group regularly holds crisis management drills so that the Company or the relevant affiliate, as the case may be, is ready to deal with the most unexpected and extreme situations. In the event of an error attributable to the Company or one of its affiliates, the respective general terms and conditions of its contracts provide for appropriate liability caps for the Company and the relevant affiliate, as the case may be, to a reasonable level, while each relevant insurance policy is designed to limit some of the financial repercussions if these risks were to occur.

System breakdowns or blackouts may occur due to a major imbalance between the quantity of electricity injected in the network and that taken off in a given geographical area. Such imbalance may be created by a network failure, an incident in one or more power plants or the lack of sufficient on-line generation capacity at a given time in a given geographical area.

***Liabilities arising from the offshore regime may negatively impact the Company***

***Belgium***

In accordance with the current laws and regulations, the Company is obliged, without undue delay, to connect offshore some renewable generation facilities to its Modular Offshore Grid (see section *"The Group's business – Key projects of Elia"*). Any delay in, or interruption of, such connection that is attributable to the Company's gross negligence or willful misconduct (*"faute lourde ou faute intentionnelle"* / *"zware fout of opzettelijke fout"*) may subject the Company to damages claims (capped to the net profit Elia could generate specifically on the Modular Offshore Grid assets in the specific year the incident occurred). Any such claim for damages could negatively impact the Company's activities, profits and financial situation. In addition, while the general regulatory framework of such regime has been embedded in the Electricity Act and the relevant decrees (mainly the so-called **"Liability Decrees"**) have been published, this decree is ratified by law on April 5, 2019.

Similar legal and regulatory framework regulations are currently in discussion for the future development of additional offshore renewable generation and corresponding transmission assets to connect them to the offshore transmission network. On April 5, 2019, the legal framework for the future development of the offshore transmission assets has been approved by the Belgian Parliament.

## Germany

In accordance with the current laws and regulations, 50Hertz is obliged to connect, without undue delay, all renewable energy facilities in its control area. Any delay in such connections may subject 50Hertz to damages claims. In particular, 50Hertz's obligation to connect offshore wind farms in the Baltic Sea results from specific provisions in the EnWG, while obligations to connect all other types of renewable energy facilities result from the EEG. Planning, construction and operation of grid connections of offshore wind farms is a business involving uncertainties (for example, weather and soil conditions) and technical challenges. Moreover, there is only a small number of potential suppliers for the main components of such grid connections. Despite careful preparation and analyses, technical problems are often only discovered in the implementation and operational stage and have then to be solved immediately. Delays and changes in the planning and construction stages (as well as later, unplanned changes in the operational stage) are therefore possible. Liabilities arising from this may not be covered by the Offshore Liability Surcharge.

In accordance with sec. 17e EnWG, 50Hertz is basically liable for financial damages regardless of its culpability if the cable connection is disrupted for more than 10 consecutive days or more than 18 non-consecutive days per calendar year or delayed by more than 10 days after the completion date that has to be published by the TSO after having ordered the assets required for the grid connection. This date becomes binding 30 months prior to its being reached. After the respective waiting period, the operator can demand a 90 per cent compensation payment from 50Hertz. Should 50Hertz have caused the disruption or delay intentionally, the offshore wind farm operator can apply for compensation as of the first day and 50Hertz has to bear the compensation costs fully. Otherwise, it can pass through at least part of the costs via the Offshore Liability Surcharge. If 50Hertz can prove not to have acted negligently, all costs can be passed through. If, however, 50Hertz has contributed negligently to disruptions or delays, according to Sec. 17f EnWG, it can pass only part of the cost of compensation to the end customer. In case of damage caused negligently but not grossly negligently, the own retention of 50Hertz is limited to €17.5 million per damage event. In case of gross negligence, a maximum own retention of €110 million per year (cap) will have to be borne by 50Hertz. Therefore, in case of costs not being allowed to pass on to the aforementioned Surcharge, the offshore regime might negatively impact the profitability of 50Hertz and, consequently, impact the profitability of the Company.

### ***A failure of the IT systems and processes used by the Company or a breach of their security measures may result in losses for customers and reduced revenues for the Company and its affiliates***

The operations of the Company and its relevant affiliates (operational management, communication and monitoring) depend, to a large extent, on ICT systems, comprising processes, hardware and software, and telecommunication technologies. The Company and each of its relevant affiliates take appropriate measures to revise, update and back up its ICT processes and hardware, software and network protection (for example, failover mechanisms) on an ongoing basis to the maximum extent permitted by technical and financial considerations.

The Company and its relevant affiliates also collect and store sensitive data, their own business data and that of their suppliers and business partners. The Company and its relevant affiliates are subject to several privacy and data protection rules and regulations, including, as of May 25, 2018, the General Data Protection Regulation (EU Regulation 2016/679 of April 27, 2016), and are continuously adapting their processes and are putting in place new processes to ensure compliance.

Despite all precautions taken, important system hardware and software failures, failure of compliance processes, computer viruses, malware, cyber-attacks, accidents or security breaches could still occur.

Any such events could impair the ability of the Company and/or the ability of any of the Company's relevant affiliates to provide all or part of their services and generally may result in a breach of its legal and/or contractual obligations. This could, in turn, result in legal claims or proceedings, contractual liability, liability under any other data protection laws, criminal, civil and/or administrative sanctions, a disruption of the operations of the Company or the operations of the relevant affiliates of the Company, or damage to the reputation of the Company or to the reputation of the relevant affiliates of the Company, and in general could adversely affect the business of Issuer or the business of the relevant affiliates of the Company.

***The Group's future profit will in part depend on its ability to realize its contemplated projects and organic growth which, in turn, depends on its ability to obtain the necessary permits and to manage potential environmental and public health risks and accommodate city planning constraints without incurring significant costs***

Since the remuneration of the Group is in part based on its ability to realise projects (as the current remuneration in both Belgium and Germany is subject to the Regulatory Asset Base) (see section "The Group's business – Regulatory framework"), its future profits will in part depend on its ability to maintain and grow such asset base (after amortisations and depreciations). To that effect, it will need to realise its contemplated organic growth (including its envisaged capital expenditure) and realise its various projects. In case the group would not be able to realise or not timely realise its various projects and investment program, this could have a negative impact on the Group's future profits.

The timely implementation of projects are, among other things, highly correlated to the timely obtainment of approvals or permits that allow to perform the planned operations. Such approvals or permits may be refused, or if granted, they may be challenged before the competent courts.

The operations and assets of the Group are subject to European, national and regional regulations dealing with environmental matters, city planning and zoning, building and environmental permits and rights of way. Such regulations are often complex and subject to frequent changes (resulting in a potentially stricter regulatory framework or enforcement policy). The most significant environmental challenges that the Group faces relate to soil pollution, polychlorinated biphenyls, contamination by not properly functioning equipment, herbicides, waste and electromagnetic fields ("**EMF**").

Compliance with existing or new environmental, soil sanitation, city planning and zoning regulations may impose significant additional costs on the Group and delay the projects which it pursues. Such costs include expenses relating to the implementation of preventive or remedial measures or the adoption of additional preventive or remedial measures to comply with future changes in laws or regulations. While the Group has recognized provisions in connection with such obligations in its financial statements, the provisions made by the Group may not be sufficient to cover all costs that are potentially required to be made in order to comply with these obligations, including if the assumptions underlying these provisions prove to be incorrect or if the Group would face additional, currently undiscovered, contamination. Additional costs may also be incurred by the Group in respect of actual or potential liability claims, the defense of the Group in legal or administrative procedures or the settlement of third-party claims.

Resistance to actions or programs in connection with environmental, city planning or zoning and permitting matters may result in delays in the construction phase of the grid extension and/or may require the Group to incur additional costs relating to public inquiries, publicity measures or legal defense, which may adversely affect its financial results.

Although there are currently no environmental law requirements (but only requirements under article 139 of the RGIE (Règlement Général sur les Installations Electriques) with respect to EMF emanating from underground and overhead electrical cables, it cannot be excluded that the legal environment in this respect may become more restrictive in the future. This may result in the Group incurring additional costs in managing environmental and public health risks or city planning constraints, as well as an increased risk of potential liability claims or administrative proceedings initiated by affected persons, or may have an impact on the way investment projects can be implemented. Furthermore, over the past few years, public concern about EMF has been growing and residents have increasingly opposed new projects. Due to continuous actions from pressure groups and local residents, authorities may become more reluctant to deliver the necessary permits in the future.

Concerning the construction of grid extension projects and the related investment programs of 50Hertz, all costs related to take appropriate measures to reduce EMF and comply with the legal German requirements, to compensate for environmental impact (fauna and flora, landscape), decontaminate or to mitigate environmental risks are part of the investment costs and thus fully accepted by the Regulatory Authority. These costs are part of the budgets foreseen to implement the grid development projects and do therefore not affect negatively the financial results. However, if such measures have to be implemented on existing assets as part of the maintenance costs, these adversely affect financial results as any other OPEX cost.



***The Company is subject to certain potential risks relating to Brexit***

Most of the transactions and activities of the Group are mainly driven locally in Belgium and in Germany and are mainly Euro denominated, except for the investment and activities of Nemo Link Ltd (“**Nemo Link**”) (see section “*The Group’s business – Nemo Link*”) which could be impacted by Brexit.

Both in the scenario of a hard Brexit and a Brexit in which the UK remains in the Internal Energy Market, the risks relating to Brexit should be fairly limited.

The main impact of a hard Brexit would be that all auctions of Nemo Link will have to change from implicit auctions (day-ahead and intraday) to explicit auctions (as Nemo Link will organize for long-term auctions). This change would lead to a less efficient trade of electricity, poorer predictability of energy flows and potential regulatory divergence in the long term. This could have a negative impact in general on security of supply, energy costs and the integration of renewable energy.

However, the Company does not expect any of the aforementioned changes to have a strong impact on Nemo Link’s revenue and long-term underlying business case. Moreover, the Group does not expect levies to be implemented on the electricity exchange between the UK and Belgium as this is not allowed or foreseen by the global WTO rules.

Moreover, Nemo Link has been preparing for both Brexit scenarios. The non-IEM access rules for explicit day-ahead auctions were approved by the two regulators CREG and Ofgem in March 2019. The non-IEM access rules for explicit long-term and intraday auctions will follow shortly thereafter. There is also a good coordination and alignment between all channel TSOs and channel National Regulatory Authorities (“**NRAs**”) in order to have the same switch at the same time on all interconnectors between European countries and the UK.

***The outcome of legal disputes and lawsuits may negatively affect the business operations and/or the financial results***

The Company and the relevant affiliates of the Company carry out their activities in such a way as to reduce (as much as possible) the risk of legal disputes and, if necessary, the appropriate provisions are identified and implemented on a quarterly basis. Nevertheless, legal disputes cannot always be avoided. In addition, the outcome of legal proceedings in which the Company and/or the relevant affiliates of the Company are currently involved, or the outcome of any potential future legal proceedings, is uncertain and any such legal proceedings may adversely affect the business, financial condition and results of operations of the Company and the business, financial condition and results of operations of the relevant affiliates of the Company.

***Supplier risks may negatively affect the budget, quality and/or the timely commissioning of infrastructure works***

The electricity transmission infrastructure is a key component of the business of the Company and of the relevant affiliates of the Company. The Company and the relevant affiliates of the Company rely on a limited number of key suppliers to realize their infrastructure objectives.

Given the complexity of the infrastructure works and the increasing demand in the market, the Company and the relevant affiliates of the Company may not be able to find sufficient suppliers and supplies for their projects. The Company and the relevant affiliates of the Company will regularly perform a predictive capacity analysis at market level in order to minimize this risk. In addition, the Company and the relevant affiliates of the Company are also exposed to the risk that their respective suppliers, when facing financial difficulties, may not be able to comply with their contractual obligations.

Any cancellation of or delay in the completion of the infrastructure works of the Company or the relevant affiliates of the Company could have an adverse effect on the business of the Company or on the business of the relevant affiliates of the Company.

***Safety and welfare***

The Company and the relevant affiliates of the Company operate facilities where accidents or external attacks may cause bodily harm to persons. In the event of an attack, accident, error or negligence, persons working in or near electricity transmission facilities may be exposed to the risk of electrocution.

As a result, the Company and the relevant affiliates of the Company may be exposed to potential liabilities that may have a material, negative impact on their financial position, require significant financial and managerial resources, or possibly harm their respective reputations.

The safety and welfare of individuals (both the Company's staff, the staff of the relevant affiliates of the Company and third parties) is a key priority and a daily preoccupation for the Company and for the relevant affiliates of the Company. The Company and the relevant affiliates of the Company have put in place a health and safety policy, undertake safety analyses and promote a safety culture. However, neither the Company nor its relevant affiliates can guarantee that these measures will prove wholly effective in all circumstances.

***Inefficient internal control mechanism may impact the Company's performance and risks.***

The multi-year tariff mechanism, which is based on a secured income incentive regulation, increases the need for year-on-year increases in the Company's overall efficiency and the efficiency of the Company's relevant affiliates. To this effect, the efficiency of internal processes is monitored regularly to ensure they are kept under proper control. This is overseen by the Audit Committee, which controls and monitors the work of the Internal Audit & Risk Management Departments in order to limit to a maximum extent the risk of inefficient internal control mechanisms. A failure of the Company's internal control mechanism may impact the Company's performance and risk.

The reference framework for internal control and risk management, established by the Executive Committee and approved by the Elia Board of Directors, is based on the COSO II framework.

Pursuant to the Company's articles of association, the Board of Directors has established various committees to help it fulfil its duties: the Executive Committee, the Audit Committee, the Remuneration Committee, the Corporate Governance Committee and the Strategic Committee. Elia's integrity and ethics are a crucial aspect of its internal control environment. The Executive Committee and management regularly communicate about these principles in order to clarify the mutual rights and obligations of the Company and its employees. The Code of Conduct also helps to prevent employees from breaching any Belgian legislation on the use of inside information or market manipulation and suspicious activities. The Ethical Code defines what Elia regards as correct ethical conduct and sets out the policy and a number of principles on the avoidance of conflicts of interests.

Risk management is another internal control system that is crucial in helping the Company to achieve its strategic objectives as defined in its mission. The Board of Directors and the Risk Manager jointly and regularly identify, analyze and assess key strategic and tactical risks. The risks are assessed qualitatively and/or quantitatively depending on their nature and potential effect. The Risk Manager then makes recommendations on how best to manage each risk considering the close interaction of the Company's entire risk universe. Based on this assessment, preventive, remedial and/or corrective actions are implemented, including the strengthening of existing internal control activities where applicable.

As part of its responsibilities, the Company's management establishes an effective internal control system to ensure, among other objectives, accurate financial reporting. The Company has established internal control mechanisms at its various structural levels so as to ensure compliance with standards and internal procedures geared to the proper management of identified risks. These include: (i) clear task separation as part of procedures, preventing the same person from initiating, authorizing and recording a transaction – policies have been drawn up regarding access to information systems and the delegation of powers; (ii) integrated audit approach as part of internal procedures so as to link end results with the transactions supporting them; (iii) data security and integrity through the appropriate allocation of rights; and (iv) appropriate documentation of procedures through the use of the Business Process Excellence Intranet, which centralizes policies and procedures. Departmental managers are responsible for establishing activities to control the risks inherent to their department. For all significant financial reporting risks, the Company sets out appropriate control mechanisms to minimize the probability of error.

Internal Audit also plays a key role in monitoring activities by conducting independent reviews of key financial and operational procedures in view of the various regulations applicable to the Company. The findings of those reviews are reported to the Audit Committee to help it monitor internal control and risk management systems and corporate financial reporting procedures.

### ***Acts of terrorism or sabotage may adversely affect the Company's results of operations***

The Company's electricity network, assets and operations (and those of its relevant affiliates) are widely spread geographically and are potentially exposed to acts of terrorism or sabotage. Such events could negatively affect such networks, assets or operations and may cause network failures or system breakdowns. Network failures or system breakdowns could, in turn, have a material adverse effect on the Company's financial condition and operational results, particularly if the destruction caused by acts of terrorism or sabotage is of major importance and are not sufficiently insured and/or the financial impact could not be recovered via tariff mechanism.

### **Financial risks**

#### ***Fluctuations of capital market parameters such as interest rates may negatively influence the financial situation of the Company***

In order to finance its investments and to achieve its short- and long-term strategic goals, the Company and its affiliates need access to capital markets. In the current bank and capital market environment characterized by a low interest rate environment, the Company has currently no constraints on the availability of funding. The Company is partly financed by debt instruments with floating interest rates. A change in interest rates of financial instruments in the market can have an impact on the financial charges.

In Belgium, the funding costs linked to the financing of the regulated activities are qualified as "Non-controllable elements" and potential deviations from budgeted figures can be passed on in a subsequent regulatory tariff period (or in the same period in the event of an exceptional change in charges). The regulated tariffs are set pursuant to forecasts of interest rate. A fluctuation in interest rates of the Company's debt can have an impact on the actual financial charges by causing a time differential (positive or negative) between the financial costs effectively incurred by the Company and the forecasted financial costs. This could cause transitory effects on the cash position of the Company. In Germany, the regulation is very similar. As long as the cost of debt are according to market standards and within certain levels defined by the regulator, these costs are passed to the regulated tariffs.

With regard to the financing of the activities regulated outside of Belgium or non-regulated activities, being the debt financing of the acquisition of an additional 20 per cent. stake in Eurogrid International and the bank loan for the financing of Nemo Link, the interest costs cannot be passed to the regulated tariffs in Belgium.

#### ***Regulatory schemes can be adversely affected by fluctuations of interest rates***

In Belgium, fair remuneration of equity calculation is based on CAPM formula, including risk-free rate. For 2016-19 regulatory period, the risk-free rate is defined as ex-post average yield OLO 10y (Belgian 10-year government bond) for the current year, while for 2020-23 regulatory period the risk-free rate is defined as ex-ante estimate of the yield of the same instrument. For 2020-23 period, this ex-ante estimate has been fixed at 2.4 per cent. Despite the risk that following this regulatory period the risk-free rate might change in case of movements in markets, the full visibility/fixed rate means no immediate exposure to interest rate movements in Belgium for the regulated activities of the Company over 2020-23.

In Germany, the return on equity is calculated up to 40 per cent. of the RAB, which is assumed to be equity financed. The allowed ROE is determined by the regulator before the start of the regulatory period and is dependent on the risk-free rate. For the current regulatory period (2019-23), the risk-free rate has been fixed at 2.49 per cent. Although following the current regulatory period the changes to this risk-free rate could be possible, the regulation provides full visibility and no immediate impact from interest rate fluctuations until 2023.

#### ***Negative changes in financial markets could affect the Company's ability to meet its financing obligations and needs, and this could impact its profitability***

The ability of the Company to access global sources of financing to cover its financing needs or repayment of its debt could be impacted negatively by the deterioration of financial markets. In particular, the Group is dependent on its ability to access debt and capital markets in order to raise the funds necessary to repay its existing indebtedness and meet its financing needs under its future investments. As part of the Company's efforts to mitigate the funding risk, the Company aims to



diversify its financing sources in debt instruments. As a stock quoted company, the Company also has access to the equity market.

The refinancing risk is managed through developing strong bank relationships with a group of financial institutions, through maintaining a strong and prudent financial position over time and through diversification of funding sources.

The short-term liquidity risk is managed on a daily basis with funding needs being fully covered through the availability of credit lines and a commercial paper program (see section “*Financial risk and derivative management accounting*”).

### **Credit, capital structure and liquidity risk**

In its operations, the Company faces credit, capital structure and liquidity risk.

The credit risk faced by the Company stems from uncertainties on solvency of its counterparties. Although the Company continuously assesses the solvency of its counterparties, there is a risk that the Company may face difficulties in meeting its financial obligations if its counterparties do not pay the outstanding amounts owed to the Company as and when they fall due. The Company limits the risk by requiring suppliers and/or customers in some contracts to provide an appropriate bank guarantee in favor of the Company.

The Group is acting under different regulatory frameworks we refer to section “*Key strengths*”, which each include an optimal capital structure (target equity/debt ratio). In case the group deviates from the predefined target equity/debt ratio due to lack of investors in the equity capital market, the profitability of the Company could be impacted.

The Company monitors its cash flow forecasts and the cash available and the unutilised credit facilities to ensure to have sufficient cash available on demand to meet expected expenses and investments including complying with the financial obligations.

We refer to section “*Operating and Financial Review*” for more details to these risks.

### **Credit rating**

S&P has issued, and rating agencies may issue in the future, a credit rating for the Group and for Eurogrid GmbH. There is no assurance that the rating will remain the same for any given period or that the rating will not be lowered by the rating agency if, in its judgment, circumstances in the future so warrant. A decision by a rating agency to downgrade or withdraw the Company's credit rating could reduce the Company funding options and increase its cost of borrowing. The tariff methodology provides that if a downgrade were to occur and this would be entirely attributable to activities regulated outside of Belgium or non-regulated activities, the potential increase of the interest cost on newly issued financial instruments as a result of such downgrade would be borne by the shareholders.

In the context of the contemplated internal reorganisation, the Group will seek to confirm the credit rating for the Group, Eurogrid International and the newly to be created subsidiary which will become the new TSO for the Belgian regulated activities (see section “*The Group's business – Contemplated internal reorganization of Elia in light of potential impact of the new tariff methodology*”). No assurances can, however, be given that the rating will remain the same (see also the risk factor “*In order to mitigate the potential negative financial impact of the new tariff methodology on investments in the non-regulated business as from 2020, Elia contemplates implementing an internal reorganisation, the completion of which depends on the fulfilment of certain conditions*”).

### **Dividends from subsidiaries**

In addition to its principal activity as TSO in Belgium, the Company holds a stake in certain other companies, most significantly 80 per cent. of Eurogrid International (following the acquisition of an additional 20 per cent. stake in Eurogrid International on April 26, 2018). For part of its activities, namely the German activities (i.e. those located under Eurogrid International), the Company is a holding company with no material, direct operations. In relation to such German activities (Section “*Eurogrid International and affiliates*” in “*The Group's business*”), the Company's principal asset is the interest it holds in 50Hertz. As a result, the Company is dependent on dividends and other payments from its subsidiaries to generate the funds necessary to meet its financial obligations,

including the payment of interest and principal to its creditors for the acquisition funding and the payment of dividends to its shareholders. Should dividends from Eurogrid International decrease to the extent that they do not cover the totality of the related financial obligations, it could have an impact on Company's capability to repay the debt.

The ability of the Company's subsidiaries to make such distributions and other payments depends on their earnings and may be subject to statutory or contractual restrictions.

#### **Other risks**

##### ***Possible retroactive changes to, or different interpretations of, tax laws and additional tax assessments may have a negative impact on the Company and/or its subsidiary 50Hertz***

Tax laws and their interpretation by the tax authorities and courts are subject to changes, potentially with retroactive effect. Such changes can have a negative impact on the Company. Furthermore, although tax rules are applied with accuracy and precision, it is possible that the Company's own interpretation of tax laws does not correspond with that of the relevant authorities at the time of potential controls.

Tax audits may result in a higher taxable income or in a lower amount of tax losses carry forwards being available to the Company.

##### ***The Group is subject to certain reputational risks***

Generally speaking, circumstances may arise that have a negative impact on the Company's image. Real or perceived failures of governance or regulatory compliance could harm its reputation. Many other factors, including the materialization of the risks discussed in several of the other risk topics, could impact our license to operate, harm our ability to secure new resources and contracts, and limit our ability to access capital markets. The Company has an internal control mechanism to guarantee, among other things, regulatory compliance including the confidentiality of data (GDPR). External parties may pass on information in their possession that could have an impact on the Company's share price.

The Energy Transition ("*Energiewende*") is a societal project intensively discussed in Germany far beyond sole expert circles. 50Hertz being recognized by politicians, NGOs, industry and associations as one key player to facilitate this transition (via the transformation of system control methods, the development of its grid assets and the evolution of market processes), its reputation can be heavily impacted by its perceived ability to meet the expectation to make "*Energiewende* happen" without collateral damages such as system failures or curtailments. Besides that, severe accidents, environmental damages in grid operations, but also company behaviour at local level while planning and constructing transformer substations, underground cables and overhead lines can affect massively its reputation. 50Hertz has adapted all its project execution processes while integrating public dialogue and participation from the very beginning of each project in order to enhance project outcomes, to reduce delays and thus to mitigate reputational risks.

##### ***A lack or loss of highly qualified staff may result in insufficient expertise and knowhow to meet the strategic objectives***

The Company and its affiliates pursues an active recruitment policy to maintain an appropriate level of expertise and know-how in a competitive labor market. The risk of not having access to the right resources is an ongoing risk, bearing in mind the highly specialized and complex nature of its business.

##### ***The Company may not have adequate insurance coverage***

Elia and its affiliates have subscribed to insurance contracts necessary to operate their business in line with industry standards. However, it cannot be assured that such insurance will not prove to be insufficient. Although Elia's contracts include certain specific limitation clauses in respect of some of these risks (see section "*The Group's Business*"), Elia or 50Hertz may not be (fully) insured against certain risks to which they are exposed (such as material damages to overhead lines, third-party losses, damages, blackout claims or cyber-attacks). Any damage or claim above the insured threshold may have a negative impact on the Company's profitability.

Furthermore, for some specific risks (such as blackout claims in excess of insurance coverage and environmental liabilities, terrorism or cyber-attack) adequate insurance may not be available at

reasonable conditions or may not be available at all. Should those risks materialize, these could have a negative impact on the Company's profitability.

#### **Risks related to the Shares and the Offering**

***There is no assurance that a trading market will develop for the Preferential Rights, and, if a market does develop, the market price for the Preferential Rights may be subject to greater volatility than the market price for the Shares***

The Preferential Rights are expected to be traded on the market on Euronext Brussels from June 6, 2019 to June 13, 2019. There is no assurance that an active trading market in the Preferential Rights will develop during that period and, if a market does develop, there is no assurance regarding the nature of such trading market. The trading price of the Preferential Rights depends on a variety of factors, including but not limited to, the performance of the price of the Shares, but may also be subject to significantly greater price fluctuations than the Shares.

***Existing Shareholders will experience dilution as a result of the Offering if they do not or could not timely exercise their Preferential Rights in full***

Any Preferential Rights not exercised during the Rights Subscription Period will become null and void. To the extent that the Preferential Rights are not or not timely exercised and/or any exercise not timely processed, the Existing Shareholders' proportionate ownership and voting interest in the Company will be reduced, and the percentage that the Shares held prior to the Offering represents of the increased share capital after the Offering will be reduced accordingly. In practice, in case of lengthy corporate action procedures, certain shareholders outside Belgium (e.g. in Germany), may have insufficient time to place a subscription order for the exercise of their Preferential Rights once they become aware of the Offering. The Company has not appointed any centralising agent outside Belgium nor have any specific procedures been foreseen to accommodate the financial service outside Belgium. The Underwriters' role will not extend to the Offering to the public in Germany. No financial institution has been appointed in Germany to provide financial services in relation to the Offering. Subscription orders made with financial intermediaries outside Belgium may not be processed in a timely manner by the local financial intermediaries. Accordingly, investors (and in particular those outside Belgium) wishing to participate in the Offering need to ensure that the financial institution with whom they hold their shares or through whom they wish to participate in the Offering has the requisite processes in place to timely process their subscription. The financial intermediary with whom they hold their shares or through whom they wish to participate in the Offering is solely responsible for obtaining the subscription request and for duly transmitting such subscription request together with all necessary documentation and the appropriate number of Preferential Rights. Each holder of a Preferential Right that is not exercised and processed by the last day of the Rights Subscription Period will only be entitled to receive a proportional part of the proceeds of the sale of Scrips, if any (as described in section "*Information on the Offering – Scrips Private Placement*"). However, there is no assurance that any or all Scrips will be sold during the Scrips Private Placement or that there will be any such proceeds.

***If the Rights Offering is discontinued or there is a substantial decline in the price of the Shares, the Preferential Rights may become void or worthless***

If there is a substantial decline in the price of the Shares, including as a result of short selling of the Company's shares, this may have a material adverse effect on the value of the Preferential Rights. Any volatility in the price of shares will also affect the price of the Preferential Rights, and the Preferential Rights could become worthless as a result. Further, the obligations of the Underwriters pursuant to the Underwriting Agreement may be terminated in certain circumstances (see section "*Underwriting Agreement*"). If the Rights Offering is discontinued as described in the section "*Revocation or suspension of the Offering*", the Preferential Rights will become void or worthless. Accordingly, investors who have acquired any such Preferential Rights in the secondary market will suffer a loss, as trades relating to such Preferential Rights will not be unwound once the Rights Offering is terminated.

***Withdrawal of subscription in certain circumstances may not allow sharing in the Net Scrips Proceeds and may have other adverse financial consequences***

Subscribers withdrawing their subscription after the close of the Scrips Subscription Period shall nevertheless be deemed to have exercised their Preferential Rights or Scrips and, accordingly, will

not share in the Net Scrips Proceeds and will not be compensated in any other way, including for the purchase price (and any related cost) paid in order to acquire any Preferential Rights or Scrips.

***The market price of the Company's shares may be volatile and may decline below the Issue Price***

There can be no assurance that the Issue Price will correspond to the market price of the shares following the Offering or that the market price of the shares available in the public market will reflect the Company's actual financial performance. A number of factors may affect the market price of the shares, including the number of shares held by the public, changes in the operating results of the Company, changes in the general conditions in the energy sector, and general economic and business conditions in the countries in which Elia and 50Hertz operate. Furthermore, securities markets have experienced significant price and volume fluctuations in recent years. Similar fluctuations in the future could have a material adverse effect on the market price of the shares regardless of the operating results or financial condition of the Company.

The Company has entered into liquidity contracts with KBC Securities, Bank Degroof Petercam and Belfius Bank.

Details on the lock-up undertaking of Publi-T and the standstill commitment of the Company can be found in section "Information on the Offering – Lock-up and standstill arrangements".

If there is a substantial decline in the market price of the shares, this may have an adverse impact on the market price of the Preferential Rights. Any volatility in the market price of shares may also adversely affect the market price of the Preferential Rights, which may become worthless as a result thereof.

***The capital increase may be lower than the contemplated Issue Amount if the Offering is not fully subscribed***

The Company has the right to proceed with a capital increase for a reduced amount. No minimum amount has been set for the Offering. The actual number of New Shares subscribed to will be confirmed in the Belgian Financial Press. Therefore: (i) only a reduced additional number of the Company's shares could be made available for trading on the market which could increase the free float of the Company's shares to a lesser extent than expected; and (ii) the Company's financial means in view of the uses of the proceeds of the Offering might be reduced. The Company might therefore have to look for further external funding.

***The market price of the Company's shares or Preferential Rights could be negatively affected by sales of substantial numbers of shares or Preferential Rights in the public markets***

A sale of a significant number of shares or Preferential Rights on the stock market, or the perception that such a sale could occur during the Offering as far as the Preferential Rights are concerned, or while or after the realization of the Offering as far as the shares are concerned, could adversely affect the share price or the price of the Preferential Rights. The Company cannot predict the effect on the share price or the price of the Preferential Rights if the shareholders were to decide to sell their shares. Furthermore, there is no commitment on the part of any of the Existing Shareholders to remain a shareholder or to retain a minimum interest in the Company after the expiry of the respective lock-up periods that will be provided for in the Underwriting Agreement in relation to the securities held by certain Existing Shareholders.

***There may not be an active public market for the Company's shares (and the Offering may not substantially improve such activity), which may cause the shares to trade at a discount to the Issue Price and/or make it difficult to sell the shares***

Prior to the Offering, the public market for the Company's shares showed signs of limited liquidity. The Offering will not necessarily develop or sustain an active public market for the Company's shares. There can be no assurance that the Issue Price will correspond to the market price of the shares following the Offering or that the market price of the shares will reflect the Company's actual financial performance or that the Offering will result in improved liquidity and/or free float of the Company's shares.

***Certain significant shareholders of the Company after the Offering may have interests that differ from those of the Company and may be able to control the Company, including the outcome of shareholder votes***

The Company will continue to have a number of significant shareholders. For an overview of the Company's significant shareholders as at the date of this Prospectus, reference is made to section "Relationship with significant shareholders – Share ownership".

Given its current shareholding, Publi-T SCRL/CVBA ("**Publi-T**"), which represents Belgian municipalities, can have a significant influence on the approval of shareholders' resolutions, and can in any event block any shareholders' resolution as the approval of any shareholders' resolution requires the approval of holders of a majority of class A and/or class C as long as the holders of class A and/or class C shares own at least 25 per cent. of the total outstanding share capital of the Company (or 15 per cent. in the event of dilution following a capital increase).

To the extent that certain shareholders were to combine their voting rights, they could have the ability to elect or dismiss directors, and, depending on how widely spread the Company's other shares are, take certain other shareholders' decisions that require, or require more than, 50 per cent. or 75 per cent. of the votes of the shareholders that are present or represented at the General Shareholders' Meetings where such items are submitted to voting by the shareholders. As with Publi-T's current shareholding, all shareholder resolutions require the approval of Publi-T. Alternatively, to the extent that these shareholders have insufficient votes to impose certain shareholders' resolutions, they could have the ability to block proposed shareholders' resolutions that require, or require more than, 50 per cent. or 75 per cent. of the votes of the shareholders that are present or represented at General Shareholders' Meetings where such items are submitted to voting by shareholders. Any such voting by these shareholders may not be in accordance with the interests of the Company or the other shareholders of the Company.

***Shareholders outside Belgium may not be able to exercise preferential subscription rights (notice for non-Belgian resident investors)***

In the event of an increase of the Company's share capital in cash, shareholders are generally entitled to full preferential subscription rights ("*droits de preference*" / "*voorkeurrechten*") unless these rights are cancelled or limited either by a resolution of the General Shareholders' Meeting or by a resolution of the Board of Directors (provided that the Board of Directors has been authorized by the General Shareholders' Meeting, or by the Articles of Association to increase the share capital in that manner, which is the case at the date of this Prospectus). Certain shareholders outside Belgium may not be able to exercise preferential subscription rights unless local securities laws have been complied with. In particular, U.S. shareholders may not be able to exercise preferential subscription rights unless a registration statement under the Securities Act is declared effective with respect to the shares that may be issued upon the exercise of such preferential subscription rights or an exemption from the registration requirements is available. The Company does not intend to obtain a registration statement in the United States or to fulfil any requirement in other jurisdictions (other than Belgium) in order to allow shareholders in such jurisdictions to exercise their preferential subscription rights (to the extent not excluded or limited). As a result, the Company may in the future sell shares or other securities to persons other than its existing shareholders at a lower price than the New Shares and, as a result, U.S. or other non-Belgian shareholders may experience substantial dilution of their interest in the Company.



## **RATIONALE OF THE OFFERING AND USE OF PROCEEDS**

The principal purpose of the Offering is to align the capital structure of the Company to the new regulatory framework applicable in Belgium for the period 2020-2023 and to finance the investment in Nemo Link. On June 28, 2018, the Belgian regulator published the new regulatory framework applicable for the period 2020-2023 (see section “The Group’s business – New tariff methodology applicable for the period 2020-2023”). Under this framework, the equity portion that can be allocated to the regulated investments increases from 33 per cent. to 40 per cent.

If the Offering is fully subscribed, the gross proceeds from the issue of New Shares are estimated to be approximately €434,801,928.00. The net proceeds from the issue of New Shares are estimated to be approximately €429,134,671.23.

The proceeds from the Offering will be partially used for the Nemo Link project, which was entirely financed with debt during the construction phase and which operations have started in January 2019. €110 million of the proceeds will be used to replace with equity the portion of the Nemo Link project which was funded internally. The remaining portion of the proceeds from the Offering will be used to finance the regulated activities in Belgium (and increase the equity portion thereof) in accordance with the new regulatory framework and for general corporate purposes. For estimates on the costs and expenses of the Offering, see section “Information on the Offering – Costs of the Offering”.

As of the date of this Prospectus, the Company cannot predict with certainty all of the particular uses for the proceeds from the issue of New Shares, or the amounts that it will actually spend on or allocate to finance the regulated investments in Belgium in accordance with the new regulatory framework, finance the investment in Nemo Link and/or general corporate purposes. The amounts and timing of the Company’s actual expenditures will depend upon numerous factors. The Company’s management will have significant flexibility in applying the proceeds from the issue of the New Shares and may change the allocation of these proceeds as a result of these and other contingencies.

## CAPITALIZATION AND INDEBTEDNESS

### Capitalization and indebtedness

The following table sets forth the capitalization and indebtedness of the Company as at December 31, 2016, 2017 and 2018 and as at March 31, 2019.

The figures for capitalization and indebtedness as at December 31, 2016, 2017 and 2018 have been extracted, without material adjustment, from the Company's audited consolidated financial statements prepared in accordance with IFRS, as endorsed by the EU, for the period ended December 31, 2016, 2017 and 2018. The figures of year 2017 have been restated. Figures of 2017 are therefore presented in 2 columns, "2017 restated" and "2017". The impact of restatement is explained, where relevant.

The figures for capitalization and indebtedness as at March 31, 2019 have been extracted from the unaudited financial reporting prepared in accordance with IFRS.

This table should be read in conjunction with the sections "*Selected Financial Information*" and "*Operating and Financial Review*" and the consolidated financial statements and related notes incorporated by reference in this Prospectus.

This table does not take into account the proceeds from the Offering.

	March 31,	December 31,			
	2019	2018	2017 (restated)	2017	2016
	(€ million)				
<b>Capitalization</b>					
<b>Current debt</b>					
Guaranteed	0.0	0.0	0.0	0.0	0.0
Secured	0.0	0.0	0.0	0.0	0.0
Unguaranteed/unsecured	618.5	621.1	49.5	49.5	147.5
Total current debt	618.5	621.1	49.5	49.5	147.5
<b>Non-current debt</b>					
Guaranteed	0.0	0.0	0.0	0.0	0.0
Secured – principal amount	0.0	0.0	0.0	0.0	0.0
Unguaranteed/unsecured	6,351.6	5,773.8	2,834.7	2,834.7	2,586.4
Total non-current debt	6,351.6	5,773.8	2,834.7	2,834.7	2,586.4
Total indebtedness	6,970.1	6,394.9	2,884.2	2,884.2	2,733.9
<b>Shareholders' equity</b>					
Share capital	1,521.8	1,521.5	1,517.6	1,517.6	1,517.2
Share premium	14.6	14.3	11.9	11.9	11.8
Legal reserve	173.0	173.0	173.0	173.0	173.0
Other reserves	1,097.8	1,032.5	860.8	938.2	809.4
Total shareholders' equity	2,807.3	2,741.3	2,563.3	2,640.7	2,511.4
Hybrid securities	710.9	706.2	0.0	0.0	0.0
Non-controlling interests	310.6	301.4	1.1	1.1	1.2
Total equity	3,828.7	3,748.9	2,564.4	2,641.8	2,512.6
Capitalization	35%	37%	47%	48%	48%
<b>Net Indebtedness</b>					
<b>Cash</b>					
Cash and cash equivalents	2,539.9	1,789.3	195.2	195.2	176.6
<b>Current bank debt</b>					
Current portion of non-current debt	118.5	71.1	49.5	49.5	47.5
Current financial debt	500.0	549.9	0.0	0.0	100.0
<b>Net current financial indebtedness</b>					
Non-current bank loans and other borrowing and leasing arrangements	6,351.6	5,773.8	2,834.7	2,834.7	2,586.4
Non-current financial indebtedness	6,351.6	5,773.8	2,834.7	2,834.7	2,586.4
Net financial indebtedness	4,430.2	4,605.5	2,689.0	2,689.0	2,557.3



In September 2018, the Company issued hybrid securities in the amount of €706.2 million. The hybrid securities are deeply subordinated securities. With the exception of ordinary shares, hybrid securities rank as the most junior instruments in the capital structure of the Group in an insolvency hierarchy. The holders of the hybrid securities have limited ability to influence the outcome of a bankruptcy proceeding or a restructuring outside bankruptcy. Hybrid securities are perpetual instruments; the terms do not provide for any events of default nor entitle holders to demand repayment or redemption. The issued amount is presented in full under “Hybrid securities”.

In January 2019 the Company launched a €500 million Eurobond under its €5 billion EMTN programme. The €500 million senior bond will mature in 2026 and has an annual coupon of 1.375%. The proceeds of this bond issue will be used to refinance an existing €500 million Eurobond due to mature in May 2019. Post repayment of the bond in May 2019, the ratio of total equity divided by the sum of total equity and total indebtedness will remain at 37 per cent.

As at December 31, 2018, cash and cash equivalents include for €0.1 million restricted cash.

As at December 31, 2018, the Group has available unutilised credit facilities for an amount of €1,852.5 million.

### **Working capital statement**

On the date of this Prospectus, the Company is of the opinion that, taking into account its available cash and cash equivalents, it has sufficient working capital to meet its present requirements and cover the working capital needs for a period of at least 12 months as of the date of this Prospectus.

## THE GROUP'S BUSINESS

### Introduction

Elia System Operator SA/NV is a limited liability company ("*société anonyme*" / "*naamloze vennootschap*") and was established under Belgian law by a deed enacted on December 20, 2001, published in the Appendix to the Belgian State Gazette ("*Moniteur belge*" / "*Belgisch Staatsblad*") on January 3, 2002, under the reference 20020103-1764. Its registered office is located at 1000 Brussels, Keizerslaan 20 (telephone number: +32 (0)2 546 70 11) and it is registered in the Brussels Register of Legal Entities under the number 0476.388.378. The Company's LEI is 549300S1MP1NFDIKT460. The Company's shares are listed on Euronext Brussels. The Company's website can be accessed via [www.eliagroup.eu](http://www.eliagroup.eu).

The Company is the transmission system operator ("**TSO**") for the Belgian very high- (400kV to 150kV) and high-voltage (70kV – 30kV) electricity networks, and for the offshore grid in the Belgian territorial waters in the North Sea. The electricity transmission networks and related assets are owned by the Company's wholly owned subsidiary (minus one share), Elia Asset SA/NV ("**Elia Asset**"). The Company and Elia Asset operate as a single economic entity. The Company was appointed as the sole TSO in Belgium by a ministerial decree of September 13, 2002 (published in the Belgian State Gazette of September 17, 2002 and with effect as of that date) for a 20-year period. On April 26, 2019, the competent Minister has decided to renew the Company's mandate for twenty years and this starting from September 17, 2022. The Company was also designated as a local transmission system operator (operating the high-voltage grid) in the Flemish Region for a 12-year period as from January 1, 2012, the local transmission system operator in the Walloon Region for a 20-year period until September 17, 2022 and the regional transmission system operator in the Brussels-Capital Region for a 20-year period until November 26, 2021. The Company is allowed to ask for the renewal of these appointments for the same duration. Furthermore, by a decision of the CREG dated December 6, 2012, the Company was certified as a fully ownership unbundled transmission system operator.

In 2010, the Company expanded its activities on a broader European level by acquiring 60 per cent. of Eurogrid International, the holding company above 50Hertz, one of Germany's four grid operators active in the northeast part of the country, in joint control with Industry Funds Management ("**IFM**"). On April 26, 2018, the Company acquired an additional 20 per cent. of Eurogrid International from IFM. The acquisition increased the Company's total share in Eurogrid International to 80 per cent., allowing the Company to fully control and consolidate Eurogrid International. On August 22, 2018, the Company welcomed the German state-owned bank Kreditanstalt für Wiederaufbau ("**KfW**") as a new shareholder in Eurogrid International. This change in ownership followed the execution of the Company's pre-emption right on the remaining 20 per cent. shares in Eurogrid International which were sold immediately at the same terms and conditions to KfW. These transactions foster the Belgian-German cooperation regarding critical grid infrastructure.

50Hertz is one of the four TSOs in Germany, that owns, operates, maintains and develops a 380kV – 220kV transmission network with an installed capacity of around 51,500MW (including approximately 28,000MW renewables and approximately 17,000MW wind). The 50Hertz grid has a length of around 10,215 km in an area covering the five Eastern German states of Thuringia, Saxony, Saxony-Anhalt, Brandenburg and Mecklenburg-Western Pomerania as well as Berlin and Hamburg and also the grid connections of offshore wind farms in the Baltic Sea. Its administrative center is situated in Berlin-Mitte. Maintenance of the transmission system, substations and switching stations is organized through seven regional centers operating in a region characterized by a lot of wind; renewable energy already accounts for over 56 per cent. of the electricity consumption in the 50Hertz-grid region. This share will further increase over the next years following further investments in integrating photovoltaic generation, wind onshore and connecting the offshore wind farms in the Baltic Sea.

On February 27, 2015, a joint venture Nemo Link was set up between Elia Transmission System Operator NV/SA and National Grid Interconnector Holdings Limited ("**National Grid**"), a subsidiary company of the UK's National Grid Plc, a major UK company which owns and manages gas and electricity infrastructure in the UK and in the northeastern US. Nemo Link will be active in the development, construction and operation of an electricity transmission interconnector (1,000MW) linking the electricity networks of Belgium and Great Britain. It consists of subsea and underground cables connected to a converter station and an electricity substation in each country, which allows electricity to flow in either direction between Belgium and the UK. Nemo Link is governed by a

regulatory framework determined by OFGEM and the CREG. On January 31, 2019, the Nemo interconnector was taken into operation resulting in energy exchanges between the countries. It constitutes a crucial stage in the ongoing integration of the European power grid.

The Company manages the liquidity and financial needs of Elia's activity as TSO (including Elia Asset's activities) including (if necessary) its investment activities in affiliates and joint ventures. Each of Eurogrid International and its affiliates, in which the Company, either directly or indirectly, holds a stake, manages its own financing needs without any recourse towards the Company.

### Key strengths

The Group's business relies on a number of strengths, including the following:

- *Highly reliable and resilient network:* the Group not only operates and owns the transmission network as asset manager but also acts as system operator, seeking to balance, in real time, generation and demand of electricity on its network. The integration of both activities allows the Group to develop synergies, which in turn increase the efficiency of the network. In addition, Elia's network design is a meshed structure, comparable to a spider web, allowing virtually all off-take points to be supplied by two or more routes and using various voltage levels. This meshed configuration is designed to significantly reduce the risk of power interruptions. The resulting reliability of the network is demonstrated by 99.999% availability of the grid, benefitting 30 million end users.
- *Active under established regulatory regimes resulting in a lower risk profile:* The Group's risk profile is limited due to the nature of its activity and the regulated environment in which it operates. The Group is active under three established regulatory regimes with maximum visibility in the regulatory cycles with respect to the remuneration parameters. In Belgium, the current regulatory period took effect on January 1, 2016 for a four-year period from 2016 to (and including) 2019 whereby the approved tariffs have been fixed for that four-year period. The next regulatory period will take effect January 1, 2020 for a four-year period from 2020 to (and including) 2023 where the new tariff methodology has been approved by the regulator in June 2018, increasing the predictability of Elia's results. In Germany, a new regulatory period took effect on January 1, 2019 for a five-year period from 2019 to (and including 2023). With Nemo in operation since January 2019 and having its own regulatory framework providing visibility of 25 years, the Group is active under three established regulatory regimes. Diversification across the regulatory regimes tends to enhance the low risk profile of the Group.
- *Factual and legal monopoly and unique resources in Belgium and Germany:* Elia currently has a factual and legal monopoly for operating the national very-high and high voltage network both onshore and offshore. In addition, Elia has unique resources as it owns 100 per cent. of the national very-high and high voltage network and owns (or has the right to use) 94 per cent. of the local and regional high-voltage network. As such, Elia is the sole company that fulfils the conditions provided by law to be appointed as the federal and regional TSO. Due to this monopoly, the vast majority of the Company's profit are regulated, guaranteeing the company a return on investment for which the driving parameters are defined by a regulatory framework for a regulatory period. 50Hertz is one of the four TSO's in Germany, and has a factual monopoly for owning, operating, maintaining and developing a 220 – 380kV transmission network in an area covering the five former Eastern German states of Thuringia, Saxony, Saxony-Anhalt, Brandenburg and Mecklenburg-Western Pomerania as well as Berlin and Hamburg. Furthermore 50Hertz is the only German TSO having the legal obligation to construct and operate the grid connections to the offshore clusters and wind farms in the German part of the Baltic Sea.
- *Creating a top five TSO in Europe:* As a result of an initial acquisition of a 60 per cent. stake in 50Hertz and a subsequent acquisition of an additional 20 per cent. stake in 50Hertz, the Group became the fifth largest TSO in Europe (in terms of total assets). This position gives the Company the critical mass to play a leading role in reshaping the electricity market. In addition, 50Hertz offers complementary knowledge and experience in domains with strong development potential in the future, such as connecting onshore and offshore wind energy generation with the mainland as well as with future North Sea and Baltic Sea grids.

- *Strong organic growth prospects both in Belgium and Germany:* Supported by its geographical location in the center of Europe, the Group is determined to succeed the European integration of the national power system and has therefore established a solid CAPEX plan to deliver large transmission network infrastructure projects to integrate the increasing amounts of renewable energy generation as well as further develop European interconnections. In the upcoming five years (2019-2023), the Group plans to invest €5.6 billion (€2.2 billion to be invested by Elia in Belgium and €3.4 billion by 50Hertz in Germany). The Group has historically demonstrated superior organic growth with a Compound Annual Growth Rate (CAGR) of RAB of 7 per cent. (or 11 per cent. including the 20% acquisition) in 2014-2018 and is set to continue RAB growth with the above mentioned sizeable capex programme. In Belgium, the organic growth is predominantly driven by interconnections build-out, with the renewables connectivity becoming increasingly important (as demonstrated by Modular Offshore Grid projects). In Germany, the ongoing, 'Energiewende', supported also by the increased targets for renewable energy production (from 55 per cent. to 65 per cent.) in 2030 set by the new German government, will further drive future investments by 50Hertz. These investments will further drive the future organic growth of the Group.
- *The Group at the forefront of the energy transition:* European energy market is currently undergoing paradigm shift from "generation follows consumption" structure to "demand follows generation" concept with significant growth of distributed generation and active participation of end-users, from "consumers" becoming "prosumers". In terms of managing the network, this would require variability more and more to be managed by a combination of geography (intra-bidding zones), time-shift, and energy consumption. To address the needs of changing market, the Group continuously develops series of initiatives to build the energy system of the future. Those include collaborations with digital partners as well as energy market participants to develop solutions in the following areas: EWF Blockchainfor energy, testing and building the Internet of Energy and demonstrating use cases for application of Artificial Intelligence.
- *Proven and Solid Financial strength:* The Group is exposed to various regulatory frameworks which includes a number of elements that contribute to the creation of a solid long-term financial basis for the Group. Firstly, the optimal leverage ratio is set by the regulator for both Elia and 50Hertz and the financial expenses in relation to its regulated business are almost entirely covered in the tariffs. Secondly, the tariff structure allows all costs (to the extent not deemed unreasonable by the regulator) over which Elia and 50Hertz have no direct control ("non-controllable costs" in Belgium and "permanently non-influenceable costs" in Germany) to be recovered through future tariffs. In addition, part of Elia's profit must by law be used to fund future investments (and not be distributed to shareholders). Finally, the future investment plans in relation to its regulated business in Belgium and Germany always have to be approved by the government and the regulators before being launched, which ensures their inclusion in the tariffs.
- *Stable or increasing dividend:* Since its incorporation, Elia has demonstrated a strong commitment to the distribution of dividends, as evidenced by the historical yearly pay-out ratio. Historically, this translated into 2% DPS Compound Annual Growth Rate since 2014, with the dividend growing from €1.54 for 2014 financial year to €1.66 for the 2018 financial year. The Extraordinary Shareholders' Meeting of 21 May 2019 approved a dividend per share of €1.66 for the financial year 2018. On March 21, 2019 the Board of Directors formally approved the policy it intends to apply when proposing dividends to the General Shareholder's Meeting. Under this policy, the full-year dividend growth is intended not to be lower than the increase of the Consumer Price Index ("inflation") in Belgium.
- *A business that has been in existence for more than 75 years, with experienced employees and management:* Although the Company was only incorporated in 2001, its activities started in 1937. Together with 50Hertz, the Group employs around 2,435 people, who have accumulated a wide and strong knowledge and expertise in all aspects of TSO activities.

## Business overview

### The Company

#### Role as TSO in Belgium

The Company and Elia Asset (together, “**Elia**”) develop, operate and maintain the national very high-voltage electricity transmission system (380kV to 70kV) in Belgium, which is regulated at the federal level. In addition, Elia owns and operates a major part of the local and regional high-voltage electricity transmission systems (70kV to 30kV) in each of the Regions, which are regulated at the regional level (all transmission systems together, the “**Grid**”). It provides the physical link between electricity generators, distribution system operators (“**DSOs**”), suppliers and direct supply customers and manages interconnections with the electricity grids of neighboring countries. It also manages the coordination of the flow of electricity across the Grid in Belgium, to enable secure and reliable delivery from electricity generators to end customers.

All Belgian very high-voltage electricity network assets are fully owned (through Elia Asset) and operated by Elia. Elia also owns (or has the right to use) and operates approximately 94 per cent. of the Belgian high-voltage electricity network.

The extension of the activities of the TSO to include offshore activities was incorporated in the Electricity Act in 2012.

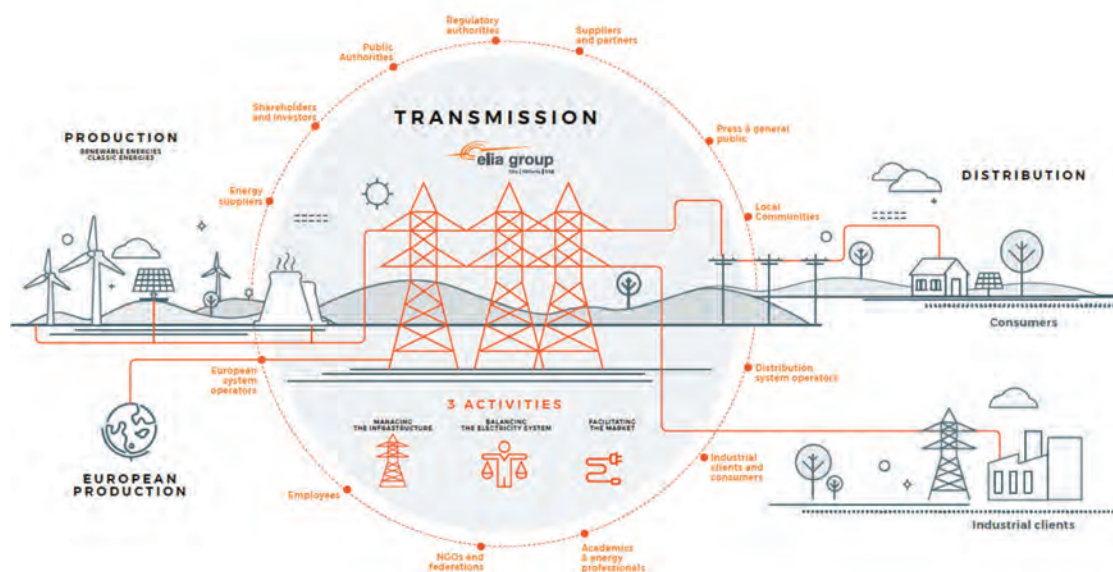
The Company and Elia Asset own 100 per cent. of Elia Engineering NV/SA (“**Elia Engineering**”) and Elia RE S.A. (“**Elia RE**”). In addition, the Company has financial participations in, among others, *Holding des Gestionnaires de Réseaux de Transport* (“**HGRT**”), the Coordination of Electricity System Operators (“**Coreso**”) and the Joint Allocation Office (“**JAO**”), Enervalis (see section “*Organizational structure*”) and the joint venture Nemo Link.

As further described herein, the Company has two primary business segments, on the one hand, TSO in Belgium and the related activities (see section “*Core business of Transmission System Operator in Belgium*”) and, on the other hand, its investment in 50Hertz acting as the TSO in Germany (see section “*Eurogrid International and affiliates*”). Since Nemo Link was taken into operation at the end of January 2019, this is regarded as a third business segment (see section “*Nemo Link*”). All three segments are operating under their own specific regulatory framework (see section “*Key strengths*”).

#### Organization of the Belgian and German electricity market

The main players in the electricity market are the electricity generators, the TSOs and the DSOs, wholesale and retail suppliers, the power market operator, the traders, end customers and regulators.

The following chart shows the organization of the Belgian electricity market.





## Transmission system operation

Transmission system operation refers to the regulated activity of operating the very high-voltage and high-voltage electricity networks and the management of electricity flows on these networks. The operator of such a network is called a TSO. The main users of these networks are the electricity generators, the traders, the DSOs, the commercial suppliers and large (industrial) off-takers (end customers). As such, the Company plays a crucial role in the community by transmitting electricity from generators to distribution systems, which, in turn, deliver it to the consumer. Elia also plays an essential part in the economy, as its system supplies power directly to major companies connected to the grid.

TSOs, such as the Company in Belgium, operate their electricity network independently of electricity generators and suppliers. The very high-voltage electricity networks, such as the ones operated by Elia, are also used to import and export electricity internationally and for mutual assistance between TSOs according to international standards set by European legislation and by the European Network of Transmission System Operators for Electricity (“ENTSO-E”) operating rules (grid codes). Belgium’s very high-voltage electricity network is interconnected with the transmission systems of France, Luxembourg, the Netherlands and the United Kingdom, and will in the future be interconnected with transmission systems in Germany (see section “Key projects of Elia”).

## Core business of Transmission System Operator in Belgium

The role of the transmission system operator is comprised of four different areas: infrastructure management and grid development, system operation, market facilitation and related activities.

### *Infrastructure management and grid development*

This activity consists of: (i) ownership; (ii) maintenance; and (iii) development of the network to enable the transmission of electricity at voltages ranging from 400kV (with regard to the 400kV infrastructure, said ownership and maintenance is controlled via the joint venture Nemo Link) to 30kV. In the upcoming five years (2019-2023), the Company plans to invest €2.2 billion in Belgium.

#### *(a) Ownership*

Elia is Belgium’s high-voltage transmission system operator (30kV to 380kV), operating over 8,500 km of lines and underground cables throughout Belgium.

The Grid, mainly owned (94%) and operated by Elia, is composed of three categories of voltage levels:

- the 380kV lines that are part of the backbone of the European network. Electricity generated at this voltage flows towards the Belgian regions and is also exported to foreign countries (such as France and the Netherlands);
- the 220kV and 150kV lines and underground cables that are strongly interconnected with the 380kV level and carry electricity in and between the Belgian electricity areas; and
- the high-voltage network, consisting of the 70kV to 30kV lines and underground cables, which carries electricity from the higher-voltage levels to the off-take points used by the DSOs and large industrial customers that are directly connected to Elia’s network.

The use of different voltage levels is the result of technical and economical optimization. Very high-voltage is required for the optimal transmission of electricity over long distances with minimal energy loss, while lower voltages are optimal for shorter distances and lower quantities.

#### *(b) Maintenance and replacement capital expenditures*

Elia’s policy with respect to network maintenance is based on a risk assessment approach that takes into account the meshed structure of its network. A sophisticated asset management strategy has been put in place to closely monitor the functioning of critical infrastructure components. The main objectives are to reach maximum availability and reliability of the network with the highest efficiency so as to minimize the total cost of ownership. To implement this policy, Elia extensively monitors the network and performs routine preventative inspections.

Like most European TSOs, Elia is facing the challenges of an ageing network that was developed in or even before the 1970s. To meet these challenges, Elia has developed a number of risk-based models that are aimed at optimizing asset replacement strategies. Investments peaks are levelled out thanks to a balanced maintenance and replacement policy. As working methods evolve, staff need training to help them develop the requisite skills and techniques. In the upcoming years, an increasing part of the capital expenditure plan will be allocated to replacement investments.

*(c) Grid development*

Elia's network development is based on four investment plans: one federal plan and three regional plans. These investment plans identify the reinforcements to the networks that are required in order to achieve consistent and reliable transmission, to cope with the increase in consumption as well as new power plant requirements (conventional or renewable energy sources), the connection and the integration of renewable energy sources (onshore and offshore), and the increased import and export capacity with neighboring countries.

The investment plans also take into account environmental and land-use constraints as well as applicable health and safety objectives.

*System operation*

Given the growth in renewable energies and their variable generation, greater flexibility is needed within the electricity system to maintain a constant balance between supply and demand. Digitalisation and the latest technologies offer market players new opportunities to optimise their electricity management by selling their surplus energy or temporarily reducing consumption (demand flexibility). By opening the system to new players and technologies, Elia wants to create a more competitive energy market while maintaining security of supply at all times. To achieve this, Elia ensures that every market player has transparent, non-discriminatory access to the grid.

Elia monitors the electricity flows on its network and seeks to balance in real time the total electricity injected into and taken off its network, taking into account the power exchanged with the neighboring countries, through the procurement of the appropriate ancillary services. Elia also purchases electricity on the market to compensate for energy losses in the high-voltage networks that are a consequence of the transmission of electricity.

Elia's network is the essential link between the supply of and demand for electricity both within Belgium and in the context of the EU's internal electricity market. To inject electricity into Elia's network, generation plants located in Belgium must be physically connected and receive access to (i.e. the right to use) the network. Elia's network is operated in such a way as to allow this electricity, as well as the electricity coming from neighboring countries, to flow to the off-take points to which distributors, large corporate customers and foreign networks are connected. Parties accessing Elia's network are charged regulated tariffs based on their peak quarter-hourly demand and energy consumption.

As a system operator, Elia constantly monitors, controls and manages the electricity flows throughout the Belgian very high-voltage and high-voltage networks to ensure the reliability, continuity and quality of electricity transmission by maintaining the frequency and voltage within internationally determined limits.

Elia's network is monitored 24 hours a day, seven days a week by three control centers (one national and two regional). These control centers continuously monitor electricity flows, frequency, voltage at each off-take point, load on each network component and the status of each circuit breaker. When a network component is switched off, Elia's personnel takes appropriate measures to reinforce the operational reliability of the network and to safeguard electricity supply to Elia's customers. Elia has the ability to remotely activate or deactivate certain network components.

Elia has adopted other measures designed to maintain reliability for its customers. These measures consist of both operational measures (such as capacity allocation, load flow forecasts and compliance checks) and emergency procedures. Some of these measures have been adopted in cooperation with neighboring TSOs (and approved by their respective regulator) and/or with Coreso, the regional coordination service center, in order to promote coordinated action.

Ancillary services contracts are granted in accordance with public procurement rules. Part of the costs incurred by Elia as a result of the purchase of ancillary services are directly invoiced to the



defaulting access responsible parties (“**ARPs**”), while the ancillary services (such as compensation for the electricity losses) are reflected in the network tariffs.

#### *Market facilitation*

In addition to its two core activities described above, Elia aims to improve the functionality of the open electricity market by acting as a market facilitator, both in the context of a single European electricity market as well as in the framework of the integration of renewable energy, in accordance with national and European policies. It does so in close cooperation with the relevant power market operators (the Company is also an indirect shareholder of certain of these market operators). Further to the legislative proposals in the Clean Energy Package, this cooperation will be further formalized and fine-tuned (see section “*Third Energy Package and Clean Energy Package*”).

Due to the central location of the Belgian network within continental Europe and the intensive cross-border commercial exchanges following the deregulation of the European electricity market, Elia’s network is intensively used by other market participants for cross-border import and export and for the transit of electricity. Elia wants to facilitate further market integration, both at the national and European level by giving new players and technologies a chance to help them innovate their systems and introduce new market products.

Elia’s income from or charges due under the inter-TSO compensation mechanism for EU cross-border trade are passed through to the home market participants by a tariff reduction or increase.

Elia has played an important role for many years in various market integration initiatives, such as: (i) the design and implementation of the Belgian power hub; (ii) the establishment of regional markets, initially Central West Europe (“**CWE**”) (i.e. France, Belgium, the Netherlands, Luxembourg, Austria and Germany) and subsequently the Nordic countries and North West Europe (i.e. Central West Europe, the Nordic countries and the UK); (iii) the establishment of the CORE capacity calculation region (CWE region together with Central Eastern Europe); (iv) day-ahead price coupling in the North-Western Europe region (“**NEW**”), stretching from France to Finland, operating under a common day-ahead power price calculation using the Price Coupling of Regions (“**PCR**”) solution, the MRC Region (Multi Regional Price Coupling); (v) the creation of the first regional technical coordination center for CWE, Coreso, in cooperation with RTE and National Grid (the French and UK TSOs); (vi) the creation of a market coupling between the Benelux countries and France; and (vii) the participation in the establishment of the future single day-ahead coupling and single intraday coupling (covering the EU). The Company is also a stakeholder in a number of European initiatives aiming to optimize market operation, i.e. HGRT and ENTSO-E.

Elia’s initiatives which aim to enhance market facilitation and integration include:

- having an equity interest of 17 per cent. in HGRT, which itself has a 49 per cent. equity stake in EPEX SPOT. The European Power Exchange EPEX SPOT SE and its affiliates APX and Belpex operate organized short-term electricity markets in Germany, France, the United Kingdom, the Netherlands, Belgium, Austria, Switzerland and Luxembourg. The Company was a founding shareholder of Belpex SA/NV (see section “*HGRT*”);
- being a founding shareholder of Coreso. Coreso is the first regional technical coordination center aiming to improve reliability across the CWE region. Coreso is shared by several transmission system operators and develops forecast management of electricity transits across this region (see section “*Coreso*”); and
- being a shareholder of JAO (Joint Allocation Office SA), a service company performing the annual, monthly and daily auction of transmission rights across 27 borders in Europe and acting as a fall-back for the European Market Coupling (see section “*JAO*”).

#### *Related activities*

Elia has developed and is in the process of developing a number of activities which are ancillary to its core business.

(a) *Advisory services*

The Group, through its affiliate EGI (see section “*Elia Grid International SA/NV*”), has built up expertise over the years within Belgium. Recently, it has also started offering this expertise to the outside world, which has already aroused strong interest from government bodies, utilities and other key players around the world seeking support for the design and implementation of future projects in the power sector.

The Group mainly offers advisory services in the following expertise domains: Asset Management, System Operation, Grid Development & Network Studies, Electricity Markets and RES integration.

(b) *Asset valorization*

Besides asset valorization via electricity tariffs, supplementary income is generated, which positively contributes to the regulated cost base to the benefit of the tariffs, via certain complementary activities. The most important are currently related to telecom activities:

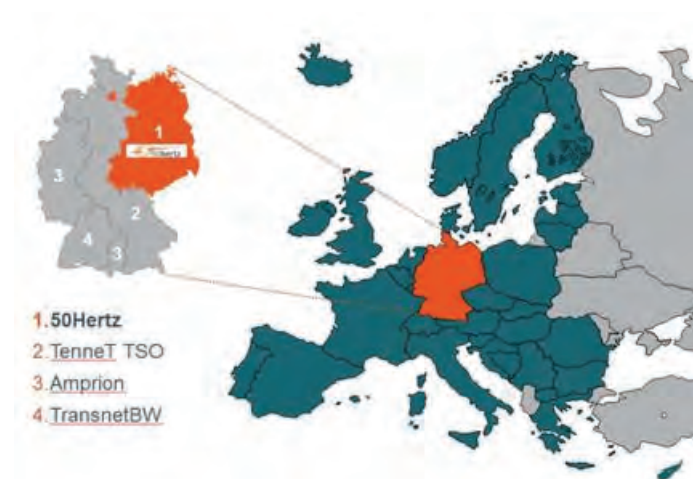
- making high-voltage towers available to telecom operators. Elia owns voltage towers and makes them available to several telecom operators as supporting structures for their mobile network antennas;
- making optic fiber cables available. Elia owns optic fiber cables in Belgium that are used for its internal communication. If there is demand from the market and if Elia has spare optic fiber capacity, this extra capacity (no bandwidth) is made available to third parties in exchange for a fee; and
- making bandwidth available. As notified to the IBPT (the Belgian Telecom Regulator), Elia makes data transmission bandwidth capacity available to a closed users’ group on an exclusive basis.

## **50Hertz**

### **Role as TSO in Germany**

50Hertz is one of four TSOs in Germany. 50Hertz has the same core business as Elia, as it owns, operates, maintains and develops a 380kV – 220kV transmission network and, as regards offshore assets, 150 kV in an area covering the five former Eastern German states of Thuringia, Saxony, Saxony-Anhalt, Brandenburg and Mecklenburg-Western Pomerania as well as Berlin and Hamburg. 50Hertz’s control area covers approximately 109,000 km<sup>2</sup> with more than 18 million inhabitants and companies contributing approximately 20 per cent. of Germany’s gross domestic product. 50Hertz is the second-largest TSO in Germany after TenneT TSO GmbH (“**TenneT**”) in terms of total control area and has the youngest asset base among the German TSOs. In addition, 50Hertz’s grid is situated uniquely at the crossroads between the West and North Eastern European electricity markets due to the central location of its very high-voltage network between Scandinavia, Poland, the Czech Republic and CWE.

50Hertz’s location within Europe and Germany is shown below:





### Transmission System Operations

Under the German legal and regulatory framework, 50Hertz performs the following services:

- operates a safe, reliable and efficient transmission grid on a non-discriminatory basis: 50Hertz has to operate, maintain and develop its grid to meet the demands of its customers to the extent this is economically reasonable. In particular, the TSOs have to contribute to security of supply by providing appropriate transmission capacity and system reliability;

- provides grid connection and transport electricity through the high-voltage grid: 50Hertz is obligated to provide physical connection to its grid to final customers, level or downstream electricity supply grids and lines, as well as generation facilities (whose statutory priority feed-in might have to be considered in case of congestions) subject to technical and economic conditions that are appropriate, non-discriminatory, and transparent. In addition, and in accordance with regulated third-party access (“**TPA**”) rules, 50Hertz must also grant TPA to their grid on an economically reasonable, non-discriminatory and transparent basis;
- provides preferential grid connection to, and feed-in electricity produced from, renewable energy sources: with regards to electricity generated from renewable energy facilities, TSOs in Germany are under the obligation to optimize, amplify and expand their grid and, as far as economically reasonable, to ensure the purchase, transmission and distribution of such electricity. Accordingly, 50Hertz is obligated to connect, without undue delay, all renewable energy facilities in its control area to its transmission grid. Any delay in such connections may result in 50Hertz being subjected to damages claims. In particular, 50Hertz is obligated to construct connections to all offshore wind farms in its control area under the further prerequisites of the EnWG and to share the costs incurred with the other German TSOs;
- provides system services: 50Hertz has the responsibility to maintain a secure and reliable energy supply system. The development of the German electricity market in recent years has led to a disproportionate share of energy being consumed in the southern and western parts of Germany, whereas the majority of the renewable energy generation is expected to be and is already located in the northern and eastern parts of Germany. Taking into account these regional differences in the generation of renewable energy and fluctuating feed-in from renewable energy facilities, 50Hertz is focused on maintaining a system balance between generation and consumption at all times. In order to continuously balance demand and supply of electricity, 50Hertz primarily relies on the use of different types of control power (primary, secondary and tertiary control power). In addition, 50Hertz conducts congestion management measures when required and manages grid losses in its transmission system by procuring energy; and
- manages cross-border connections: 50Hertz operates a number of cross-border interconnections to Poland, Denmark and the Czech Republic. Their management involves non-discriminatory and transparent transfer capacity allocation mechanisms under pertinent European legislation and under the EnWG.

In addition to the core businesses with respect to system operation and transmission ownership mentioned above, 50Hertz has two further roles in the German electricity market:

- It is responsible as trustee for managing cash-flows resulting from the German renewable energy law (“**EEG**”). Amongst others, the electricity generated from renewable installations in the 50Hertz control zone under the feed-in-tariff regime is sold by 50Hertz at the day-ahead and intra-day market of nominated electricity market operators.
- It is catalyst for the development of the energy market, especially in Northern and Central-Eastern Europe. Amongst others, 50Hertz is active in designing the European and national electricity market in a way that it serves best an efficient and secure system operation.

### **50Hertz Offshore GmbH**

50Hertz Offshore GmbH (“**50Hertz Offshore**”) was formed to facilitate the connection of offshore wind farms to the 50Hertz control area and to provide for a transparent accounting of the costs and capital employed. 50Hertz Offshore is expected to incur all the capital expenditure and other related costs related to these offshore connections.

In accordance with the EnWG, 50Hertz is obliged to construct the grid connections to offshore clusters foreseen in the Offshore Grid Development Plan (“**O-NEP**”) once the latter has been approved by the BNetzA, connect wind farms to which the BNetzA has assigned capacity on the grid connection and operate the connection assets after commissioning. Furthermore, section 17d of the EnWG requires the German TSOs to share the costs of constructing and operating the grid connections to the offshore wind farms, based on the electricity supply volume in their respective control areas.



By way of a framework agreement signed in November 2008 between 50Hertz and 50Hertz Offshore, 50Hertz has delegated its obligation to construct and operate the grid connections to the offshore clusters and wind farms to 50Hertz Offshore, granting at the same time the right of being reimbursed for all respective costs. 50Hertz Offshore currently has no employees and instead relies on services provided by 50Hertz pursuant to service contracts.

Important investment needs of 50Hertz Offshore are primarily triggered by the procurement and installation of sea and land cables and other electrical equipment to connect offshore wind farms. The first commercial offshore wind farm in the Baltic Sea ("**Baltic 1**") was connected to 50Hertz's transmission grid in 2011. A second grid connection ("**Baltic 2**") was finalized in 2015; a new offshore cluster connection ("**Cluster Westlich Adlergrund**") was approved by the BNetzA in the O-NEP in 2013, with a further approval in 2015, and capacity on the three already ordered cables (out of six officially approved cables) has been allocated to two wind farms (*Wikinger and Arkona*). Both wind farms have started feed-in. During the 2018 capacity auction, three additional offshore wind parks in the Baltic Sea north of Lubmin ("**Ostwind 2**") were awarded. As a result, BNetzA has approved three additional cable systems and associated on- and offshore substations in the Cluster Westlich Adlergrund. 50Hertz Offshore placed orders for these cable systems in 2018. Several additional offshore projects are foreseen by 50Hertz Offshore. The size of the offshore investment portfolio may fluctuate considerably over the coming years depending on the contents of the future Area Development Plan (FEP) that shall determine a "balanced distribution of projects between North and Baltic Sea" for the period after 2025. The plan is due for publication on June 30, 2019.

Based on German law, 50Hertz and 50Hertz Offshore may be subject to claims for damages in case of a culpable delay of grid connections or for interruption of their respective operation. See the Risk Factor entitled "*Liabilities arising from the offshore regime may have a negative impact on the Company – Germany*".

### **Regulatory framework**

Generally speaking, the Belgian regulatory regime is fixed for a period of 4 years, and represents a "cost-plus" model. The costs (and revenues) over which Elia has direct control are subject to an incentive regulation, while the non-controllable costs incurred by Elia and approved by the regulator are passed through the consumer tariffs. The basic principle of the regulatory regime in Germany is an incentive regulation with a revenue cap and a 5-years regulatory period. In addition, a specific regulatory framework is applicable to the Nemo Link interconnector whereby a revenue based cap and floor regime has been agreed for a term of 25 years.

As set out in more detail in the section "*The Belgian legal framework*", the Belgian regulatory regime is fixed for a period of 4 years, and represents a "cost-plus" model where the non-controllable costs (depreciation, financial costs and taxes) incurred by the company and approved by the regulator are passed through the consumer tariffs. Those costs include the shareholders' remuneration. This remuneration is for 2019 based on three key items. First, Elia receives an equity remuneration which is driven by the average 10-year OLO on which a risk premium is applied. Based on the regulatory gearing (average equity vs average regulatory asset base) this risk premium is adjusted. Secondly, for the realization of strategic investments (i.e. investments mainly aimed at enhancing the integration of the EU energy market and systems) a mark-up incentive is received. Finally, various incentives, linked to operational performance have been defined in the current tariff methodology. As from 2020, this specific mark-up investment is replaced by additional operational incentives and a different calculation of the fair remuneration considering an ex-ante fixed risk free rate of 2.40 per cent. (Average 10-year OLO for 2019) and a regulatory gearing of 40 per cent. (33 per cent. in 2019).

As set out in more detail in the section "*The German legal framework*", the basic principle of the regulatory regime in Germany is an incentive regulation with a revenue cap and a 5-years regulatory period. The revenue cap is determined by the regulator (BNetzA) based on a cost assessment of the year (t-3) for the regulatory period starting in year (t). The revenue cap includes a return on equity, the latter capped at 40%, and is subject to yearly adjustments by a general sector productivity factor, an individual efficiency factor and inflation. This basic principle is complemented by several cost positions that are considered permanently non-influenceable, thus experience special treatment and can be adjusted yearly: Firstly, the TSO can apply for so-called investment measures that comprise growth investments onshore. Secondly, several relevant cost positions like grid losses, balancing cost, reserves, congestion management and cost of European initiatives are

subject to s-called voluntary commitments that allow for yearly adjustments based on planned cost with retroactive revision. Moreover, certain parts HR-related cost are considered permanently non-influenceable. Finally, several surcharges complement the regulatory regime: Offshore cost are passed-through to the consumers including return on equity; renewable energy remuneration and management, CHP subsidies and others are reimbursed on cost basis.

As set out in more detail in the section “*Regulatory framework for interconnector Nemo Link*”, a specific regulatory framework is applicable to the Nemo Link interconnector whereby a revenue based cap and floor regime has been agreed for a term of 25 years.

### **Regulatory framework in Europe**

The European framework is applicable to: (i) Elia (as the TSO in Belgium); and (ii) 50Hertz (as TSO in Germany).

### **The European legal framework**

Over the last two decades, the European Union has been promoting the “unbundling” of vertically integrated electricity companies. The most recent Directive and Regulations (of the Third Energy Package) have continued the liberalization trend establishing common rules for an internal market in electricity, as well as providing conditions for the fair access to networks for the cross-border exchange of electricity.

### **Third Energy Package and Clean Energy Package**

#### *(iv) Third Energy Package*

The Third Energy Package is composed, among others, of Directive 2009/72/EC (the “**Electricity Directive**”), Regulation (EC) No 714/2009 (the “**Electricity Regulation**”) and Regulation (EC) No 713/2009 establishing an Agency for the Cooperation of Energy Regulators (ACER) (the “**ACER Regulation**”).

For transmission activities, Member States have been required by EU law to implement provisions regarding: (a) the appointment/licensing of the TSO(s); (b) the separation of generation and supply activities from the (ownership and) operation of the network (ownership, legal, functional and accounting unbundling) and related certification requirements; (c) confidentiality of commercially sensitive information; (d) non-discriminatory third-party network access; and (e) the creation of independent regulators.

According to art. 16 of the Electricity Directive, TSOs must preserve the confidentiality of commercially sensitive information obtained in the course of carrying out its activities, and shall prevent information about its own activities which may be commercially advantageous from being disclosed in a discriminatory way. This obligation goes along with and aims at protecting the right of access of the market players, whose commercial position must not be revealed to competitors. As regulated actors, TSOs must be trustworthy when actors in the competitive non-regulated part of the energy market must exchange commercially sensitive information with the TSOs.

#### *(a) Appointment of the TSO on federal level*

Member States are required to appoint one or more TSOs. Belgium has elected to appoint one single TSO. This is set out in the Electricity Act. The duration of the appointment is not specified by EU law and, consequently, is determined at the national level by each Member State. The Company was appointed for a (renewable) 20-year term as from September 17, 2002, and on April 26, 2019 it was decided by the competent Minister to renew the appointment for another twenty years. This twenty year period will start as from September 17, 2022.

50Hertz is permitted to operate as a TSO in Germany and, while this authorization is not limited in time, it can be revoked by the Energy Authority of the State of Berlin (*Senatsverwaltung für Wirtschaft, Technologie und Forschung (Energiewirtschaft/Energieaufsicht)*).



(b) *Unbundling*

TSOs are required to be “unbundled” from electricity production and supply companies. More precisely, the company that is appointed as TSO must, at least in terms of its ownership (subject to historical exemption regimes in certain EU Member States), its accounting, its legal form, its organization and its decision-making process, be independent from companies active in the production or supply of electricity. Cross-participations are in principle excluded. The Belgian Electricity Act also provides that Elia can not develop any activities with respect to the operation of distribution grids below 30kV and that neither Elia nor gas companies hold any direct or indirect participation in each other. A certification procedure applies as a condition to (re)appointment, and is run by the competent national regulator to verify compliance with the (ownership) unbundling requirements. The TSO must at all times continue to comply with those requirements. A similar principle applies to 50Hertz and German laws impose that they have to respect all unbundling principles as set forth hereabove.

(c) *Network access*

EU law requires each Member State to implement a regulated third-party access regime based on published tariffs that are applied to all network users in a non-discriminatory manner. The tariffs, or at least the methodologies for their calculation, have to be pre-approved by an independent regulator and must allow for the investments necessary for the long-term viability of the network.

(d) *Independent regulators*

EU law requires that each EU Member State establishes (an) independent regulator(s) specific to the energy industry. The regulator’s main task is to ensure non-discrimination among grid users and end customers and efficiency of the market through, *inter alia*, the setting or approval of the tariffs (or at least the methodology for their calculation). In addition, the regulator must monitor the management and allocation of the interconnection capacity, the mechanisms for managing congested capacity and the level of transparency and competition in the market. Furthermore, the regulator may also act as the dispute-settlement authority for complaints made by grid users against the TSOs or DSOs.

(v) *Clean Energy Package*

On November 30, 2016, the European Commission presented its “Clean Energy for all Europeans” package, also called the “Clean Energy Package”. This extensive legislative package includes, in addition to a vast amount of non-binding documents, a number of legislative proposals, including a recast of the Electricity Directive, the Electricity Regulation and the ACER Regulation, as well as a proposed new Regulation on risk-preparedness.

The key principles of the Third Energy Package (as described in Section 3.3.2(i) above) are maintained by the recasts proposed by the European Commission. Nonetheless, the recasts bring a number of important changes in how these principles are to be further implemented going forward, which would affect the roles and responsibilities of, among others, the TSOs, DSO, ENTSO-E, NRAs and ACER.

The Clean Energy Package was approved on March 26, 2019 by the European Parliament. Entry into force of the regulations is foreseen on the 20th day following publication of the respective approved versions of the texts in the Official Journal of the European Union, with almost all of the articles of the Electricity Regulation being anticipated to apply from January 1, 2020.

## **Regulation on cross-border exchanges and on trans-european infrastructure**

### *Cross-border exchanges in electricity*

The current Electricity Regulation determines conditions for access to the network for cross-border exchanges in electricity. It provides rules applicable to cross-border capacity allocation methods and to the establishment of a compensation mechanism for cross-border flows of electricity. It also provides the basic principles applicable to setting cross-border transmission charges. These charges must be transparent, take into account the need for network security, reflect actual, not unreasonable costs, be applied in a non-discriminatory manner and not be distance-related.

Furthermore, any revenues resulting from the allocation of capacity must be taken into account by regulatory bodies when setting the transmission tariffs. The principles on cross-border exchanges set out in the Electricity Regulation have been further developed in the European grid codes (see section “*Grid codes*”).

#### *Trans-European infrastructure*

Regulation 347/2013 on guidelines for trans-European energy infrastructure (“**TEN-E Regulation**”) and amended by the Commission Delegated Regulation (EU) 2016/89 of November 18, 2015 determines the structure and process to establish lists of European Projects of Common Interest (“**PCIs**”) developed by project promoters. The selection is done based on a number of factors, including an energy system-wide cost-benefit analysis. The selected projects receive priority treatment in the permit-granting process and specific treatment for cost allocations and may receive incentives and European subsidies (such as “Project BE-DE II”, a second interconnection between Belgium and Germany).

#### **Grid codes**

A grid code contains the rules governing the connection and access to the electricity network, the provision of balancing and ancillary services by the network users (generators, distributors, suppliers and end customers directly connected to the network) and their respective rights and duties, as well as the rights and duties of the TSO. There are seven national grid codes (one federal and six regional), four of which apply to the Company. All four codes deal with similar issues, mostly technical, but apply to different networks: they establish, among other matters, the procedure for the connection of a user to the network, the rights and duties of each network user, the parties’ balancing obligations, the procedure for metering the volume of electricity transmitted and emergency procedures in the event of an incident or an anticipated blackout. In Germany, for the same purpose, four laws and six regulations are relevant.

At European level, the Electricity Regulation sets out the areas in which European network codes have been developed. These codes are developed by ENTSO-E in cooperation with ACER and are submitted to the European Commission to go through comitology and receive legislative force as Commission Regulations. The European Commission can also approve network codes in its own right, in certain areas. The European network codes are sets of rules which apply to one or more parts of the energy sector. To date, eight European network codes and guidelines have entered into force: “Capacity Allocation and Congestion Management”, “Requirements for Generators”, “Demand Connection”, “HVDC”, “Forward Capacity allocation”, “Emergency and Restoration”, “Electricity Balancing” and “System Operations”.

The website of ENTSO-E gives a status update of the development and implementation of all the European network codes: <https://www.entsoe.eu/major-projects/network-code-development/updates-milestones/Pages/default.aspx>. The Clean Energy Package extends the list of areas in which European grid codes can be developed and the way they will take shape.

Following the entry into force of the European network codes and guidelines, the Belgian federal and regional grid codes applicable to the Company need to be updated to ensure the consistency of the various sets of rules. The same applies for the German legislation. Nonetheless, the development of European network codes and guidelines remains without prejudice to the rights of EU Member States to establish and maintain national grid codes, to the extent their content does not adversely interfere with the cross-border trade of electricity. Similar principles apply to 50Hertz which also has to respect these Grid Codes.

#### ***The Belgian legal framework***

The Belgian electricity market is regulated both at federal and regional level. At federal level, the first EU Directive on the internal electricity market was transposed by the Electricity Act. Regional legislation has followed this transposition for the Regions’ areas of competence.

The Third Energy Package has been implemented into law through an amendment of the Electricity Act at the federal, and of the regional legislation in place at the Flemish, Brussels and Walloon levels, each within their respective areas of competence. The implementation into Belgian law of the European network codes (see section “*Grid codes*”) is ongoing.

With respect to the transmission grid and the local/regional transmission grids operated and owned by the Company, cost control and tariff matters are the responsibility of the federal authorities for the entire Grid, whereas technical matters regarding access and connection to the grid fall under the responsibility of the Regions for voltages equal to or below 70kV (local and regional transmission systems) and of the federal State for voltages above 70kV (the national transmission system). The three Regions are also responsible for low- and medium-voltage distribution networks (including distribution tariffs).

At federal level, the Electricity Act forms the overall basis of and contains the main principles of the regulatory framework applicable to the Company. In addition, the Belgian federal government has enacted several royal decrees governing aspects of the generation of electricity, the operation of the transmission network (including the Royal Decree of December 19, 2002, establishing the technical regulation for the operation of the national transmission system and access to the system, the **"Federal Grid Code"**), access to the transmission network, public service obligations and accounting requirements with respect to the transmission network and market regulation by the CREG.

The Electricity Act entrusts the operation of the national very high and high-voltage electricity network to one single TSO, to be designated by the federal Minister for Energy for a renewable period of 20 years, upon the proposal of the historical network owners. The Electricity Act states that only one system operator can be authorized to manage and operate the transmission system, and is appointed upon proposal by one or several network owners owning either alone or jointly a portion of the network that covers at least three-fourths of the national territory and at least two-thirds of the territory of each Region. This condition is currently only satisfied by Elia.

The federal Law of January 8, 2012 amended the Electricity Act substantially to bring it in line with the Third Energy Package. At the CREG's request, the Belgian Constitutional Court decided on August 7, 2013 that this amendment complies with the Third Electricity Directive, except for a few provisions, which were amended by two further amendments to the Electricity Act in December 2013. Considering the Reasoned Opinion sent to the Belgian State by the European Commission under Article 258 of the TFEU (see the Risk Factor titled *"Regulatory framework"*), there is a risk that the content of these laws (and the related regulations) need to be amended in the event that Belgium is ultimately regarded by the competent European authorities as having improperly transposed some provisions of the Third Energy Package. Consequently, and on the back of this EU lead process, the rights and obligations of the Company regarding the development and operation of interconnectors may be affected. Furthermore, the CREG may be granted further powers and thus have more extensive rights vis-à-vis the Company. To the Company's knowledge, the Belgian authorities have provided the European Commission with their views as to how the other European provisions mentioned in the Reasoned Opinion should be transposed into Belgian law. To date, and despite some minor legislative amendments back in December 2016 regarding these powers of the CREG (and as requested by the European Commission in its Reasoned Opinion), the further consequences (such as further amendments to the Electricity Act or other applicable legislation) that may result from the Reasoned Opinion are unknown. In accordance with Article 258 of the TFEU, if the Belgian State does not comply with the European Commission's opinion, the latter may ultimately bring the matter before the Court of Justice of the European Union.

Aside from these considerations, the Electricity Act has furthermore been amended several times, among others, to create a strategic reserve (to be procured and contracted by the Company for the volumes established for each winter period by Ministerial Decree), to better incentivize the participation of demand-side response to balancing and ancillary services, to adapt the support mechanism for the development of offshore wind parks and to create domain concessions for offshore transmission installations and storage installations. An additional amendment to the Electricity Act has been adopted, with such additional amendment being designed to align the rules governing the strategic reserves mechanism to the commitments made by the Belgian government within the framework of a state aid procedure. Taking into account these amendments, the European Commission issued a decision on February 7, 2018 not to raise objections to the strategic reserves mechanism for the winter periods until 2021-2022.

The Belgian public authorities are also preparing the introduction of a capacity remuneration mechanism (CRM) to guarantee the country's security of supply by 2025, the year as from which electricity production via nuclear power plants will no longer be authorized in Belgium. A draft law is

currently being submitted to the Federal Parliament, aiming at establishing a general framework for the official creation of this CRM. This development is an important step in avoiding black-outs due to a lack of energy production in Belgium. At the regional level, the Walloon Electricity Decree of April 12, 2001 was amended in 2012 (and has subsequently been amended from time to time) to transpose, among other things, the Third Energy Package and Directive 2012/27/EU (the “**Energy Efficiency Directive**”), to allow flexible access, to adapt the support level of certain types of renewables, to create a reservation mechanism to make the purchase of green certificates by Elia financially sustainable without surcharge increase (see also “*Public service obligations*” and the Risk Factor titled “*Public service obligations*”).

The Flemish Energy Decree of May 8, 2009 was amended in 2012 (and has subsequently been amended from time to time) to transpose, among other things, the Third Energy Package and the Energy Efficiency Directive, to introduce an objective liability regime in case of power interruption or power quality problems, to introduce a proper right of way regime for installing and operating electric installations, to amend the process for adopting the technical regulations, to modify the support level for renewables and to modify the controlling power of the VREG.

The Brussels Electricity Ordinance of July 12, 2001 has been amended, among other things, to transpose the Third Energy Package and the Energy Efficiency Directive and to extend the tasks of the regulator.

In addition to the fact that the scope of the Grid was extended to the territorial waters of Belgium, Belgium opted for a fully ownership unbundled TSO. The certification procedure of the Electricity Directive has been transposed. The certification process of Elia took place between March and December 2012. The CREG’s final decision of December 6, 2012 confirmed that Elia complies with the full ownership unbundling rules. Following this positive decision, the Belgian government notified the European Commission via the Official Journal of the European Union that Elia had been officially certified as a fully ownership unbundled transmission system operator in Belgium.

### **Regulatory authorities in Belgium**

The CREG is a public, independent body established at the federal level in Belgium as the regulator for the supervision of the gas and electricity market. The functions of the CREG include the supervision of the TSO, the supervision of the application of the (national and European) grid codes and public service obligations at the federal level. These missions include the approval of TSO tariffs and the control of the accounts of certain undertakings involved in the electricity sector. More specifically, with regards to the Company, the CREG is competent for:

- the approval of the terms of standard industry contracts used by the Company at the federal level: connection, access and ARP contracts;
- the approval of the capacity calculation and capacity allocation methodologies for interconnection capacity at the borders of Belgium;
- the approval of the appointment of the independent members of the Board of Directors; and
- the approval of the tariffs for connection and access to, and use of, the Company’s network, as well as approval of the tariffs for balancing the electric system for the ARPs.

Operation of electricity networks of voltages equal to or below 70kV falls within the jurisdiction of the respective regional regulators: the Flemish Regulator for the Electricity and Gas Markets (*Vlaamse Regulator van de Elektriciteits- en Gasmarkt*) (“**VREG**”) for the Flemish Region, the Walloon Commission for Energy (*Commission wallonne pour l’Energie*) (“**CWaPE**”) for the Walloon Region and the Brussels Commission for Energy (“*Bruxelles Gaz Electricité*” / “*Brussel Gas Elektriciteit*”) (“**Brugel**”) for the Brussels-Capital Region.

Their role includes the issuance of regional supply licenses, grid codes for grids with a voltage level equal to or below 70kV, certification of cogeneration facilities and facilities which generate renewable power, issue and management of green power certificates and supervision of the respective local or regional TSO (i.e. in each case, the Company) and the DSOs. Each of them may require any operator (including the Company) to abide by any specific provision of the regional electricity rules under the threat of administrative fines or other sanctions. Currently, the regional regulators have the authority with regard to distribution tariff setting for DSOs.

The website of ENTSO-E gives a status update of the development and implementation of European grid codes. Following the entry into force of these European grid codes, the Belgian federal and regional grid codes applicable to the Company need to be updated to ensure the holistic consistency of the various sets of rules.

### **Public service obligations**

Public authorities define public service obligations in various fields (promotion of renewable energy, social support, fees for use of roads, etc.) to be executed by network operators. Costs incurred by such operators in respect of those obligations are covered by tariff surcharges applied at the level of the entity that has imposed the public service obligation. A federal obligation leads to a federal surcharge, a regional obligation leads to a regional surcharge.

The Company can ask the CREG to adapt the tariffs to cover any gaps between expenses and tariff revenues caused by the performance of public service obligations. To the extent that there would be a timing difference between the incurrence and the recovery of such costs, the costs would have to be pre-financed by the Company and, consequently, may negatively impact the Company's cash flow.

### **Tariffs applicable for the tariff period 2016-2019**

A substantial part of the Company's income and profits are generated from regulated tariffs charged for the use of the electricity transmission system.

#### *(a) General principles of tariff setting*

Transmission tariffs are set pursuant to specific regulations and approved by the CREG, based on a methodology, which, in turn, is based on tariff guidelines set out in the Electricity Act. These tariff guidelines have been amended by the Law of June 28, 2015 to incentivize demand-side response and increase the efficiency of the market and the energy system (including energy efficiency).

The CREG has approved a methodology for the current regulatory period, running from 2016 to 2019. On the basis of this methodology, the Company drafted a tariff proposal which was subsequently approved by the CREG. The rate of the tariff for each of the four years is fixed for the entire four-year regulatory period. If the applicable tariffs would, however, no longer be proportionate due to changed circumstances, the CREG may request the Company to, or the Company may at its own initiative, submit an updated tariff proposal for approval to the CREG.

On December 18, 2014, the CREG issued a decision fixing the tariff methodology applicable for the period 2016 to 2019 for the electricity transmission grid and the electricity grids which have a transmission function. This methodology is the basis on which transmission tariffs were set for these four years. The tariff proposal for the regulatory period commencing on January 1, 2016, based on the methodology described below, was approved by the CREG on December 3, 2015.

The previous "cost-driven" tariff structure has been adapted to result in a more "service-driven" structure, but this change has no major impact on the principle of cost coverage referred to below, nor on the remuneration of equity.

The currently applicable tariff methodology is largely determined by a "fair remuneration" mechanism combined with certain "incentive components". As the CREG considers strategic investments (i.e. investments mainly aimed at enhancing the integration of EU energy markets and systems) to be of primary importance for the community, the CREG agreed with the Company to introduce a mark-up on investments into a selected list of projects as one of the key incentives in the current tariff methodology.

The tariffs are based on budgeted costs reduced by non-tariff revenues and based on the estimated volumes of electricity transported through the Grid.

Once approved, tariffs are published and are non-negotiable between individual customers and the Company. The CREG can ask the Company to provide an updated tariff proposal if the tariffs are no longer proportionate due to changed circumstances. The Company may also request a revision of the tariffs from the CREG if the tariffs are no longer proportionate due to changed circumstances.



There are different types of tariffs for different types of services:

- connection charges paid by customers to the Company under the connection contracts;
- charges for the use of the network paid by customers to the Company under the access contracts;
- balancing fees paid by ARPs under the ARP contracts to cover their imbalances; and
- charges for public service obligations or other taxes, levies, additional surcharges and contributions.

For tariff purposes, Belgian GAAP is applicable.

The Company may submit to the CREG, in the course of any four-year tariff period, a reviewed tariff proposal to reflect the offer of new services, amendments to the current services or exceptional circumstances and events beyond its control.

*(b) Parameters for the determination of the tariffs*

Tariff levels are determined based on the following key parameters: (i) fair remuneration; (ii) “non-controllable elements” (costs and revenues not subject to an incentive mechanism); (iii) the predefined “controllable elements” (costs and revenues subject to an incentive mechanism); (iv) the “influenceable costs” (costs and revenues subject to an incentive mechanism under special conditions); (v) “incentive components”; and (vi) the settlement of deviations from budgeted values.

*Fair remuneration*

Fair remuneration is the return on capital invested in the network based on the Capital Asset Pricing Model (the “**CAPM**”). It is based on the average annual value of the RAB, which is calculated annually, taking into account, *inter alia*, new investments, depreciations and changes in working capital requirements.

As from January 1, 2016, the following formula is the basis for determining fair remuneration, assuming consolidated capital and reserves represent more than 33 per cent. of the RAB, as is the case at present:

A:  $[33 \text{ per cent.} \times \text{average RAB} \times [(1 + \alpha) \times ((\text{OLO } n) + (\text{beta} \times \text{risk premium}))]] \text{ plus}$

B:  $[(S - 33 \text{ per cent.}) \times \text{average RAB} \times (\text{OLO } n) + 70 \text{ base points}]$

for which:

- $\text{RAB}(n) = \text{RAB}(n-1) + \text{investments}(n) - \text{depreciation}(n) - \text{divestments}(n) - \text{decommissioning}(n) \pm \text{change in working capital need}$ ;
- $\text{OLO } (n)$  = the average rate of Belgian 10-year linear bonds for the year in question;
- $S$  = the aggregated capital and reserves/average RAB, in accordance with Belgian GAAP;
- $\alpha$  = the illiquidity premium set at 10 per cent.;
- $\text{beta } (\beta)$  = calculated over a historical three-year period, taking into account available information on the Company's share price in this period, compared with the Bel20 index over the same period. The value of the beta cannot be lower than 0.53; and
- risk premium: remains at 3.5 per cent.

In respect of A: The rate of remuneration (in per cent.) as set by the CREG for year “n” is equal to the sum of the risk-free rate, i.e. the average rate of Belgian 10-year linear bonds for the year in question ( $\text{OLO } (n)$ ) and a premium for market risk for shares, weighted using the applicable beta factor. Tariff regulation sets the risk premium at 3.5 per cent. The CREG encourages the Company to keep its actual capital and reserves as close as possible to 33 per cent., this ratio being used to calculate a reference value of capital and reserves.

In respect of B: If the Company's actual capital and reserves are higher than the reference capital and reserves, the surplus amount is balanced out with a reduced rate of remuneration calculated using the following formula:  $[(\text{OLO } n) + 70 \text{ base points}]$ .



The Electricity Act also provides that the regulator may set higher remuneration rates for capital that is invested to finance projects of national or European interest ("mark-up on investment"). This is a new provision of the tariff methodology 2016-2019.

#### *Non-controllable elements*

The category of costs (and revenues) which are outside Elia's direct control are not subject to incentive mechanisms by the CREG, and are an integral part of the costs used to determine the tariffs. The tariffs are set based on forecast values for these costs.

The most important non-controllable costs consist of the following items: depreciation of tangible fixed assets, ancillary services (except for the reservation costs of ancillary services excluding black start, which are referred to as "influenceable costs"), costs related to line relocation imposed by a public authority, and taxes, partially compensated by revenues from non-tariff activities (for example, cross-border congestion revenues). This also includes financial charges/revenues for which the principle of financial embedded debt has been confirmed. As a consequence, all actual and reasonable finance costs related to debt financing are included in the tariffs.

#### *Controllable elements*

The costs (and revenues) over which Elia has direct control are subject to an incentive regulation mechanism, meaning that they are subject to a sharing rule of efficiency improvement or losses which may occur during the regulatory period. The sharing factor is 50 per cent. Therefore, Elia is encouraged to control a defined category of its costs. Any savings with respect to the allowed (adjusted) budget positively impacts the net profit of the Company by 50 per cent. of the amount (before tax) and, accordingly, any overspending negatively affects its profit.

#### *Influenceable costs*

The reservation costs for ancillary services, except for black-start, are qualified as "influenceable costs", meaning that budget overruns or efficiency gains create a negative or positive incentive, insofar as they are not caused by a certain list of external factors. 15 per cent. of the difference in expenses between Y-1 and Y constitutes a profit or a loss (pre-tax) for the Company, with a cap and a floor of + €6 million and – €2 million, respectively.

#### *Incentive on strategic investment projects ("mark-up on investments")*

As the CREG considers that strategic investments (i.e. investments mainly aimed at enhancing EU integration) are of primary importance for the community, it agreed with the Company to introduce a mark-up on investments into a selected list of projects. The remuneration is based on the cumulative actual amount dispensed, investment amounts are capped (per year and per project) and the mark-up is calculated on the actual amounts invested. The mark-up is defined taking into account an OLO of 0.5 per cent. If the actual interest rate of OLO is higher than 0.5 per cent., part of the mark-up is reduced accordingly (capped at OLO rate 2.16 per cent.). 10 per cent. of the total mark-up for each investment is subject to the timely commissioning of the relevant investment, meaning that 10 per cent. of the amount earned for a project is to be reimbursed if the project is not completed in due time.

#### *Other incentive components*

- **Market integration:** This incentive consists of: (i) the enhancement of import capacity; and (ii) the increase of welfare generated by regional market coupling. Both elements can only positively influence the net profit (pre-tax) of the Company as the mechanism predefines a floor and a cap for each incentive as follows: €0 to €6 million for the import capacity and €0 to €11 million for the welfare. The profit (dividends and capital gains) resulting from financial participations in other companies, which the CREG has accepted as being part of the RAB, is allocated as follows: 40 per cent. is allocated to future tariff reductions and 60 per cent. (before tax) to the Company's profit.
- **Investment program:** This incentive has two objectives: (i) an optimal ex ante/ex post justification by the Company of project CAPEX (€0 to €2.5 million); and (ii) the timely realization of four large infrastructure projects (Stevin, Brabo, Alegro and 4th phase shifter) (€0 to €1 million per project). Both elements can only have a positive influence on the net profit (pre-tax) of the Company as the mechanism predefines a floor and a cap for each of the objectives.

- Network availability: If the average interruption time (“AIT”) reaches a target predefined by the CREG, the Company’s net profit (pre-tax) could be impacted positively with a maximum of €2 million.
- Innovation: Operational subsidies and tax exemptions for research and development are considered controllable income. As an incentive, an amount corresponding to a maximum of 50 per cent. of the amount of subsidies received is attributable to the net profit of the Company with a minimum of €0 and a maximum of €1 million.
- Discretionary: On an annual basis, the CREG stipulates the objectives for this section. The incentive could positively influence the Company’s net profit (pre-tax) by an amount ranging between €0 and €2 million.

#### *Settlement of deviations from budgeted values*

The actual volumes of electricity transmitted may differ from the forecasted volumes. If the transmitted volumes are higher (or lower) than those forecasted, the deviation is booked to an accrual account during the year in which it occurs and such deviation from budgeted values creates a so-called “regulatory debt” (or a “regulatory receivable”). The same mechanism applies to non-controllable elements. The regulatory framework provides that, at the end of the regulatory period, the above-mentioned deviations are taken into account by the Company as part of the budgeted amounts for setting the tariffs for the next regulatory period.

#### *Cost and revenue allocation between regulated activities and activities regulated outside of Belgium or non-regulated activities*

The tariff methodology applicable from 2016 to 2019 describes a mechanism with regard to the development of new activities by the Company outside the Belgian regulated perimeter and how the Company is remunerated for these activities in the future, if applicable.

This agreement sets out:

- a mechanism to allocate costs accurately to different activities and to ensure that Belgian tariffs are not adversely affected by the Company carrying out activities other than Belgian regulated activities;
- a mechanism to ensure that the impact of financial participations in other companies not considered part of the RAB by the CREG (such as participations in regulated or activities regulated outside of Belgium or non-regulated activities outside of Belgium, including the participation in 50Hertz and EGI) are neutral for the Belgian tariffs. All costs and all revenues related to these activities should be borne by the Company.

#### **New tariff methodology applicable for the period 2020-2023**

On June 28, 2018, the CREG issued a decision fixing the tariff methodology applicable for the period 2020-2023 for the electricity transmission grid and the electricity grids which have a transmission function. This methodology is the general framework on which transmission tariffs will be set for these four years. The Company will prepare the tariff proposal for the regulatory period commencing on January 1, 2020 during the course of 2019 and the CREG will then approve the tariffs applicable for the period 2020-2023.

The future methodology remains “service driven” and is largely determined by a “fair remuneration” mechanism combined with certain “incentive components”.

The tariffs are based on budgeted costs reduced by non-tariff revenues and based on the estimated volumes of electricity transported through the Grid.

Once approved, tariffs are published and are non-negotiable between individual customers and the Company. If the applicable tariffs are, however, no longer proportionate due to changed circumstances, the CREG may require the Company to, or the Company may at its own initiative, submit an updated tariff proposal for approval to the CREG.

#### *(a) Parameters for the determination of the tariffs*

The different drivers for tariff setting are similar to those stipulated in the tariff methodology applicable for the period 2016-2019 and will be determined based on the following key parameters: (i) fair remuneration; (ii) “non-controllable elements” (costs and revenues not

subject to an incentive mechanism); (iii) the predefined “controllable elements” (costs and revenues subject to an incentive mechanism); (iv) the “influenceable costs” (costs and revenues subject to an incentive mechanism under special conditions); (v) “incentive components”; and (vi) the settlement of deviations from budgeted values.

Although the drivers are similar, the definition, the calculation and the remuneration of the underlying elements has been modified. The most important changes are: (i) changes in the formula for fair remuneration; (ii) the replacement of some incentives with new incentives; (iii) changes in the setting, the calculation and the remuneration of incentives that are currently applicable for the tariff period 2016-2019; and (iv) the modification of the cost allocation mechanism for activities regulated outside of Belgium or non-regulated activities.

#### *Fair remuneration*

As of January 1, 2020, the formula will remain the same as the one in the current methodology except for the level of leverage and the OLO: (i) the level of leverage is currently set at 33 per cent. and, as of 2020, it will be 40 per cent.; and (ii) the OLO will no longer be the average of the year, but will be set at 2.4 per cent. for the period 2020-2023.

The formula for the calculation of fair remuneration has been defined as follows:

A:  $[40 \text{ per cent.} \times \text{average RAB} \times [(1 + \alpha) \times [(\text{OLO} (n) + (\text{beta} \times \text{risk premium}))]]]$

plus

B:  $[(S - 40 \text{ per cent.}) \times \text{average RAB} \times (\text{OLO} (n) + 70 \text{ base points})]$

for which:

- OLO (n) = has been fixed at 2.4 per cent. and is no longer the average rate of Belgian 10-year linear bonds for the year in question; and
- the other elements have not changed; we refer to the definitions above (see section “The Group’s business – Tariffs applicable for the tariff period 2016-2019”).

#### *Non-controllable elements*

There will be no changes compared to the current tariff methodology, except for certain exceptional costs specific to offshore assets that have been added to the list of non-controllable costs. It is important to mention that the financial costs related to indebtedness due to regulatory needs in Belgium remains a non-controllable cost and that the embedded debt principle has been confirmed.

#### *Controllable elements*

There will be no changes compared to the current tariff methodology, except for certain non-recurrent but controllable costs specific to offshore assets that can be added to the costs allowance for a given regulatory period.

#### *Influenceable costs*

The remuneration for the Company will be changed compared to the current tariff methodology, as this element will no longer generate a loss for the Company. Moreover, another category of influenceable costs is created.

Today, only the reservation costs for ancillary services, except for black-start, are qualified as “influenceable costs”; as of 2020, costs of energy to compensate for grid losses will also be considered influenceable costs, meaning that budget overruns or efficiency gains will create a negative or positive incentive, insofar as they are not caused by a certain list of external factors. 20 per cent. of the difference in expenses between Y-1 and Y constitutes a profit (pre-tax) for the Company. For each of the two categories of influenceable costs (power reserves and grid losses), the incentive cannot be less than 0 euro.

#### *Incentive on strategic investment projects (“mark-up on investments”)*

This incentive will be suspended for the new tariff period 2020-2023. However, the mechanism fixed for the period 2016-2019 may still affect the financial results of 2020, as penalties can apply in case assets expected for 2020 are not commissioned in due time.

#### *Other incentive components*

- **Market integration:** This incentive consists of three elements: (i) increase of import capacity; (ii) increase of market welfare due to market coupling; and (iii) financial participations. Only the incentive on financial participations remains. The incentive on market welfare disappears, whereas the one on import capacity is replaced by an incentive with a similar objective (increase of cross-border commercial exchange capacity) but with a fairly different measurement method. Additionally, a new incentive is created on the timely commissioning of investment projects contributing to market integration. These incentives can contribute positively to the Company's profit (€0 to €16 million for cross-border capacity, €0 to €7 million for timely commissioning). The profit (dividends and capital gains) resulting from financial participations in other companies, which the CREG has accepted as being part of the RAB, is allocated as follows: 40 per cent. is allocated to future tariff reductions and 60 per cent. is allocated to the Company's profit (amounts are pre-tax).
- **Investment program:** This incentive will be cancelled.
- **Network availability:** This incentive will be broadened. The benefits for the Company will be changed and they will consist of: (i) if the average interruption time ("AIT") reaches a target predefined by the CREG, the Company's net profit (pre-tax) could be impacted positively with a maximum of €4.8 million; (ii) in case that the availability of the Modular Offshore grid is in line with the level set by the CREG, the incentive could contribute to the Company's profit from €0 to €2.53 million; and (iii) the Company could benefit from €0 to €2 million in case that the predefined portfolio of maintain and redeploy investments is realized in time and on budget (amounts are pre-tax).
- **Innovation and grants:** The content and the remuneration of this incentive will be changed and will cover: (i) the realization of innovative projects which could contribute to the Company's remuneration for €0 to €3.7 million (pre-tax); and (ii) the subsidies granted on innovative projects could impact the Company's profit with a maximum of €0 to €1 million (pre-tax).
- **Quality of customer-related services:** This incentive will be broadened and will be related to three incentives: (i) the level of client satisfaction related to the realization of new grid connections which can generate a profit for the Company of €0 to €1.35 million; (ii) the level of client satisfaction for the full client base which would contribute with €0 to €2.53 million to the Company's profit; and (iii) the data quality that the Company publishes on a regular basis which can generate a remuneration for the Company of €0 to €5 million (amounts are pre-tax).
- **Enhancement of balance system:** This incentive is similar to the existing one named "discretionary incentive" through which Elia gets a reward if certain projects related to system balancing as defined by the CREG are realized. This incentive can generate a remuneration between €0 and €2.5 million (pre-tax).

#### *Settlement of deviations from budgeted values*

There will be no changes compared to the current tariff methodology.

#### *Cost and revenue allocation between regulated activities and activities regulated outside of Belgium or non-regulated activities*

- The general principles will remain unchanged and a mechanism will be defined to allocate costs accurately to different activities and to ensure that Belgian tariffs are not adversely affected by the Company carrying out activities other than Belgian regulated activities, such as financial participations in companies not considered part of the RAB and, thus, not under the regulatory control of the CREG (such as participations in regulated or activities regulated outside of Belgium or non-regulated activities outside of Belgium, including the participation in 50Hertz and EGI).
- A mechanism will be set up to guarantee that all costs and revenues related to these activities will be borne by the Company. A new compensation mechanism related to the regulated business will be introduced, stipulating that the financing of investments in activities regulated outside of Belgium or non-regulated activities will be valorized by taking into account conditions that are equivalent to a financing via 100 per cent. equity from regulated activities (see section "Legal proceedings brought by the Company").

## ***Contemplated internal reorganization of Elia in light of potential impact of the new tariff methodology***

### ***Proceedings relating to cross-subsidy under the new tariff methodology***

As set out above, the Belgian regulator approved on 28 June 2018 the new tariff methodology that will be applicable for the period 2020-2023. Elia lodged a request in annulment of art. 30, h) 6) of the tariff methodology for the period 2020-2023, which is related to the new compensation mechanism for the regulated business and stipulates that the financing of activities regulated outside of Belgium or non-regulated activities will be valorized by taking into account conditions that are equivalent to a financing via 100 per cent. equity from regulated activities. The said provision (art. 30, h) 6) of the tariff methodology for the period 2020-2023) is unclear and uncertain and could potentially have a negative impact on the profitability of both regulated activities and activities regulated outside of Belgium or non-regulated activities of the Company. The Company has therefore decided to file a request in annulment before the Market Court (Marktenhof/Cour des Marchés) (see section “New tariff methodology applicable for the period 2020-2023 – Cost and revenue allocation between regulated activities and activities regulated outside of Belgium or non-regulated activities”). On January 10, 2019 the Company received a copy of the judgment of the ‘Markets Court’, which declares its appeal admissible but unfounded. Said provision is thus to stay applicable from 2020.

Even if, according to the Company’s analysis, there are sound reasons to believe that this judgment has no impact on the existing investments in activities regulated outside of Belgium or non-regulated activities, it cannot be excluded that the CREG would apply the valorization of financing of activities regulated outside of Belgium or non-regulated activities on terms equivalent to a financing that would be fully covered by equity by invoking another legal basis. Accordingly, Elia considered legal and other mitigating remedies. However, the Company has since entered into discussions with the CREG to further clarify the implications of the aforementioned provision which was the subject of the decision of the Markets Court and analysed possible solutions which could avoid the negative impact of such provision on the Company’s profitability.

Following these discussions, the CREG confirmed to the Company that the contemplated internal reorganization of the Group, by achieving a ring-fencing of the Belgian regulated activities of Elia from its activities regulated outside of Belgium or non-regulated activities once implemented, will avoid the risk of cross-subsidy between regulated activities and activities regulated outside of Belgium or non-regulated activities in Belgium. Accordingly, once implemented, it will provide a suitable framework for the further development of activities regulated outside of Belgium or non-regulated activities by Elia. In this context there is no need for Elia to bring legal remedies against the judgment, among which a cassation request.

### ***Potential impact of the new tariff methodology and contemplated internal reorganisation***

It is anticipated that, for regulated tariffs purposes, the new tariff methodology will not generate any material financial impact on the valuation of the financing of Elia’s past investments in activities regulated outside of Belgium or non-regulated activities for the financial years 2018 and 2019, taken together. If no appropriate measures are taken by Elia by 31 December 2020, the application of the new tariff methodology will however generate, as from 2020, an adverse financial impact on the valuation of the financing of Elia’s past investments in activities regulated outside of Belgium or non-regulated activities or, as the case may be, on new investments in activities regulated outside of Belgium or non-regulated activities.

To avoid such potential adverse financial impact on Elia’s future investments in activities regulated outside of Belgium or non-regulated activities, Elia proposed to the CREG to implement an internal reorganisation project aimed at isolating and ring-fencing its Belgian regulated activities (i.e. the operation of the Belgian transmission system) from its activities regulated outside of Belgium or non-regulated activities. The purpose of the reorganisation is to avoid the possible application of the cross-subsidising between Belgian regulated activities and activities regulated outside of Belgium or non-regulated activities in terms of their financing and the potential negative impact thereof on Elia. This internal reorganisation project will be implemented by means of a “push down” of such Belgian regulated activities (including the indebtedness raised for such purposes which comprises bank debt and several series of bonds, the shares in Elia Asset, the shares in Nemo Link and the indebtedness related to the investment in Nemo Link Ltd.) to a newly incorporated subsidiary controlled by the Company. The Company’s newly incorporated subsidiary will also be appointed as the new federal and regional transmission system operator instead of the Company.



The CREG confirmed to Elia that the proposed internal reorganisation project is appropriate to achieve a ring-fencing of the Belgian regulated activities of Elia from its activities regulated outside of Belgium or non-regulated activities. For Elia, this internal reorganisation would also be the right measure in order to enable the development of its activities regulated outside of Belgium or non-regulated activities in the future.

For the avoidance of doubt, Elia and the CREG have agreed to include Elia's investment in Nemo Link in the Belgian regulatory perimeter, starting from financial year 2019, without prejudice to the specific regulatory regime ("Cap & Floor", as detailed in Annex 3 to the Methodology 2020-2023). As a consequence, the ratio of equity vs. debt of the Nemo Link Ltd. investment will have to tend towards the 40/60 ratio which will apply to all the Belgian regulated activities under the new tariff methodology. Part of the proceeds of the proposed capital increase will be used to ensure compliance with this ratio.

Completion of the internal reorganisation project is subject to certain conditions precedent. This includes the certification and designation of the newly incorporated subsidiary of Elia as the new federal and regional transmission system operator in the three Regions by the CREG, local regulators and competent Minister, a positive decision of the Ruling Commission regarding certain tax matters, the approval of the shareholders' meeting on the transfer of the shares in Elia Asset and certain consents from shareholders and certain third parties.

Elia is currently consulting with relevant parties in order to assess their position on certain key parameters of the internal reorganisation project and determine the feasibility of certain aspects of the project and the exact timing required for its launch and completion. It is currently foreseen that this internal reorganisation project will be implemented by the end of the financial year 2020 at the latest.

Article 9 of the Electricity Act provides for specific requirements as regards the governance of the transmission system operator. Once the internal reorganisation project of Elia will have been implemented, the governance constraints will cease to apply to Elia. In this respect, Article 18 of the articles of association of Elia provides that in case Elia is no longer the TSO, a shareholders' meeting shall be convened in the short term to deliberate on the definitive repeal, modification or replacement of the articles implementing such constraints.

#### *Proposed changes to the Company's articles of association*

On 27 April 2019, the Board of Directors of the Company has taken a decision in principle regarding the amendments to be proposed to be made to the articles of association of the Company once it is no longer the transmission system operator. The main amendments that will be proposed by the Board of Directors to the shareholders' meeting relate to the following:

- the Board of Directors of the Company will be composed of at least 10 and at most 14 directors, including (i) seven non-independent directors appointed upon the proposal of the holders of A and C shares, insofar as the A and C class shares of the Company represent more than 30% of its capital and (ii) at most seven other directors, among which at least three independent directors who are appointed by the shareholders' meeting on the proposal of the board of directors, after advice of the nomination committee (the independence criteria will be those set out in the Companies and Associations Code and the Code of Corporate Governance);
- decisions of the Board of Directors will be taken by a simple majority – the double majority rule (within the category of independent and non-independent directors) prescribed for certain decisions in the Company is removed;
- the Company will opt for a one-tier board; there will therefore no longer be an executive committee in addition to the Board of Directors, but only a day-to-day management board;
- all references to specific competences arising from the Electricity Act (e.g. development plan, connection agreements, tariff methodology, etc.) will be deleted;
- three advisory committees will be created by the Board of Directors, namely the audit committee, the remuneration committee and the nomination committee, and one advisory committee, namely the strategic committee may be created by the Board of Directors; the (additional) requirements of the Electricity Act with regard to advisory committees will therefore



no longer be included in the articles of association; by derogation to the Code of Corporate Governance, the nomination committee shall be composed of a majority of non-independent directors and at least of one third of independent directors;

- in terms of gender balance, the current provisions based on the regime provided for in the Electricity Act will be brought in line with the provisions of the Companies and Associations Code;
- two directors, acting jointly, will be authorised to represent the Company.

These proposed amendments will be submitted in due course to the shareholders' meeting for approval.

The articles of association of the Company's newly incorporated subsidiary which will be appointed as the new transmission system operator will reflect the governance requirements provided by the Electricity Act. The governance arrangements currently applicable to the Company will be substantially mirrored. Its Board of Directors will be composed of 14 directors, all non-executives, among which seven will be independent and seven non-independent directors.

The independent directors will be elected by the shareholders' meeting of the newly incorporated subsidiary based on a list of candidates proposed by its corporate governance committee and after the conforming opinion (*avis conforme / eensluidend advies*) of the CREG on the independence of the directors. The works council is informed of the nominations before the election by the shareholders' meeting.

Apart from their independence, the independent directors will be selected based on their technical competences, experience and (financial) management skills.

The non-independent directors will be elected according to the mechanism currently prevailing in the Company, i.e. on the basis of a list of candidates proposed by the class A shareholders of the Company and the class C shareholders of the Company. The number of non-independent directors to be elected on the basis of a list of candidates proposed by the class A and class C shareholders of the Company, respectively, will be determined *pro rata* based on the percentage that the respective class A shares and class C shares in the Company represent in the aggregate number of class A and class C shares in the Company. Such number will be seven directors if this percentage is greater than 87.50 per cent. (as is currently the case).

To allow the class C shareholder of the Company to propose a list of candidates for the appointment of non-independent directors in the newly incorporated subsidiary and to exercise its approval rights with regard to shareholder resolutions, Publi-T CVBA shall hold one C share in the newly incorporated subsidiary, in the same way as it currently already does in Elia Asset. The transfer of this C share will be regulated, in particular to ensure that it cannot be transferred to a person who would not hold a material stake in the Company.

The articles of association of the new subsidiary would include an exception to the definition of "dominant shareholder" providing that the Company does not qualify as a dominant shareholder of the new subsidiary as long as it holds all its shares but one. This would allow, subject to the approval of the regulator, to ensure that independent directors of the subsidiary can also sit as independent directors in the board of the Company and that the management of the subsidiary can also be part of the management of the Company.

### ***Regulatory framework applicable for the Modular Offshore Grid***

The CREG amended the existing tariff methodology to create specific rules applicable to the investment in the Modulair Offshore Grid ("**MOG**"). A formal consultation took place in the first weeks of 2018 between the CREG and the Company and the CREG took a decision on 6 December 2018 about the new parameters to be introduced in the tariff methodology. The main features of said parameters are (i) specific premium risk to be applied to this investment (resulting in an additional net return of 1,4 per cent.), (ii) depreciation rate applicable to the MOG assets, (iii) certain costs specific to the MOG will bear another qualification compared to the costs for onshore activities, (iv) the setting of the level of the costs will be defined based on the characteristics of the MOG assets and finally (v) dedicated incentives linked to the availability of the offshore assets. As from 2020 till 2023, the regulatory framework for MOG has been included in the tariff Methodology 2020-2023 based on the features described here above, except for the risk premium which will be applicable on target equity/debt ratio of 40/60.

## **The German legal framework**

### **The German legal framework**

50Hertz is not subject to specific public service obligations but operates within the legal framework.

In order to understand the business of 50Hertz which operates in a regulated environment, an overview on the applicable legal framework is provided below:

The German legal framework for electricity markets is laid down in various pieces of legislation. The key law is the German Energy Industry Act (the EnWG), which defines the overall legal framework for the gas and electricity industry in Germany. The EnWG is supported by a number of laws, ordinances and regulatory decisions, which provide detailed rules on the current regime of incentive regulation, regulatory accounting methods and network access arrangements, including, but not limited to:

- (a) the Ordinance on Electricity Network Tariffs (*Verordnung über die Entgelte für den Zugang zu Elektrizitätsversorgungsnetzen (Stromnetzentgeltverordnung – “StromNEV”)*) which establishes, *inter alia*, principles (*Grundsätze*) and methods for the network tariff calculations and further obligations of network operators;
- (b) the Ordinance on Electricity Network Access (*Verordnung über den Zugang zu Elektrizitätsversorgungsnetzen (Stromnetzzugangsverordnung — “StromNZV”)*) which, *inter alia*, sets out the further detail on how to grant access to the transmission systems grids (and other types of grids) by way of establishing the balancing account system (*Bilanzkreissystem*), scheduling of electricity deliveries, control power and further general obligations, e.g. capacity shortage (*Engpassmanagement*), publication obligations, metering, minimum requirements for various types of contracts and the duty of certain network operators to manage the balancing account system for renewable energy; and
- (c) the Ordinance on Incentive Regulation (*Verordnung über die Anreizregulierung der Energieversorgungsnetze (Anreizregulierungsverordnung — “ARegV”)*) which sets out the basic rules for incentive regulation of TSOs and other network operators (as further described below in “*Tariff setting in Germany*”). It also describes in general terms how to benchmark efficiency, which costs enter the efficiency benchmarking, the method of determining inefficiency and how this translates into yearly targets for efficiency growth.

All TSOs in Germany are subject to a number of obligations as a result of, *inter alia*, the following laws and ordinances:

- (a) Network expansion obligations: All German network operators are obliged to operate, maintain and, in line with demand, optimize and expand their network systems (Sec. 11 para. 1 EnWG). Based on this more general obligation, the German TSOs are obliged to set up so-called network development plans (*Netzentwicklungspläne – “NEP”*) every two years in order to safeguard a coordinated development and expansion of the German network systems. The NEP is subject to consultation and confirmation by the BNetzA. By confirmation of the NEP, BNetzA confirms the network expansion projects included in the NEP. At least every four years, BNetzA provides the NEP as confirmed by it to the Federal Government as draft for the federal demand plan (*Bundesbedarfsplan*) which is binding for the TSOs as to implementing the listed expansion measures as well as for the planning authorities as to the planning law and energy law-related necessity of the measures. Further statutes, such as the Network Expansion Acceleration Act (*Netzausbaubeschleunigungsgesetz*) and Energy Line Expansion Act (*Energieleitungsausbaugesetz*), further promote the network expansion. The costs associated with such network expansion measures can be included in the network fee calculation.
- (b) Connection obligations in respect of power generation facilities: The EnWG sets out the general rules for connection of power generation facilities. According to these rules, the German TSOs must connect power generation facilities to their network on technical and economic conditions that are appropriate, non-discriminatory, transparent and no less favorable than the network operator would apply to itself or to affiliated companies. TSOs can refuse a connection if they prove that the connection is not possible or unreasonable for operational, technical or economic reasons. The details of the procedures are laid down, *inter alia*, in the Kraftwerks-Netzanschluss-Verordnung (“**KraftNAV**”).

- (c) Due to its huge uncertainties and negative effects in practice, the network connection regime as regards offshore wind farms was first radically changed with a major amendment of the EnWG dated December 28, 2012. Consequently, the German TSOs were obliged to set up a so-called offshore network development plan (*Offshore-Netzentwicklungsplan* – “**O-NEP**”) to harmonize the further development of cable connections in accordance with the construction of new wind farms. In contrast to the old regime, cable connections were provided for clusters of wind farms to ensure a more efficient and reliable network connection. Network connection capacity was then assigned to specific wind farms by the BNetzA after consultation with the Federal Maritime and Hydrographic Agency (“**BSH**”). Thus, beginning with the O-NEP, published in 2013 and ending with the O-NEP to be published in 2017 for the last time, the O-NEP contains detailed provisions with regard to its future implementation and creates a reliable basis for 50Hertz. Another change took place with the entry into force of the Offshore Wind Energy Act (*Windenergie-auf-See-Gesetz*, “**WindSeeG**”) on January 1, 2017. In future, the contents of the O-NEP will be replaced partially by an accordingly extended NEP and partially by a so-called Area Development Plan (*Flächenentwicklungsplan* – “**FEP**”) that is created for the first time until June 30, 2019 and at least every four years thereafter by the BSH. As of 2017 and 2018 for a transitional model and beginning in 2021 on an annual basis, the BNetzA tenders network connection capacities according to the specifications of the WindSeeG. Furthermore, according to Sec. 17d EnWG, German TSOs are obligated to connect at their expense offshore wind farms according to the provisions of the O-NEP and in future according to the provisions of the NEP and the FEP. The costs incurred in connection with this obligation are shared among all German TSOs.
- (d) EEG and EEV (*Erneuerbare-Energien-Verordnung*) obligations: To promote the use of renewable energy facilities, the former Renewable Energy Act provided for a system of fixed tariffs for electricity generated from renewable sources which has been replaced for new facilities by so-called market premiums according to the current EEG that came into effect as of January 1, 2012. In a new promotion system introduced as of 2017, new wind biomass and solar plants above a certain size will receive a bonus only if they have previously won in a tender procedure. The German TSOs have to take off the energy generated by renewable energy facilities either connected directly to their network or being connected to distribution system operators (“**DSOs**”) who then pass the electricity on to the TSO level and pay such fixed tariffs or market premiums to the plant operators or reimburse prior DSO payments if the facility is connected to their network. Taking into account regional differences in the generation of renewable energy, the EEG provides in Sec. 58 EEG for a nationwide equalization mechanism among the TSOs for the costs associated with this obligation. As a result, the four TSOs in Germany share these costs among themselves based on an agreed mechanism, technical proceedings and necessary information exchange. With respect to selling of the electricity produced by the renewable energy facilities, the EEV, which replaced the *Ausgleichsmechanismus-Verordnung* (“**AusglMechV**”) as of January 1, 2017, is supplemented by the Renewable Energy Implementation Ordinance (*Erneuerbare-Energien-Ausführungsverordnung* – “**EEAV**”) which replaced the Balancing Mechanism Implementation Ordinance (*Verordnung zur Ausführung der Verordnung zur Weiterentwicklung des bundesweiten Ausgleichsmechanismus* – “**AusglMechAV**”) as of January 1, 2017. Under the EEV combined with EEAV, the TSOs must sell the infeed from renewable energy facilities on the day-ahead or intraday markets of a power exchange. The costs related to meeting the EEG obligations, including the associated costs of managing and financing them, are treated as passthrough costs. In cases when there is a difference between actual costs and actual revenues in a given year, the net costs are recovered in the following years.
- (e) Combined Heat and Power Act (“**CHP**” act or “**KWKG**”): The latest amendment of the KWKG came into effect as of January 1, 2017. Regardless of these recent changes, the stated purpose of the law is “to make a contribution” to increase the electricity production from Combined Heat and Power (CHP) plants or cogeneration in Germany towards 110 TWh until 2020 and 120 TWh until 2025. To ensure this aim, the KWKG defines a support mechanism for CHP plants and certain newly built or expanded heat networks. The law places a duty on network operators to connect certain eligible types of CHP plants and to prioritize the feed-in of their electricity. While operators of a CHP plant with a CHP capacity exceeding 100 kW are obliged to direct marketing, operators of smaller CHP plants may opt for the purchase of the CHP energy by the network operator. The production of electricity from CHP is promoted up to

a certain amount with a bonus payment to be paid by the network operator to whose network the CHP plant is connected, depending on the kilowatt-hours generated and in some cases on whether the plants have won a tender issued by the BNetzA. If such a CHP plant is connected to the DSO level, occurring costs of the DSO can be passed on to the upstream TSOs who share them *pro rata* to ensure that financial burdens are shared equally among all network operators. The equalized costs are then passed back to the downstream networks in the form of a uniform nationwide “KWK surcharge” which will then be paid by the end consumers together with the respective network fees. According to the latest amendment of the KWKG in 2017, other than in the past, TSOs are now responsible to collect the KWK surcharge from the electricity-intensive network customers within the meaning of Sec. 64 EEG directly.

- (f) Obligations in context with individual grid tariffs according to StromNEV: Grid users can apply for so-called individual grid tariffs which are, compared to the standard grid tariffs, lower and take into account that particularly huge industrial grid users contribute to a permanent and steady usage of the network system. The TSOs are obligated to reimburse DSOs for loss of income resulting from such lower individual grid tariffs. The TSOs then balance their respective compensation payments towards DSOs and their own loss of income among each other according to a specific distribution key. The financial burden is then passed back to the downstream networks in the form of a uniform nationwide “§19 StromNEV surcharge” which will then be paid by the end consumers together with the respective network fees.
- (g) Obligations according to AbLaV: According to AbLaV, facility operators connected to the network can offer detachable load (*abschaltbare Leistungen*) to their respective TSO. The TSO has to compensate the facility operators. The costs arising from AbLaV are passed back to the downstream networks in accordance with Sec. 18 according to Sec. 26, 28, 30 KWKG to the downstream networks in the form of a uniform nationwide “AbLaV surcharge” which will then be paid by the end consumers together with the respective network fees. The AbLaV is supposed to terminate on July 1, 2022.
- (h) Obligations according to the Electricity Market Act: In July 2016, the Electricity Market Act (*Strommarktgesetz*) entered into force. Main aspects with relevance to the TSOs were the introduction of several kinds of reserves (the so-called grid reserve and the grid stability units for the purpose of congestion management, voltage stability and black start capability, the capacity reserve to ensure generation adequacy and the security reserve that shall allow for a phase out of lignite power plants and also ensure generation adequacy in the meantime). The costs resulting from these reserves are permanently non-influenceable costs in terms of the incentive regulation and, therefore, can be charged within the network tariffs without efficiency requirements.
- (i) Obligations according to the Digitalization Act (*Gesetz zur Digitalisierung der Energiewende*): In July 2016, the Digitalization Act, the core of which is the new MsbG (*Messstellenbetriebsgesetz* – German Smart Meters Operation Act) entered into force. The main aspects of the Digitalization Act which have an impact on the TSOs are the redesign of communication systems and processes to ensure the processing of a high volume of smart meter data. The responsibility for the aggregation of the metering data for better balancing energy generation with consumption is given to the TSOs. However, remuneration of the respective costs is not regulated by the law and is currently under discussion with the BNetzA. The outcome of these discussions is unclear and could have a negative impact on profitability of the TSOs.

### Regulatory agencies in Germany

The regulatory agencies for the energy sector in Germany are the Federal Network Agency, (BNetzA), in Bonn for network systems to which 100,000 or more network users are, directly or indirectly, connected and the specific regulatory authorities in the respective federal states for network systems to which less than 100,000 network users are, directly or indirectly, connected. The regulatory agencies are, *inter alia*, in charge of ensuring non-discriminatory third-party access to networks and monitoring the tariffs levied by the TSOs. 50Hertz and 50Hertz Offshore are subject to the authority of the BNetzA.



## **Tariff setting in Germany**

### **a) General Principles of tariff setting**

The tariff regulation mechanism in Germany is determined by the EnWG, the StromNEV and the ARegV. The grid tariffs are calculated based on the revenue cap (Sec. 17 ARegV) and comprise the onshore business. The revenue cap is determined by the BNetzA for each TSO and for each regulatory period. The revenue cap can be adjusted to account for specific cases provided for in the ARegV. The network operators are not allowed to retain revenue in excess of their individually determined revenue cap. If network operators nevertheless retain revenues in excess of their individually determined revenue cap, a compensation mechanism applies that leads to the reduction of future tariffs (Sec. 5 ARegV). Each regulatory period lasts five years, and the third regulatory period started on January 1, 2019 and will end on December 31, 2023. Tariffs are public and are not subject to negotiation with customers. Only certain customers (under specific circumstances that are accounted for in the relevant laws) are allowed to agree to individual tariffs according to Sec. 19 StromNEV (for example, in the case of sole use of a network asset).

### **b) Parameters for the determination for the tariffs**

For the purposes of the revenue cap, the costs incurred by a network operator are classified into two categories as follows:

- (a) Permanently non-influenceable costs (“**PNIC**”): these costs are generally direct pass through costs to customers and are recovered in full, albeit with a two-year time lag, unless stated otherwise. The cost items recognized in the PNIC are defined in the ARegV and include a selected number of allowed cost items, such as worker council costs, operational taxes and cross-border transmission capacity auction revenues. In addition, the capital investments that have been allowed in the investment measures (“**IM**”) are also considered as PNIC until certain conditions are fulfilled and the investments become a part of the regulated asset base. These costs are passed through without time lag. The allowance for IM within PNIC includes remuneration for return on equity (based on a cap of 40 per cent.), cost of debt (also subject to a cap), depreciation, imputed trade tax and operational expenditure (currently at a fixed rate of 0.8 per cent. of the capitalized investment costs of the respective recognized onshore investments for IM applied for before 2019. For IM applied for afterwards, according to a revision of the ARegV and the StromNEV the German government approved in March 2019, a fixed rate of 0.2 per cent. applies before commissioning and 0.8 per cent. after commissioning. All OPEX and CAPEX related to an approved IM which are reimbursed via the grid tariffs during the last three years of the approval phase for the respective IM will be deducted from the revenue cap distributed over a 20-year period, according to the BNetzA, starting after the approval phase and with the roll-over of the investment in the regulated asset base (so-called claw back). Furthermore, the costs relating to control power, grid losses and redispatch as well as costs from European initiatives are also considered as PNIC based on a procedural regulation mechanism.
- (b) Temporarily non-influenceable costs (“**TNIC**”) and influenceable costs (“**IC**”): TNIC and IC are all costs that do not classify as PNIC, e.g. maintenance costs. TNIC are all respective costs which are deemed fully efficient. They are included in the revenue cap, taking into account an annual adjustment for inflation and a general productivity factor (“**Xgen**”) for the industry (currently 0.9 per cent. per annum in the third regulatory period). The IC are also included in the revenue cap. The IC are annually adjusted with regard to inflation and a general productivity factor, but, in addition, IC are also subject to an individual efficiency factor (“**Xind**”) (with 50Hertz being deemed 100 per cent. efficient for the third regulatory period, there are no IC and no inefficient costs). The efficiency factor provides an incentive to the TSO to reduce or eliminate the inefficient costs over the course of the regulatory period. If a grid operator is deemed 100 per cent. efficient, the full respective cost volume is allocated to TNIC, thus the cost basis (excluding PNIC) is only adjusted with regard to the general productivity factor and inflation by a general inflation factor computed based on a statutorily fixed formula. In addition, the current incentive mechanism provides for the use of a quality factor which could also be applied vis-à-vis the TSOs but the criteria and implementation mechanism for such a quality factor for TSOs is yet to be established by the BNetzA. Both TNIC and IC include the capital costs (i.e. remuneration for return on equity (based on a cap of 40 per cent.), cost of debt (also subject to a cap), depreciation and imputed trade tax for assets which are included in the base year and do not qualify as PNIC).

With regard to return on capital, the BNetzA provides separate revenue allowances for the return on equity and cost of debt. For the allowed return on equity, which is included in the TNIC/IC for assets belonging to the regulatory asset base and the PNIC for assets approved in IM, the return on equity for the third regulatory period is set at 5.12 per cent. for investments made before 2006 and 6.91 per cent. for investments made since 2006, based on 40 per cent. of the total asset value regarded as “financed by equity” with the remainder of the investment treated as “quasi-debt”. The return on equity is calculated before corporate tax and after imputed trade tax. Post tax, this return on equity for the third regulatory period would result in a rate of 4.18 per cent. for investments made before 2006 and 5.64 per cent. for investments made since 2006. As this means a significant decrease compared to the rates for the second regulatory period (5.83 per cent. post tax for investments made before 2006 and 7.39 per cent. for investments made since 2006), numerous grid operators filed court cases against the decision with the Higher Regional Court Dusseldorf. On March 22, 2018, the latter overturned the determination and requested the BNetzA to redetermine the values. However, the BNetzA filed an appeal with the Federal Court of Justice which is still pending. The return on equity rates is redetermined by the BNetzA for every regulatory period. With respect to the cost of debt, the allowed cost of debt related to TNIC/IC is capped if it cannot be proven as being in line with the market (*marktkonform*). The allowed cost of debt related to PNIC incurred by approved investment measures is capped at the lower of the actual cost of debt or cost of debt as calculated in accordance with a BNetzA determination – unless exceeding cost of debt is proven as being in line with the market.

In addition to the grid tariffs, costs and revenues regarding the offshore business are subject to the offshore grid surcharge as of 2019. The offshore grid surcharge comprises CAPEX (including return on equity) and actual OPEX according to the Ordinance on Grid Tariffs (StromNEV) and the Ordinance on Incentive Regulation (ARegV) as well as payments to offshore wind farms following the offshore liability provisions established in the Energy Act (EnWG) to compensate for interruptions or delays of offshore grid connections. The offshore grid surcharge is calculated annually based on planned costs for year t with a later actual cost settlement in year t+1 and corresponding compensation for deviations between planned and actual costs in the offshore grid surcharge of the year t+2.

In addition to the grid tariffs and the offshore grid surcharge, 50Hertz is compensated for costs incurred related to its renewable energy obligations, including EEG and CHP/KWKG, and other obligations like the individual grid tariffs mechanism acc. to StromNEV and the AbLaV subject to surcharges.

### **Regulatory framework for interconnector Nemo Link**

- A specific regulatory framework is applicable to the Nemo Link interconnector from the date of operation which took place on January 31, 2019. The framework is part of the tariff methodology issued on December 18, 2014 by the CREG. The cap and floor regime is a revenue-based regime with a term of 25 years. The national regulators of the UK and Belgium (Ofgem and the CREG, respectively) determined the return levels of the cap and floor ex-ante (before construction) and these will remain fixed for the duration of the regime. The cap return level can be increased or decreased with maximum 2 per cent on availability incentives. Consequently, investors will have certainty about the regulatory framework during the lifetime of the interconnector.
- The interconnector is currently operational (as from January 31, 2019) and as a result the cap and floor regime has thus started. Every five years, the regulators will assess the cumulative interconnector revenues (net of any market-related costs) over the period against the cumulative cap and floor levels to determine whether the cap or floor is triggered<sup>1</sup>. Any revenue earned above the cap would be returned to the TSO in the UK National Electricity Transmission System Operator (“NETSO”) and to the TSO in Belgium (the Company) on a 50/50 basis. The TSOs would then reduce the network charges for network users in their respective countries. If revenue falls below the floor, then the interconnector owners will be compensated by the TSOs. The TSOs will, in turn, recover the costs through network charges. National Grid performs the NETSO role in the UK and the Company, the Belgian TSO, in Belgium.

<sup>1</sup> Interconnector owners generate revenue (congestion revenue) by auctioning interconnector capacity. As long as there is a price difference between the two interconnected markets, there will be demand for the capacity and a revenue stream will be generated.



- Each five-year period will be considered separately. Cap and floor adjustments in one period will not affect the adjustments for future periods, and total revenue earned in one period will not be taken into account in future periods.
- The high-level tariff design is as follows:

Regime length	25 years
Cap and floor levels	Levels are set at the start of the regime and remain fixed in real terms for 25 years from the start of operation.  Based on applying mechanistic parameters to cost-efficiency: a cost of debt benchmark will be applied to costs to deliver the floor, and an equity return benchmark to deliver the cap.
Assessment period (assessing whether interconnector revenues are above/below the cap/floor)	Every five years, with within-period adjustments if needed and justified by the developer. Within-period adjustments will let developers recover revenue during the assessment period if revenue is below the floor (or above the cap) but will still be subject to true-up at the end of the five-year assessment period.
Mechanism	If revenue is between the cap and floor, no adjustment is made. Revenue above the cap is returned to end customers and any shortfall of revenue below the floor requires payment from network users (via network charges).

- The cap and floor revenue levels for Nemo Link will be finally decided when final project costs are known and will then be set for the length of the regime. The cap and floor regime for the period before construction is already fixed, however the cap and floor revenues can only be fixed after construction as these revenues include not only returns (net profit) but also depreciation, OPEX and tax amounts. These are thus fixed during the post construction review of OFGEM/CREG. In order to establish this aforementioned and final cap and floor regime, Nemolink Ltd submitted its final post-construction file, including all capex costs and a detailed estimation of the remaining capex costs as well as the expected opex for the 25 years of operation, to Ofgem and the CREG on December 30, 2018. Nemolink Ltd is currently in negotiation with the CREG and Ofgem to determine the fixed real and annuitized cap and floor levels. This process will be finalized before the end of 2019.

## Strategy

The Group has the ambition to be the leading company in the energy sector in its home countries and the leading Group of TSO's in Europe. The Group has developed a strategy for its Belgian-based activities carried out by the Company, as well as for its German-based activities carried out by 50Hertz.

### *Strategy of the Group*

The Group has a central position in the power system and a crucial role to fulfil in society. Society acknowledges the value of the power system and has defined Elia as a natural monopoly in Belgium and 50Hertz as a monopoly for its control area in Germany. With its two regulated transmission system operating companies, the Group concentrates on the following core activities: infrastructure management, system operation and market facilitation, and this in order to continue meeting society's needs for a sustainable, secure and efficient power system. When doing so, the Group nevertheless focuses on protecting the safety of its personnel, subcontractors and anyone in contact with its infrastructure as well as delivering long-term value for its shareholders.

The context in which the Group operates is changing rapidly and on many dimensions. Firstly, the Group is facing a challenging future in the midst of the energy transition, characterized by increased integration of renewables, decentralized production and an emergence of "prosumers".

Secondly, the energy transition will be accelerated by digitalization, allowing active participation of the consumers in the energy system and helping to manage a more complex renewable-based power system. The energy transition is thus bringing challenges, but more than ever it is also bringing new possibilities in terms of investment opportunities and expertise development.

Given the capital-intensive nature of its business as well as the energy transition, the Group has built its strategy with a clear focus on the areas it intends to develop in order to achieve the overarching goal of being a frontrunner in the transition of the energy sector. The Group's strategy is organized around six building blocks – as presented below – of which the first four are directly related to the core tasks of regulated transmission system operating companies:

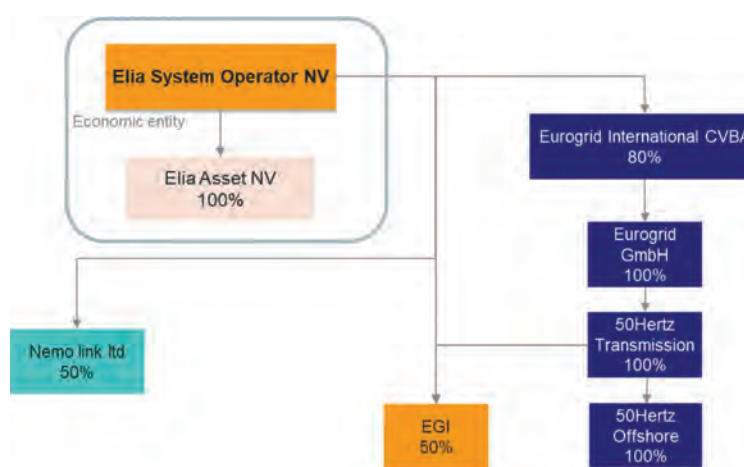
- **Ensure a secure, reliable and efficient grid:** the Group is committed to ensuring a high security of supply in a fast-changing energy mix by fully exploiting the system's capabilities. For this to happen, the Company focuses, on the one hand, on the realization of its investment and maintenance plan among other things by applying working methods that ensure safety, high quality and efficiency of works, as well as close monitoring and development of critical competences – both technical and soft skills. On the other hand, the Company works towards achieving asset management excellence thanks to a thorough understanding of its asset fleet and by making decisions which involve the right trade-off between costs, quality of service and outage management. The Company also permanently focuses on safety so that its people and subcontractors always work in a safe, healthy and secure environment.
- **Deliver the transmission infrastructure of the future:** to move towards (and ultimately achieve) a smooth energy transition, the Company ensures that significant infrastructure investments are delivered on time, are of high quality and budget compliant. To achieve this, the Company has developed best in class project management practices with an appropriate governance and decision-making organization as well as in-depth reporting to ensure quality, budget compliance and planning. Moreover, a new investment flow with stage-gate processes, which impose clear and strict requirements prior to progressing to the next stage, is now applied. The Company aims at fostering successful public acceptance by ensuring early involvement of its stakeholders, and through transparent, open and focused dialogue regarding its projects and missions, while keeping a clear focus on the societal perspective and impact of its various actions.
- **Evolve in system and markets:** to integrate the Belgian electricity transmission grid with the distribution and European systems, the Company is committed to innovation in systems and developing new market mechanisms. Elia provides non-discriminatory access to the grid by developing markets in such a way so as to establish a level playing field and give access to all parties. This is in line with market and operational practices which take account and, to the greatest extent possible, conform to the overall European context. Developing and putting in place adapted market mechanisms will, on the one hand, enable pan-European balancing and, on the other hand, tap into the flexibility of potential of decentralized energy sources (solar photovoltaic generation, customer demand, and distributed storage). Moreover, Elia is also committed to contributing to security of supply by keeping the system balanced at all times which is made possible by improved supply and demand flexibility, as well as through (strengthened) collaboration with distribution system operators.
- **Cooperate to strengthen the TSO position:** as the move towards and the achievement of the energy transition cannot be achieved alone, Elia is committed to pushing towards the energy transition by collaborating with its stakeholders and other market parties while increasing national and European coordination with grid operators. For this to happen, Elia will increasingly focus on involving its stakeholders early in the process thanks to dialogue and coalition building, with interactions based on mutual respect, empathy and transparency. Elia is also committed to strengthening client-oriented culture by collaborating to develop the best solutions for developing, maintaining and operating the grid to satisfy the needs of its clients and society. Elia is also willing to take on additional tasks or services for the overall welfare of society as a whole – for instance, by performing objective assessments on adequacy and flexibility needs – given its unique perspective on the power system as a whole and its neutral and regulated nature.

- **Align the culture with the strategy:** to implement its ambitious strategic priorities and targets, Elia needs an aligned company culture. This means evolving even more towards a high-performing organization by stimulating entrepreneurship and initiative-taking, and promoting a performance culture. It also means an increased focus on talent management thanks to proactive identification of talent gaps and taking the necessary development actions (training, internal/external hiring and succession planning).
- **Keep eyes wide open on innovation and growth opportunities:** besides further integration of innovation in its core business, Elia keeps up with the latest developments in the energy sector and remains open to non-organic growth. Elia aims at performing early identification of disruptive innovation on technologies and services that can potentially impact and help its core activities. Finally, Elia will keep an eye on the possibilities for organic growth.

## Organizational structure

### Structure of the Group

The Company is the parent company of the Group. The following diagram depicts, in simplified form, the organizational structure of the Group, as at the date of this Prospectus:

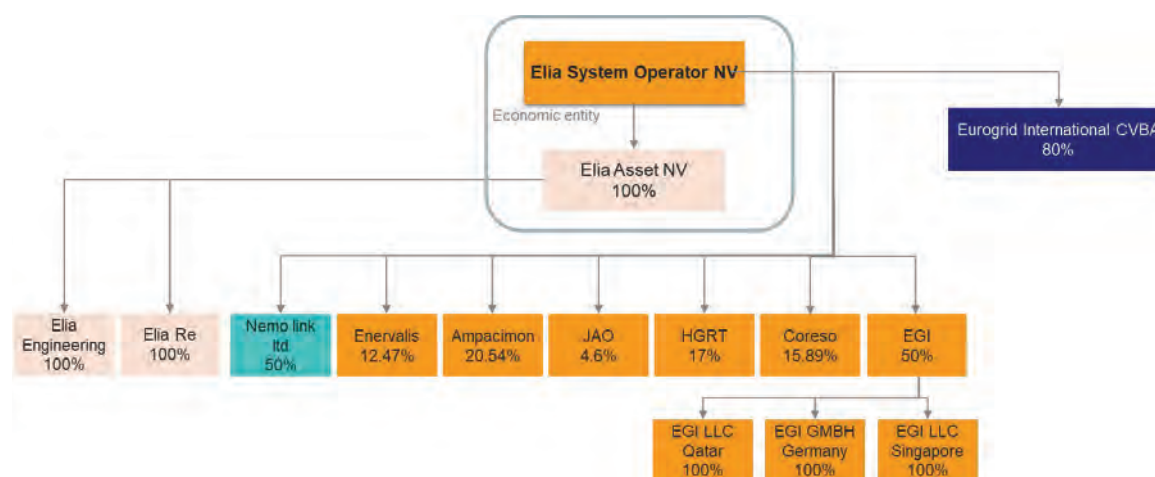


The Group includes two regulated transmission system operating companies (“Elia” in Belgium, consisting of the Company and Elia Asset, and “50Hertz” in Germany) operating under a regulatory framework. In addition to its activities as transmission system operator, the Company also participates in the Nemo Link joint venture, which operates the first subsea interconnector between Belgium and the United Kingdom (collaboration with the British system operator National Grid). With Nemo Link in operation since the beginning of 2019, the Group is subject to a third regulatory framework.

Elia and 50Hertz also provide various consulting services to international customers through their joint subsidiary Elia Grid International sa/nv (“EGI”).

### Group structure related to Elia and affiliates

The following diagram depicts, in simplified form, the organizational structure of Elia, including minority participations, as at the date of this Prospectus:



The subsidiaries, as indicated above and related to the role of the TSO in Belgium, which the Company controls (“control” as defined in International Financial Reporting Standard 10 for consolidated financial statements as issued by the IASB (International Accounting Standards Board) in May 2011 and as amended from time to time) are Elia Asset, Elia Engineering, Elia RE, EGI and Eurogrid International (post-acquisition of the 20 per cent. stake).

### Principal subsidiary Elia Asset

To perform some of the tasks legally required to be performed by a TSO, regional and local TSO, the Company acts with its wholly owned (99.99 per cent.) subsidiary, Elia Asset, which owns the very high-voltage and owns (or has rights to use assets owned by third parties) the high-voltage electricity network. Elia Asset is controlled by the Company, which owns all shares, with the exception of one share held by Publi-T. Together, the Company and Elia Asset constitute a single economic unit and the role of a TSO in Belgium.

### Elia Engineering

The Company, mainly through Elia Asset, acquired all shares in Elia Engineering on December 26, 2003. Elia Engineering manages all investment projects and major transformation works involving Elia’s grid, as well as the connection of the customers’ infrastructure and (electrical) asset-related projects ordered by industrial customers.

### Elia RE

Following the events of September 11, 2001 in the USA, the Company’s insurance policy covering the overhead network was terminated and the insurance premium relating to Elia’s network-related assets coverage was significantly increased. The Company also faced market rates for insurance against industrial risks which it deemed unacceptable. As a response to these developments, the Company created a captive reinsurance company, Elia RE. Elia RE was incorporated in 2002, as a Luxembourg public limited liability company (*société anonyme*), for the purpose of reinsuring all or part of the risks of Elia. Elia RE is held by Elia Asset.

Since its incorporation, Elia has entrusted Elia RE with three of its insurance programs: the overhead network, electrical installations and buildings and civil liability.

In practice, the Company enters into an insurance agreement with an insurer, which reinsures a portion of the risks with Elia RE. Therefore, there is no direct transfer of money from the Company or Elia Asset to Elia RE. The Company’s insurance premiums, as well as reinsurance premiums paid to Elia RE by insurers, correspond to standard market rates.

## **EGI**

EGI was incorporated on March 28, 2014 by the Company and 50Hertz. Since May 13, 2014, the Company has directly owned 50.0016 per cent. and 50Hertz owns the remaining 49.9984 per cent. EGI offers supporting services and advice related to the electricity grid in Belgium and abroad and such supporting services and advice are considered to be activities regulated outside of Belgium or non-regulated activities. Since April 6, 2015, EGI has had a branch in Dubai. EGI has three 100 per cent.-owned affiliates: Elia Grid International GmbH in Germany, Elia Grid International LLC in Qatar and Elia Grid International LLC in Singapore.

## **Nemo Link**

The Company and National Grid Interconnector Holdings Limited (“**NGIH**”) signed a joint venture agreement on February 27, 2015 to move ahead with the Nemo Link interconnector between the UK and Belgium. Manufacturing and site construction began in 2016 and the link started commercial operations in the first quarter of 2019. The high-voltage direct current (“**HVDC**”) interconnector provides 1,000MW of capacity. The link runs for 140 km between Richborough on the Kent coast and Herdersbrug near Zeebrugge, using both subsea and subsoil cables, and a converter station on both sides to turn direct into alternating current for feeding it into the Grid. Electricity flows in both directions between the two countries.

The Company and NGIH both hold 50 per cent. of the shares in Nemo Link Limited, a UK company. This shareholding is accounted for as an “equity method” in the financial statements. On December 31, 2018, the Company paid €116.3 million for its share of the capital. The Board of Directors of the Company approved a maximum participation in the project of €365 million.

## **HGRT**

The Company owns 17 per cent. of the shares in HGRT (*Holding Gestionnaire de réseaux de transport*, a French company). The other shareholders are RTE (the French TSO), TenneT (the Dutch TSO), Swissgrid (the Swiss TSO), Amprion (a German TSO) and APG (the Austrian TSO). HGRT is the holding company of CWE transmission system operators, created in 2001, which currently holds a 49 per cent. equity stake in EPEX SPOT. The European Power Exchange EPEX SPOT SE and its affiliates operate organized short-term electricity markets in Germany, France, the United Kingdom, the Netherlands, Belgium, Austria, Switzerland and Luxembourg, markets representing 50 per cent. of European electricity consumption. Striving for a well-functioning European single market for electricity, EPEX SPOT shares its expertise with partners across the continent and beyond. EPEX SPOT is a European company (*Societas Europaea*) in corporate structure and staff, which is based in Paris with offices or affiliates in Amsterdam, Bern, Brussels, Leipzig, London and Vienna. EPEX SPOT is held by EEX Group, part of Deutsche Börse, and HGRT.

## **Enervalis**

In 2017, Elia acquired a minority stake of 12.47 per cent. in the start-up Enervalis. This reflects Elia’s commitment to innovate and enhance its know-how in order to better contribute to the development of a future electricity system, in which digitalization and decentralization will play an increasingly important role.

Enervalis develops innovative software-as-a-service solutions that will support market players in optimizing their energy bill, while helping to meet growing flexibility needs, with a view to managing the balance between supply and demand on the system. The software solutions enable Enervalis’s customers (for example, energy suppliers and equipment manufacturers) to automatically optimize the supply, storage and demand flexibility of devices such as heat pumps, electric vehicles and solar PV systems to better match prosumer energy needs. Elia paid a consideration of €0.7 million to acquire this minority stake.

## **JAO**

On September 1, 2015, JAO (Joint Allocation Office SA) was incorporated. It is a Luxembourg-based service company of 22 transmission system operators. The company was established following a merger of the regional allocation offices for cross-border electricity transmission capacities, being CAO Central Allocation Office GmbH (in which the Group had a 6.66 per cent.



stake) and Capacity Allocation Service Company.eu SA (in which the Group had a 8.33 per cent. stake). JAO mainly performs the annual, monthly and daily auction of transmission rights across 27 borders in Europe and acts as a fall-back for the European Market Coupling. The shareholders of JAO are the Company, 50Hertz and 20 other TSOs holding each 1/22 of the shares. The Company holds directly 4.6 per cent. of the shares in JAO, including the participation held by 50Hertz, and the Group holds 8.28 per cent.

### Coreso

The establishment of Coreso in 2008 by Elia, National Grid and RTE aims at increasing the operational coordination between TSOs, in order to enhance the operational security of the networks and the reliability of power supplies in CWE.

Coreso also contributes to a number of EU objectives, namely the operational safety of the electricity system, the integration of large-scale renewable energy generation (wind energy) and the development of the electricity market in CWE comprising France, Belgium, the Netherlands, Germany and Luxembourg. This geographical area is characterized by major energy exchanges and the co-existence of traditional generation facilities with an increasing share of renewable generation, whose output may fluctuate with changing weather conditions. Optimized management of electricity systems and corresponding network infrastructure, specifically interconnections between power networks are very important in this context.

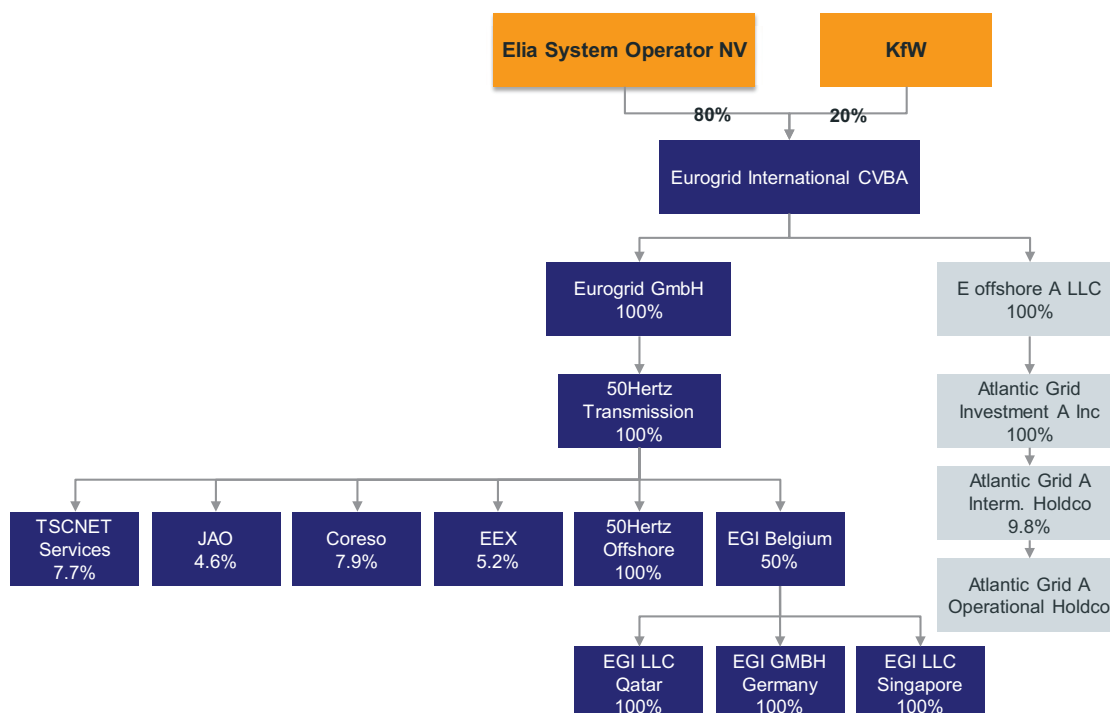
The Company owns directly 15.84 per cent. of the shares in Coreso, a Belgian public company limited by shares (SA), including the participation held by 50Hertz, and the Group holds 22.16 per cent.

### Ampacimon

The Company holds 20.54 per cent. of Ampacimon. This company was formed in 2010 and develops and provides dynamic monitoring systems (current capacity) for overhead lines that help the TSOs to increase the efficiency of the grid and which respect the required security level.

### Group structure of Eurogrid International and affiliates

The following diagram depicts, in simplified form, the shareholder structure (post acquisition) and the organizational structure of Eurogrid International and its subsidiaries, including minority participations, as at the date of this Prospectus:





## **Eurogrid International**

Since 2010, the Company has owned 60 per cent of Eurogrid International and the stake was consolidated as equity-accounted investee. On March 22, 2018, Elia decided to exercise its pre-emption right after the Australian infrastructure fund IFM provided notice on February 2, 2018 of its intention to sell half of its 40 per cent stake in Eurogrid International to a third party investor. This transaction was completed on April 26, 2018. As a result, Elia owned 80 per cent of Eurogrid International and IFM owned the remaining 20 per cent., resulting in full control for Elia.

On May 25, 2018, the Company received a notification from IFM of its intention to sell its remaining 20 per cent share in Eurogrid International. On July 26, 2018, the Company decided to exercise its pre-emption right and the 20 per cent stake was immediately sold on to the state-owned German investment bank Kreditanstalt für Wiederaufbau (*Anstalt des öffentlichen Rechts*) ("**KfW**") under the same financial conditions. As such, no costs and no risks were incurred by the Company with respect to this transaction, which also resulted in a situation which was fully neutral in relation to the Company's rating. The Company maintained its full control of Eurogrid International through its 80 per cent stake, as KfW's 20 per cent stake does not amount to a blocking minority.

Given that KfW is a German state-owned bank and that 50Hertz is a German Transmission System Operator, KfW's preference *ab initio* was and is to invest directly in Eurogrid GmbH, rather than indirectly via Eurogrid International. Given the time constraints of the back-to-back transaction in which the shares were transferred from IFM to the Company and from the Company to KfW, KfW and the Company have agreed from the outset to enter into *bona fide* discussions regarding a simplification of the corporate structure, with a view to "swapping" KfW's 20% stake in Eurogrid International against a 20% stake in Eurogrid GmbH (the "**Reorganization**"). Following this Reorganization, the governance rights regarding Eurogrid International will apply *mutatis mutandis* to Eurogrid GmbH. KfW and the Company are currently preparing the Reorganization, which is expected to take place in Q2 2019.

The presentation of the consolidated financial statements of the Company for the year ended December 31, 2018, is affected by the acquisition of an additional 20 per cent stake in Eurogrid International, which Elia acquired on April 26, 2018. Due to the increase in shareholding, and Elia obtaining the full control, the consolidation of Eurogrid International and its affiliates consequently switched from the equity method, which applied for the first four months of the 2018 financial year, to a full consolidation as from acquisition May 1, 2018 following completion of the acquisition of the additional 20 per cent stake. The pro-forma financial information (see section "*Unaudited Pro Forma Financial Information*") is drafted as if the Company had acquired the 80 per cent stake in Eurogrid International on 31 December 2017 and is fully consolidated (as defined in International Financial Reporting Standard 10 for consolidated financial statements as issued by the IASB (International Accounting Standards Board) in May 2011 and as amended from time to time) for 2018.

## **Atlantic Wind Connection project (E-Offshore and its affiliates)**

Through Eurogrid International (a holding company in which the Company holds an 80 per cent. stake), the Group has acquired a strategic minority shareholding of 7.5 per cent. in the first segment. The other investors in the project are Google, Marubeni, Bregal Energy and Atlantic Grid Investment.

In the financial statements of the Group, the investment of the Atlantic Wind Connection project is fully written off. An agreement with the other shareholders is in place so that they will buy our participation for 1 USD. The company received confirmation of this intention and this transaction will be in principle finalized in the course of 2019 (before the end of 2019).

## **Eurogrid GmbH**

Eurogrid GmbH is a holding company and, as such, its principal asset is its investment in 50Hertz and its subsidiaries and is responsible for the structuring of the financing and liquidity needs for its affiliates. The relevant financing and liquidity instruments are provided without any guarantee from either Eurogrid International or the Company.

## **50Hertz**

The registered share capital of 50Hertz amounts to €200,000,000 comprising four shares with nominal values of €25,000, €149,975,000, €49,000,000 and €1,000,000, respectively. All four shares

have been issued and fully paid up, and are owned by Eurogrid GmbH, which acquired 50Hertz from Vattenfall Europe AG on May 19, 2010. A brief description of the organizational structure of Eurogrid GmbH, 50Hertz and its subsidiaries can be found under “*Organizational Structure – Eurogrid GmbH*” above.

50Hertz owns 100 per cent. of 50Hertz Offshore and a minority shareholding in JAO (4.6 per cent. ownership), CORESO (7.9 per cent. ownership), EEX (5.2 per cent. ownership), EGI (49.99 per cent. ownership) and TSCNET Services GmbH (7.7 per cent. ownership). Each is described further below.

### **TSCNET Services GmbH**

50Hertz acquired a share of 7.7 per cent. of the newly incorporated company TSCNET Services GmbH for a total amount of €0.1 million. TSCNET Services GmbH was registered on November 10, 2014, one year after opening the TSC TSOs – Joint Office. Since 2013, experts dispatched from TSC member TSOs work in Munich day and night (24/7), providing tailor-made coordination services for operational planning, forecast data merging, congestion assessment and capacity calculation for the control centers of TSOs in continental Europe using the common IT platform CTDS. Its member TSOs are 50Hertz (Germany), Amprion (Germany), APG (Austria), ČEPS (Czech Republic), ELES (Slovenia), Energinet.dk (Denmark), HOPS (Croatia), MAVIR (Hungary), PSE (Poland), Swissgrid (Switzerland), TenneT TSO (Germany), TenneT TSO (the Netherlands) and TransnetBW (Germany).

### **EEX**

In 2017, 50Hertz decreased its stake in the European Energy Exchange (“**EEX**”) from 8.6 per cent. to 5.2 per cent. EEX develops, operates and connects secure, liquid and transparent energy markets. EEX holds 50 per cent. of the shares in EPEX SPOT SE, which operates the Spot Market for Power for Germany, France, Austria and Switzerland. The German and French Derivatives Market for Power is concentrated within EEX Power Derivatives GmbH, a majority-owned subsidiary of EEX with registered offices in Leipzig. Furthermore, EEX offers spot and derivatives trading in natural gas and CO<sub>2</sub> emission allowances, as well as trading in financial coal futures. EEX Group also includes European Commodity Clearing AG (“**ECC**”), the central clearing house for energy and related products in Europe.

### **50Hertz Offshore**

50Hertz Offshore was established in 2007 to facilitate the grid connection of the offshore wind farms to the control area of 50Hertz and operate these connections on behalf of 50Hertz as required now under Sec. 17d of the EnWG in accordance with the 2006 Infrastructure Planning Acceleration Act (*Infrastrukturplanungsbeschleunigungsgesetz 2006*).

### **JAO**

As of December 31, 2014, 50Hertz had an 11.1 per cent. shareholding in CAO Central Allocation Office GmbH (“**CAO**”) based in Freising. The purpose of the company was providing congestion management services for transmission grids. In 2015, CAO was merged into Capacity Allocation Service Company.eu S.A. (“**CASC**”), Luxembourg. CASC was subsequently renamed Joint Allocation Office S.A. (“**JAO**”), keeping its registered office in Luxembourg. Due to capital measures taken prior to the transaction, 50Hertz holds shares in the issued capital of JAO of 4.6 per cent.

### **CORESO**

CORESO SA (“**CORESO**”) was established by the Company and RTE (a French TSO). Later on National Grid (an English TSO) joined. In 2010, both 50Hertz and Terna (an Italian TSO) and at the end of 2015 REN (the Portuguese TSO) as well as at the end of 2016 REE (the Spanish TSO) followed by EirGrid and SONI joined the service company. The purpose of CORESO is to provide supporting services in the framework of security of supply, *inter alia*, by common system security calculations and coordination services between the respective customers or in cooperation with similar service providers.

## EGI

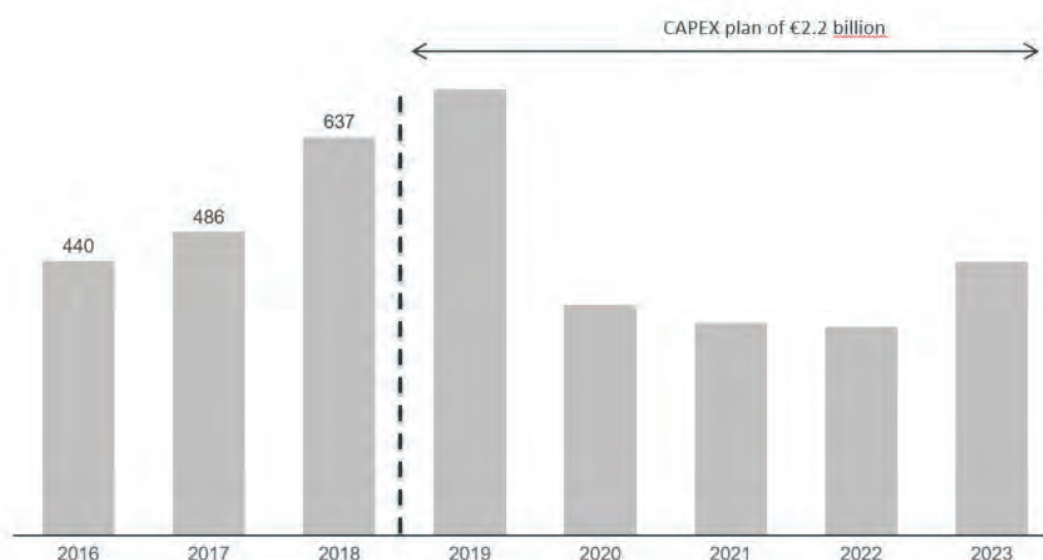
EGI is a company founded by 50Hertz (49.99 per cent.) and the Company (50.01 per cent.) in 2014 offering consultancy and engineering services on the international energy market. EGI owns 100 per cent. of Elia Grid International GmbH, 100 per cent. of Elia Grid International LLC Qatar and 100 per cent. of Elia Grid International LLC Singapore.

### Key projects of the Group

Investments in transmission systems are driven by various factors, such as the requirements of industrial customers and other system operators, the changing demand in terms of both the location and volume of energy taken from the network, the need to replace facilities at the end of their life cycle or to bring facilities in line with environmental requirements, the contribution to the opening up of the electricity market and the connection and integration of renewable energy sources.

### Key projects of Elia

For illustrative purposes, the following graph sets out Elia's investments in 2016, 2017 and 2018 as well as Elia's investment programme for the coming 5 years. With respect to the investment programme, no guarantees can however be given with respect to the precise timing of the completion of any of these investments as they depend on a number of external factors such as the obtaining of the relevant permits and others (see section *"The Group may incur significant costs to manage potential environmental and public health risks, and to accommodate city planning constraints"*). Accordingly, no precise amount should be attributed to any particular year as this is purely indicative.



In 2016, Elia invested a net sum of €440.2 million (including Nemo Link), mainly on upgrading the high-voltage stations and laying high-voltage cables. The largest investment in 2016 was for the Stevin project, where €133 million was invested, mainly in substations and power lines. Investments in Alegro (€26.5 million) and Brabo (€16.4 million) were also made in 2016. Finally, Elia Transmission continued to finance Nemolink for an amount of €64.5 million.

In 2017, Elia further accelerated its investments to a net amount of €485.6<sup>2</sup> million (including Nemo Link), mainly on upgrading high-voltage substations and laying high-voltage interconnections, intended to incorporate renewable energy into the grid and facilitate the further integration of the European energy market through interconnection. In 2017, a further €67 million was invested in the Stevin project, which was put into operation at year-end. Work on other important interconnection projects such as Brabo (€37.7 million) and ALEGrO (€21.6 million) also continued and work on the high-voltage Mercator-Horta line got under way (€33.5 million). In addition, €21.7 million was

<sup>2</sup> Excluding Nemo and including capitalisation of software, IAS 23 (Borrowing Costs) and IFRIC 18 (Transfers of Assets from Customers – with customer contributions to grid connections fully recognised in IFRS as revenue), this gives €388.1 million.

invested in the Modular Offshore Grid. Finally, Elia Transmission continued to finance Nemo Link for an amount of €141.1 million.

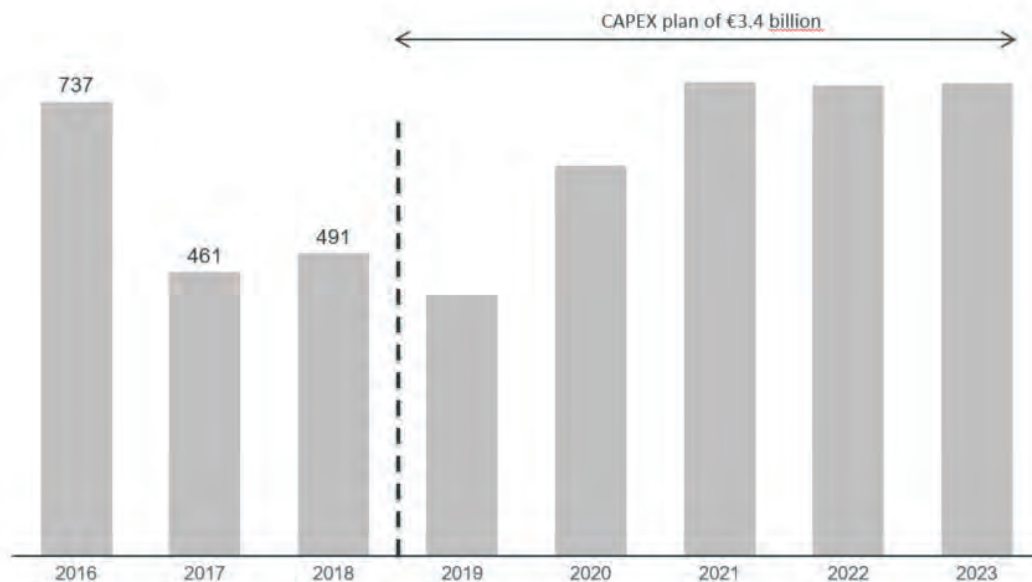
In 2018, Elia's net investments amounted to €637 million in Belgium (including Nemo Link). These investments were mainly related to upgrading high-voltage substations and installing high-voltage interconnections, intended to incorporate renewable energy into the grid and facilitate the further integration of the European energy market through interconnections. Work on major interconnection projects such as Brabo (€47.2 million) and ALEGrO (€101.0 million) continued, and investments were made in upgrading the high-voltage Mercator-Horta line (€43.1 million). €111.4 million was also invested in the Modular Offshore Grid. Lastly, Elia Transmission continued to finance Nemo Link to the tune of €59.5 million.

In the upcoming five years (2019-2023), Elia plans to invest €2.2 billion. The major projects of Elia currently under construction are:

- **Brabo:** The Brabo project is essential for the further economic growth of the port of Antwerp and is necessary for a secure and sustainable supply of electricity inside and outside of Belgium. At a local level, the project will increase supply capacity to cope with growing electricity consumption in the port of Antwerp. At a national and international level, it will upgrade the north-south axis of the international interconnected grid. This will improve international trade opportunities and reduce reliance on Belgian generation facilities;
- **Alegro (Aachen, Liège, Electrical Grid Overlay):** The purpose of this project is to build a first HVDC interconnection between Germany and Belgium (capacity of 1,000MW). Commissioning of ALEGrO is planned by 2020. This project is part of the trans-European energy network and will enhance the continuity of supply and the integration of renewable energies.
- **MOG:** The project represents an offshore "electricity plug" or "modular offshore grid" ("**MOG**") in the North Sea located approximately 40 km off the coast from Zeebrugge. The choice for a modular offshore grid is of strategic importance for the future of Belgium in terms of its participation in the further development of renewable energy in the North Sea. The modular offshore grid will allow new wind farms in the North Sea to be optimally connected to the Belgian onshore grid in a cost-effective and reliable way. The grid also creates opportunities for future offshore development and interconnections with neighboring countries. The modular offshore grid is scheduled to be taken into use in the third quarter of 2019. The estimated total investment for Elia will amount to €400 million.
- **Mercator – Horta:** The project represents a 49km, 380kV high voltage line between Kruikeke and Zomergem in East Flanders. The Mercator-Horta upgrade is crucial for guaranteeing higher import capacity, consequently ensuring efficient energy exchanges with Belgium's neighbours, increasing security of supply and further integrating renewable energy. In a first phase, the pylons and their foundations have been reinforced. The replacement of the old conductors started in April 2018 and will end in 2019. This work will enable the line, which in recent years has become an increasingly important link in the European electricity system, to transmit more energy.

### **Key projects of 50Hertz**

For illustrative purposes, the following graph sets out 50Hertz' investments in 2016, 2017 and 2018 as well as 50Hertz's investment programme for the coming 5 years. With respect to the investment programme, no guarantees can however be given with respect to the precise timing of the completion of any of these investments as they depend on a number of external factors such as the obtaining of the relevant permits and others (see section "*The Group may incur significant costs to manage potential environmental and public health risks, and to accommodate city planning constraints*"). Accordingly, no precise amount should be attributed to any particular year as this is purely indicative.



In 2016, 50Hertz invested €737.3 million. The onshore investments amounted to €317.9 million while the offshore investments totalled €419.4 million. The most significant onshore investments were for the overhead line project North Ring (€32.2 million), a grid rearrangement in the northern area of Berlin, for the construction of new phase shifters in the substations at Vierraden (€27.6 million) and Röhrsdorf (€17.4 million) and for the construction of substations at Altentreptow/Süd (€13.4 million) and Gransee (€10.1 million). Offshore investments related mainly to the offshore grid connections of Ostwind 1 (€360.9 million) and the offshore interconnector project Kriegers Flak Combined Grid Solution (€28.4 million).

In 2017, 50Hertz' investments amounted to €460.6 million. The onshore investments amounted to €214.2 million, while the offshore investments totalled €246.4 million. The most significant onshore investments were made for the overhead line project North Ring (€13.0 million), the construction of new phase shifters in the substations at Vierraden (€6.2 million) and Röhrsdorf (€13.2 million), the modernisation of the telecommunications network (€16.8 million) and the reinforcement of high-voltage pylons (€23.7 million) in order to enhance operational safety. Offshore investments related mainly to offshore grid connection of Ostwind 1 (€203.0 million) and the offshore interconnector project Kriegers Flak Combined Grid Solution (€37.9 million).

In 2018, 50Hertz invested €491 million. A total of €219.5 million was invested in onshore projects, while offshore investments totalled to €272.0 million. The most significant onshore investments went to the modernisation of the telecommunications network (€24.2 million), the reinforcement of high voltage pylons to improve the operational safety (€15.1 million), the restructuring and reinforcement of the overhead line from Wolmirstedt to Güstrow (€11.3 million) and the reinforcement of the overhead line from Wolmirstedt to Helmstedt (€10.3 million). Offshore investments were mainly made for the offshore grid connection of Ostwind 1 (€126.8 million), Ostwind 2 (€98.7 million) and the offshore interconnector project Kriegers Flak Combined Grid Solution (€43.8 million).

In the upcoming five years (2019-2023), 50Hertz plans to invest €3.4 billion in Germany. 50Hertz's most important projects at present are:

- reinforcing the grid for the "Nordring Berlin" ("**380kV Nordring Berlin**") – 50Hertz is constructing a 380Kv high voltage overhead line between the Brandenburg substations of Neuenhagen bei Berlin and Wustermark on the same route as the current 220kV overhead line. With this project, 50Hertz factors in the growing segment of renewables in Brandenburg. The grid expansion is necessary to achieve the German and European climate protection objectives.



- the Uckermark Line (“**Uckermarkleitung**”), 50Hertz is planning a high voltage line from the Prenzlau region to Neuenhagen bei Berlin. With this project, 50Hertz factors in the growing segment of renewables in Brandenburg, this 380kV line will supply Berlin with electricity generated by biomass and wind power stations in Brandenburg. It mainly reinforces the infrastructure for the Uckermark-Barnim energy region.
- the 380kV Berlin diagonal power link (“**380kV Kabeldiagonale Berlin**”), As a result of the energy transition, certain current flows are changing considerably. This requires new lines, while other lines have to be reinforced. One of the lines in high demand due to the growth in renewables is the 380kV diagonal power link running across Berlin. 50Hertz is planning an urgently needed capacity upgrade in the years to come.
- a new HVDC link to Sweden (“**Hanse PowerBridge**”) The Hansa PowerBridge is an onshore/offshore cable connection that is being planned and that will run from the Güstrow substation in Mecklenburg-Western Pomerania, over Fischland, through the Baltic Sea to Sweden. Germany and Sweden want to connect their relative power grids via this direct current connection. The roughly 300 kilometers distance will be bridged by a so-called interconnector: the Hansa PowerBridge. The interconnector serves to link various independent grids. After its completion, the Hansa PowerBridge will provide an important contribution to the stabilisation of the German electricity price, the security of the transmission system as well as to the indirect storage of electricity from renewable energy sources.
- the offshore interconnector between the German offshore windfarm Baltic 2 and the Danish offshore windfarm Kriegers Flak (“**Combined Grid Solution**”). Together with its project partner, the Danish transmission system operator Energinet.dk, 50Hertz is constructing the first offshore interconnector in the Baltic Sea by linking the two national offshore wind farm connections. The so-called Kriegers Flak Combined Grid Solution (CGS) will connect the Danish region of Zealand with the German state of Mecklenburg-Western Pomerania. The planned transfer capacity is 400 megawatts (MW).
- The offshore interconnector, connecting the Baltic Sea windfarms in the Clust Westlich Adlergrund (“**Ostwind 1**”). This project represents three cable connections for two offshore wind farms in the Baltic Sea, which have a capacity of 385MW and 350MW respectively.
- During the 2018 capacity auction, three additional offshore wind parks in the Baltic Sea north of Lubmin (“**Ostwind 2**”) were awarded.

## Material agreements

### Shareholders’ Agreement

On 31 May 2002, Electrabel NV, SPE NV, CPTÉ CVBA, Publi-T, the Belgian State, the Company and Elia Asset entered into a shareholders’ agreement (the “**Shareholders’ Agreement**”). Following the disposal by Electrabel NV of its shares in the Company, the Shareholders Agreement no longer applies in respect of Electrabel NV.

The Shareholders’ Agreement reflects the special corporate governance rules imposed by law with a view to ensuring the independence of the TSO vis-à-vis its shareholders and market operators. At the federal level, these rules are set forth especially in the Electricity Act and in the Corporate Governance Decree.

For more information on the Shareholders’ Agreement, see the section “*Management and Governance – Shareholders’ Agreement*”.

### Shareholder Loan Agreement with Publipart

On 31 May 2002, the Company, as borrower, and CPTÉ historical shareholder, as lender, entered into a Shareholder Loan Agreement. Under an Assignment Agreement dated 12 August 2002, CPTÉ assigned all of its rights under the Shareholder Loan Agreement to SPE.

Subsequently, the outstanding amount of the shareholder loan with SPE was transferred to Publipart following the de-merger of SPE for an amount of €42,141,899.



The margin and contractual repayment date are as follows:

<b>Amount</b>	<b>Margin over EURIBOR</b>	<b>Contractual repayment date</b>
€42,141,899	1.15%	20 years after the Company's appointment as TSO, <i>i.e.</i> , on 17 September 2022

The Shareholder Loan Agreement further provides for certain customary covenants with which the borrower must comply, prepayment events and a right for the lender to accelerate the loan upon the occurrence of certain events of default.

The covenants include among others a negative pledge covenant, a *pari passu* clause, limitations on indebtedness and asset disposals, compliance with all obligations as TSO, a prohibition to substantially change the business, and restrictions on ownership by subsidiaries of any material assets other than the network or related assets.

The Company must prepay the loan in case (i) the lender notifies the Company that it has become unlawful for the lender to perform its obligations under the loan or maintain the loan, or (ii) subject to good faith negotiations, the Company is subject to a "change of control" (defined as a third party, alone or in concert with other parties, other than Electrabel, SPE or Publi-T, acquiring more than 30% of the shares of the Company), or (iii) the lender accelerates the loan upon occurrence of an event of default. Events of default include, among others:

- (a) a payment default not cured within five Business Days after the due date;
- (b) failure to comply with any of the other terms of the Shareholder Loan Agreement, if not cured within 30 Business Days after notice by the lender;
- (c) any cross-default of the Company or any of its subsidiaries under financial indebtedness exceeding €25,000,000;
- (d) termination, breach or amendment of the TSO license or any license for the operation of a regional or local network, if such event can be expected to have a material adverse effect (as defined in the agreement), and subject to a 30-day good faith negotiation period;
- (e) Elia Asset ceasing to be a wholly-owned subsidiary (except for the two shares being held by Electrabel and Publi-T);
- (f) any material subsidiary ceasing to carry on the network operation business or entering into any unrelated business which the lender reasonably believes may have a material adverse effect; or
- (g) the occurrence of any other event or circumstance which the lender reasonably believes may produce a material adverse effect.

### **Financing arrangements of the Group**

The Company is in charge of the liquidity management and debt financing of its Belgian regulated activities and activities regulated outside of Belgium or non-regulated activities (including Elia Asset's activities). The Company meets its financing needs through diversified sources of debt funding. The companies in which the Company holds a stake as a shareholder typically manage their financing needs on a decentralised level, without any recourse towards the Company. Eurogrid GmbH exclusively arranges the financing needs for 50Hertz Transmission GmbH and its affiliates on an independent from its shareholders and ring-fenced basis.

#### **(1) Financing arrangements of the Company**

The long-and short-term financing of the Company is structured through a range of financial arrangements. The Company's financial indebtedness does not benefit from security or guarantees and contain customary events of default and covenants. These include amongst others a negative pledge and an undertaking from the Company to remain licensed as TSO, to maintain a long-term credit rating of at least BBB- by Standard & Poor's Rating Services (or equivalent international rating), to make no material change to its business and to keep its

stake in Elia Asset and Nemo Link Ltd. The EIB Loan also provides that the unconsolidated total net debt of the Company should be at least equal to 66% of the total net debt of the Group under IFRS.

More specifically, the Eurobonds issued under the €3-billion EMTN programme and the back-up facilities contain the following covenants:

- (a) The Company will not grant any security interest (i.e. any mortgage, charge, pledge, lien or other form of encumbrance or security interest; a personal guarantee or suretyship does not constitute a 'security interest') to secure any relevant debt of any person or to secure any guarantee of or indemnity in respect of any relevant debt of any person.
  - (b) The Company shall ensure that none of its material subsidiaries grant any security interest to secure any relevant debt of any person or to secure any guarantee of or indemnity in respect of any relevant debt of any person.
  - (c) The Company will and shall ensure that its material subsidiaries will ensure that no other person grants any security interest to secure any of the company's, or any of its material subsidiaries', relevant debt or to secure any guarantee of or indemnity in respect of any of the Issuer's, or any of its material subsidiaries', relevant debt.
  - (d) The Company will keep its license as a transmission system operator.
- (2) As at December 31, 2018, the Company's total indebtedness amounted to €6,394.9 million and comprises the following:
- (a) a shareholder loan from Publipart NV/SA originally dated May 31, 2002 as amended from time to time for an aggregate nominal amount outstanding of €42.1million as at December 31, 2018;
  - (b) a loan from Synatom SA/NV originally dated May, 31 2002, as amended from time to time, for an aggregate nominal amount outstanding of €453.7 million as at December 31, 2018;
  - (c) several institutional fixed rate bonds with different maturities for an aggregate nominal amount outstanding of €2,637,4 million as at December 31, 2018;
  - (d) a €210 million fixed rate amortising term loan facility for a period of fifteen years entered into with BNP Paribas Fortis SA/NV and Belfius Bank NV on December 21, 2018 for the financing of the Company's participation in Nemo Link Ltd.;
  - (e) a €100 million credit facility with the European Investment Bank to support the Company's ongoing capex programme (the "**EIB Loan**"); and
  - (f) several Belgian dematerialized treasury notes under the Company's Treasury Notes Programme for its short-term financing needs, which amounted to €50 million as at December 31, 2018.
  - (g) Accrued interests for a total amount of €51.1 million.

The Company also disposes over a €650 million revolving credit facility entered into on July 8, 2016 with Belfius Bank NV, BNP Paribas Fortis NV/SA, Coöperatieve Rabobank U.A., ING Belgium NV/SA, KBC Bank NV and The Royal Bank of Scotland plc as arrangers.

The acquisition by the Company of the additional 20% stake in 50Hertz was initially financed via a €990 million bridge loan entered into on March 23, 2018 for a period of 12 months. The bridge loan was drawn on April 26, 2018 and was repaid by the Company on September 5, 2018 through the issuance of a €700 million perpetual hybrid bond and a €300 million senior bond.

The hybrid bonds rank junior to all senior debt and are recorded as equity in the Group's accounts pursuant to IFRS. The hybrid bonds bear an optional, cumulative coupon of 2.75 per cent. per annum, payable at the Group's discretion annually on December 5 of each year, starting from December 5, 2019. The hybrid bonds are perpetual instruments and have an initial call date in December 2023 with a reset every five years thereafter. The €300 million senior bond bears a fixed coupon of 1.50 per cent. per annum and matures in 2028.

For more information about the Company's financing arrangements, see section "*Operating and Financial Review*". Please also refer to section "*Material Agreement – Shareholder Loan Agreement with Publipart*" for a more detailed description of the Shareholder Loan.

(3) Financing arrangements of 50Hertz

Eurogrid GmbH is the holding company of the 50Hertz affiliates and manages the financing and liquidity needs of the 50Hertz (sub)group. The financing contracts of Eurogrid GmbH with third parties are unsecured and contain customary covenants and events of default, including a negative pledge. The financings also do not benefit from guarantees from either Eurogrid International or the Company.

As at December 31, 2018, Eurogrid GmbH's total indebtedness amounted to € 2,834.0 million, and is composed as follows:

- (a) several long-term institutional fixed rate bonds with different maturities for an aggregate nominal amount outstanding of €2,640 million as at December 31, 2018;
- (b) a syndicated term loan facility for a nominal amount outstanding of €150 million as at December 31, 2018; and
- (c) a very long-term (30 years) registered fixed bond for a nominal outstanding amount of €50 million as at December 31, 2018.

**Legal and arbitration proceedings of the Group**

As at the date of this Prospectus, the Group was, in the ordinary course of its operations, involved in approximately 59 civil and administrative litigation proceedings as a defendant. Ten of these proceedings related to claims against the Group exceeding a value of €600,000. The Group is of the opinion that even these ten proceedings are unable to have a significant effect on the Company or the Group's financial position or profitability.

The Group has provisions for litigations which, as at April 26, 2019, amounted to approximately €3.6 million in total. These provisions do not cover claims initiated against the Group for which damages have not been quantified or in relation to which the plaintiff's prospects are considered by the Group as being remote.

The summary of legal proceedings set out below, although not an exhaustive list of claims or proceedings in which the Group is involved, describes what the Group believes to be the most significant of those claims and proceedings. Subsequent developments in any pending matter, as well as additional claims (including additional claims similar to those described below), could arise from time to time.

The Group cannot predict with certainty the ultimate outcome of the pending or threatened proceedings in which the Group is or was, during the previous 12 months, involved and some of which may have significant effects on the Group's financial position or profitability as they could result in monetary payments to the plaintiff and other costs and expenses, including costs for modifying parts of the Group's network or (temporarily or permanently) taking portions of the network out of service. While payments and other costs and expenses that the Group might have to bear as a result of these actions are covered by insurance in some circumstances, other payments may not be covered by the insurance policies in full or at all. Accordingly, each of the legal proceedings described in the summary below could be significant to the Group, and the payments, costs and expenses in excess of those already incurred or accrued could have a material adverse effect on the Group's results of operations, financial position or cash flows.

The nature of the principal civil and administrative proceedings in which the Group is involved, either as a defendant or a plaintiff, is as follows (by categories of similar proceedings):

***Legal proceedings brought against the Group:***

These include, among others:

- (a) claims for compensation for the consequences of electrical fall-out or disturbance;
- (b) judicial review of building permits and zoning plans for substations, overhead lines and underground cables or zoning plans;

- (c) judicial review of decisions taken within the framework of public procurement proceedings in application of national legislation implementing Directive 2014/25/EU on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC;
- (d) claims, lodged by both public authorities and citizens, aimed at the relocation of overhead lines and underground cables and/or at the compensation for relocation costs;
- (e) claims by citizens seeking compensation for the nuisance caused by the presence of the transmission lines (for example, due to the perceived potential health risks caused by EMFs, noise, interruptions of telephone and radio connections, aesthetic or other damages); and
- (f) Some annulment requests lodged against decisions taken by the federal government with respect to setting the price and volumes under article 12 quinquies or taken by the CREG with respect to balancing mechanisms. Elia has intervened voluntarily in these annulment procedures to defend the attacked decisions.

***Legal proceedings brought by the Group:***

These include, among others:

- (a) judicial review of decisions refusing to issue a building permit or against expropriation decisions;
- (b) claims seeking compensation of repair costs due to the damage caused to underground cables, towers and overhead lines;
- (c) claims in relation to the EEG levy; and
- (d) claims against decisions taken by BNetzA relating to amongst others a change of calculating methodology.

***Proceedings involving the CREG***

As described in the section “*The Group’s business – Regulatory framework – Contemplated internal reorganization of Elia in light of potential impact of the new tariff methodology – Proposed changes to the Company’s articles of association*”, Elia lodged an appeal against a new provision of this methodology defining the impact on regulated tariffs of loans contracted to finance activities regulated outside of Belgium or non-regulated activities of Elia (being the activities other than those that are regulated in Belgium). According to this provision, the financing of activities regulated outside of Belgium or non-regulated activities is valued on terms equivalent to a financing that would be fully ensured by equity. On 10 January 2019, Elia received a copy of the judgment of the Markets Court dated 9 January 2019, which declared its appeal admissible but unfounded.

For a detailed description in this respect, see section “*The Group’s Business – Regulatory framework – Contemplated internal reorganization of Elia in light of potential impact of the new tariff methodology – Proceedings relating to cross-subsidy under the new tariff methodology*”.

## SELECTED FINANCIAL INFORMATION

As set out in the Company's 2018 audited consolidated financial statements, there have been a number of changes that have occurred in the Group's 2018 consolidated financial statements compared to its 2016 and 2017 consolidated financial statements. First, the Group opted for the full retrospective application of IFRS 15. This implies that comparative figures for financial year 2017 were restated to give effect to such retrospective application of IFRS 15.

Secondly, the presentation of the consolidated financial statements of the Company for the year ended December 31, 2018, is affected by the acquisition of an additional 20 per cent stake in Eurogrid International, which Elia acquired on April 26, 2018. This transaction increased Elia's shareholding in Eurogrid International from 60 per cent. to 80 per cent., giving Elia full control over Eurogrid International. The consolidation of Eurogrid International and its affiliates consequently switched from the equity method, which applied for the first four months of the 2018 financial year, to a full consolidation as from acquisition May 1, 2018 following completion of the acquisition of the additional 20 per cent. stake. Since the actual 2018 income statement only fully consolidates Eurogrid International as from May 1, 2018, *pro forma* profit and loss accounts for 2018 have been included in this Prospectus assuming full consolidation of Eurogrid International as from January 1, 2018. Set forth below are the condensed consolidated income statement, balance sheet and cash flow statements of the Company as of and for the years ended December 31, 2018, 2017 and 2016, derived from the Company's audited consolidated financial statements, prepared in accordance with IFRS, as endorsed by the EU, which are included by reference in this Prospectus.

Investors should read this section together with the information contained in "*Operating and Financial Review*", the consolidated financial statements of the Company, prepared in accordance with IFRS, as endorsed by the EU, and the related notes thereto included by reference in this Prospectus.



# Consolidated statement of profit and loss as at December 31, 2016, 2017 and 2018

	December 31,			
	2018	2017 (restated)	2017	2016
	(€ million)			
<b>Continuing operations</b>				
Revenue	1,822.8	808.2	828.5	800.1
Raw materials, consumables and goods for resale	(41.5)	(9.6)	(9.6)	(18.8)
Other income	109.0	59.0	59.0	68.0
Services and other goods	(945.7)	(344.4)	(344.4)	(336.6)
Personnel expenses	(229.3)	(147.2)	(147.2)	(143.9)
Depreciations, amortizations and impairments	(252.3)	(131.2)	(131.2)	(124.8)
Changes in provisions	4.4	0.4	0.4	(5.3)
Other expenses	(30.4)	(19.6)	(19.6)	(22.1)
<b>Results from operating activities</b>	<b>437.0</b>	<b>215.5</b>	<b>235.9</b>	<b>216.6</b>
Share of profit of equity accounted investees (net of tax)	65.6	109.1	108.7	78.4
<b>EBIT<sup>(1)</sup></b>	<b>502.6</b>	<b>324.6</b>	<b>344.6</b>	<b>295.0</b>
<b>Net finance costs</b>	<b>(93.3)</b>	<b>(76.5)</b>	<b>(76.5)</b>	<b>(82.8)</b>
Finance income	21.9	5.5	5.5	7.0
Finance costs	(115.2)	(81.9)	(81.9)	(89.9)
<b>Profit before income tax</b>	<b>409.3</b>	<b>248.1</b>	<b>268.2</b>	<b>212.2</b>
Income tax expense	(102.2)	(39.5)	(39.1)	(32.0)
<b>Profit from continuing operations</b>	<b>307.1</b>	<b>208.6</b>	<b>229.1</b>	<b>180.2</b>
<b>Profit for the period</b>	<b>307.1</b>	<b>208.6</b>	<b>229.1</b>	<b>180.2</b>
Profit attributable to:				
Owners of the Company	275.2	208.6	229.1	179.9
Hybrid securities	6.2	0.0	0.0	0.0
Non-controlling interest	25.7	0.0	0.0	0.3
<b>Profit for the period</b>	<b>307.1</b>	<b>208.6</b>	<b>229.1</b>	<b>180.2</b>
<b>Earnings per share (EUR)</b>				
Basic earnings per share	4.52	3.42	3.76	2.95
Diluted earnings per share	4.52	3.42	3.76	2.95

Notes:

(1) EBIT (Earnings Before Interest and Taxes) = Results from operating activities and share of profit of equity accounted investees, net of tax

**Consolidated statement of profit or loss and other comprehensive income as at December 31, 2016, 2017 and 2018**

	December 31,			
	2018	2017 (restated)	2017	2016
		(€ million)		
<b>Profit for the period</b>	<b>307.1</b>	<b>208.6</b>	<b>229.1</b>	<b>180.2</b>
<b>Other comprehensive income (OCI)</b>				
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Effective portion of changes in fair value of cash flow hedges	(8.4)	9.4	9.4	8.7
Equity – accounted investees – share of OCI	0.0	0.0	0.0	0.0
Related tax	2.2	(3.2)	(3.2)	(2.9)
<b>Items that will not be reclassified to profit or loss:</b>				
Remeasurements of post-employment benefit obligations	0.8	(13.7)	(13.7)	1.2
Equity-accounted investees – share of OCI	0.0	1.1	1.1	(0.6)
Effective portion of changes in fair value of investments	2.7	0.0	0.0	0.0
Related tax	(0.2)	2.3	2.3	(0.4)
<b>Other comprehensive income for the period, net of tax</b>	<b>(2.9)</b>	<b>(4.1)</b>	<b>(4.1)</b>	<b>6.0</b>
<b>Total comprehensive income for the period</b>	<b>304.2</b>	<b>204.5</b>	<b>225.0</b>	<b>186.2</b>
<b>Total comprehensive income attributable to:</b>				
Owners of the Company	271.9	204.5	225.0	185.9
Hybrid securities	6.2	0.0	0.0	0.0
Non-controlling interest	26.1	0.0	0.0	0.3
<b>Total comprehensive income for the period</b>	<b>304.2</b>	<b>204.5</b>	<b>225.0</b>	<b>186.2</b>

**Consolidated statement of financial position as at December 31, 2016, 2017 and 2018**

	As at December 31,			
	2018	2017 (restated)	2017	2016
	(€ million)			
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>	11,362.8	6,079.1	6,093.3	5,653.9
Property, plant and equipment	8,456.2	3,202.4	3,202.4	2,956.5
Intangible assets and goodwill	2,502.3	1,738.6	1,738.6	1,735.8
Trade and other receivables	177.0	147.8	147.8	63.0
Equity-accounted investees	135.4	928.6	942.7	832.4
Other financial assets (including derivatives)	86.9	60.9	60.8	65.4
Deferred tax assets	5.0	1.0	1.0	0.8
<b>CURRENT ASSETS</b>	2,391.5	503.2	503.2	587.7
Inventories	19.2	13.6	13.6	22.6
Trade and other receivables	558.9	281.1	281.1	379.6
Current tax assets	3.6	3.8	3.8	2.8
Cash and cash equivalents	1,789.3	195.2	195.2	176.6
Deferred charges and accrued revenue	20.6	9.6	9.5	6.1
<b>Total assets</b>	<b>13,754.3</b>	<b>6,582.3</b>	<b>6,596.5</b>	<b>6,241.6</b>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>	3,748.9	2,564.4	2,641.8	2,512.6
Equity attributable to owners of the Company	3,447.5	2,563.3	2,640.7	2,511.4
Equity attributable to ordinary shares	2,741.3	2,563.3	2,640.7	2,511.4
Share capital	1,521.5	1,517.6	1,517.6	1,517.2
Share premium	14.3	11.9	11.9	11.8
Reserves	173.0	173.0	173.0	173.0
Hedging reserve	(6.2)	0.0	0.0	(6.2)
Retained earnings	1,038.7	860.8	938.2	815.6
Hybrid securities	706.2	0.0	0.0	0.0
Non-controlling interest	301.4	1.1	1.1	1.2
<b>NON-CURRENT LIABILITIES</b>	6,289.0	3,047.9	2,984.5	2,728.0
Loans and borrowings	5,773.8	2,834.7	2,834.7	2,586.4
Employee benefits	104.0	84.3	84.3	75.1
Derivatives	2.9	0.0	0.0	9.4
Provisions	96.9	20.8	20.8	23.3
Deferred tax liabilities	95.2	19.5	40.9	28.7
Other liabilities	216.2	88.5	3.8	5.1
<b>CURRENT LIABILITIES</b>	3,716.4	970.0	970.2	1,001.0
Loans and borrowings	621.1	49.5	49.5	147.5
Provisions	16.5	4.5	4.5	2.4
Trade and other payables	1,989.1	378.5	378.6	390.8
Current tax liabilities	93.1	2.9	2.9	0.5
Accruals and deferred income	996.6	534.6	534.7	459.8
<b>Total equity and liabilities</b>	<b>13,754.3</b>	<b>6,582.3</b>	<b>6,596.5</b>	<b>6,241.6</b>

# Consolidated statement of cash flows as at December 31, 2016, 2017 and 2018

	December 31,			
	2018	2017 (restated)	2017	2016
	(€ million)			
<b>Cash flows from operating activities</b>				
<b>Profit for the period</b>	307.1	208.6	229.1	179.9
Adjustments for:				
Net finance costs	93.3	76.5	76.5	82.9
Other non-cash items	1.1	0.1	0.1	1.0
Current income tax expense	105.9	29.2	29.2	12.5
Profit or loss of equity accounted investees, net of tax	(65.6)	(109.1)	(108.7)	(78.5)
Depreciation of property, plant and equipment and amortization of intangible assets	249.5	131.4	131.4	124.4
Gain on sale of property, plant and equipment and intangible assets	12.6	6.5	6.5	8.8
Impairment losses of current assets	3.8	0.0	0.0	0.6
Change in provisions	(9.2)	(5.3)	(5.3)	(1.2)
Change in fair value of derivatives	1.3	1.1	1.1	1.0
Change in deferred taxes	(3.6)	10.4	9.9	19.4
<b>Cash flow from operating activities</b>	696.1	349.3	369.8	350.9
Change in inventories	(1.8)	9.3	9.3	1.3
Change in trade and other receivables	(50.5)	98.2	98.2	(61.4)
Change in other current assets	7.8	4.8	4.8	3.9
Change in trade and other payables	(12.9)	(12.3)	(12.3)	80.5
Change in other current liabilities	117.9	95.3	74.9	91.2
<b>Changes in working capital</b>	60.5	195.3	174.8	115.5
Interest paid	(141.8)	(88.4)	(88.4)	(115.6)
Interest received	5.7	1.7	1.7	56.5
Income tax paid	(103.8)	(27.6)	(27.6)	80.3
<b>Net cash from operating activities</b>	516.7	430.3	430.3	487.6
<b>Cash flows from investing activities</b>				
Acquisition of intangible assets	(23.2)	(10.6)	(10.6)	(9.6)
Acquisition of property, plant and equipment	(991.1)	(369.1)	(369.1)	(388.6)
Acquisition of equity accounted investees	(23.8)	(57.2)	(57.2)	(25.8)
Acquisition of investment	(988.7)	0.0	0.0	0.0
Acquired cash from acquisition of subsidiary	1,902.7	0.0	0.0	0.0
Proceeds from sale of property, plant and equipment	2.4	1.5	1.5	3.2
Proceeds from sales of investments	0.2	0.0	0.0	6.3
Proceeds from capital decrease from equity-accounted investees	0.0	0.1	0.1	7.2
Dividend received	2.0	56.8	56.8	57.3
Loans and long-term receivables to joint ventures	(35.7)	(84.6)	(84.6)	(38.7)
<b>Net cash used in investing activities</b>	(155.2)	(463.1)	(463.1)	(388.7)
<b>Cash flow from financing activities</b>				
Proceeds from issue of share capital	5.3	0.4	0.4	5.3
Expenses related to issue share capital	(0.1)	0.0	0.0	(0.1)
Dividends paid (-)	(98.7)	(96.2)	(96.2)	(94.2)
Repayment of borrowings (-)	0.0	(100.0)	(100.0)	(540.0)
Issuance of hybrid (+)	696.8	0.0	0.0	0.0
Proceeds from withdrawal borrowings (+)	656.9	247.2	247.2	80.0
Non-controlling interests	(20.0)	0.0	0.0	0.3
Other cash flows from financing activities	(7.6)	0.0	0.0	0.0
<b>Net cash flow from (used in) financing activities</b>	1,232.6	51.4	51.4	(548.7)
<b>Net increase (decrease) in cash and cash equivalents</b>	1,594.1	18.6	18.6	(449.8)
Cash & Cash equivalents at January 1	195.2	176.6	176.6	626.4
Cash & Cash equivalents at December 31	1,789.3	195.2	195.2	176.6
<b>Net variations in cash &amp; cash equivalents</b>	1,594.1	18.6	18.6	(449.8)

## UNAUDITED *PRO FORMA* FINANCIAL INFORMATION

Accountant's report on unaudited *pro forma* financial information

(See next page)



ERNST & YOUNG  
REVISEURS D'ENTREPRISES SCRL  
De Kleetlaan 2  
B-1831 Diegem

KPMG  
REVISEURS D'ENTREPRISES SCRL  
Luchthaven Brussel Nationaal 1K  
B-1930 Zaventem

The Board of Directors  
Elia System Operator SA/NV  
Keizerslaan 20  
1000 Brussels  
Belgium

### Report on the Compilation of Pro Forma Financial Information

We have completed our assurance engagement to report on the compilation of pro forma financial information (the "Pro Forma Financial Information") of Elia System Operator SA/NV ("Elia" or the "Company"). The Pro Forma Financial Information consists of the pro forma consolidated statement of profit or loss for the year ended 31 December 2018, and related notes as set out on pages 131-143 of the prospectus issued by the Company (the "Prospectus"). The applicable criteria on the basis of which the directors of Elia have compiled the Pro Forma Financial Information (the "Applicable Criteria") are specified in Annex II of the European Commission Regulation No. 809/2004 of 29 April 2004 (the "Prospectus Regulation") and are described in Note 1 'Basis of Preparation' of the Pro Forma Financial Information.

The Pro Forma Financial Information has been compiled by the directors of Elia to illustrate the impact of the acquisition of 20% of the shares of Eurogrid International CVBA (the "Transaction"), set out on pages 131-143 of the Prospectus, on the Company's financial performance for the year ended 31 December 2018 as if the Transaction had taken place on 1 January 2018. As part of this process, information about the Company's financial performance has been extracted by the directors of Elia from the Company's consolidated financial statements as at and for the year ended 31 December 2018, on which an audit report has been published.

### Board of Directors' Responsibility for the Pro Forma Financial Information

The board of directors of Elia is responsible for compiling the Pro Forma Financial Information in accordance with the Applicable Criteria.

### Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firms apply International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

KPMG Bedrijfsrevisoren - Réviseurs d'Entreprises, a Belgian CVBA/SCRL and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Document Classification:

Mitschappelijke zetel - Siège Social:  
Luchthaven Brussel Nationaal 1K  
1930 Zaventem  
België - Belgique

KPMG Bedrijfsrevisoren - Réviseurs  
d'Entreprises CVBA/SCRL  
BTW - TVA BE 0419.122.518  
RPR Brussel - RPM Bruxelles  
IBAN : BE 62 4377 5152 9201  
BIC : KREDBEBB

Société civile sous la forme d'une société coopérative à responsabilité limitée  
Burgerlijke vennootschap onder de vorm van een coöperatieve vennootschap met beperkte aansprakelijkheid  
RPM Bruxelles - RPR Brussel - B.T.W. - T.V.A. BE 0446.334.711 - IBAN N° BE71 2100 5059 0059  
\* agissant au nom d'une société handelend in naam van een vennootschap

A member firm of Ernst & Young Global Limited

*Elia System Operator SA/NV*  
*Report on the Compilation of Pro Forma Financial Information*

*Joint Independent Auditors' Responsibilities*

Our responsibility is to express an opinion, as required by item 7 of Annex 1 of the Prospectus Regulation, as to whether the Pro Forma Financial Information has been compiled, in all material respects, by Elia, on the basis of the Applicable Criteria, and whether that basis is consistent with the accounting policies of the Company.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board. This standard requires that the joint independent auditors plan and perform procedures to obtain reasonable assurance about whether the directors have compiled, in all material respects, the Pro Forma Financial Information on the basis of the Applicable Criteria, and that such basis is consistent with the accounting policies of the Company.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 1 January 2018 would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been compiled, in all material respects, on the basis of the Applicable Criteria and that such basis is consistent with the accounting policies of the Company, involves performing procedures to assess whether the Applicable Criteria used by the board of directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to the Applicable Criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the joint independent auditors' judgment, having regard to the joint independent auditors' understanding of the nature of the Company, the Transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.



ERNST & YOUNG  
REVISEURS D'ENTREPRISES SCRL

KPMG  
REVISEURS D'ENTREPRISES SCRL

*Elia System Operator SA/NV*  
*Report on the Compilation of Pro Forma Financial Information*

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

In our opinion:

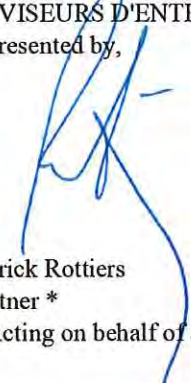
- the Pro Forma Financial Information has been properly compiled, in all material respects, on the basis stated, and
- such basis is consistent with the accounting policies of the Company.

*Restriction on Use*

This report is required by European Commission Regulation No. 809/2004 of 29 April 2004 and is provided for the purpose of complying with that Regulation and for no other purpose.

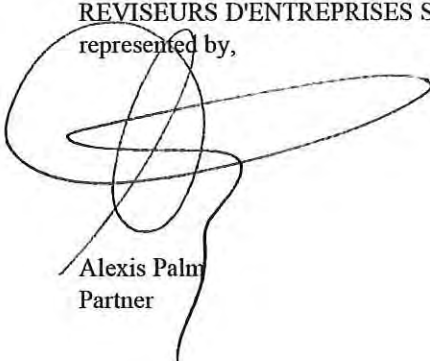
Brussels, 28 May 2019

ERNST & YOUNG  
REVISEURS D'ENTREPRISES SCRL  
represented by,

  
Patrick Rottiers  
Partner \*

\* Acting on behalf of a BVBA/SPRL

KPMG  
REVISEURS D'ENTREPRISES SCRL  
represented by,

  
Alexis Palm  
Partner

### **Unaudited *pro forma* financial information**

On 22 March 2018, Elia System Operator SA/NV (the Company) decided to exercise its pre-emption right after the Australian infrastructure fund, IFM Investors, provided notice on 2 February 2018 of its intention to sell half of its 40 per cent. shareholding in Eurogrid International.

Under the terms of the purchase agreement entered into between the Company and IFM, the Company acquired an additional 20 per cent. voting interest in Eurogrid International. Upon completion of the acquisition on 26 April 2018, the Company owns 80 per cent. of Eurogrid International and has full control of the operations and the economic benefits of Eurogrid International.

The unaudited *pro forma* financial information consisting of the statement of profit or loss (*pro forma* financial information) and accompanying notes has been prepared as if the acquisition had occurred on 1 January 2018 and is based on the historical consolidated financial statements of the Company as at and for the year ended 31 December 2018. The *pro forma* financial information only relates to the statement of profit or loss. A balance sheet as at 31 December 2018 has not been included in the *pro forma* financial information, as the historical consolidated financial statements already reflect all effects of the acquisition.

The Company's historical consolidated financial statements incorporate the standalone financial information of Eurogrid International, which is included in the segment 'Non-regulated activities (Incl. Nemo Link)' and the consolidated financial information of Eurogrid GmbH, which forms the segment '50Hertz Transmission (Germany)'. Combined, this financial information is referred to as the 'Eurogrid International financial information'. We also refer to note 1b 'Base of the *pro forma* financial information' for more details.

We also refer to the joint auditor's report on the unaudited *pro forma* financial information, which indicates that the *pro forma* financial information has been compiled properly, in all material respects, on the basis stated and that this basis is consistent with the accounting policies of the Company.

The acquisition has been accounted for as a business combination using the acquisition method in conformity with IFRS 3 "Business combinations". Under this method, the existing stake in Eurogrid International had to be revalued to its fair value and all assets and liabilities acquired of the 50Hertz Transmission (Germany) segment had to be recorded based on their fair values at the date of the transaction. The revaluation gain on the existing stake, recorded in profit or loss in the historical consolidated financial statements, and which amounted to EUR 9.2 million, has been retained in the *pro forma* financial information.

The *pro forma* financial information is presented for illustrative purposes only. Because of its nature, the *pro forma* financial information addresses a hypothetical situation and, therefore, does not represent the Company's actual financial results.

The *pro forma* financial information should be read in conjunction with the Company's historical consolidated financial statements as at and for the year ended 31 December 2018.

The Company's historical consolidated financial statements as well as the Eurogrid International financial information as at and for the year ended 31 December 2018 were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and as adopted by the European Union.

### ***Pro Forma* Financial Information – Statement of profit or loss**

(A) The historical financial statements of the Company as at 31 December 2018

- (1) Inclusion of the 4 month results of Eurogrid International financial information in order to fully consolidate Eurogrid International as from 1 January 2018
- (2) Reversal of the 60 per cent. stake of Eurogrid International as an equity-accounted investee (pre-acquisition)
- (3) Adjustment of financing costs
- (4) Intercompany eliminations

(B) *Pro Forma* Financial Information

	Elia System Operator Group	Acquisition Adjustments				Total <i>Pro Forma</i> combined
	Historical financial information (A) December 31, 2018	Full consolidation of Eurogrid International financial information (1) December 31, 2018	Reversal of equity method accounting (2) December 31, 2018	Adjustment of financing costs (3) December 31, 2018	Elimination of intercompany balances / transactions (4) December 31, 2018	(B) December 31, 2018
	(million €)					
Continuing operations						
Revenue	1,822.8	388.9	0.0	0.0	(3.4)	2,208.3
Raw materials, consumables and goods for resale	(41.5)	(16.3)	0.0	0.0	0.6	(57.3)
Other income	109.0	19.1	0.0	0.0	(2.1)	126.0
Services and other goods	(945.7)	(204.6)	0.0	0.0	4.9	(1,145.4)
Personnel expenses	(229.3)	(37.1)	0.0	0.0	0.0	(266.4)
Depreciations, amortizations and impairments	(252.3)	(51.6)	0.0	0.0	0.0	(304.0)
Changes in provisions	4.4	68.8	0.0	0.0	0.0	73.2
Other expenses	(30.4)	(0.9)	0.0	0.0	0.0	(31.3)
<b>Results from operating activities</b>	<b>437.0</b>	<b>166.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>603.3</b>
Share of profit of equity accounted investees (net of tax)	65.6	0.0	(63.5)	0.0	0.0	2.1
<b>Earnings before interest and tax (EBIT)</b>	<b>502.6</b>	<b>166.3</b>	<b>(63.5)</b>	<b>0.0</b>	<b>0.0</b>	<b>605.4</b>
<b>Net finance costs</b>	<b>(93.2)</b>	<b>(16.5)</b>	<b>0.0</b>	<b>(1.7)</b>	<b>0.0</b>	<b>(111.4)</b>
Finance income	21.9	0.3	0.0	0.0	0.0	22.2
Finance costs	(115.2)	(16.8)	0.0	(1.7)	0.0	(133.6)
<b>Profit before income tax</b>	<b>409.3</b>	<b>149.8</b>	<b>(63.5)</b>	<b>(1.7)</b>	<b>0.0</b>	<b>494.0</b>
Income tax expense	(102.2)	(44.1)	0.0	0.5	0.0	(145.8)
<b>Profit from continuing operations</b>	<b>307.1</b>	<b>105.8</b>	<b>(63.5)</b>	<b>(1.2)</b>	<b>0.0</b>	<b>348.2</b>
<b>Profit for the period</b>	<b>307.1</b>	<b>105.8</b>	<b>(63.5)</b>	<b>(1.2)</b>	<b>0.0</b>	<b>348.2</b>
<b>Profit attributable to:</b>						
Owners of the Company	275.2	84.6	(63.5)	(1.2)	0.0	295.2
Non-controlling interests	25.7	21.1	0.0	0.0	0.0	46.8
Hybrid securities	6.2	0.0	0.0	0.0	0.0	6.2
<b>Profit for the period</b>	<b>307.1</b>	<b>105.8</b>	<b>(63.5)</b>	<b>(1.2)</b>	<b>0.0</b>	<b>348.2</b>
<b>Earnings per share</b>						
Basic earnings per share	4.52					4.85
Diluted earnings per share	4.52					4.85

**Notes to *Pro Forma* Financial Information**

**Note 1. Basis of preparation**

(a) *General information*

The 2018 *pro forma* financial information is based on the assumption that the acquisition was completed on 1 January 2018.

The *pro forma* financial information is presented for illustrative purposes only. Because of its nature, the *Pro Forma* financial information addresses a hypothetical situation and, therefore, does not represent the Company's actual financial results.

The *pro forma* financial information does not reflect any costs of integration activities or the value of any integration benefits from the acquisition, including potential synergies that may be generated in future periods.

The income tax impacts of the (pre-tax) adjustments that are reflected in the *pro forma* financial information are calculated using statutory rates.

(b) *Base of the Pro Forma Financial Information*

The *pro forma* financial information assumes that the acquisition occurred on 1 January 2018, which implies 12 months of full consolidation.



The Company's historical reported consolidated financial statements as at 31 December 2018 and for the year then ended (approved by the Board of Directors on 21 March 2019) are the basis for the preparation of the *pro forma* financial information. (See column A).

These audited historical consolidated financial statements consist of three segments; among which '50Hertz Transmission (Germany)'. The segment 50Hertz Transmission (Germany) reflects to the consolidated financial information at the level of Eurogrid GmbH (see note 2d below). Eurogrid GmbH is a German holding entity which holds the investment in 50Hertz, and is, at the same time, a subsidiary of the Belgian holding entity Eurogrid International.

The acquisition took place at the level of the Belgian holding company, Eurogrid International, which is included in the segment 'Non-regulated activities (Incl. Nemo Link)' of the historical reported consolidated financial statements (see note 2c below).

The segment '50Hertz Transmission (Germany)' and the standalone Belgian holding entity Eurogrid International are jointly referred to in the *pro forma* financial information as the 'Eurogrid International financial information'. The 'Eurogrid International financial information' has been compiled from the segment reporting; a source which is included in the historical consolidated financial statements. This financial information has been used to initially recognise the Company's share of profits for equity-accounted investees up to the date of acquisition. As being part of the Company's segment information in its historical consolidated financial statements, the same accounting framework (IFRS), accounting policies and assumptions have been used whilst preparing the Eurogrid International financial information. The assumptions that the Company has used are presented in more detail in the Company's historical consolidated financial statements. Those assumptions are still considered reasonable as of the date of publication of this *pro forma* financial information. In order to enhance the comprehension of the activities and financial results of the 'Eurogrid International financial information', a summary of both Eurogrid International's and Eurogrid GmbH's 2018 financial results has been included under points (c) and (d)."

This financial information has been treated as an investment in a joint venture, using the equity method of accounting for consolidation purposes, during the pre-acquisition period and as fully consolidated subsidiaries post-acquisition. (See section 7.1 of the Company's historical consolidated financial statements as at and for the year ended 31 December 2018).

*Pro forma* adjustments (both continuing and non-continuing) reflected in the *pro forma* financial information are based on items that are factually supportable and directly attributable to the acquisition.

## **Note 2. *Pro forma* adjustments**

### **(a) Introduction**

On 22 March 2018, the Company decided to exercise its pre-emption right after the Australian infrastructure fund IFM Investors provided notice on 2 February 2018 of its intention to sell half of its 40 per cent. shareholding in Eurogrid International.

The purchase price for the acquisition of an additional 20 per cent. in Eurogrid International amounted to EUR 988,7 million, which included (i) EUR 20 million in respect of a dividend relating to the 2017 financial year and (ii) interest on the purchase price from 31 December 2017 until closing of the Transaction.

The consideration transferred matched the price and terms that a third party was willing to offer to IFM Investors in return of a 20% stake in Eurogrid International. The Company has performed various independent valuations to ensure that the consideration paid was supportable, which led to the Company exercising its pre-emption right and acquiring the 20% stake for this price.

The fair value of Eurogrid International's net assets (which includes 100 per cent. of 50Hertz Transmission (Germany)'s net assets through the holding entity Eurogrid GmbH) has been estimated within a range of EUR 2.1 billion and EUR 3.3 billion. This preliminary fair value exercise was performed with the assistance of an independent valuation expert, based on various valuation methodologies and by applying the following methods and assumptions:

- “DCF method TV RAB” or “DCF method TV perpetuity”, based on the present value of future cash flows as well as the assumed terminal value. The latter is either based on the (expected) regulatory asset base (“RAB”) or on a terminal value approach which assumed a perpetual growth rate affecting discounted cash flows.
- “DDM method TV RAB” or “DDM method TV perpetuity”, based on the present value of the dividends that the business can be expected to generate in the future, as well as the assumed terminal value. The latter is either based on the (expected) regulatory asset base (“RAB”) or on a terminal value approach which assumed a perpetual growth rate affecting discounted cash flows.

The terminal value is an important driver on all valuation methods used. The applied discount rate of 4.6 per cent. is based on the cost of equity of 7.2 per cent. and the pre-tax cost of debt of 1.5 per cent. and is in line with what financial analysts use to value the quoted peers.

The Transaction has been accounted for as a business combination achieved in different stages in conformity with IFRS 3 “Business Combinations”. Under this method, the assets acquired and liabilities assumed should be recorded based on their fair values. The determination of the fair values of the assets and liabilities started upon the completion of the Transaction. The purchase price allocation had not been finalised at the date of the audited historical consolidated financial statements as at and for the year ended 31 December 2018.

The 60 per cent. equity accounted interest has been remeasured at its fair value at acquisition date. This resulted in an upward adjustment on the equity investee's interest in an amount of EUR 9.2 million, resulting in a gain of EUR 9.2 million. Further details are to be found in section 7.1 of the Company's historical consolidated financial statements as at and for the year ended 31 December 2018. This revaluation gain has been retained in the *pro forma* financial information. The revaluation gain is based upon a EUR 892.9 million fair value for the pre-existing 60% interest, which has been derived by independently valuing 80% of the shareholding and subsequently deducting the consideration transferred (EUR 988.7 million) for acquiring the 20% shareholding in Eurogrid International. This approach was deemed to be appropriate, considering the control premium paid, which was known to be an inherent part of the consideration transferred (EUR 988.7 million). Based on these facts, the implied premium paid amounted to EUR 517.6 million.

The premium paid is supported by various drivers:

- The skills and technical expertise of 50Hertz Transmission (Germany)'s work force and the synergies expected to be achieved from further integrating the German segment in to the Group's activities,
- A control premium: obtaining control will create additional opportunities to realise synergies,
- A strategic premium: the transaction will reinforce Elia's position as a leading TSO in Europe and strengthen the Elia Group with the two affiliated TSOs in Belgium and in Germany in supporting the energy transition in Europe, and,
- From an economic point of view, as the transaction will be directly accretive to the shareholders with a premium paid over RAB which was in line with other comparable transactions, and, finally, a growth potential of the RAB in Germany which is above the evolution of the RAB of the Belgian TSO.

As result of the acquisition and obtaining an 80 per cent. shareholding in Eurogrid International, the Company benefits from the shareholders' agreement of Eurogrid International which now provides the Company with a substantial governance role for very significant matters which require the approval of more than 75 per cent. of the votes cast (such as changes to the business plan, material transactions, disposals of assets, changes to the share capital, material borrowings and important investments outside the business plan).

The fair value of the assets and liabilities assumed (EUR 1,472.9 million), minus the consideration transferred (EUR 988,7 million), minus its non-controlling interest (EUR 294.6 million), and minus the fair value of the pre-existing interests (EUR 892.9 million), has been recognised as goodwill (EUR 703.4 million).

The provisional goodwill can be supported by the same factors as those set out above.

In addition to what has been described in the historical consolidated 2018 annual accounts, the Company also performed a specific impairment test for the goodwill that was recognised as part of the acquisition in Eurogrid International as at year-end 2018. The valuation was performed by an external valuation expert and did not indicate the need for impairment. The impairment test was based on a number of different valuation methods, which are subject to different assumptions. The most important valuation methods used in this impairment test are:

- Discounting of future cash flows (DCF-models): a number of different DCF-variants have been used throughout the impairment test which, amongst each other, predominately differ in the method used to determine the terminal value;
- Discounting of future dividends;
- Market valuations, which are based upon market multiples taken from comparable companies;
- Valuations which are based upon multiples derived from recent transactions.

Future cash flows and future dividend methods are based on the business plan for the period 2019-2038. The following overall key assumptions were used:

- A tax rate of 30%;
- A perpetual growth rate of 1.5%;
- Market-risk premium of 5.5%.

Particularly referring to the above valuation methods, the following key assumptions were used:

- DCF based models:
  - Risk-free rate: 1.0%;
  - Levered beta of 0.7;
  - Cost of equity: 7.2%;
  - Cost of debt pre-tax: 1.5%;
  - WACC: 4.6%.
- Discounting of future dividends:
  - Dividends and anticipated capital increases are taken into accounting in this model;
  - Cost of equity: 7.2%.
- Market valuations:
  - Observed Enterprise Value / EBIT: 16.33;
  - Observed P/E: 12.98;
- Valuations, based upon recent transactions
  - Observed Enterprise Value / EBIT: 18.7.

As at the date of issuing this *pro forma* financial information, the Company has been able to complete the purchase price allocation. This has not resulted in any adjustments in comparison with the provisional goodwill recognised. This also did not result in remeasurements of the recognised assets and liabilities as previously reported, or, in the identification of any assets or liabilities, previously unrecognised, which would meet the criteria of IFRS 3.

(b) *Detailed Pro forma adjustments*

The following *pro forma* adjustments are included in the *pro forma* financial information:

1. *Full consolidation of the 4 month results of Eurogrid International Financial Information (continuing impact)*

The pre-transaction results of Eurogrid International financial information were included. These pre-transaction results represents the financial results of Eurogrid International financial information from 1 January 2018 up to the date of completion of the transaction. The components within the Eurogrid International financial information have also been presented under captions (c) and (d) below.

2. *Reversal of equity method accounting (non-continuing impact)*

In the historical consolidated financial statements as at 31 December 2018, an amount of EUR 63.5 million has been included as the share of profit for equity-accounted investees for the pre-acquisition period. An adjustment has been included in order to reverse the effect of the equity method accounting for the Eurogrid Financial Int. Information for the pre-acquisition period.

We also refer to note 6.4 in the historical consolidated financial statements as at 31 December 2018 for more details

3. *Adjustment of financing costs (continuing impact)*

Adjustments to the finance costs have been included in the *pro forma* financial information. As the acquisition took place in April 2018 and was partially financed by debt, the historical financial information is only affected by this higher interest cost as from the date of acquisition. As the *Pro Forma* financial information presents a hypothetical situation as if the acquisition took place as at 1 January 2018, additional financing costs have been included in order to present a 12 month financing cost in the *pro forma* financial information. This adjustment results in an additional finance cost for the 4 month period for the EUR 300 million senior bond, amounting to EUR 1.7 million (or EUR 1.2 million net of tax).

No adjustment has been made for the incurred costs for bridge loan taken out during 2018. The Company assumed that a bridge loan also would have been necessary to set up financing arrangements when this acquisition would have happened on 1 January 2018.

The remaining portion of the acquisition has been financed through Hybrid securities which have no impact on the profit or loss statement and, hence, no adjustment is included in the *pro forma* financial information.

All transaction costs related to the acquisition have not been adjusted and are included in the *pro forma* financial information, as presented above.

In summary, the financing costs adjustments relates to an additional (net of tax) cost for a 4-month's interest period. Incurred one-off finance costs have been retained in the *pro forma* financial information.

4. *Elimination of intercompany balances and transactions (continuing impact)*

Some intragroup activities, mainly related to intragroup services between EGI Germany and 50Hertz, have been eliminated.

(c) *Unaudited Financial Information for Eurogrid International for the year ended 31 December 2018*

Set forth below is the unaudited financial information of Eurogrid International for the year ended 31 December 2018. This unaudited statement of profit or loss has been prepared as follows:

- the statutory accounting year of Eurogrid International CVBA/SCRL ends on 30 June; the statement of profit or loss is prepared in accordance with the Belgian generally accounting principles (Belgian GAAP);

- the statutory statement of profit or loss for the last 6 months of the 2017/2018 accounting year (i.e. January 2018 until June 2018) were combined with the statement of profit or loss for the first 6 months of the 2018/2019 accounting year (i.e. July 2018 until December 2018), in order to show a combined statement of profit or loss for the period January 2018 until December 2018;
- the statutory statement of profit or loss of Eurogrid International, prepared under Belgian GAAP, has been converted to be in accordance with IFRS.

It is to be noted that the financial information presented under 'Full consolidation of Eurogrid International financial information' of the *pro forma* financial information cannot be derived from the financial information provided below. This is due to the following reasons:

- The information included under 'Full consolidation of Eurogrid International financial information' presents the financial results for a four month period realised during pre-acquisition, whilst the information in this section relates to 12 month period.
- The information included under 'Full consolidation of Eurogrid International financial information' relates to consolidated financial information, combining Eurogrid International and consolidated Eurogrid GmbH financial information (infra).

Investors should read this section together with the *pro forma* financial information, presented earlier and the audited historical financial statements of Eurogrid International for the year ended 30 June 2018 prepared in accordance with Belgian GAAP which were filed on 20 September 2018 with the National Bank. These audited historical financial statements are filed in the French language and can be retrieved on [www.nbb.be](http://www.nbb.be).

### **Statement of profit or loss**

	<b>Year ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(€ million)</i>	
<b>Continuing operations</b>		
Revenue	0.0	0.0
Raw materials, consumables and goods for resale	0.0	0.0
Other income	1.0	0.8
Services and other goods	(0.2)	(0.3)
Personnel expenses	(0.5)	(0.5)
Depreciations, amortizations and impairments	(0.0)	(0.0)
Changes in provisions	0.0	0.0
Other expenses	(0.5)	0.0
<b>Results from operating activities</b>	<b>(0.4)</b>	<b>0.0</b>
Share of profit of equity accounted investees (net of tax)	0.0	0.0
<b>Earnings before interests and taxes</b>	<b>(0.4)</b>	<b>0.0</b>
<b>Net finance costs</b>	<b>107.8</b>	<b>99.7</b>
Finance income	107.8	99.7
Finance costs	(0.0)	(0.0)
<b>Profit before income tax</b>	<b>107.4</b>	<b>99.7</b>
Income tax expense	(1.8)	(1.7)
<b>Profit from continuing operations</b>	<b>105.6</b>	<b>98.0</b>
<b>Profit for the period</b>	<b>105.6</b>	<b>98.0</b>

Other income, mainly relating to services rendered to other companies within the Group rose from EUR 0.8 million in 2017 to 1.0 million in 2018.

Personnel expenses (EUR 0.5 million) remained stable compared to previous year.



In the year 2018, a loss of EUR 0.5 million was incurred on the sale of Gridlab GmbH, which was a 100% affiliate of Eurogrid International. This loss was recorded under other expenses.

The finance income consists mainly of the dividend received from 100% affiliate Eurogrid GmbH, which amounted to EUR 107.8 million in 2018 compared to EUR 99.7 million in 2017. Such dividends have no effect on the *pro forma* financial information and future financial information, as these dividends are eliminated on consolidation.

The amount of income tax (EUR 1.8 million in 2018, compared to EUR 1.7 million in 2017) relates mostly to tax on the received dividend, taken into account the 95% tax exemption applicable in the relevant tax years.

The net profit after tax was up EUR 7.6 million to EUR 105.6 million in 2018.

(d) *Audited Consolidated Statement of Profit or Loss for Eurogrid GmbH for the year ended 31 December 2018*

Set forth below is the audited consolidated statement of profit or loss of Eurogrid GmbH for the year ended 31 December 2018. This audited consolidated statement of profit or loss has been prepared in accordance with IFRS.

The audited consolidated statement of profit or loss for the financial year ended 31 December 2018 includes Eurogrid GmbH, its 100% subsidiaries 50Hertz Transmission GmbH and 50Hertz Offshore GmbH and minority shareholdings in EGI Belgium NV/SA, TSCNet Services GmbH, Coreso NV/SA, Joint Allocation Office SA and European Energy Exchange AG.

It is to be noted that the financial information presented under 'Full consolidation of Eurogrid International financial information' of the *pro forma* financial information cannot be derived from the financial information provided below. This is due to the following reasons:

- The information included under 'Full consolidation of Eurogrid International financial information' presents the financial results for a four month period realised during pre-acquisition, whilst the information in this section relates to 12 month period.
- The information included under 'Full consolidation of Eurogrid International financial information' relates to consolidated financial information, combining Eurogrid International and consolidated Eurogrid GmbH financial information (infra).

**Consolidated statement of profit or loss**

In EUR million	2018	2017 (restated)
Revenue	10,205.2	9,803.3
Cost-matching income	(8,907.7)	(8,545.7)
<b>Revenue from grid business and other revenue</b>	<b>1,297.5</b>	<b>1,257.6</b>
Other income	67.4	72.3
Cost of materials and purchased services	(9,681.4)	(9,299.4)
Income-matching cost	8,907.7	8,545.7
<b>Cost of materials and purchased services, grid business</b>	<b>(773.7)</b>	<b>(753.7)</b>
Result from equity investments accounted for using the equity method	(0.3)	(0.1)
Amortization	(161.3)	(149.5)
Financial result	(45.6)	(54.3)
Income taxes	(101.9)	(85.4)
<b>Profit for the period</b>	<b>237.6</b>	<b>182.6</b>

The income and expenses were largely characterised by the non-profit settlement of EEG and additional cost allocations. Under these mechanisms, transmission system operators sell the renewable electricity fed in by upstream grid operators and directly connected producers to an electricity exchange, provided that this is not sold directly. In addition to this sales revenue, transmission system operators levy a charge for all trading and distribution companies operating in the balancing zone to cover the difference between the costs for the reimbursement of electricity generated from renewable sources and the revenue from selling

the electricity generated from renewable sources. The settlement of the EEG generated revenue of EUR 7,376.8 million (prior year: EUR 7,208.7 million), the settlement of the KWKG income of EUR 276.2 million (prior year: EUR 303.4 million) and the settlement of the cost allocation pursuant to Sec. 19 (2) StromNEV income of EUR 253.6 million (prior year: EUR 332.8 million). Income of EUR 36.0 million (prior year: EUR 0.7 million) was generated in the fiscal year from the offshore liability cost allocation for delays and interruptions when establishing grid connections. The allocation mechanism pursuant to Sec. 18 (1) AbLaV ("Verordnung zu abschaltbaren Lasten": Regulation on agreements on interruptible loads) generated income of EUR 5.4 million in the fiscal year (prior year: EUR 6.4 million).

Overall, income and expenses from the individual allocation mechanisms are recognised without affecting the profit or loss. In fiscal year 2018, the settlement volume of services rendered to third parties generated revenue of EUR 959.6 million (prior year: EUR 693.7 million), which is matched by expenses of the same amount.

In the fiscal year, a total business volume of EUR 8,907.7 million (prior year: EUR 8,545.7 million) relates to the settlement of non-profit issues.

Revenue from the grid business breaks down as follows:

In EUR million	2018	2017 (restated*)
Horizontal grid income national	215.6	194.3
Horizontal grid income international	18.2	15.9
Vertical grid income	1,047.4	1,241.4
Electricity income national	120.8	93.6
Electricity income international	0.6	0.5
Construction cost subsidies	1.0	0.8
Net result from regulatory items	(106.1)	(288.9)
<b>Revenue</b>	<b>1,297.5</b>	<b>1,257.6</b>

In fiscal year 2018, there was a net loss from regulatory items of EUR 106.1 million (prior year: net loss of EUR 288.9 million). This was mainly caused by reversals of regulatory obligations for redispatch measures and regulatory claims for Sec. 14/15 EEG compensation, incurred back in 2016 already and which were realised via grid tariffs in 2018 as well as the set-up of a material regulatory obligation of redispatch measures incurred in 2018.

Other income of EUR 67.4 million (prior year: EUR 72.3 million) primarily contained other own work capitalised.

Operating expenses contained expenses for the procurement of electricity as well as purchased services, personnel expenses, amortisation and depreciation, the change in provisions as well as other expenses. Personnel expenses amounted to EUR 108.7 million (prior year: EUR 99.4 million). This increase is primarily due to the continued growth in headcount in 2018.

Other expenses amounted to EUR 7.5 million (prior year: EUR 4.6 million). They contain losses from the sale of assets and cost allocations for laying underground cables and other taxes.

An amount of EUR 161.3 million (prior year: EUR 149.5 million) relates to amortisation and depreciation. The increase of amortisation and depreciation corresponds to the constant progress of investing activities.

The result from equity investments accounted for using the equity method relates entirely to Elia Grid International NV/SA.

The financial result amounts to a net cost of EUR 45.6 million (prior year: EUR -54.3 million). It contains finance income (EUR 2.5 million; prior year: EUR 1.9 million) and finance expenses (EUR 48.1 million; prior year: EUR -56.2 million).

Earnings before taxes amount to EUR 339.5 million (prior year: EUR 268.0 million). After deducting income taxes (EUR 101.9 million; prior year: EUR 85.4 million), the net profit amounts to EUR 237.6 million (prior year: EUR 182.6 million).

This positive result is generated by the compensation for the ongoing investment activity and the high income generated from its core business.

Investors should read this section together with the information in the 2018 consolidated financial statements of Eurogrid GmbH included further in this prospectus.

## OPERATING AND FINANCIAL REVIEW

The following discussion and analysis should be read together with:

- (i) the information in the section entitled “Selected Financial Information”; and
- (ii) the Company’s audited consolidated financial statements, including the notes to those financial statements, included by reference in this Prospectus; and
- (iii) the section related to the description of the business (see section “The Group’s business”) and the section regarding regulation and tariffs (see sections “Tariffs applicable for the tariff period 2016-2019”, “New tariff methodology applicable for the period 2020-2023” and “Tariff setting in Germany”).

Certain statements in this section are “forward-looking” statements and should be read together with the section entitled “Forward-Looking Statements”. The Company prepares its consolidated financial statements in accordance with IFRS.

See section “Risk Factors” for a discussion of important factors that could cause actual results to differ materially from the results described in the forward-looking statements contained in this Section.

Since the last financial period dated 31 December 2018, as presented here-under, no significant change has occurred, nor to the financial or trading position of the Group, nor has any material adverse change occurred in the prospects of the Group.

### Reporting entity

Established in Belgium, the Company has its registered office at Boulevard de l’Empereur 20, B-1000 Brussels.

All the entities keep their accounts in euro and have performed a closing at the same closing date as the Company.

The consolidated financial statements for the 2018 financial year include the Company and its subsidiaries.

### Fully consolidated participations

The Company has direct and indirect control of the subsidiaries listed below:

Name	Country of establishment	Headquarters	Average staff (2018)	Stake		
				2018	2017	2016
Elia Asset SA	Belgium	Bd de l’Empereur 20 1000 Brussels	826.8	99.99	% 99.99	99.99
Elia Engineering SA	Belgium	Bd de l’Empereur 20 1000 Brussels	185.8	100.00	100.00	100.00
Elia Re SA	Luxembourg	Rue de Merl 742146 Luxembourg	0.0	100.00	100.00	100.00
EGI	Belgium	Bd de l’Empereur 20, 1000 Brussels	16.5	90.00	80.00	80.00
Elia Grid International GmbH	Germany	Heidestraße 2, 10557 Berlin	21.9	90.00	80.00	80.00
Elia Grid International LLC	Qatar	Office 905, 9th Floor, Al Fardan Office Tower, Westbay – Doha	0.0	90.00	0.00	0.00
Eurogrid International CVBA/SCRL*	Belgium	Bd de l’Empereur 20, 1000 Brussels	6.1	80.00	60.00	60.00
Eurogrid GmbH*	Germany	Heidestraße 2, 10557 Berlin	5.8	80.00	60.00	60.00
50Hertz*	Germany	Heidestraße 2, 10557 Berlin	1,021.3	80.00	60.00	60.00
50Hertz Offshore*	Germany	Heidestraße 2, 10557 Berlin	0.0	80.00	60.00	60.00
E-Offshore A LLC*	U.S.	874, Walker Road, Suite C, 19904 Dover, Delaware	0.0	80.00	60.00	60.00
Atlantic Grid Investment A Inc*	U.S.	1209 Orange Street, 19801 Wilmington, Delaware	0.0	80.00	60.00	60.00

(\*) As a result of the additional 20 per cent. stake acquired in April 2018 in Eurogrid International CVBA/SCRL, the Group acquired control over the 50Hertz segment. The companies which are included in this segment are, as of that date, considered subsidiaries and its results and balance sheet are consolidated in full. Prior to the acquisition date, these entities were included in the Group’s results using the equity method.

### Joint ventures

Name	Country of establishment	Headquarters	Stake		
			2018	2017	2016
				%	
Gridlab GmbH	Germany	Mittelstraße 7, 12529 Schönefeld	0.00	60.00	60.00
Nemo Link	United Kingdom	Strand 1-3, London WC2N 5EH	50.00	50.00	50.00

On August 31, 2018, the participating interest in GridLab GmbH was sold to DNV GL Energy Advisory GmbH for a total purchase price of €200,000. GridLab is included in the German segment up to the transaction's closing date.

### Associated companies accounted for using the equity method

Name	Country of establishment	Headquarters	Stake		
			2018	2017	2016
				%	
H.G.R.T S.A.S	France	1 Terrasse Bellini 92919 La Défense Cedex	17.00	17.00	17.00
Coreso SA	Belgium	Avenue de Cortenbergh 71 1000 Brussels	22.16	20.58	21.66
Ampacimon SA	Belgium	Rue des Chasseurs Ardennais 3, 4031 Angleur	20.54	20.54	19.64
Enervalis NV	Belgium	Centrum-Zuid 1111, 3530 Houthalen-Helchteren	12.47	12.47	0.00

### Other participations

Name	Country of establishment	Headquarters	Stake		
			2018	2017	2016
				%	
JAO SA	Luxembourg	2, Rue de Bitbourg, 1273 Luxembourg Hamm	8.28	8.00	8.00
Atlantic Grid A LLC	U.S.	4445, Willard Av, Suite 1050, 20815 Chevy Chase, Maryland	7.46	5.86	6.00
European Energy Exchange AG (EEX)	Germany	Augustusplatz 9, 04109 Leipzig	4.16	4.32	5.20
TSCNET Services GmbH	Germany	Dingolfinger Strasse 3, 81673 Munich	6.16	4.62	4.62



**Consolidated income statement and consolidated statement of comprehensive income**

	Year ended December 31,			
	2018	2017 (restated)	2017	2016
	(million €)			
<b>Continuing operations</b>				
Revenue	1,822.8	808.2	828.5	800.1
Cost of sales	(41.5)	(9.6)	(9.6)	(18.8)
<b>Gross profit</b>	<b>1,781.3</b>	<b>798.6</b>	<b>818.9</b>	<b>781.3</b>
Other income	109.0	59.0	59.0	68.0
Services and other goods	(945.7)	(344.4)	(344.4)	(336.6)
Personnel expenses	(229.3)	(147.2)	(147.2)	(143.9)
Depreciation, amortization, impairment and changes in provisions	(247.9)	(130.8)	(130.8)	(130.1)
Other expenses	(30.4)	(19.6)	(19.6)	(22.1)
<b>Results from operating activities</b>	<b>437.0</b>	<b>215.5</b>	<b>235.9</b>	<b>216.6</b>
<b>Net finance costs</b>	<b>(93.3)</b>	<b>(76.5)</b>	<b>(76.5)</b>	<b>(82.8)</b>
Finance costs	21.9	5.5	5.5	7.0
Finance income	(115.2)	(81.9)	(81.9)	(89.9)
Share of profit of equity accounted investees (net income tax)	65.6	109.1	108.7	78.4
<b>Profit before income tax</b>	<b>409.3</b>	<b>248.1</b>	<b>268.2</b>	<b>212.2</b>
Income tax expense	(102.2)	(39.5)	(39.1)	(32.0)
<b>Profit from continuing operations</b>	<b>307.1</b>	<b>208.6</b>	<b>229.1</b>	<b>180.2</b>
<b>Profit for the period</b>	<b>307.1</b>	<b>208.6</b>	<b>229.1</b>	<b>180.2</b>
Profit attributable to:				
Owners of the Company	275.2	208.6	229.1	179.9
Hybrid securities	6.2	0.0	0.0	0.0
Non-controlling interest	25.7	0.0	0.0	0.3
<b>Profit for the period</b>	<b>307.1</b>	<b>208.6</b>	<b>229.1</b>	<b>180.2</b>

	Year ended December 31,			
	2018	2017 (restated)	2017	2016
		(million €)		
<b>Profit for the period</b>	307.1	208.6	229.1	180.2
<b>Other comprehensive income</b>				
Effective portion of changes in fair value of cash flow hedges, net of tax	(6.2)	6.2	6.2	5.8
Defined benefit plan actuarial gains and losses, net of tax	0.6	(11.4)	(11.4)	0.8
Equity-accounted investees: share of OCI, net of tax	0.0	1.1	1.1	(0.6)
Effective portion of changes in fair value of investments, net of tax	2.7	0.0	0.0	0.0
Subtotal: Other comprehensive income for the period, net of income tax	(2.9)	(4.1)	(4.1)	6.0
Total comprehensive income for the period	304.2	204.5	225.0	186.2
Profit attributable to:				
– Equity holders of ordinary shares	271.9	204.5	225.0	185.9
– Hybrid securities	6.2	0.0	0.0	0.0
– Non-controlling interest	26.1	0.0	0.0	0.3
Total comprehensive income for the period	304.2	204.5	225.0	186.2

### Revenue and other income

	December 31,			
Detail revenue – general	2018	2017*	2017	2016
		(million €)		
– Recognized within Elia Transmission (Belgium)				
Grid connection	42.6	42.2	42.2	40.8
Management and development of grid infrastructure	472.7	479.2	479.2	476.8
Management of the electrical system	116.2	118.5	118.5	118.1
Compensation for imbalances	189.5	170.7	170.7	146.4
Market integration	25.5	24.3	24.3	23.5
International revenue	57.8	47.3	47.3	38.9
Deviations from approved budget (settlement mechanism)	(5.9)	(92.3)	(92.3)	(81.0)
– Recognized within 50Hertz				
Vertical grid revenues	684.0	0.0	0.0	0.0
Horizontal grid revenues	151.5	0.0	0.0	0.0
Ancillary services revenues	93.9	0.0	0.0	0.0
Deviations from approved budget (settlement mechanism)	(16.1)	0.0	0.0	0.0
– Others				
Transfers of assets from customers	2.6	1.7	22.1	15.1
Other revenue	8.5	16.4	16.5	21.5
Total revenue	1,822.8	808.2	828.5	800.1

\*

Detail other income	Year ended December 31,			
	2018	2017 (restated)	2017	2016
		(million €)		
Services and technical expertise	1.6	(0.3)	(0.0)	5.7
Own production	53.9	25.5	25.5	19.2
Optimal use of assets	16.3	14.3	14.3	14.4
Other	36.8	18.5	18.2	28.5
Gain on sale PPE	0.5	1.0	1.0	0.2
<b>Total other income</b>	<b>109.1</b>	<b>59.0</b>	<b>59.0</b>	<b>68.0</b>

#### 2017 compared to 2016

The Group only acquired control over 50Hertz in the course of financial year 2018. During 2016 and 2017, the Group's existing participation was therefore accounted for using the equity method, so that 50Hertz did not contribute in the Group's consolidated revenues.

The Group's total revenues and total other income increased from €868.1 million to €887.5 million, which represents a 2.2 per cent. increase. This increase can be explained as follows:

**Grid connection** revenues increased slightly to €42.2 million (up 3.3 per cent.) as a result of a tariff increase as well as an increase in the number of connected assets.

Revenues from **management and development of grid infrastructure** (up 0.5 per cent.) and **management of the electrical system** (up 0.4 per cent.) remained fairly stable.

Services rendered in the context of energy management (including black start) and individual balancing of balancing groups are paid as part of the **revenues from compensation for imbalances**. These revenues increased by 16.6 per cent. to €170.7 million, largely due to the tariff increase for energy management (up €13.7 million) and because of higher revenues from compensation for imbalances as a result of higher congestion (up €10.8 million).

Finally, the last section of the tariff revenues encompasses the services that Elia Transmission provides within the context of **market integration**, which increased slightly (up 3.3 per cent.) to €24.3 million.

**International revenue** increased by €8.4 million (up 21.4 per cent.), due to the higher congestion on the borders in early 2017 resulting from a lack of production in France and lower generation levels in Belgium at the year-end.

The **settlement mechanism** (€92.3 million) encompasses the deviation in the current year from the budget approved by CREG. The operating surplus, in relation to the budget of the costs and revenues authorized by the regulator, must be returned to consumers and therefore does not form part of the revenues. The operational surplus compared with the budget is primarily a result of the higher tariff sales (€13.0 million), increased cross-border revenues (€4.6 million), lower costs for ancillary services (€50.9 million) and lower financial charges (€19.6 million). This was partly offset by a higher-than-budget regulated net profit (€9.2 million) and the usage of a deferred tax asset for used notional interest deduction (€11.8 million).

**Transfers of assets from customers** relates to contributions received from customers who decided to participate in certain capital expenditure or in the cost of grid connections.

**Other revenues** and **other income** decreased by €5.0 million, respectively €9.0 million. The most substantial decrease was mainly driven by EGI revenues, which decreased from €19.7 million to €9.7 million, as fewer owner's engineering services were provided in 2017 than the previous year.

#### 2017, as initially reported, compared to 2017 restated

The 2017 Group's consolidated revenues have been restated in order to reflect the changes imposed by IFRS 15. Under IFRIC 18, customer contributions were recognized in full as revenue, whereas, under IFRS 15, cash considerations should be presented as deferred revenue and are to

be recognized in revenue over the lifetime of the underlying asset. This has had an effect of €20.4 million on the 2017 revenues, as initially reported.

#### *2018 compared to 2017, restated*

The grid revenues in **Elia Transmission (Belgium)** have seen the following fluctuations:

**Grid connection revenues** increased slightly to €42.6 million (up 0.9 per cent.) mainly due to higher revenues from connection studies.

Revenues from **management and development of grid infrastructure** (down 1.4 per cent.) and **management of the electrical system** (down 1.9 per cent.) decreased slightly, mainly due to lower tariffs.

Services rendered in the context of energy management and individual balancing of balancing groups are paid within the revenues from **compensation for imbalances**. These revenues increased by €18.8 million to €189.5 million, largely due to the tariff increase for management of power reserves and black-start based on off-take (up €15.0 million), a volume decrease for management of power reserves and black-start based on injection (down €11.8 million) and higher revenues from compensation of imbalances (up €15.6 million). The increase in imbalance revenues resulted from the fact that imbalance prices were generally higher in 2018, especially in March due to an unexpected cold snap, and high imbalance price peaks occurred in the second half of 2018.

Finally, the last section of the tariff revenues encompasses the services provided by Elia Transmission (Belgium) within the context of **market integration**; this item increased by 4.9 per cent. to €25.5 million, mainly driven by a tariff rise.

**International revenue** increased by €10.5 million (up 22.1 per cent.) due to higher congestion income on the southern border as a result of improved nuclear availability in France combined with low nuclear availability in Belgium throughout 2018.

The **settlement mechanism** amounts to €5.9 million. The Belgian operating surplus compared to the budget is primarily a result of higher tariff sales (€5.1 million), increased cross-border revenues (€15.7 million), lower costs for ancillary services (€24.6 million) and lower financial charges (€28.8 million). This was partly offset by a higher regulated net profit (€7.3 million) and higher taxes compared to the budget (€18.6 million).

The overall growth in revenues in comparison with 2017 is due to the acquisition of the additional 20 per cent. in **50Hertz**. As from the date of acquisition, the Group acquired control and, hence, revenues of 50Hertz are consolidated within the Group. This includes the following revenues:

**Vertical grid revenues** (tariffs to end customers) declined by €194.1 million (down 15.6 per cent.) from €1,241.4 million in 2017 to €1,047.3 million in 2018. This is primarily driven by the decrease in the total allowed revenues under the regulatory framework. Compensation for non-controllable energy costs shrank by €272.6 million, mainly as a result of the settlement of previous years. In 2017, a tariff deficit was recovered (caused by high energy costs in 2015), while in 2018 a tariff surplus was paid back to the customers (caused by low energy costs in 2016). Furthermore, regulatory remuneration generated from the asset base increased as a consequence of the onshore and offshore investments made (up €11.9 million). Finally, the revenues were positively impacted by higher third-party offshore costs passed on to customers (up €40.9 million).

**Horizontal grid revenues** (tariffs to other TSOs) increased by €23.6 million (up 11.2 per cent.) from €210.2 million in 2017 to €233.8 million in 2018, out of which €151.5 million relates to revenues post acquisition. This is mainly explained by a higher allowance for offshore costs (up €21.2 million). In Germany, all offshore connection costs are shared across the four German transmission system operators. This means that 50Hertz bears around 20 per cent. of these costs and passes on 80 per cent. of its own connection costs to the other three TSOs. Due to rising offshore investments, which in 2018 pertained mainly to the offshore grid connection for Ostwind 1 and Ostwind 2, the cost recovery charged horizontally to the other TSOs rose and thus impacted horizontal revenues.

Ancillary services revenues increased by €27.5 million (up 29.3 per cent.) from €94.0 million in 2017 to €121.5 million in 2018, out of which €93.9 million relates to revenues post acquisition. The increase is due to a new cost-sharing agreement between the German TSOs where more redispatch costs can be charged to other TSOs. Thus, redispatch revenues increased (up

€10.2 million), even though total redispatch requirements were reduced by the expansion of the grid (Southwest Coupling line) plus efficient management. Furthermore, the new cost-sharing mechanism for reserve power plants generated revenues for the first time in 2018 (up €13.7 million).

The **settlement mechanism** amounts to €16.1 million. The settlement mechanism in Germany is to a large extent affected by the settlement over 2018, which is strongly driven by the fact that actual redispatch costs were far below this year's revenue cap allowance.

The group also realized the following revenues:

**Transfers of assets from customers** was in line with 2017 and amounted to 2.6 million. Any contributions received from customers are recognized over the lifetime of the relevant asset.

**Other revenues** and **other income** amounted to €8.5 million, respectively €109.1 million in 2018. Those revenues were at €16.5 million, respectively €59.0 million in 2017. The important increase in other income is mainly due to the acquisition in 50Hertz, which contributed for €45.4 million in the Group's other income for 2018.

### **Operating expenses**

#### **Cost of materials, services and other goods**

	December 31,			
	2018	2017 (restated)	2017	2016
	(million €)			
Raw materials, consumables and goods for resale	41.5	9.6	9.6	18.8
Purchase of ancillary services	500.2	140.2	140.2	133.2
Services and other goods (excl. purchase of ancillary services)	445.5	204.2	204.2	203.5
<b>Total</b>	<b>987.2</b>	<b>354.0</b>	<b>354.0</b>	<b>355.4</b>

#### *2017 compared to 2016*

The decrease in raw materials, consumables and goods for resale is primarily driven by EGI GmbH. In 2016, substantial costs were incurred by a number of projects where key milestones were reached.

Purchase of ancillary services includes the costs for services which enable the Group to balance generation with demand, to maintain constant voltage levels and to manage congestion on its grids. The cost incurred in 2017 mainly increased because of the number of activations needed to guarantee a balanced grid. These were mainly a result of the colder winter period in 2017, leading to higher levels of electricity consumption, as well as of increased electricity generation by wind energy, which had an effect on overall production.

Services and other goods are related to maintenance of the grid, services provided by third parties, insurance and consultancy, among others.

#### *2018 compared to 2017*

Raw materials, consumables and goods for resale were relatively low at the end of financial year 2017 and related to EGI for an amount of €4.3 million. EGI's material costs further decreased to €0.5 million, mainly due to a drop in realized EPC contracts. In 2018, 50Hertz has also contributed to these costs in the amount of €35.4 million. Raw material costs for the German segment remained more or less in line with financial year 2017, when the cost base was €56.8 million.

The costs for Purchase of ancillary services incurred in 2018 by Elia Transmission (Belgium) increased to €199.2 million (from €140.2 million in 2017) because of the unexpected unavailability of some nuclear units in the last quarter of 2018, which caused very high reservation prices on the market. 50Hertz incurred costs of €296.6 million, corresponding to all costs incurred from the date of acquisition to the end of 2018.



The increase in Services and other goods is mainly driven by 50Hertz's contribution in the year for an amount of €222.4 million.

## Personnel expenses

	Year ended December 31,			
	2018	2017 (restated)	2017	2016
	<i>(million €)</i>			
Salaries and wages	159.5	101.6	101.6	94.2
Social security contributions	36.1	26.2	26.2	25.1
Pension costs	17	7.2	7.2	12.7
Other personnel expenses	4.8	9.9	9.9	7.9
Share-based payment	1.1	0.1	0.1	1.0
Employee benefits (excl. pensions)	10.8	2.2	2.2	3.0
<b>Total</b>	<b>229.3</b>	<b>147.2</b>	<b>147.2</b>	<b>143.9</b>

### 2017 compared to 2016

Personnel expenses rose by 2.3 per cent., which is mainly driven by the Group's FTEs. The Group had 1,333.2 FTEs on December 31, 2017 as opposed to 1,268.5 FTEs at the end of 2016.

### 2018 compared to 2017

The 2018 personnel expenses for the Belgian segment and activities regulated outside of Belgium or non-regulated activities amounted to €157.7 million (up from €147.2 million the previous year) due to a higher number of FTEs (1,390.6 FTEs) than in 2017 (1,332.2 FTEs). 50Hertz accounted for €71.6 million of the Group's personnel expenses for 2018.

## Depreciation, amortization, impairment and changes in provisions

	Year ended December 31,			
	2018	2017 (restated)	2017	2016
	<i>(million €)</i>			
Depreciation of intangible assets	16.5	8.0	8.0	8.5
Depreciation of property, plant and equipment	233.1	123.4	123.4	115.9
<b>Total of depreciation</b>	<b>249.6</b>	<b>131.3</b>	<b>131.3</b>	<b>124.4</b>
Impairment of inventories and trade receivables	2.8	(0.3)	(0.3)	0.3
<b>Total of impairment</b>	<b>2.8</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>0.3</b>
Other provisions	(3.1)	1.3	1.3	2.9
Environmental provisions	(1.3)	(1.6)	(1.6)	2.4
<b>Total of provisions</b>	<b>(4.4)</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>5.3</b>
<b>Total</b>	<b>247.9</b>	<b>130.8</b>	<b>130.8</b>	<b>130.1</b>

### 2017 compared to 2016

Depreciations increased by €6.9 million due to a rise in the acquisition value of tangible and intangible assets.

The effect of impairment on inventories and trade receivables remained insignificant in both financial year 2016 and 2017.

The effect of provisions on the Group's profit or loss statement was relatively insignificant in 2017. The 2016 profit and loss impact from provisions was slightly higher, which was largely affected by increased provisions for environmental matters, as well as, for Elia RE, i.e. the Group's captive reinsurance company.

#### *2018 compared to 2017*

Depreciations increased by €118.2 million, out of which €109.5 million relates to 50Hertz. The remaining €8.7 million is due to an intensive capital expenditure program being rolled out in Belgium.

The impairment of inventories and trade receivables is mainly due to the effect of the credit loss model, which resulted in an expense of €2.3 million for the year 2018.

The effect of provisions remained reasonably limited in financial year 2018. Out of the €4.4 million, €2.8 million related to 50Hertz.

#### **Other expenses**

	Year ended December 31,			
	2018	2017 (restated)	2017	2016
		(million €)		
Taxes other than income tax	13.9	11.9	11.9	12.9
Loss on disposal/sale of property, plant and equipment	13.5	7.5	7.5	9.1
Impairment on receivables	0.4	0.0	0.0	0.2
Other	2.6	0.3	0.3	0.0
<b>Total</b>	<b>30.4</b>	<b>19.6</b>	<b>19.6</b>	<b>22.1</b>

#### *2017 compared to 2016*

Other expenses fell by €2.5 million in 2017 compared to 2016. This is mainly driven by lower real estate taxes incurred as well as lower losses incurred on disposal on property, plant and equipment.

#### *2018 compared to 2017*

The €10.8 million increase in other expenses is mainly due to 50Hertz, which contributed for €6.6 million. The most important increase was to be noted on losses on disposal. Those losses rose to €11.2 million for Elia Transmission (Belgium). The loss on disposal amounted to €2.2 million for 50Hertz.

## Net finance costs

	Year ended December 31,			
	2018	2017 (restated)	2017	2016
	(million €)			
<b>Finance income</b>	21.9	5.5	5.5	7.0
Interest income on investments, bank deposits, cash and cash equivalents	7.1	3.6	3.6	1.6
Other financial income	14.8	1.9	1.9	5.4
<b>Finance expenses</b>	(115.2)	(81.9)	(81.9)	(89.9)
Interest expense on eurobonds and other bank borrowings	(95.8)	(68.1)	(68.1)	(76.4)
Interest expense on derivatives	(4.4)	(9.3)	(9.3)	(9.2)
Other financial costs	(15.0)	(4.5)	(4.5)	(4.3)
<b>Net finance expense recognized in income statement</b>	(93.2)	(76.5)	(76.5)	(82.8)

### 2017 compared to 2016

The 2017 interest income on investments, cash and cash equivalents and granted loans involves €3.6 million in interest relating to a loan agreement between Elia System Operator and Nemo Link. Those interests have increased due to additional funding paid during financial year 2017.

The interest expenses on eurobonds and other bank borrowings decreased as a result of lower market interest rates. In 2016, a €500.0 million eurobond was repaid, which was subject to higher historical interest rates, with a €250.0 million eurobond being issued in March 2017.

### 2018 compared to 2017

Finance income increased from €5.5 million in 2017 to €21.9 million in 2018. 50Hertz's contribution to finance income amounted to €2.2 million for 2018. Interest income includes €6.3 million of interest from the loan agreement between Elia System Operator and Nemo Link. Other financial income also includes a €9.2 million remeasurement gain to fair value of the Group's initial 60 per cent. shareholding in Eurogrid International.

The interest expenses on eurobonds and other bank borrowings increased, due to a number of factors. Elia Transmission (Belgium) incurred a net €67.6 million interest expense on borrowings in the year, which is comparable with the previous year. The slightly increased interest paid on borrowings is mainly due to an increased nominal amount of outstanding debt, which was driven by the €300 million senior bond issued in September 2018, the €100 million EIB loan and the €210 million dedicated loan taken out in December 2018. This slight increase is, however, completely offset by a higher level of capitalized borrowing costs in the year, at €9.0 million (2017: €8.3 million), the rise in capitalized borrowing costs being due to the roll-out of a number of larger projects. 50Hertz's share of interest expenses on borrowings amounted to €28.2 million.

The interest expense on derivatives decreased significantly due to a number of interest-rate swaps which ended in financial year 2017 and were partially replaced in 2018 with interest-rate swaps at low market interest rates.

Other financial costs have increased due to a number of one-off financial costs that arose in connection with the acquisition of the 20 per cent. stake in 50Hertz.

## Income taxes

	Year ended December 31,			
	2018	2017 (restated)	2017	2016
	(million €)			
Income tax expenses	82.6	28.5	28.5	15.4
Adjustments prior years	23.2	0.7	0.7	(2.9)
<b>Total income tax expenses</b>	<b>105.9</b>	<b>29.2</b>	<b>29.2</b>	<b>12.5</b>
Origination and settlement of temporary differences	(3.7)	10.4	9.9	19.4
<b>Total deferred tax</b>	<b>(3.7)</b>	<b>10.4</b>	<b>9.9</b>	<b>19.4</b>
<b>Total income tax recognized in income statement</b>	<b>102.2</b>	<b>39.6</b>	<b>39.1</b>	<b>32.0</b>

### 2017 compared to 2016

The current income tax expenses increased in 2017 compared with 2016. The main reasons for this were the higher profits realized in 2017 than in the financial year 2016 and the effect of the “notional interest deduction”. The latter was not only impacted by a decreased Notional Interest Deduction percentage in the course of the year (from 1.13 per cent. in the financial year 2016 to 0.24 per cent. in the financial year 2017) but also the utilization of all the outstanding notional interest carried forward in 2017.

The lower deferred tax charge is mainly a result of the Belgian tax reform, which gave a €12.4 million positive effect on profit and loss.

### 2017, as initially reported, compared to 2017 restated

A €0.5 million negative effect on deferred taxes can be observed, which resulted from the IFRS 15 restatement. This €0.5 million adjustment is meant to neutralize the deferred taxation effects that the previous revenue recognition standard had generated. This adjustment incorporates two elements, i. e. a €6.9 million element which relates to temporary differences created in the year under the old revenue standard, as well as a positive effect which resulted from the 2017 tax reform where all cumulated temporary differences were to be revalued to the lower enacted tax rates.

### 2018 compared to 2017

Total income tax expenses increased by €62.6 million in comparison with 2017. The full consolidation of 50Hertz in the last eight months of 2018 resulted in a €57.8 million increase in total income tax. The remaining increase in tax expenses is driven, among other factors, by a limitation of the effects of the Notional Interest Deduction (NID) in 2018. This still had a substantial positive tax effect in 2017

## Profit

Although the Group draws up its consolidated results according to IFRS standards, the major part of its profit is determined by the regulatory frameworks in which the Group operates.

	Year ended December 31,			
	2018	2017 (restated)	2017	2016
	(million €)			
<b>Net profit</b>	<b>307.1</b>	<b>208.6</b>	<b>229.1</b>	<b>180.2</b>
Net profit contribution Elia Transmission (Belgium)	114.9	103.0	121.0	104.8
Net profit contribution 50Hertz	237.9	182.7	180.2	125.6
Activities regulated outside of Belgium or non-regulated activities (incl. Nemo Link)	(3.5)	(4.9)	0.0	0.0
Consolidation entries and intersegment transactions	(42.2)	(72.2)	(72.1)	(50.2)

### 2017 compared to 2016

The net profit for **Elia Transmission (Belgium)** increased by 15.8 per cent. to €121.0 million, mainly due to the following items:

- increase in the fair remuneration (up €5.0 million): The higher average OLO compared to 2016 (up 0.25 per cent.) and the increase in equity due to reservation of part of the 2016 result (€40.1 million) led to a fair remuneration of €41.1 million;
- decrease in the incentives realized (down €5.2 million): Good operational performance, primarily involving the incentives linked to innovation (up €0.5 million) and the discretionary incentive (up €0.4 million), was offset by a higher average tax rate (down €1.8 million), lower performance on the incentive linked to import capacity (down €2.3 million) following a change in the regulatory reference for 2017, and lower efficiency (down €2.0 million);
- a higher mark-up for strategic investments (up €9.5 million);
- higher customer contributions for specific investments (up €4.5 million);
- no major damage to electrical facilities compared with 2016 (up €1.0 million);
- IAS 19-related changes (down €2.7 million);
- a lower result on equity-accounted investments (which does not include the participation in 50Hertz Transmission Germany) than 2016 (down €2.5 million); and
- others (down 0.9 million): a lower EGI result (down €1.5 million), a lower regulatory settlement for the previous year (down €1.7 million), higher activation of software costs (up €1.5 million) and the capitalization of issuance costs linked to the Eurobond (up €0.7 million).
- following the approval of the legislation implementing the corporate income tax reform in late December 2017, the deferred tax assets and liabilities have been reassessed according to the new future tax rates that apply to the period when the asset will be realised or the liability will be settled, leading to a non-recurrent result of €12.4 million (up €7.7 million)

The net profit of 50Hertz increased by 43.5 per cent. to €180.2 million as a result of:

- a growing asset base driven by the ongoing investment program, leading to a higher onshore (up €17.4 million) and offshore (up €21.3 million) remuneration;
- lower OPEX and other costs (up €72.4 million);
- increased depreciation (down €11.5 million) driven by commissioning of investments;
- reduced net finance costs (up €2.3 million), with the full-year effect of the €750-million debt capital market transaction concluded in April 2016 offset by lower interest on provisions;
- increased income-tax expense (down €35.6 million).



- lower non-recurring items compared to previous year (down €11.7 million)

The effect of the **consolidation entries and intersegment transactions** on net result mainly results from the adjustment for equity accounting for 50Hertz, where only 60 per cent. of the segment's profit is recognized.

*2017, as initially reported, compared to 2017 restated*

The €20.5 million overall difference between 2017 net profit, as initially reported, and 2017 net profit, restated, is the result of:

- a €20.4 million restatement on revenues at the level of Elia Transmission (Belgium) resulting from the implementation of IFRS 15. Further details are given supra in this document;
- a negative €0.4 million effect on the net result of 50Hertz, which also resulted from the implementation of IFRS 15; and
- a €0.5 million restatement on taxes at the level of Elia Transmission (Belgium) resulting from the implementation of IFRS 15. Further details are given supra in this document.

*2018 compared to 2017*

The net profit for **Elia Transmission (Belgium)** increased by 11.5 per cent. to €114.9 million, mainly due to the following factors:

- increase in the fair remuneration (up €2.9 million): The higher average OLO compared to 2017 (up 0.07 per cent.) and the increase in equity due to the reservation of part of the 2017 result (€45 million) led to a fair remuneration of €44.0 million.
- decrease in the incentives realized (down €1.8 million): strong operational performance, primarily on the incentive linked to import capacity (up €3.4 million), welfare (up €1.1 million) and continuity of supply (up €0.6 million), was offset by lower performance on the influenceable incentive (down €2.1 million), lower incentive on timely completion of the investment program as no project was due to go into operation in 2018 (down €1.0 million) and lower efficiency (down €1.7 million). In addition, the higher average tax rate negatively impacted the net contribution from incentives (down €2.2 million).
- higher mark-up for strategic investments (up €11.1 million) accounted for €42.2 million.
- no major damage to electrical installations compared to 2017 (up €2.5 million).
- regulatory settlement for the previous year (up €1.7 million).
- others (up €0.2 million): mainly a higher bad debt allowance for trade receivables with the adoption of IFRS 9 and deferred tax effects.

The net profit of 50Hertz increased to €237.9 million, as a result of the following:

- growing asset base leading to higher investment remuneration (up €31.5 million);
- lower Offshore OPEX remuneration (down €57.4 million);
- lower Base Year revenues (down €3.3 million);
- lower OPEX and other costs (up €2.4 million);
- release of provision (up €72.1 million);
- increased depreciation (down €11.8 million) driven by commissioning of investments;
- reduced net finance costs (up €7.4 million), mainly due to a reduction of interest on tax risk (up €3.8 million) and lower interest on the legal claim easement provision after the release (up €2.6 million); and
- increased income tax expense (down €7.2 million).

The Group has decided to revise its segment structure from the structure in place last year. Due to the increased stake in 50Hertz, the Group's internal reporting process has been reviewed, which ultimately resulted in amended segment reporting. The Group believes that this change results in a segment structure that more closely reflects the Group's operational activities and current internal reporting. The segment **Activities regulated outside of Belgium or non-regulated activities**

(incl. Nemo Link) was introduced in 2018, but with comparative figures for 2017. The 2018 net loss amounted to €3.5 million in comparison with €4.9 million in 2017 as a result of:

- lower result for EGI (down €0.5 million) due to write-offs of deferred tax assets recognized on the results of previous years;
- financing costs linked to the acquisition of Eurogrid International (down €3.5 million), mainly consisting of financing expenses related to the bridge financing, the senior bond and the rating of the bond;
- higher result for Nemo Link (up €1.1 million); and
- the effect resulting from the Eurogrid International acquisition, as the remeasurement to fair value of the Group's initial stake in Eurogrid International (up €9.2 million) was partially offset by acquisition-related expenses and non-recurring financing and hedging costs (down €4.9 million).

The effect of the **consolidation entries and intersegment transactions** on net result mainly results from the adjustment for equity accounting for 50Hertz. The €42.2 million relates to the adjustment up to the date of acquisition to reverse out 40 per cent. of 50Hertz's profits, as only a 60 per cent. stake was held.

## Consolidated balance sheet

	As at December 31,			
	2018	2017 (restated)	2017	2016
	(million €)			
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>	<b>11,362.8</b>	<b>6,079.1</b>	<b>6,093.3</b>	<b>5,653.9</b>
Property, plant and equipment	8,456.2	3,202.4	3,202.4	2,956.5
Intangible assets and goodwill	2,502.3	1,738.6	1,738.6	1,735.8
Trade and other receivables	177.0	147.8	147.8	63.0
Equity-accounted investees	135.4	928.6	942.7	832.4
Other financial assets (including derivatives)	86.9	60.9	60.9	65.4
Deferred tax assets	5.0	1.0	1.0	0.8
<b>CURRENT ASSETS</b>	<b>2,391.5</b>	<b>503.2</b>	<b>503.2</b>	<b>587.7</b>
Inventories	19.2	13.6	13.6	22.6
Trade and other receivables	558.9	281.1	281.1	379.6
Current tax assets	3.6	3.8	3.8	2.8
Cash and cash equivalents	1,789.3	195.2	195.2	176.6
Deferred charges and accrued revenues	20.6	9.6	9.5	6.1
<b>Total assets</b>	<b>13,754.3</b>	<b>6,582.3</b>	<b>6,596.5</b>	<b>6,241.6</b>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>	<b>3,748.9</b>	<b>2,564.4</b>	<b>2,641.8</b>	<b>2,512.6</b>
<b>Equity attributable to owners of the Company</b>	<b>3,447.5</b>	<b>2,563.3</b>	<b>2,640.7</b>	<b>2,511.4</b>
<b>Equity attributable to ordinary shares</b>	<b>2,741.3</b>	<b>2,563.3</b>	<b>2,640.7</b>	<b>2,511.4</b>
Share capital	1,521.5	1,517.6	1,517.6	1,517.2
Share premium	14.3	11.9	11.9	11.8
Reserves	173.0	173.0	173.0	173.0
Hedging reserve	(6.2)	0.0	0.0	(6.2)
Retained earnings	1,038.7	860.8	938.2	815.6
Hybrid securities	706.2	0.0	0.0	0.0
Non-controlling interest	301.4	1.1	1.1	1.2
<b>NON-CURRENT LIABILITIES</b>	<b>6,289.0</b>	<b>3,047.9</b>	<b>2,984.5</b>	<b>2,728.0</b>
Loans and borrowings	5,773.8	2,834.7	2,834.7	2,586.4
Employee benefits	104.0	84.3	84.3	75.1
Derivatives	2.9	0.0	0.0	9.4
Provisions	96.9	20.8	20.8	23.3
Deferred tax liabilities	95.2	19.5	40.9	28.7
Other liabilities	216.2	88.5	3.8	5.1
<b>CURRENT LIABILITIES</b>	<b>3,716.4</b>	<b>970.0</b>	<b>970.2</b>	<b>1,001.0</b>
Loans and borrowings	621.1	49.5	49.5	147.5
Provisions	16.5	4.5	4.5	2.4
Trade and other payables	1,989.1	378.5	378.5	390.8
Current tax liabilities	93.1	2.9	2.9	0.5
Accruals and deferred income	996.6	534.6	534.6	459.8
<b>Total equity and liabilities</b>	<b>13,754.3</b>	<b>6,582.3</b>	<b>6,596.5</b>	<b>6,241.6</b>

## Property, plant and equipment

As at December 31,				
	2018	2017 (restated)	2017	2016
	(million €)			
Land and buildings	391.3	181.2	181.2	177.0
Machinery and equipment	6,328.3	2,579.3	2,579.3	2,290.5
Furniture and vehicles	114.1	36.7	36.7	36.5
Other tangible assets	2.9	3.2	3.2	3.5
Assets under construction	1,619.7	401.9	401.9	448.9
<b>Total property, plant and equipment</b>	<b>8,456.2</b>	<b>3,202.4</b>	<b>3,202.4</b>	<b>2,956.5</b>

### 2017 compared to 2016

The capital expenditure of €377.3 million in 2017 is mainly related to upgrading high-voltage substations and the installation of high-voltage cables.

### 2018 compared to 2017 restated

The overall increase in property, plant and equipment was mainly due to capital expenditures of €1,030.1 million in 2018. Those relate predominantly to major interconnection projects, upgrading high-voltage lines, offshore investments. In addition, the effect of the 50Hertz-acquisition resulted in an overall increase of property, plant and equipment of €4,493.4 million.

## Intangible assets

As at December 31,				
	2018	2017 (restated)	2017	2016
	(million €)			
Goodwill	2,411.2	1,707.8	1,707.8	1,707.8
Software	91.1	30.8	30.8	28.0
<b>Total intangible assets</b>	<b>2,502.3</b>	<b>1,738.6</b>	<b>1,738.6</b>	<b>1,735.8</b>

## Goodwill

The goodwill arose due to the following transactions:

As at December 31,				
	2018	2017 (restated)	2017	2016
	(million €)			
Acquisition of participation in Elia Asset by the Company – 2002	1,700.1	1,700.1	1,700.1	1,700.1
Acquisition of participation in Elia Engineering by Elia Asset – 2004	7.7	7.7	7.7	7.7
Acquisition of participation in Eurogrid International by the Company – 2018	703.4	0.0	0.0	0.0
<b>Total</b>	<b>2,411.2</b>	<b>1,707.8</b>	<b>1,707.8</b>	<b>1,707.8</b>

#### *2017 compared to 2016*

No changes occurred on goodwill from 2016 to 2017.

Similarly as in 2018, an impairment test was conducted by an independent expert and was based on the following valuation methods:

- (a) Discounting of future cash flows.
- (b) Discounting of future dividends.
- (c) Comparison between previously mentioned impairment methods and those used by various comparable companies.
- (d) Market valuation based on Elia's share price.

The future cash flows and future dividend methods are based on the business plan for the period 2018-2027. The key assumptions used for this valuation are:

- tax rate of 29.58 per cent. for the years 2018-2019, and a tax rate of 25 per cent. thereafter;
- unlevered beta of 0.53;
- market-risk premium of 4.5 per cent.; and
- perpetual growth rate of 0.78 per cent.

The independent analyses did not result in accounting an impairment loss on goodwill in 2017.

#### *2018 compared to 2017 restated*

##### *Acquisition of Eurogrid International*

In April 2018, the acquisition of an extra 20 per cent. stake in Eurogrid International by the Company for €988.7 million resulted in a positive consolidation difference of €703.4 million. This positive consolidation difference was the result of the difference between consideration paid and the fair value of the identifiable assets.

##### *Acquisition of Elia Asset and Elia Engineering*

The goodwill generated by the acquisition of Elia Asset SA by the Company in 2002 and the goodwill generated by the acquisition of Elia Engineering SA in 2004 were determined to be part of the cash-generating unit for the impairment test, since the income and expenses were generated by one regulated activity.

On these goodwill balances, an impairment test was conducted by an independent expert and was based on four valuation methods:

- (a) Discounting of future cash flows.
- (b) Discounting of future dividends.
- (c) Market valuations, which are based upon market multiples taken from comparable companies.
- (d) Valuations which are based upon multiples derived from recent transactions.

The future cash flows and future dividend methods are based on the business plan for the period 2019-2028. The following overall key assumptions were used:

- tax rate of 25 per cent. as from 2020;
- perpetual growth rate of 1.5 per cent.; and
- market-risk premium of 5.5 per cent.

The independent analyses did not result in accounting an impairment loss on goodwill in 2018.

#### **Software**

Software comprises both IT applications developed by the Company for operating the network and software for the Group's normal business operations.

#### *2017 compared to 2016*

Internally developed software increased with €2.8 million in 2017.



#### *2018 compared to 2017 restated*

The increase for internally developed software was €7.7 million in 2018. The acquisition in 50Hertz contributed in an increase for €30.8 million.

#### **Non-current trade and other receivables**

	As at December 31,			
	2018	2017 (restated)	2017	2016
		(million €)		
Loans to third parties	2.6	0.0	0.0	0.0
Loans to joint ventures	174.4	147.8	147.8	63.0
<b>Total</b>	<b>177.0</b>	<b>147.8</b>	<b>147.8</b>	<b>63.0</b>

#### *2017 compared to 2016*

The fluctuation in 2017 is due to the additional loans to Nemo Link (€84.8 million).

#### *2018 compared to 2017 restated*

Loans to third parties consists of a receivable outstanding to a third party for an amount of €2.6 million. This receivable was granted for the financing of a joint project.

Loans to joint ventures consist of an unsecured loan instrument with Nemo Link. This company is financed by both shareholders through equity and loans. In 2018, additional financing of €26.6 million was granted.

#### **Equity-accounted investees**

	As at December 31,			
	2018	2017 (restated)	2017	2016
	(million €)			
At January 1	928.6	817.9	832.4	793.4
Increase in shareholding in the year	24.0	58.4	58.4	25.8
Decrease in shareholding in the year	(890.2)	(0.1)	(0.1)	(0.6)
Dividend/capital reductions received	(1.9)	(56.7)	(56.7)	(64.5)
Share of (loss)/profit	74.9	109.1	108.7	78.4
<b>Total</b>	<b>135.4</b>	<b>928.6</b>	<b>942.7</b>	<b>832.4</b>

#### *2017 compared to 2016*

The increase in participations is mainly due to the €56.4 million funding for NemoLink Ltd.

The dividend received from Eurogrid International remained stable in 2017 (€55.9 million compared to €55.6 in 2016). In 2016, a capital reduction from Eurogrid International for an amount of €7.2 million was received.

The increase in Share of (loss)/profit from equity-accounted investees was mainly due to the results of Eurogrid International and its affiliates (up from €75.4 million in 2016 to €108.1 million in 2017).

#### *2017 restated compared to 2017*

As a result of a change in accounting policy (application of IFRS 15, applicable as of January 1, 2018), figures for 2017 have been restated. This had an impact of the figures of 50Hertz, both on

opening balance and on result of the year. 50Hertz was accounted for using the equity method consolidation in 2017.

#### *2018 compared to 2017 restated*

The 2018 increase in participations is mainly due to the €23.8 million funding for NemoLink Ltd.

Due to the additional acquisition of 20 per cent. in Eurogrid International, full control was achieved by the Company. As a consequence, Eurogrid International and its underlying affiliates were at the end of 2018 no longer recognized as equity accounted investees, which resulted in a derecognition of a €892.9 asset.

The decrease in Share of (loss)/profit from equity-accounted investees was mainly due to the results of Eurogrid International and its affiliates, who only were included four months in this line.

#### **Other financial assets**

	As at December 31,			
	2018	2017 (restated)	2017	2016
		(million €)		
Immediately claimable deposits	7.0	7.1	7.1	7.1
Other shareholdings	27.7	0.2	0.2	0.2
Reimbursement rights	52.2	53.6	53.6	58.1
<b>Total</b>	<b>86.9</b>	<b>60.9</b>	<b>60.9</b>	<b>65.4</b>

Immediately claimable deposits are measured at fair value.

Other shareholdings consist of the Group's stake in J.A.O. SA, Atlantic Grid A LLC, European Energy Exchange AG and TSCNet Services GmbH.

The reimbursement rights are linked to the obligations for: (i) the retired employees falling under specific benefit schemes (Scheme B – unfunded plan); and (ii) the medical plan and plan for tariff benefits for retired staff members. The reimbursement rights are recoverable through the regulated tariffs. The following principle applies: all incurred pension costs for “Scheme B” retired employees and the costs linked to healthcare and tariff benefits of retired Elia staff members are defined by the CREG as non-controllable expenses that are recoverable through the regulatory tariffs.

#### *2017 compared to 2016*

The decrease of the reimbursement rights is mainly due to payments from the plan, which occurred in 2017 and which amounted to €5.3 million.

#### *2018 compared to 2017 restated*

A loss of €0.1 million was realised during the 2018 financial year related to the immediately claimable deposits.

The increase in “Other shareholdings” is due to the acquisition in 50Hertz. The participations held by 50Hertz are now consolidated in the Group's annual accounts.

Reimbursement rights remained at a similar level and are strictly related to the Belgian employee benefits.

## Deferred tax assets and liabilities

As at December 31,								
	2018		2017 (restated)		2017		2016	
	Assets	Liab.	Assets	Liab.	Assets	Liab.	Assets	Liab.
	(million €)							
Property, plant and equipment	3.3	(157.4)	1.2	(10.1)	1.2	(31.4)	1.6	(32.9)
Intangible assets	0.0	(8.2)	0.0	(8.4)	0.0	(8.4)	0.1	(9.3)
Non-current trade and other receivables	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest-bearing loans and other non-current financial liabilities	2.2	(4.0)	0.0	(1.2)	0.0	(1.2)	1.7	0.0
Employee benefits	26.2	(13.9)	7.5	0.0	7.5	0.0	5.6	0.0
Notional interest deduction	0.0	0.0	0.0	0.0	0.0	0.0	11.9	0.0
Provisions	40.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue	9.4	(2.9)	0.0	0.0	0.0	0.0	0.0	0.0
Regulatory liabilities	19.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax on investment grants	0.0	(1.1)	0.0	(1.2)	0.0	(1.2)	0.0	0.0
Losses carried forward	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items	0.7	(9.0)	0.8	(7.3)	0.8	(7.3)	0.5	(6.9)
Tax asset/liability before offsetting	106.3	(196.5)	9.6	(28.2)	9.6	(49.5)	21.3	(49.2)
Offsetting of tax	(101.3)	101.3	(8.6)	8.6	(8.6)	8.6	(20.4)	20.4
<b>Net tax asset/(liability)</b>	<b>5.0</b>	<b>(95.2)</b>	<b>1.0</b>	<b>(19.6)</b>	<b>1.0</b>	<b>(40.9)</b>	<b>0.8</b>	<b>(28.7)</b>

### 2017 compared to 2016

Deferred tax assets remained stable (€1.0 million in 2017 compared to €0.8 million in 2016). The main reason for the increase of the deferred tax liability (up €12.2 million) is related to notional interest deduction.

### 2018 compared to 2017 restated

The impact is largely explained by the additional acquisition in 50Hertz.

## Inventories

As at December 31,				
	2018	2017 (restated)	2017	2016
	(million €)			
Raw materials and consumables	34.0	27.6	27.6	37.0
Write-downs	(14.8)	(14.0)	(14.0)	(14.3)
<b>Total</b>	<b>19.2</b>	<b>13.6</b>	<b>13.6</b>	<b>22.6</b>

The inventories primarily consist of replacement and spare parts for the Group's maintenance and repairs of high-voltage substations, overhead lines and underground cables. It also included work-in-progress balances.

### 2017 compared to 2016

The decrease of inventories is mainly due to a decreased work-in-process balance for EGI compared with the financial year 2016, as a result of the completion of a substantial project throughout 2017. Inventory write-downs have remained at a similar level.

### 2018 compared to 2017 restated

The increase of inventories is due to the acquired inventory of 50Hertz.

Write-downs are recorded for stock items based on their underlying rotation. These were slightly higher than in 2017.

## Current trade and other receivables, deferred charges and accrued revenues

As at December 31,				
	2018	2017 (restated)	2017	2016
		(million €)		
Construction contracts in progress	3.6	3.9	3.9	4.2
Trade and other receivables and advance payments	417.9	227.2	227.2	221.7
Levies	38.9	20.6	20.6	139.9
VAT and other taxes	50.5	24.2	24.2	6.8
Other	48.0	5.2	5.2	7.0
Deferred charges and accrued revenues	20.5	9.5	9.5	6.1
<b>Total</b>	<b>579.4</b>	<b>290.6</b>	<b>290.6</b>	<b>385.7</b>

As at December 31,				
	2018	2017 (restated)	2017	2016
		(million €)		
<b>Detail of Trade and other receivables and advance payments</b>				
Not past due	389.7	218.7	218.7	200.4
Past due 0-30 days	6.6	0.8	0.8	10.0
Past due 31-60 days	(0.6)	2.9	2.9	3.8
Past due 61 days – one year	23.6	2.8	2.8	5.7
More than one year	0.5	1.6	1.6	1.6
<b>Total (excl. Impairment)</b>	<b>419.8</b>	<b>226.8</b>	<b>226.8</b>	<b>221.5</b>
Doubtful amounts	170.2	1.7	1.7	1.3
Amounts write-offs	(169.8)	(1.3)	(1.3)	(1.1)
Provision for expected credit losses	(2.3)	0.0	0.0	0.0
<b>Total</b>	<b>417.9</b>	<b>227.2</b>	<b>227.2</b>	<b>221.7</b>

### 2017 compared to 2016

The €95.1 million decrease is predominantly explained by a decrease of levies, which decreased by €119.3 million. This is mainly due to:

- a lower outstanding balance of green certificates with regard to the Walloon Region (decrease from a receivable of €91.7 million at the year-end of 2016 to a payable of €49.1 million at the year-end of 2017). The decrease is mainly due to the purchase of 2.8 million green certificates by the Walloon Region in September 2017, as approved by the Decree of June 29, 2017. This resulted in a cash inflow of €176.2 million. This transaction had no impact on the Group's profit and loss statement;
- a decrease of €29.8 million relating to Flemish green certificates; this was a result of an upward adjustment in the tariffs to be charged in 2017 and increased sales volumes on auctions over the financial year 2017; and
- partially compensated by a higher outstanding amount of levies to cover the costs for the Strategic Reserve (increase from €2.3 million to €9.3 million in 2017).

The increase on Current trade and other receivables, as well as deferred charges and accrued revenues, is due to the inclusion of 50Hertz figures in the Group's financial statements. This had an effect of €252.2 million.

### Current tax assets and liabilities

	<b>As at December 31,</b>			
	<b>2018</b>	<b>2017 (restated)</b>	<b>2017</b>	<b>2016</b>
		<i>(million €)</i>		
Tax receivables	3.6	3.8	3.8	2.8
Tax liabilities	(93.1)	(2.9)	(2.9)	(0.5)
<b>Net tax asset/(liability)</b>	<b>(89.5)</b>	<b>0.9</b>	<b>0.9</b>	<b>2.3</b>

The 2017 balances remained in line with the balances of 2016.

The increase in the tax liability is due to the inclusion of 50Hertz figures in the Group's financial statements. This had an impact of €91.1 million on outstanding tax liabilities.

	Year ended December 31,			
	2018	2017 (restated)	2017	2016
	(million €)			
Short-term deposits	1,356.2	55.2	55.2	22.5
Balance at bank	433.1	140.0	140.0	154.1
<b>Total</b>	<b>1,789.3</b>	<b>195.2</b>	<b>195.2</b>	<b>176.6</b>

Short-term deposits are invested for periods varying from a few days and a few weeks to several months (generally not exceeding three months), depending on immediate cash requirements, and earn interest in accordance with the interest rates for the short-term deposits. The interest rate of interest-bearing investments at the end of the reporting period varies from -0.4 per cent. to 1.0 per cent.

Bank account balances earn or pay interest in line with the variable rates of interest on the basis of daily bank deposit interest rates.

The cash and cash equivalents disclosed above and in the statement of cash flows include €29.9 million held by Elia RE. These deposits are subject to regulatory restrictions and are therefore not directly available for general use by the other entities within the Group.

“Balance at bank” includes an amount of €0.1 million in restricted cash. This relates to a prepayment received on EU funding for a consortium, of which 50Hertz manages the syndicate account.

#### *2017 compared to 2016*

Cash and cash equivalents have increased in the course of the year. This increase was mainly driven by the higher profitability during the year, as well as by the €176.2 million cash inflow, which resulted from the 2.8 million green certificates that were sold in September 2017. This effect has partially been offset by a continued high level of capital expenditure in the electricity grid.

#### *2018 compared to 2017 restated*

Cash and cash equivalents increased significantly as a result of the acquisition of the additional 20 per cent. stake in 50Hertz. The cash held by 50Hertz was previously accounted for using the equity method. The cash and cash equivalents held by 50Hertz amounted to €1,590 million at the end of 2018.

### **Shareholders' equity**

*Equity attributable to the owners of the company*

	<b>As at December 31,</b>			
	<b>2018</b>	<b>2017 (restated)</b>	<b>2017</b>	<b>2016</b>
	<i>(million €)</i>			
<b>Equity beginning of period</b>	<b>2,563.3</b>	<b>2,454.5</b>	<b>2,511.4</b>	<b>2,413.6</b>
Change in accounting policy	2.9	0.0	0.0	0.0
Share capital increase	6.3	0.4	0.4	6.2
Profit or loss	281.6	208.6	229.1	179.8
Other comprehensive income, net of income tax	(3.5)	(4.1)	(4.1)	6.0
<b>Total other comprehensive income for the period, net of income tax</b>	<b>278.2</b>	<b>204.5</b>	<b>225.0</b>	<b>185.8</b>
Dividends to equity holders	(98.7)	(96.2)	(96.2)	(94.1)
Issue of hybrid securities	695.0	0.0	0.0	0.0
Changes in ownership interests	0.5	0.0	0.0	0.0
<b>Equity end of period</b>	<b>3,447.5</b>	<b>2,563.3</b>	<b>2,640.7</b>	<b>2,511.4</b>
Equity attributable to owners of ordinary shares	2,741.3	2,563.3	2,640.7	2,511.4
Equity attributable to owners of hybrid securities	706.2	0.0	0.0	0.0

### **Share capital**

The Group offered its staff discounted share purchase plans in 2016, 2017 and 2018, which resulted in three capital increases.

### **Reserves**

In accordance with Belgian legislation, 5 per cent. of the parent company's statutory net profit must be transferred to a legal reserve each year until the legal reserve represents 10 per cent. of the capital. This reserve is only available for distribution in case of liquidation. The Board of Directors can propose the payment of a dividend to shareholders up to a maximum of the available reserves and the profit carried forward from previous financial years from the parent company, including the profit from the financial year closed. Shareholders must approve the dividend payment at the Annual Shareholders' Meeting.

### **Hybrid securities**

In September 2018, the Group issued hybrid securities for the financing of the additional 20 per cent. stake in 50Hertz. The issue resulted in an increase in the Group's equity for an amount of €700 million.



The hybrid securities are structured as perpetual instruments, have junior ranking to all the senior debt and will be recorded as equity in the Group's accounts pursuant to IFRS.

*2018 compared to 2017 restated*

Due to a change in accounting policy (application of IFRS 9 as of January 1, 2018), the opening balance per January 1, 2018 was adjusted for an amount of €2.9 million. This change is presented under 'Change of accounting policy'.

In 2018, a hybrid bond was issued. The hybrid securities bear an optional, cumulative coupon of 2.75 per cent., payable at the Group's discretion annually on December 5 of each year, starting from December 5, 2019. As at December 31, 2018, the unpaid cumulative dividend amounted to €6.2 million, relating to the period from September 5, 2018 to December 31, 2018. The hybrid securities have an initial call date in December 2023 with a reset every five years thereafter. The hybrid securities have received an instrument rating of BBB- from S&P.

As a result of the additional acquisition of 20 per cent. of Eurogrid International, the stake in EGI and Elia Grid International GmbH increased, resulting in an increase of €0.5 million from Non-controlling interests to Shareholder's equity.

*2017 restated compared to 2017*

Due to a change in accounting policy (application of IFRS 15 as of January 1, 2018), the opening balance per January 1, 2017 was restated for an amount of €56.9 million and the profit or loss statement for an amount of €20.5 million.

**Non-controlling interests**

	As at December 31,			
	2018	2017 (restated)	2017	2016
		(million €)		
<b>Non-controlling interests</b>	<b>301.4</b>	<b>1.1</b>	<b>1.1</b>	<b>1.2</b>

*2017 compared to 2016*

The non-controlling interest on EGI and its affiliates decreased from €1.2 million to €1.1 million at the end of 2017.

*2018 compared to 2017 restated*

The additional stake in Eurogrid International had an impact of €294.6 million in 2018.

**Interest-bearing loans and borrowings**

The Group manages its liabilities and general financing strategy through a combination of short- and long-term liabilities or hedges them by use of interest rate swaps. The Group finances its daily working capital requirement, if necessary, via various confirmed or non-confirmed credit lines and uses commercial paper. Medium-term loans usually have an interest rate that is based on the interbank interest rate on the date on which they are taken out increased by a predefined margin.

A global overview of loans (long- and short-term borrowings) and interest payable is provided below.

<b>As at December 31,</b>				
	<b>2018</b>	<b>2017 (restated)</b>	<b>2017</b>	<b>2016</b>
	<i>(million €)</i>			
Non-current borrowings	5,773.8	2,834.7	2,834.7	2,586.4
<b>Subtotal non-current borrowings</b>	<b>5,773.8</b>	<b>2,834.7</b>	<b>2,834.7</b>	<b>2,586.4</b>
Current borrowings	549.9	0.0	0.0	100.0
Accrued interest	71.1	49.5	49.5	47.5
<b>Subtotal current loans and borrowings</b>	<b>621.1</b>	<b>49.5</b>	<b>49.5</b>	<b>147.5</b>
<b>Total</b>	<b>6,394.9</b>	<b>2,884.2</b>	<b>2,884.2</b>	<b>2,733.9</b>

***Interest-bearing loans***

<b>As at December 31,</b>				
	<b>2018</b>	<b>2017 (restated)</b>	<b>2017</b>	<b>2016</b>
	<i>(million €)</i>			
<b>(Book value)</b>				
Shareholders' loan	42.1	42.1	42.1	42.1
Other loans	453.7	453.7	453.7	453.7
Financial institutions	359.7	0.0	0.0	2.0
Eurobond issues	5,318.2	2,338.9	2,338.9	2,090.5
Commercial paper	50.0	0.0	0.0	78.0
European Investment Bank	100.0	0.0	0.0	20.0
<b>Total</b>	<b>6,323.7</b>	<b>2,834.7</b>	<b>2,834.7</b>	<b>2,686.4</b>
Current portion of long-term borrowings	499.9	0.0	0.0	20.0
<b>Total long-term borrowings</b>	<b>5,823.8</b>	<b>2,834.7</b>	<b>2,834.7</b>	<b>2,666.4</b>

The table above does not include any accrued interest.

2017

The following table gives an overview of the maturity dates and conditions of the loans at December 31, 2017.

### Interest-bearing loans

	Maturity	Amount	Interest rate before hedging	Interest rate after hedging	Current proportion of the interest	
					Fixed	Variable
			(million €)			
Eurobond issues 2004/15 years	2019	499.8	5.25%	5.25%	100.00%	0.00%
Eurobond issues 2013/15 years	2028	547.4	3.25%	3.25%	100.00%	0.00%
Eurobond issues 2013/20 years	2033	199.4	3.50%	3.50%	100.00%	0.00%
Eurobond issues 2014/15 years	2029	346.5	3.00%	3.00%	100.00%	0.00%
Eurobond issues 2015/8.5 years	2024	498.4	1.38%	1.38%	100.00%	0.00%
Eurobond issues 2017/10 years	2027	247.4	1.38%	1.38%	100.00%	0.00%
Shareholders Loan	2022	42.1	0.89%	0.89%	0.00%	100.00%
Other loan	2022	453.7	0.89%	0.89%	0.00%	100.00%
<b>Total</b>		<b>2,834.7</b>			<b>82.51%</b>	<b>17.49%</b>
Current portion of long-term borrowings		0.0				
<b>Total long-term borrowings</b>		<b>2,834.7</b>			<b>82.51%</b>	<b>17.49%</b>

The table above does not include any accrued interest.

### Short-term loans and credit line facilities

	Maturity	Available amount	Average basic interest	Amount	
				used	not used
			(million €)		
Confirmed credit line	08/07/2021	650.0	Euribor + 0.30%	0.0	650.0
EIB credit facility	14/11/2018	100.0	Euribor + 0.19%	0.0	100.0
Belgian dematerialized treasury notes	unlimited	350.0	Euribor + margin when concluding deal	0.0	350.0
Straight Loan EGI	unlimited	2.5	Euribor + 0.75%	0.0	2.5
<b>Total</b>		<b>1,102.5</b>		<b>0.0</b>	<b>1,102.5</b>

During 2017, a loan with the European Investment Bank for an amount of €20 million expired and commercial paper (€78 million) was repaid.

An additional Eurobond was issued in 2017 for an amount of €250 million.

The interest-bearing loans have been issued in euro to avoid all financial exchange rate risks and totaled €2,834.7 million at December 31, 2017.

2018

The following table provides an overview of the maturity dates and conditions of the loans at December 31, 2018.

### Interest-bearing loans

	Maturity	Amount	Interest rate before hedging	Interest rate after hedging	Current proportion of the interest	
					Fixed	Variable
			(million €)			
Eurobond issues 2004/15 years	2019	499.9	5.25%	5.25%	100.00%	0.00%
Eurobond issues 2013/15 years	2028	547.6	3.25%	3.25%	100.00%	0.00%
Eurobond issues 2013/20 years	2033	199.4	3.50%	3.50%	100.00%	0.00%
Eurobond issues 2014/15 years	2029	346.8	3.00%	3.00%	100.00%	0.00%
Eurobond issues 2015/8.5 years	2024	498.7	1.38%	1.38%	100.00%	0.00%
Eurobond issues 2017/10 years	2027	247.7	1.38%	1.38%	100.00%	0.00%
Senior bond 2018/10 years	2028	297.3	1.50%	1.50%	100.00%	0.00%
Bond as part of Euro Medium Term Note program 2010	2020	499.1	3.88%	3.88%	100.00%	0.00%
Bond as part of Debt Issuance Program 2015	2025	497.5	1.88%	1.88%	100.00%	0.00%
Bond as part of Debt Issuance Program 2015	2023	748.4	1.62%	1.62%	100.00%	0.00%
Bond as part of Debt Issuance Program 2015	2030	139.1	2.63%	2.63%	100.00%	0.00%
Bond as part of Debt Issuance Program 2016	2028	746.7	1.50%	1.50%	100.00%	0.00%
Registered bond 2014	2044	50.0	3.00%	3.00%	100.00%	0.00%
Shareholders Loan	2022	42.1	0.89%	0.89%	60.51%	39.49%
Other loan	2022	453.7	0.89%	0.89%	60.51%	39.49%
Amortized term loan	2033	209.7	1.80%	1.80%	100.00%	0.00%
European Investment Bank	2025	100.0	1.08%	1.08%	100.00%	0.00%
Dematerialized treasury notes	2019	50.0	(0.23%)	(0.23%)	100.00%	0.00%
Unsecured bank loan	2026	150.0	0.90%	0.90%	100.00%	0.00%
<b>Total</b>		<b>6,323.7</b>			<b>92.16%</b>	<b>7.84%</b>
Current portion of long-term borrowings		(499.9)				
<b>Total long-term borrowings</b>		<b>5,823.9</b>			<b>92.16%</b>	<b>7.84%</b>

### Short-term loans and credit line facilities

	Maturity	Available amount	Average basic interest	Amount	
				used	not used
			(million €)		
Confirmed credit line	08/07/2021	650.0	Euribor + 0.30%	0.0	650.0
Confirmed credit line	24/03/2022	750.0	Euribor + 0.275%	0.0	750.0
Confirmed credit line	unlimited	150.0	av. 1M-Euribor +0.275%	0.0	150.0
Confirmed credit line	14/12/2026	150.0	0.90%	150.0	0.0
Belgian dematerialized treasury notes	unlimited	350.0	Euribor + margin when concluding deal	50.0	300.0
Straight loan EGI	unlimited	2.5	Euribor + 0.75%	0.0	2.5
<b>Total</b>		<b>2,052.5</b>		<b>200.0</b>	<b>1,852.5</b>

The interest-bearing loans have been issued in euro to avoid all financial exchange rate risks and totaled €6,323.7 million at December 31, 2018.

In 2018, additional financing was taken out to finance the 20 per cent. acquisition of Eurogrid International. For this a Senior bond of €300 million was entered into.

For the financing of Nemo Link, an amortized term loan of €210 million was taken out.

The credit facility with the European Investment Bank for an amount of €100 million (which was signed in 2017) was taken up in full, which is to support the ongoing capex program.

At December 31, 2018, an amount of €50 million was used from the Belgian dematerialized treasury notes for short-term financing needs.

### Employee benefits

The Group has a number of plans in place which include defined benefit pension plans and defined contribution plans. The Group committed to grant other benefits as well, which resulted in other personnel obligations.

### Overview of employee benefits

	As at December 31,			
	2018	2017 (restated)	2017	2016
	(million €)			
Defined-benefit plans	40.8	21.2	21.2	12.1
Post-employment benefits other than pensions	64.6	63.1	63.1	63
<b>Total employee benefits</b>	<b>105.4</b>	<b>84.3</b>	<b>84.3</b>	<b>75.1</b>

Of the €105.4 million in employee benefit provisions recognized at the end of financial year 2018, €104.0 million is presented in the long term and €1.4 million in the short term.

### Detail defined benefit plans, early retirement plan and other employee benefits

	As at December 31,			
	2018	2017 (restated)	2017	2016
	(million €)			
<b>Change in benefit obligation</b>				
Defined benefit obligation at the beginning of the period	(288.0)	(255.7)	(255.7)	(224.2)
Changes during fiscal year	(45.6)	(32.3)	(32.3)	(31.5)
Defined benefit obligation at the end of the period	(333.6)	(288.0)	(288.0)	(255.7)
<b>Changes in plan assets</b>				
Fair value of plan assets at beginning of the period	203.7	180.5	180.5	140.4
Changes during fiscal year	24.5	23.2	23.2	40.1
Fair value of plan assets at end of period	228.2	203.7	203.7	180.5
<b>Funded status</b>				
Funded status of the plan	(105.4)	(84.3)	(84.3)	(75.1)

### 2018 compared to 2017 restated

The increase (€45.6 million) in the changes of the fiscal year in defined benefit obligations and the increase of (€24.5 million) in the plan assets are mainly due to the figures related to 50Hertz (respectively €40.5 million and €17.6 million).

## Derivates (liabilities)

	As at December 31,			
	2018	2017 (restated)	2017	2016
		(million €)		
Interest rate swaps	2.9	0.0	0.0	9.4
<b>Total</b>	2.9	0.0	0.0	9.4

### 2017 compared to 2016

The hedging instruments held by the Group, as at December 31, 2016, with a contracted reference value of €200.0 million matured during 2017. The interest rate swap related to the shareholders loan and other loan, which themselves expire in September 2022. The interest rate swaps had an interest rate varying from 4.40 per cent. to 4.41 per cent.

### 2018 compared to 2017 restated

During 2018, the Group entered into three new interest rate swaps with a contracted reference value of €300.0 million (for the shareholders loan and other loan with expiry date in September 2022). The net fair value of the swaps as at December 31, 2018 totaled €2.9 million.

## Provisions

	As at December 31,			
	2018	2017 (restated)	2017	2016
		(million €)		
Environment	15.3	14.6	14.6	16.2
Elia Re	8.0	8.1	8.1	7.1
Easement provision	12.0	0.0	0.0	0.0
Dismantling obligations	69.5	0.0	0.0	0.0
Employee benefits	1.4	0.0	0.0	0.0
Other	7.2	2.6	2.6	2.4
Total	113.4	25.3	25.3	25.7

### 2017 compared to 2016

The overall €1.6 million reduction of environmental provisions is mainly due to the utilization of provisions for €0.6 million, a reversal of provisions for €4.0 million and an increase of provisions for €3.0 million. The utilization of the environmental provisions is predominantly related to ongoing soil research and remediation on certain sites in Wallonia and Flanders. The reversal of provisions for €4.0 million was recorded for certain sites in Wallonia and Brussels. This increase in provisions for €3.0 million, mainly for sites in Wallonia and Flanders, was recorded due to new estimates and regulatory changes in the Walloon Region.

An amount of €8.1 million is included at the year-end for Elia Re, of which €3.8 million is linked to claims for overhead facilities, €2.9 million to electrical facilities and €1.4 million to liability cases.

### 2018 compared to 2017 restated

Environment: The environmental provision provides for existing exposure with respect to land decontamination. The €15.3 million provision mainly relates to the Belgian segment, with only a €2.0 million provision relating to the German segment. This explains the limited increase in provision from €14.6 million at the end of 2017 to €15.3 million as at December 31, 2018.



Elia Re: An amount of €8.0 million is included at year-end for Elia Re, a captive reinsurance company, of which €3.5 million is linked to claims for overhead facilities, €3.2 million to electrical facilities and €1.3 million to liability cases. The expected timing of the related cash outflow depends on the progress and duration of the respective procedures.

Easement provision: The easement provision relates to payments likely to be made to landowners as a compensation for overland lines crossing their property. These easement rights are recognized within the German segment for overland lines built by the former owners of 50Hertz, with exposure resulting from section 9 of the German Land Register Amendment Act (GBBerG.). The estimates are based on the value of claims filed or on the estimated amount of the risk exposure. The expected timing of the related cash outflow depends on the progress and duration of the claim filed.

Dismantling provisions: As part of the Group's CAPEX program, the Group is exposed to decommissioning obligations, most of which are related to offshore projects. These provisions take into account the effect of discounting and the expected cost of dismantling and removing the equipment from sites or from the sea. The carrying amount of the provision as at December 31, 2018 was €69.5 million and fully relates to the German segment. The Group has applied a case-by-case approach to estimate the cash outflow needed to settle the liability.

"Other" consists of various provisions for litigation to cover likely payment where legal proceedings have been instituted against the Group by a third party or where the Group is involved in legal proceedings. These estimates are based on the value of claims filed or on the estimated level of risk exposure. The expected timing of the related cash outflow depends on the progress and duration of the associated proceedings.

#### **Other non-current liabilities**

	As at December 31,			
	2018	2017 (restated)	2017	2016
		(million €)		
Investments grants	85.8	3.8	3.8	5.1
Non-current deferred income	129.8	84.6	0.0	0.0
Other	0.6	0.0	0.0	0.0
<b>Total</b>	<b>216.2</b>	<b>88.5</b>	<b>3.8</b>	<b>5.1</b>

#### **2017 compared to 2016**

The investment grants consisted of deferred income for capital subsidies received from the European Union and the Brussels-Capital Region. No additional grants were recognized under other non-current liabilities in 2017.

#### **2018 compared to 2017 restated**

€82.1 million of the investment grants related to 50Hertz. These are released in profit and loss when entitlement to the grants is acquired. The amount increased from €10.0 million at the end of 2017 for the investment grants received for the Southwest Coupling line.

The increase in the other items of non-current liabilities is mainly due to the acquisition of a 20 per cent. stake in 50Hertz. The deferred income relates to received customer contributions, which are recognized in profit or loss in accordance with the useful life of the respective asset. The liability arose as part of the adoption of IFRS 15, as of January 1, 2018. At the end of 2018, a liability of €87.4 million was recognized within Elia Transmission (Belgium) and a liability of €42.3 million was recognized within 50Hertz.

## Trade and other payables

As at December 31,				
	2018	2017 (restated)	2017	2016
	(million €)			
Trade debts	602.4	220.8	220.8	288.0
VAT and other taxes	19.4	8.9	8.9	8.4
Remuneration and social security	31.3	28.1	28.1	26.5
Dividends	1.2	1.2	1.2	1.2
Levies	1,137.7	108.0	108.0	54.0
Other	137.9	11.1	11.1	12.5
Accrued liabilities	59.2	0.4	0.4	0.3
<b>Total</b>	<b>1,989.1</b>	<b>378.5</b>	<b>378.5</b>	<b>390.8</b>

### 2017 compared to 2016

Levies mainly consist of federal levies (€43.4 million, compared with €40.0 million at the end of 2016) and levies for the Walloon government (€49.1 million payable, compared with a €91.7 million receivable at the end of 2016).

### 2018 compared to 2017 restated

Trade and other payables were mainly affected by the acquisition in 50Hertz, which had an impact of €1,533.3 million.

The amount for levies can be split between levies related to 50Hertz (€1,029.2 million) and levies related to Elia Transmission (€108.5 million). The levies for Elia Transmission are stable compared to the previous year (increase of €0.5 million). The levies for 50Hertz consist mainly of EEG (€865.5 million), KWK (€31.6 million), §19 StromNEV (€96.3 million) and Offshore contributions (€33.7 million).

## Accruals and deferred income

As at December 31,				
	2018	2017 (restated)	2017	2016
	(million €)			
Accruals and deferred income	19.3	8.5	8.5	26.2
Settlement mechanism Belgian regulatory framework	532.9	526.1	526.1	433.6
Settlement mechanism German regulatory framework	444.5	0.0	0.0	0.0
<b>Total</b>	<b>996.7</b>	<b>534.6</b>	<b>534.6</b>	<b>459.8</b>

The Group operates in a regulated environment in which tariffs are meant to make it possible to realize total revenue consisting of:

1. a reasonable return on invested capital; and
2. all reasonable costs which are incurred by the Group.

Since the tariffs are based on estimates, there is always a difference between the tariffs that are actually charged and the tariffs that should have been charged to cover all reasonable costs of the system operator and to provide shareholders with a reasonable profit margin on their investment.

If the applied tariffs result in a surplus or a deficit at the end of the year, this means that the tariffs charged to consumers/the general public could have been, respectively, lower or higher (and vice versa). A surplus or deficit arising from the settlement mechanism is therefore not reported in profit or loss, or as an item under equity.

On a cumulative basis, it could be argued that the public has made an advance payment (= surplus) for its future use of the grid. As such, the surplus (deficit) is not a commission for a future loss (recovery) of income but instead a deferred/accrued revenue for (with regard to) consumers. On the basis of the regulatory framework, the Group believes that the surplus (deficit) does not represent an item of revenue (cost). Consequently, these amounts are netted and reported under "Accruals and deferred income". These surpluses or deficits are verified and approved by the regulator in the next accounting year.

#### *2017 compared to 2016*

The settlement mechanism Belgian regulatory framework increased €92.5 million compared to 2016. This is the result of deviations between actuals and approved budget. The explanation of the main impacts of this increase can be found in section "*Profit*",

#### *2018 compared to 2017 restated*

The settlement mechanism German regulatory framework increased from €335.4 million at the end of 2017 to €444.5 million at the end of 2018.

The settlement mechanism Belgian regulatory framework increased €6.8 million compared to 2017. This is the result of deviations between actuals and approved budget (increase of €52.8 million, of which the explanation of the fluctuations can be found in section "*Profit*") and regulatory settlements of previous periods (decrease of €47.0 million).

## Consolidated cash flows statement

	Year ended December 31,			
	2018	2017 (restated)	2017	2016
	(€ million)			
<b>Cash flows from operating activities</b>				
<b>Profit for the period</b>	<b>307.1</b>	<b>208.6</b>	<b>229.1</b>	<b>179.9</b>
Adjustments for:				
Net finance costs	93.3	76.5	76.5	82.9
Other non-cash items	1.1	0.1	0.1	1.0
Current income tax expense	105.9	29.2	29.2	12.5
Profit or loss of equity accounted investees, net of tax	(65.6)	(109.1)	(108.7)	(78.5)
Depreciation of property, plant and equipment and amortization of intangible assets	249.5	131.4	131.4	124.4
Gain on sale of property, plant and equipment and intangible assets	12.6	6.5	6.5	8.8
Impairment losses of current assets	3.8	0.0	0.0	0.6
Change in provisions	(9.2)	(5.3)	(5.3)	(1.2)
Change in fair value of derivatives	1.3	1.1	1.1	1.0
Change in deferred taxes	(3.6)	10.4	9.9	19.4
<b>Cash flow from operating activities</b>	<b>696.1</b>	<b>349.3</b>	<b>369.8</b>	<b>350.9</b>
Change in inventories	(1.8)	9.3	9.3	1.3
Change in trade and other receivables	(50.5)	98.2	98.2	(61.4)
Change in other current assets	7.8	4.8	4.8	3.9
Change in trade and other payables	(12.9)	(12.3)	(12.3)	80.5
Change in other current liabilities	117.9	95.3	74.9	91.2
<b>Changes in working capital</b>	<b>60.5</b>	<b>195.3</b>	<b>174.8</b>	<b>115.5</b>
Interest paid	(141.8)	(88.4)	(88.4)	(115.6)
Interest received	5.7	1.7	1.7	56.5
Income tax paid	(103.8)	(27.6)	(27.6)	80.3
<b>Net cash from operating activities</b>	<b>516.7</b>	<b>430.3</b>	<b>430.3</b>	<b>487.6</b>
<b>Cash flows from investing activities</b>				
Acquisition of intangible assets	(23.2)	(10.6)	(10.6)	(9.6)
Acquisition of property, plant and equipment	(991.1)	(369.1)	(369.1)	(388.6)
Acquisition of equity accounted investees	(23.8)	(57.2)	(57.2)	(25.8)
Acquisition of investment	(988.7)	0.0	0.0	0.0
Acquired cash from acquisition of subsidiary	1,902.7	0.0	0.0	0.0
Proceeds from sale of property, plant and equipment	2.4	1.5	1.5	3.2
Proceeds from sales of investments	0.2	0.0	0.0	6.3
Proceeds from capital decrease from equity-accounted investees	0.0	0.1	0.1	7.2
Dividend received	2.0	56.8	56.8	57.3
Loans and long-term receivables to joint ventures	(35.7)	(84.6)	(84.6)	(38.7)
<b>Net cash used in investing activities</b>	<b>(155.2)</b>	<b>(463.1)</b>	<b>(463.1)</b>	<b>(388.7)</b>
<b>Cash flow from financing activities</b>				
Proceeds from issue of share capital	5.3	0.4	0.4	5.3
Expenses related to issue share capital	(0.1)	0.0	0.0	(0.1)
Dividends paid (-)	(98.7)	(96.2)	(96.2)	(94.2)
Repayment of borrowings (-)	0.0	(100.0)	(100.0)	(540.0)
Issuance of hybrid (+)	696.8	0.0	0.0	0.0
Proceeds from withdrawal borrowings (+)	656.9	247.2	247.2	80.0
Non-controlling interests	(20.0)	0.0	0.0	0.0
Other cash flows from financing activities	(7.6)	0.0	0.0	0.3
<b>Net cash flow from (used in) financing activities</b>	<b>1,232.6</b>	<b>51.4</b>	<b>51.4</b>	<b>(548.7)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,594.1</b>	<b>18.6</b>	<b>18.6</b>	<b>(449.8)</b>
Cash & cash equivalents at January 1	195.2	176.6	176.6	626.4
Cash & cash equivalents at December 31	1,789.3	195.2	195.2	176.6
<b>Net variations in cash &amp; cash equivalents</b>	<b>1,594.1</b>	<b>18.6</b>	<b>18.6</b>	<b>(449.8)</b>

### *2017 compared to 2016*

The net cash flow from operating activities decreased with €57.3 million. The main reason for the decrease was the exceptional cash-in in 2016 related to the settlement of the tax assessment dated from 2008, resulting in the reimbursement of €93.8 million, increased with moratorium interests of €54.8 million.

The net cash flow from investing activities decreased by €74.4 million, which is mainly due to continued funding of NemoLink Ltd. in 2017.

The net cash flow used in financing activities increased from a negative €548.7 million in 2016 to a positive €51.4 million cash inflow in 2017. This is mainly due to the proceeds from the issuance of a €250 million and €440 million Eurobond, less any repayments of borrowings in the year.

### *2018 compared to 2017 restated*

The net cash flow from operating activities increased with €86.4 million to €516.7 million, which is mainly due to the increased profit for the period which has been contributed by Elia Transmission (Belgium) and 50Hertz.

The net cash flow from investing activities increased by €307.9 million. This is to a large extent driven by the additional 20 per cent. acquisition of Eurogrid International, which resulted in net cash acquired of €914.0 million.

The net cash flow used in financing activities fluctuated from €51.4 million in 2017 to €1,232.6 million in 2018, mainly due to the additional financing for the acquisition of the 20 per cent. acquisition of Eurogrid International and NemoLink Ltd.

## **Financial risk and derivative management accounting**

### ***Principles of financial risk management***

The Group aims to identify each risk and set out strategies to control the economic impact on the Group's results.

The Risk Management Department defines the risk-management strategy, monitors the risk analysis and reports to management and the Audit Committee. The financial risk policy is implemented by determining appropriate policies and setting up effective control and reporting procedures. Selected derivative hedging instruments are used depending on the assessment of the risk involved. Derivatives are used exclusively as hedging instruments. The regulatory framework in which the Group operates significantly restricts their effects on profit or loss (see the section "*Regulatory framework and tariffs*"). The major impact of increased interest rates, credit risk, etc. can be settled in the tariffs, in accordance with the applicable legislation.

### ***Credit risk***

Credit risk encompasses all forms of counterparty exposure, i.e. where counterparties may default on their obligations to the Company in relation to lending, hedging, settlement and other financial activities. The Company is exposed to credit risk from its operating activities and treasury activities. With respect to its operating activities, the Group has a credit policy in place, which takes into account customers' risk profiles. The exposure to credit risk is monitored on an ongoing basis, resulting in a request to issue bank guarantees from the counterparty for some major contracts.

At the end of the reporting period, there were no significant concentrations of credit risks. The maximum credit risk is the carrying amount for each financial asset, including derivative financial instruments. This is presented in the table below.

<b>As at December 31,</b>				
	<b>2018</b>	<b>2017 (restated)</b>	<b>2017</b>	<b>2016</b>
		<i>(€ million)</i>		
Loans and receivables – long-term	177.0	147.8	147.8	63.0
Loans and receivables – short-term	558.9	281.1	281.1	379.6
Cash and cash equivalents	1,789.3	195.2	195.2	176.6
<b>Immediately claimable deposits</b>	7.1	7.1	7.1	7.1
Interest-rate swaps used for hedging – Liabilities	(2.9)	0.0	0.0	(9.4)
<b>Total</b>	<b>2,529.5</b>	<b>631.2</b>	<b>631.2</b>	<b>616.9</b>

### **Currency risk**

The Company is not exposed to any significant currency risk, either from transactions or from exchanging foreign currencies into euro, since it has no foreign investments or activities and less than 1 per cent. of its costs are expressed in currencies other than the euro.

### **Liquidity risk**

Liquidity risk is the risk that the Group may be unable to meet its financial obligations. The Group limits this risk by constantly monitoring cash flows and ensuring that there are always sufficient credit-line facilities available.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, confirmed and unconfirmed credit facilities, commercial paper programs, etc. For medium- to long-term funding, the Group uses bonds. The maturity profile of the debt portfolio is spread over several years. The Group Treasury frequently assesses its funding resources taking into account its own credit rating and general market conditions.

Bond issuances realized in 2013, 2014, 2015, 2017 and 2018 and loan contracts signed with EIB and other banks in 2018 prove that the Group has access to different sources of funding.

### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to its long-term debt obligations with floating interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed- and variable-rate loans and borrowings. To manage this, the Group could engage in interest-rate swaps, which would entail the Group agreeing to exchange, at specified intervals, the difference between fixed- and variable-rate interest amounts calculated based on an agreed notional principal amount. These swaps are allocated to hedge underlying debt obligations. As at December 31, 2017, the Group had no interest-rate swaps outstanding. As at December 31, 2018, interest-rate swaps were outstanding to cover a nominal debt amount of €300 million.

### **Sensitivity analysis**

Changes in interest rates will not affect the consolidated result in the short or long term as the Group operates within a regulatory framework where the consequences of fluctuations in financial expenses are mainly recovered in tariffs, except for the items which are directly recognized through OCI.



### ***Hedging activities and derivatives***

The Group is exposed to certain risks relating to its ongoing business operations. The primary risk managed using derivative instruments is interest rate risk.

All financial derivatives entered into by the Group relate to an underlying transaction or forecast exposure, depending on the expected impact on the income statement, and, if the IFRS 9 criteria are met, the Group decides on a case-by-case basis whether hedge accounting will be applied.

### ***Capital risk management***

The purpose of the Group's capital-structure management is to maintain the debt and equity ratios related to the regulated activities as close as possible to the recommended level set by the relevant regulatory frameworks.

The Company's dividend guidelines involve optimizing dividend payments while bearing in mind that self-financing capacity is needed to carry out its legal mission as transmission system operator, finance future capex projects and, more generally, implement the Group's strategy.

The Company offers the employees the opportunity to subscribe to capital increases that are exclusively reserved for them.

### **Events after closure of the annual accounts**

#### ***Reception of a judgment from "Markets Court" related to the appeal Elia lodged in 2018 against a specific provision of the new tariff methodology applicable in Belgium for the period 2020-2023***

A new article 30, h) 6) of the tariff methodology for the period 2020-2023 ruled that the financing of activities regulated outside of Belgium or non-regulated activities is valorized on terms equivalent to a financing that would be fully covered by equity. Elia had lodged an appeal with the "Markets Court" against that provision.

On January 10, 2019 Elia received a copy of the judgment of the "Markets Court", which declared its appeal admissible but unfounded. Said provision is thus to stay applicable from 2020.

Following these discussions, the CREG confirmed to the Company that the contemplated internal reorganization of the Group, by achieving a ring-fencing of the Belgian regulated activities of Elia from its activities regulated outside of Belgium or non-regulated activities once implemented, will avoid the risk of cross-subsidy between regulated activities and activities regulated outside of Belgium or non-regulated activities in Belgium (in that the debt raised for the investments in activities regulated outside of Belgium or non-regulated activities will not have to be valorized under the new tariff methodology as if it had been financed on conditions that are equivalent to a financing via 100 per cent. equity from the regulated activities). Further details on the contemplated internal reorganization of the Group can be found in the section "*Contemplated internal reorganization of Elia in light of potential impact of the new tariff methodology*".

### **Outlook 2019**

This paragraph includes forward-looking statements which, although based on assumptions that the Company considers reasonable, are subject to risks and uncertainties which could cause events or conditions to materially differ from those expressed or implied by the forward-looking statements.

The Group expects, based on the principal assumptions set out here below, to realise an adjusted return on equity (meaning that the return on equity is adjusted to exclude the hybrid securities from equity) between 7 per cent. and 8 per cent. This compares with an adjusted return on equity at Group level of 10.0 per cent. for 2018. The adjusted return on equity at Group level depends mainly on the contribution of the regulated entities (i.e. Elia, 50Hertz and NemoLink) generated from the application of the regulatory framework applicable to these different regulated entities. The contribution from the non-regulated activities (EGI and other non-regulated activities) for 2019 is expected to be limited and mainly related to the costs for non-regulated financial debt which are not recoverable under the tariffs. The basis of preparation for the regulated entities is set here below, but for the adjusted return on equity at Group level in 2019, 50Hertz is contributing at 80 per cent. for the full year whilst in 2018, as result of the acquisition of the 20 per cent. stake Eurogrid International, 50Hertz contributed for 4 months at 60 per cent. and for 8 months at 80 per cent.

The Group expects, based on the principal assumptions set out here below, to end 2019 with Regulatory Asset Base of €8.9 billion. The RAB at Group level includes 100 per cent. of the RAB

of Elia and 80 per cent. of the RAB of 50Hertz. NemoLink is not included in the RAB as it is remunerated under a specific regulatory framework. The outlook for 2019 is based on:

- The realisation of respectively €700 million of investments in Belgium and €420 million of investments in Germany;
- Depreciation of assets in accordance with accounting principles and changes in working capital linked to the ordinary course of business;
- With the start of the new regulatory period in Germany, receivables and current asset linked to EEG and similar surcharges are no longer included in the regulatory asset base.

In Belgium, a regulated return between 5 per cent. and 6 per cent. is expected. This compares with a regulated return on equity based (based on the normalised results, i.e., excluding non-recurring items) for 2016, 2017 and 2018 of, respectively, 5.0 per cent., 5.2 per cent. and 6.5 per cent. This outlook for 2019 has been properly compiled based on the following assumptions:

- The capital has been increased as if the offering would be fully subscribed (€430 million);
  - The result of the accounted investees and some IFRS adjustment which relate mainly to liabilities for employee benefits and borrowing costs on assets under construction which are not taken into account from a regulatory perspective;
- Drivers for determination of net profit as described in section *“The Group’s business – New tariff methodology applicable for the period 2016-2019”* :
  - The fair remuneration driven by the (i) expected evolution of the 10-year average OLO of the year which was estimated as being stable compared to last year, (ii) the evolution of the average regulatory equity assuming the contribution of the proceeds of this offering and (iii) the average Regulatory Asset Base driven by an estimated realization of the investment program of €700 million, including the further realization of the Modular Offshore Grid, which will be commissioned in the second half of 2019;
  - Mark-up compensation driven by the realization of strategic investments and the expected capex spent for these investments. In addition, the final mark-up also depends on the evolution of the average 10-year OLO of the year which was estimated as being stable compared to last year;
  - Various incentives mainly linked to different incentives impacted by factors beyond Elia’s control and to an incentive linked to operational outperformance of Elia for which the estimates are based on Elia’s budgeted figures;
  - In general the budgeted costs and the capex programme (as mentioned here above) are based on estimates realized by the project team and reviewed by the management and could be impacted by external factors beyond the control of Elia.

In Germany, a regulated return between 8 per cent. and 10 per cent. is expected. This compares with a regulated return on equity based (based on the normalised results, i.e., excluding non-recurring items) for 2016, 2017 and 2018 of, respectively, 8.8 per cent., 13.0 per cent. and 14.5 per cent. This outlook for 2019, has been properly compiled based on the following assumptions:

- The 3rd regulatory period starts in 2019 for a 5 year period which includes a lower return on equity set by the BNetzA.
- Drivers contributing to net profit (see section *“The Group’s business – Tariff setting in Germany”*) are:
  - For the regulatory asset base linked to the base year 2016, the return on equity capped at 40 per cent. is defined at 5.12 per cent (pre-tax) for investments made before 2006 and at 6.91 per cent. (pre-tax) for investment realized after 2006;
  - For the investment measures, linked to onshore/offshore investments, that are not included in the regulatory asset base set in 2016, the imputed return of 6.91 per cent. (pre-tax) has been defined on 40 per cent. of the book values. The realization of the Capex plan has been estimated at €420 million;

- The outperformance on the influencable costs, covered in the base year revenues, is under control of 50Hertz and is estimated based on the experience of 50Hertz and aligned with the budget;
- Remuneration scheme for the management of EEG and similar surcharges representing 50 per cent. of the remuneration as if these assets would have been remunerated through the Base year remuneration;
- Minor outperformance on interest rates are possible as the effective interest rate could be lower compared to the rate set by the BnetzA in the tariffsetting for the year 2019;
- In general the Budgeted costs and the capex programme (as mentioned here above) are based on estimates realized by the project team and reviewed by the management and could be impacted by external factors beyond the control of Elia.

As regards NemoLink, the return on equity has been defined taken into account the parameters as described in section “*The Group’s business – Regulatory framework for interconnector NemoLink*”. NemoLink has been commissioned in January 2019 and for this outlook, the budgeted figures set at the level between the cap and the floor are the basis to estimate the adjusted return on equity at Group level.

Furthermore, it should be noted that, for purposes of this Prospectus, the Company has not prepared an auditor report in relation to the outlook 2019 (in accordance with item 13.2 of Annex 1 of Commission Regulation No 809/2004 of 29 April 2004) as the Company is of the opinion that such report would have limited added value, taking into account the specific regulatory framework in which the Group operates, the fact that the Group’s estimated return on equity is based on such regulatory framework and the assumptions set out therein, including (without limitation) the estimated Regulated Asset Base and regulated net result at year-end.

The Company complies instead with the additional requirements for profit forecasts which will apply pursuant to the new Prospectus Regulation (EU) 2017/1129 once it enters into effect.

As a result, the Company has specified hereunder the uncertain factors which could materially change the outcome of the outlook for 2019 and confirms that the outlook 2019 has been compiled and prepared on a basis which is (i) comparable with the historical financial information and (ii) consistent with the Company’s accounting policies.

The main factors which could change the outcome of the adjusted return on equity for 2019 are:

- For Belgium, related to (i) the timely realisation of the capex, as the capex drives the level of the Regulated Asset Base in the calculation of the fair remuneration and the mark-up compensation is calculated on the effective amount of capex that is spent for predefined projects, (ii) the level of the average 10 year OLO which impacts the fair remuneration and the mark-up compensation, and (iii) the level of energy prices across Europe and the available import capacity which are the drivers for the ‘incentive market integration’;
- For Germany, related to (i) the timely realisation of the capex, as the capex drives the level of the Regulated Asset Base in the calculation of the investment measures, and (ii) the operational out-performance on the onshore opex costs compared to the allowed costs included in the revenue cap; and
- For Nemolink, related to the electricity price difference between Belgium and the UK and the availability of the interconnector.

### ***Trend information***

The Company is not aware of any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the issuer’s prospects for at least the current financial year.

## DIVIDENDS AND DIVIDEND POLICY

### Dividends

As of December 31, 2018, the Company had reserves available for distribution of M€172.18 before payment of the dividend in respect of the fiscal year 2018 as mentioned below (M€81.01 after approbation from the Annual Shareholders' Meeting held on 21 May, 2019).

In accordance with the dividend provisions of the Articles of Association (see section "*Dividend policy*"), the Company paid gross dividends in the aggregate amount of €96,06 million (€1.58 per share) and €98.66 million (€1.62 per share) to its shareholders in respect of the fiscal years ended December 31, 2016 and 2017, respectively. Dividends in respect of the fiscal year 2018 have been approved at the Annual Shareholders' Meeting held on May 21, 2019 for a total amount of €101.28 million or €1.66 per share and will be paid on May 31, 2019.

Historical dividends and any implicit payout ratios are not necessarily indicative of future dividends or payout ratios.

The New Shares offered rank equally with all of the Company's outstanding ordinary shares for any dividends that may be declared and paid in respect of the fiscal year beginning January 1, 2019 and future fiscal years.

Dividends per share	2018	2017	2016
Numbers of shares entitled to dividend (million)	61.02	60.90	60.80
Dividend (EUR) per share	1.66	1.62	1.58
Total dividend (MEUR)	101.28	98.66	96.06

### Dividend policy

The calculation of amounts available to be distributed as dividends or otherwise distributed to shareholders must be made on the basis of the Belgian statutory financial statements, taking into account the limits set out by Article 617 of the Belgian Companies Code. According to Article 617 of the Belgian Companies Code, no dividend may be distributed if, at the date of the closing of the last financial year, the net assets as set forth the statutory annual accounts are lower than the amount of the paid-up capital or, if this amount is higher, of the called capital, increased with all reserves which may not be distributed according to the law or the Articles of Association, or if the net assets would fall below this amount as a result of such a distribution.

In accordance with the Belgian Companies Code, Article 33 of the Articles of Association requires that the Company allocates, each year, at least 5 per cent. of its annual net profits to a legal reserve until this reserve reaches 10 per cent. of the Company's share capital. The Company's legal reserve currently amounts to M€173.02. In addition, the Company is required to use the profit generated by the inclusion in the tariffs of the depreciation of the decommissioning to fund future investments.

On March 21, 2019 the Board of Directors formally approved the policy it intends to apply when proposing dividends to the General Shareholder's Meeting. Under this policy, the full-year dividend growth is intended not to be lower than the increase of the Consumer Price Index ("inflation") in Belgium.

The approved dividend policy confirms the Company's existing dividend practice. It supports the Company's long-term ambition to offer a secure dividend in real terms to the shareholders while at the same time enabling the Company to sustain a strong balance sheet that is needed to fund the Company's investment program.

The Board of Directors specifies that future dividends will remain dependent upon the results of the Company (which are affected by a number of factors, including the evolution of the long-term interest rates in Belgium and factors outside the Company's control) as well as the Company's financial situation, financing needs (in particular, capital expenditures and investment plan) and business perspectives.

## MANAGEMENT AND GOVERNANCE

The respective roles and responsibilities of the management bodies of the Company as TSO are, to a large part, governed by the provisions of the Electricity Act, the Royal Decree of May 3, 1999<sup>3</sup> (the “**Corporate Governance Decree**”), the Articles of Association and the Shareholders’ Agreement. The Company is also subject to the Belgian Companies Code.

The Corporate Governance Decree and the Electricity Act set out certain specific rules regarding the organization and corporate governance of the TSO, with a view to guaranteeing its independence and impartiality. These rules relate more specifically to the transparency of the shareholder structure, the appointment of independent directors, the establishment of a Corporate Governance Committee, an Audit Committee and a Remuneration Committee, the application of rules related to conflicts of interests and opposition of interests with dominant shareholders, and the establishment of an Executive Committee. The independence of the TSO requires in particular that: (i) all members of the Board of Directors, the Audit Committee, the Remuneration Committee and the Corporate Governance Committee are non-executive directors; and (ii) at least half of the members of the Board of Directors are independent directors and a majority of the members of the Audit Committee, the Remuneration Committee and Corporate Governance Committee are independent directors. Additionally, the members of the Board of Directors may not be members of the supervisory board or the Board of Directors of, or of the bodies that legally represent, an undertaking that fulfils any of the following functions: the production or supply of electricity.

Once the contemplated internal reorganization of Elia will have been implemented, those governance constraints should cease to apply to Elia. For more information, see section “*Contemplated changes to the Company’s articles of association*”.

### Shareholders’ Agreement

On 31 May 2002, Electrabel NV, SPE NV, CPTÉ CVBA, Publi-T, the Belgian State, the Company and Elia Asset entered into a shareholders’ agreement (the “**Shareholders’ Agreement**”). The Shareholders’ Agreement is governed by Belgian law and entered into for the term of appointment of the Company as TSO (i.e., 20 years as of 17 September 2002), plus six months. If a party ceases to be a shareholder of the Company, it is no longer bound by the provisions of the Shareholders’ Agreement. Following the disposal by Electrabel NV of its shares in the Company, the Shareholders Agreement no longer applies in respect of Electrabel NV.

The Shareholders’ Agreement reflects the special corporate governance rules imposed by law with a view to ensuring the independence of the TSO vis-à-vis its shareholders and market operators. At the federal level, these rules are set forth especially in the Electricity Act and in the Corporate Governance Decree.

The Shareholders’ Agreement has not been amended since 31 May 2002. However, certain elements in the governance structure have evolved since and have therefore had an impact on certain practical implications of the Shareholders’ Agreement.

The following subsections discuss the key provisions of the Shareholders’ Agreement.

#### *General Shareholders’ Meetings*

The General Shareholders’ Meeting decides in accordance with the quorum and majority requirements provided for in the Belgian Companies Code. In addition, the approval of any shareholders’ resolution also requires the approval of holders of a majority of class A and/or class C as long as the holders of class A and/or class C shares own at least 25% of the total outstanding share capital of the Company (or 15% in the event of dilution following a capital increase).

As the class A shares have dropped below the above-mentioned thresholds, the class A shares no longer have such right. Hence this right only accrues to class C shares.

<sup>3</sup> The Royal Decree of May 3, 1999 “*relatif à la gestion du réseau national de transport d’électricité*” / “*betreffende het beheer van het national transmissienet voor elektriciteit*”, Official Gazette June 2, 1999.



### *Governance structure*

The Shareholders' Agreement reflects the special corporate governance rules imposed by law with a view to ensuring the independence of the Company and certain of its subsidiaries vis-à-vis its shareholders and market operators.

According to the Shareholders' Agreement, the Board of Directors consists of twelve directors, including six independent directors. This is consistent with Article 9, §2, of the Electricity Act (as amended), which requires that at least half of the directors be independent. Since then, the Board of Directors was increased to fourteen directors, including seven independent directors and seven non-independent directors.

The directors other than the independent directors are elected by the General Shareholders' Meeting from among candidates proposed by the holders of class A and class C shares. The number of directors that each class A and class C shares holder may respectively propose is no longer determined by reference to the total number of shares issued by the Company, as initially contemplated by the Shareholders' Agreement, but is determined by the number of shares held within each such class compared to the total number of class A and class C shares in the Company. Article 13.5 of the Articles of Association was amended on 11 May 2010 to that effect. As the class A shares have dropped below 12.5% of the total class A and class C shares, the class A shares no longer have the right to propose candidates. Hence all non-independent directors are elected amongst candidates proposed by the holder of the class C shares.

With respect to a number of important Board decisions (to be taken at the level of the Company or any of its subsidiaries), any four directors (including at least one independent director in case of decisions to be taken at the level of the Company or Elia Asset) may require that the matter be deferred for further discussion and decision at a new Board meeting, to be held the first Business Day after a 10-day "cool-off" period. Those decisions include (i) the adoption or follow-up of, and changes to, the business plan; (ii) capital expenditures and borrowings in excess of EUR 10,000,000 (if not reflected in the business plan or annual budget); (iii) decisions regarding the corporate or financial structure of the Company or any of its subsidiaries; (iv) any decision to retain profits; (v) strategic acquisitions or alliances, transfers of important assets or termination of core activities; (vi) any change to accounting and tax policies; (vii) the incorporation of subsidiaries or the transfer of shares of subsidiaries; (viii) engaging in new activities not contemplated in the business plan; (ix) the issuance of any securities; (x) important changes to the activities of subsidiaries; (xi) the granting of guarantees or security interests; and (xii) the appointment and dismissal of management personnel.

The Shareholders' Agreement further provides for a Shareholders' Committee (Comité de Consultation Permanent /Permanent Overlegcomité), consisting of two representatives of each of class A and class C. The committee serves as a forum for advance consultation on a series of important Board decisions (at the level of the Company or any of its subsidiaries) listed in the Shareholders' Agreement, as well as on other matters to be submitted for shareholders' or Board approval (again at the level of the Company or any of its subsidiaries) and considered important by any member of the committee. Additionally, the parties will cause their representatives on the Board to engage in advance consultation with the independent directors with a view to forging consensus.

### *Reciprocal transfer restrictions*

Each of Publipart and Publi-T may freely transfer part or all of its shares to an affiliate that agrees to be bound by the terms of the Shareholders' Agreement.

For transfers to third parties, reciprocal pre-emption rights and tag-along rights apply in respect of class A and class C shares.

In addition, in case a holder of class A shares wishes to convert its registered shares to dematerialized shares with a view to selling such shares on the stock exchange, the holders of class C shares have a right of first refusal at market price, defined as the arithmetic mean of the 20 most recent closing prices on the stock exchange preceding the date of request for delivery of shares in dematerialized form. A reciprocal restriction applies to the holders of class C shares.

### *Reciprocal standstill*

The Shareholders' Agreement contains a standstill obligation intended to preserve the balance between the shareholding held respectively between the class A and class C shares. It provides



that Electrabel NV, SPE and Publi-T will be free to acquire, in one or more transactions, directly or through affiliated companies or companies with whom they act in concert, class B shares on the market up to a maximum of 5% of the total issued shares of the Company. For any acquisition beyond this 5% limit, Publi-T must obtain prior approval of the majority of Electrabel NV, and Publipart, and vice versa. Such approval may be withheld if the proposed acquisition would disturb the equilibrium between Publi-T, on the one hand, and Electrabel NV and Publipart, on the other hand, in the Company's shareholder structure. In case of non-compliance by one of said shareholders with this standstill obligation, notwithstanding any other legal remedy, the obligation ceases to apply for the other shareholders and all parties will be free to acquire class B shares. None of Electrabel NV, Publipart or Publi-T is allowed to acquire class B shares in any number that would take its shareholding above 50% of the total issued shares of the Company.

One can query whether this standstill obligation still applies since Electrabel NV has disposed of all its shares and Publi-T acquired control over the Company within the meaning of the Belgian Companies Code.

#### *Reciprocal call option in case of change of control*

The Shareholders Agreement provides that in case of a change of control of CPTE CVBA or Electrabel NV as a result of which CPTE CVBA or Electrabel NV are no longer controlled, directly or indirectly, by Tractebel or a person related to Tractebel, Publi-T has a call option to acquire all of CPTE CVBA's or Electrabel NV's shares of the Company. This clause no longer applies since Electrabel NV has disposed of all its shares. Likewise, CPTE CVBA has a call option to acquire all of Publi-T's shares of the Company in case of change of control of Publi-T. As this right was specific to CPTE CVBA, it is not clear whether Publipart has inherited this right.

#### *Specific provisions regarding Elia Asset and other subsidiaries*

The issued share capital of Elia Asset amounts to EUR 1,603,839,348 and is represented by 154,280,669 registered shares without par value. The Shareholders' Agreement divides these shares into three classes: class A and C, each consisting of one share, and class B including the remaining 154,280,667 shares. According to the Shareholders' Agreement, Electrabel NV holds the one class A share and Publi-T holds the one class C share. Electrabel NV and Publi-T can freely transfer those shares to their respective affiliates but, in case of a proposed transfer to a third party, the other party holds a right of first refusal at a price corresponding to the accounting par value of the share. If the class A shares of the Company no longer represent more than 15% of the outstanding share capital of the Company, either the Company or Elia Asset shall purchase Electrabel NV's one share of Elia Asset at a price corresponding to the accounting par value of the share, in which case the special rights attached to that share disappear. A symmetrical clause applies in respect of Publi-T's class C share.

In Elia Asset's General Shareholders' Meeting, resolutions require, in addition to the majority vote required by company law, the affirmative vote of both the holder of the class A share and of the holder of the class C share.

Following the sale by Electrabel NV of shares in the Company to Publi-T on 10 May 2010, Electrabel NV sold its share in Elia Asset to the Company on the same date. Accordingly, that one class A share became a class B share. There are no class A shares anymore.

The composition of the board of directors and the standing board committees of Elia Asset mirror that of the Company's Board of Directors and Board committees, as required by Article 9bis of the Electricity Act. Such mirroring provisions also apply to other so-called regulated subsidiaries of the Company.

For subsidiaries of the Company that are not regulated in Belgium, (i.e., subsidiaries that do not own or operate transmission infrastructure in Belgium), the Shareholders' Agreement provides that the board of directors is composed of the members of the Company's or Elia Asset's management and decides in accordance with ordinary rules, except that Electrabel NV, Publi-T or SPE may at any time require the application of corporate governance provisions mirroring those of the Company in order to ensure observance of the principles of the Shareholders' Agreement.

Several provisions of the Shareholders' Agreement are also entered into to the benefit of the Belgian State, who can claim the performance of these provisions.

## **Board of Directors**

### **Powers**

As provided by Article 521 of the Belgian Companies Code, the Company is headed by a Board of Directors acting as a collegiate body. The Board of Directors' role is to pursue the long-term success of the Company by providing entrepreneurial leadership and enabling risks to be assessed and managed. The Board of Directors should decide on the Company's values and strategy, its risk appetite and key policies. The Board of Directors should ensure that the required financial and human resources are in place for the Company to meet its objectives.

The Board of Directors is responsible for all matters relating to the realization of the Company's corporate purpose, with the exception of those matters that are, pursuant to the applicable law or the Articles of Association, exclusively reserved to the Executive Committee or the General Shareholders' Meeting. Pursuant to the Electricity Act and the Corporate Governance Decree, the Company has a two-tier governance structure based on a distinction between:

- the management of the Company (including the daily management) conducted by the Executive Committee, within the framework of the general strategy defined by, and under the supervision of, the Board of Directors; and
- the development of the general strategy of the Company, the general supervision of the Executive Committee within the legal limits with respect to the access to and treatment of confidential commercial information or customer data, and the exercise of specific powers attributed by virtue of the Electricity Act, the Belgian Companies Code and the Articles of Association, which fall within the powers of the Board of Directors.

Under the Articles of Association, the reserved powers of the Board of Directors include, without limitation:

1. determining the general, financial and dividend policy of the Company, including the strategic guidelines or options for the Company as well as the principles and problems of a general nature regarding pricing, risk management and personnel management;
2. the approval, control and amendment of the Company's business plan and budget;
3. the approval and/or refusal of the development plan, the investment plans and the adaptation plan, which the Company must present periodically in accordance with the applicable provisions of the regional and federal regulations regarding the electricity market, it being understood that such plans can only be refused because of their financial impact on the Company;
4. without prejudice to other specific powers of the Board of Directors, to enter into all commitments when the amount exceeds €15,000,000: (i) unless the amount and its main characteristics are expressly provided for in the annual budget; and (ii) with the exception of all agreements, irrespective of the amount, relating to the connection to, access to and use of the network, as well as capacity reservation agreements, concluded in accordance with the main conditions approved by the CREG;
5. decisions on matters relating to the corporate and financial structure of the Company or its subsidiaries, including the issuance of securities;
6. decisions on the incorporation of companies and on the acquisition or disposal of shares (irrespective of the manner in which these shares are acquired or disposed of) in companies in which the Company has a controlling interest, or directly or indirectly, holds a participation, insofar as the financial impact of this incorporation, acquisition or disposal exceeds €2,500,000;
7. decisions on strategic acquisitions, alliances and divestments or transfers of important assets or activities;
8. the approval and monitoring of the strategic options concerning the tariff methodology and the multi-year tariff proposals;
9. decisions on amendments to the Company's accounting or tax policies;
10. decisions on significant changes in the activities of the Company;

11. decisions to undertake or resume activities other than the management of electricity networks, to the extent such decisions are permitted under federal or regional regulations regarding the electricity market; and
12. strategic decisions to manage and/or acquire electricity networks outside of Belgium, to the extent that such decisions are permitted under federal and regional regulations and without prejudice to the powers of the Executive Committee with regard to the European and international integration of electricity networks;
13. with regard to the subsidiaries (other than Elia Asset), the approval of their general policy as well as the decisions and matters referred to in items 5, 6, 7, 10, 11 and 12 above, as well as, but only with regard to the key subsidiaries, the decisions and matters referred to in item 2 above
14. exercising general supervision over the Executive Committee, including compliance with the legal restrictions regarding access to the commercial and other confidential information relating to network users and the processing thereof; in this context, the Board shall also supervise the way in which the business activity is conducted and develops, in order to assess, among other things, whether the Company's business operations are being properly developed;
15. the powers granted to the Board of Directors by or pursuant to the Belgian Companies Code or the Articles of Association.

### **Composition**

The Board of Directors is composed of 14 members. In accordance with the relevant provisions of the Electricity Act and the Articles of Association, all members of the Board of Directors must be non-executive directors (i.e. persons who have no management duties within the Company or one of its subsidiaries). Half of the members of the Board of Directors must be "independent" directors within the meaning of the Articles of Association, the federal and regional regulations applicable to the electricity market and Article 526ter of the Belgian Companies Code. One-third of the members of the Board of Directors must be of a different gender than the other members. In the composition of the Board of Directors, the aforementioned one-third rule is applied proportionally to the independent directors and non-independent directors. If the number of directors of the least represented gender is odd, the group of independent directors shall include at least one director of that gender more than the group of non-independent directors. A linguistic balance must be observed and maintained upon renewal of members of the Board of Directors.

### **Independent directors**

The independent directors are elected by the Shareholders' Meeting based on a list of candidates proposed by the Corporate Governance Committee and after the conforming opinion (*avis conforme / eensluidend advies*) of the CREG on the independence of the directors. The works council is informed of the nominations before the election by the Shareholders' Meeting.

Apart from their independence, the independent directors are selected based on their financial management skills and their relevant technical knowledge.

In the case of vacancies with regard to independent director positions which occur during the term of his/her mandate, the Corporate Governance Committee must present a list of candidates to the Board of Directors, which has the authority to fill the vacancy until the next Shareholders' Meeting. Their candidacy is notified to the works council prior to the cooptation. The Board of Directors' decision with regard to the candidate chosen to fill such a vacancy is subject to the conforming opinion of the CREG, which can refuse on the grounds of lack of independence or impartiality.

### **Non-independent directors**

As long as the class A and class C shares, alone or together, represent more than 30 per cent. of the share capital of the Company, a certain number of these non-independent directors will be elected on the basis of a list of candidates proposed by the class A shareholders (the "**A Directors**") and a certain number of these non-independent directors will be elected on the basis of a list of candidates proposed by the class C shareholders (the "**C Directors**"). The number of non-independent directors to be elected on the basis of a list of candidates proposed by the class A and class C shareholders, respectively, is determined *pro rata* based on the percentage

that the respective class A shares and class C shares represent in the aggregate number of class A and class C shares, as follows:

- seven directors if this percentage is greater than 87.50 per cent.;
- six directors if this percentage is greater than 75 per cent. but not greater than 87.50 per cent.;
- five directors if this percentage is greater than 62.50 per cent. but not greater than 75 per cent.;
- four directors if such ownership is greater than 50 per cent. but not greater than 62.50 per cent.;
- four directors chosen from a list of candidates proposed by the class C shareholders and three directors from a list of candidates proposed by the class A shareholders if the percentage is equal to 50 per cent.;
- three directors if this percentage is greater than 37.50 per cent. but not greater than 50 per cent.;
- two directors if this percentage is greater than 25 per cent. but less than 37.50 per cent.; and
- one director if this percentage is at least 12.50 per cent. but not greater than 25 per cent.

If there are no longer either class A shares or class C shares, seven non-independent directors shall be elected among a list of candidates presented by the holders of the other, remaining class of shares (either class A or class C), to the extent that the shares of this latter class represent more than 30 per cent. of the capital of the Company.

As at the date of this Prospectus, all seven non-independent directors have been elected upon the proposal of Publi-T CVBA (see section “*Relationship with significant shareholders and related party transaction – Share ownership*”).

### **Diversity**

In accordance with the Electricity Act, the Belgian Companies Code and the Articles of Association, the Board of Directors is composed of at least one-third members of the opposite sex. This one-third rule is applied proportionately to independent and non-independent directors.

In addition, in accordance with the 2009 Belgian Corporate Governance Code (the “**Corporate Governance Code**”) and the Law of September 3, 2017 on the publication of non-financial and diversity information by certain large companies and groups, the composition of the Board of Directors is based on gender diversity and diversity in general, as well as on the complementarity of skills, experience and knowledge.

When seeking and appointing new directors, particular attention is paid to diversity parameters in terms of age, gender and complementarity.

As at the date of this Prospectus, the Board of Directors is composed as follows:

Men	35 – 55 years old	3 directors
	≥ 55 years old	6 directors
Women	35 – 55 years old	2 directors
	≥ 55 years old	3 directors

### **Independence criteria**

In accordance with the Articles of Association, an independent director, within the meaning of the applicable legal provisions, is any non-executive director who:

- does not or did not, during the preceding year, supply any goods or services to the Company or any of its subsidiaries or affiliated companies, directly or as a shareholder, director or senior executive of an entity that maintains such relations, it being understood that acting as director or as member of any other statutory body of a subsidiary in which the Company holds all but two shares, and who either manages the transmission network entirely or partly or who is owner of the infrastructure and equipment which belongs to the transmission network, is not deemed to be provision of services;

- does not have a significant financial interest in a company or association that supplies goods or services to the Company or any of its subsidiaries or affiliates;
- does not, and has not during the last three years, filled the position of executive or managing director in an affiliated company of the Company;
- is not, and has not been during the last three years, an employee of the Company or of any of its affiliated companies;
- does not, and did not, receive a material additional remuneration from the Company or any of its affiliated companies, except for the remuneration received in his capacity of director;
- is not a controlling shareholder or a shareholder holding more than 10 per cent. of the shares, nor is he a director or an executive manager of such shareholder;
- is not, and has not been during the last three years, a shareholder or employee of the current or former statutory auditor of the Company or of any of its affiliated companies;
- has not filled a position as non-executive director in the Board of Directors for more than three terms;
- is not a close family member of persons who find themselves in one of the six situations described above;
- does not have family ties up to the third degree with a member of the management of the Company or any of its subsidiaries;
- does not exercise any activity or hold any position, and has not exercised any activity or held any position, within the 24 months preceding his designation as director, remunerated or not, for a producer, an owner of the network, a supplier, a distributor, an intermediary or a dominant shareholder (as defined in the Electricity Act), it being understood that a position as independent director of a subsidiary in which the Company holds all but two shares, and who either manages the transmission network entirely or partly or who is owner of the infrastructure and equipment which belongs to the transmission network, is not deemed to be an incompatibility within the meaning of the Articles of Association;
- does not maintain any other relation, directly or indirectly, with, and does not receive a material benefit from, one of the persons indicated in the previous item or one of their affiliates that could, according to the federal and regional regulatory authorities for the electricity market, influence his judgment; and
- complies with the independence criteria set out in Article 526ter of the Belgian Companies Code.

The independence requirements of Article 526ter of the Belgian Companies Code can be summarized as follows:

- the director has not been an executive member of the board of directors, member of the executive committee or daily manager in the Company (or any of its affiliated companies), during a term of five years prior to his or her election;
- the director has not been a non-executive director for more than three consecutive terms or during a period of more than 12 years;
- the director has not been a member of the managerial staff ("*personnel de direction*" / "*leidinggevend personeel*") of the Company (or an affiliate of the Company) during a term of three years prior to his or her election;
- the director does not receive and has not received any remuneration or other significant financial advantage from the Company (or any of its affiliated companies), other than the profit share (*tantièmes*) and remuneration received in his or her capacity as a non-executive director or as a member of the supervisory body;
- the director does not own any corporate rights ("*droits sociaux*" / "*maatschappelijke rechten*") that represent 10 per cent. or more of the share capital, the corporate funds or of a category of shares of the Company. If the director has corporate rights which represent less than 10 per cent., then:



- such rights, taken together with rights in the same Company held by companies over which the director has control, may not represent 10 per cent. or more of the share capital, the corporate funds or of a class of shares of the Company; or
- the disposal of these shares, or the exercise of the rights attached thereto, may not be subject to agreements or unilateral commitments entered into by the director.

In any event, the director cannot represent a shareholder who meets the conditions set forth in this criterion;

- the director does not, and, during the past financial year, did not, have a significant business relationship with the Company (or any of its affiliated companies), either directly or as a partner, shareholder, member of the board of directors or member of the managerial staff of a company or of a person that maintains such a relationship;
- the director is not and has not been at any time during the past three years, a partner or an employee of the Company's current or former statutory auditor or of a company or person affiliated therewith;
- the director is not an executive director of another company in which an executive director of the Company is a non-executive director or a member of the supervisory body, and has no other significant ties with executive directors of the Company through his or her involvement in other companies or bodies; and
- the director's spouse, unmarried legal partner and relatives (via birth or marriage) up to the second degree do not act as a member of the board of directors, member of the executive committee or daily manager or member of the managerial staff in the Company (or any of its affiliated companies), and meet all of the criteria set out above.

### **Functioning**

The members of the Board of Directors elect a Chairman and one or more Vice Chairmen, who will not have a casting vote.

A meeting of the Board of Directors can be validly held if at least half of the members are present or represented at the meeting. If a meeting is adjourned for lack of quorum, upon reconvening the meeting, the Board of Directors may validly deliberate and resolve on matters on the agenda of the original meeting without satisfying the quorum requirements. Meetings of the Board of Directors are convened by the Chairman of the Board, as the case may be upon request of at least two directors.

Decisions of the Board of Directors are, to the extent possible, taken by consensus and, if no consensus can reasonably be reached, by a simple majority vote. If four directors (including at least one independent director) so request, decisions regarding certain significant issues, identified in Article 19.10 of the Articles of Association, must be postponed to a next meeting to be held on the first Business Day following the expiry of a ten 10-day waiting period. These decisions include:

1. the determination of the general, financial and dividend policy of the Company, including the strategic guidelines or options for the Company as well as the principles and problems of a general nature regarding pricing, risk management and personnel management;
2. the approval, follow-up and amendment of the Company's business plan and budgets;
3. the approval and/or refusal of the development plan, investment plans and adaptation plan which the Company must present periodically in accordance with the respective applicable provisions of the regional and federal regulation regarding the electricity market;
4. the entry into all commitments when the amount exceeds €15,000,000: (i) unless the amount and its main characteristics are expressly provided for in the annual budget; and (ii) with the exception of all agreements, irrespective of the amount, relating to the connection to, access to and use of the network, as well as capacity reservation agreements concluded in accordance with the main conditions approved by the CREG;
5. the corporate or financial structure of the Company or any of its subsidiaries, including the issuance of securities;



6. the incorporation of companies and the acquisition or disposal of shares (regardless of how these shares are acquired or disposed of) in companies in which the company, directly or indirectly, holds a participation, insofar as the financial impact of such incorporation, acquisition or disposal exceeds €2,500,000;
7. strategic acquisitions or alliances, divestments or transfers of important assets or termination of core activities;
8. the approval and monitoring of the strategic options concerning the tariff methodology and the multi-year tariff proposals;
9. any changes to accounting and tax policies;
10. significant changes in the activities of the Company;
11. the undertaking or resuming of activities other than the management of electricity networks, to the extent such decisions are permitted under federal or regional regulations regarding the electricity market;
12. strategic decisions to manage and/or acquire electricity networks outside of Belgium, to the extent that such decisions are permitted under federal and regional regulations; and
13. with regard to the subsidiaries (other than Elia Asset), the approval of their general policy as well as the decisions and matters referred to in items 5, 6 7, 10, 11 and 12 above, as well as, but only with regard to the key subsidiaries identified by the Board of Directors, the decisions and matters referred to in item 2 above.

The Articles of Association require a double majority vote (i.e. a majority of the independent directors and a majority of the non-independent directors) with regard to the following matters:

- the appointment and dismissal of the members of the Executive Committee;
- the proposal to appoint the Company's auditors;
- the composition of the Corporate Governance Committee;
- proposals to the General Shareholders' Meeting to dismiss an independent director;
- the approval or refusal of the development plan, investment plans and adaptation plan which the Company must present periodically in accordance with the respective applicable provisions of the regional and federal regulations regarding the electricity market;
- decisions to undertake or resume activities other than the management of electricity networks to the extent such decisions are permitted under federal or regional regulations regarding the electricity market; and
- strategic decisions to manage and/or acquire electricity networks outside of Belgium, to the extent that such decisions are permitted under federal and regional regulations regarding the electricity market.

#### ***Current members of the Board of Directors***

The current members of the Board of Directors are:

<b>Name</b>	<b>Position</b>	<b>Director since</b>	<b>Expiry of mandate<sup>(1)</sup></b>	<b>Board committee membership</b>
Bernard Gustin	Independent Director and Chairman	May 16, 2017	2023	Member of the Strategic Committee
Claude Grégoire	Non-independent Director and Vice Chairman	May 10, 2011	2023	Member of the Strategic Committee
Geert Versnick	Non-independent Director and Vice Chairman	May 20, 2014	2020	Member of the Strategic Committee

<b>Name</b>	<b>Position</b>	<b>Director since</b>	<b>Expiry of mandate<sup>(1)</sup></b>	<b>Board committee membership</b>
Michel Allé	Independent Director	May 17, 2016	2022	Chairman of the Audit Committee and permanent invitee of the Strategic Committee
Luc De Temmerman	Independent Director	May 20, 2014	2020	Member of the Corporate Governance Committee and Chairman of the Remuneration Committee
Frank Donck	Independent Director	May 20, 2014	2020	Member of the Corporate Governance Committee and Member of the Audit Committee
Cécile Flandre	Non-independent Director	February 28, 2013	2023	—
Philip Heylen	Non-independent Director	August 25, 2011	2023	Member of the Corporate Governance Committee and Member of the Remuneration Committee
Luc Hujoel	Non-independent Director	May 20, 2014	2020	Chairman of the Corporate Governance Committee and Member of the Strategic Committee
Roberte Kesteman	Independent Director	October 27, 2017	2023	Member of the Audit Committee and Member of the Remuneration Committee
Jane Murphy	Independent Director	February 10, 2010	2023	Member of the Corporate Governance Committee
Dominique Offergeld	Non-independent Director	May 11, 2011	2023	Member of the Audit Committee and Member of the Remuneration Committee

<b>Name</b>	<b>Position</b>	<b>Director since</b>	<b>Expiry of mandate<sup>(1)</sup></b>	<b>Board committee membership</b>
Rudy Provoost	Non-independent Director	May 16, 2017	2023	Member of the Audit Committee and Chairman of the Strategic Committee
Saskia Van Uffelen	Independent Director	May 20, 2014	2020	Member of the Remuneration Committee

<sup>(1)</sup> Mandates expire after annual general shareholders' meeting.

The Company's business address serves as the business address of each of the board members.

### **General information on the directors**

In the five years preceding the date of this Prospectus, the directors have held the following directorships (apart from their directorships of the Company or its subsidiaries) and memberships of administrative, management or supervisory bodies and/or partnerships:

<b>Name</b>	<b>Principal outside interests as at December 31, 2018</b>	<b>Past outside interests</b>
Bernard Gustin	Director of European Sports Academy ASBL, Member of the Advisory Board of Médecins Sans Frontières ASBL and Member of the Presidents' Committee of Association of European Airlines ASBL	Director at Germanwings AG and Brussels Airlines NV, CEO at SN Airholding NV
Claude Grégoire	Director of Publi-T SCRL, Vice-Chairman of the Board of Directors of PUBLIGAZ SCRL, Vice-Chairman of the Board of Directors of Fluxys Belgium SA; Director of Fluxys SA, Director of S.R.I.W. Environnement SA, Director – as permanent representative of Socofe SA – of S.P. G.E. SA, Director of FILTERRES SA, Director of C.E.+T SA, Director of C.P. D.H. SA, Director of C.E.+T ENERGRID SA, Director of JEMA SA, Vice-Chairman of the Board of Directors of Circuit de Spa-Francorchamps SA, Director of Spa Grand Prix, Director of Solidaritis, Director of L.L.N. Services NV and Director of SEREL Industrie SA	Director of Start-Up Invest SA, director of BEFIN, ECOTERRES SA, POWER@sea NV and of Fondation Guy Mathot and president of the Caisse De Pensions Et De Secours Du Personnel Dela Socolie
Geert Versnick	Chairman of the Board of Directors of Publi-T CVBA, Chairman of the Board of Directors of Infohos CVBA, Manager of Flemco BVBA, Director of Fluxys Belgium NV	Director of Farys CVBA, vice-president and member of the strategic committee of Eandis CVBA, director of Grondbank The Loop NV, Optima Group NV, Artexis Belgium NV, LIG NV and Havenbedrijf Gent NV
Michel Allé	Director (as permanent representative of GEMA SPRL) of D'leteren SA, Director of Société de Participation et	Director and president of the Audit Committee of Zetes S.A., Director of MobileXpense SA, Director of Ogeda

Name	Principal outside interests as at December 31, 2018	Past outside interests
	de Gestion SA, Director – as permanent representative of GEMA SPRL – of Eurvest SA, Manager of GEMA SPRL, Chairman of the Board of Directors – as permanent representative of GEMA SPRL – of DIM3 SA, Chairman of the Board of Directors – as permanent representative of Bio Cap Invest S.A. – of EPICS THERAPEUTICS SA, director of Bio Cap Invest SA, Director of Solvay Executive Education ASBL, Director of Solvay Executive Education Vietnam ASBL and Managing Director of CEPAC ASBL	SA (formerly Euroscreen SA, formerly Euroscreen BVBA), Director of B Logistics (formerly SNCB Logistics), Director of Eurofima SA.
Luc De Temmerman	Manager of InDeBom Strategies Comm.V., Director of ChemicalInvest Holding BV, Director of Everlam Holding NV, Director of AnQore Topco BV, Director of AOC Aliancys, Composite Resins Holding BV, Director of De Krainer Bieënvrienden VZW and Member of the advisory board of Ship Repair Network Group BVBA	Executive Chairman of Aliancys AG, Member of the advisory board of Quercus Labo BVBA
Frank Donck	Managing Director of 3D NV, Managing Director or Director of affiliated companies to 3D NV, Chairman of the Board of Directors of Atenor SA, Director of Barco NV, Director of KBC Groep NV, Director of KBC Verzekeringen NV, Chairman of the Supervisory Board of Tele Columbus AG, Chairman of the Board of Directors of DragonFly Belgium NV, Vice-Chairman of the Board of Directors of Vlerick Business School, Director of Commissie Corporate Governance Private Stichting	Director at Tele Columbus SA and Tele Columbus AG, Greenyard NV, 3D Private Equity, Plastiflex Group NV, KBC Bank NV, Telenet Group Holding NV and Zenitel NV
Cécile Flandre	Director and Member of the executive committee of Ethias SA, Chairman of the Board of Directors of Ethias Patrimoine SA, Chairman of the Board of Directors of Ethias Sustainable Investment Fund SA, Director of Ethias Services SA, Director of NEB Participations SA and Director of NEB Foncières SA	Director and CFO of Belfius Insurance SA and president of the Board of Directors of Belfius Investment Partners, Belfius Insurance Invest, Belfius Insurance Finance and Belfius Re, Director of Elantis SA, Auxipar NV, Aviabel and Corona Direct
Philip Heylen	Member of the daily management of Sofinim NV, Director of Anima Care NV, Director of Hofkouter NV, Director of BPI Real Estate Belgium NV, Director of Rent A Port NV, Director of Extensa Group NV, Director of AMUZ	Director at Financieringsvereniging voor de Energievoorziening in het Antwerpse, I.S.V.A.G VZW, De Vrienden van het Nationaal Scheepvaartmuseum VZW, Festival van Vlaanderen

<b>Name</b>	<b>Principal outside interests as at December 31, 2018</b>	<b>Past outside interests</b>
	VZW, Director of Kunsthuis Opera Vlaanderen Ballet Vlaanderen VZW, Herdenking 1e V-Bom Antwerpen VZW,	Samenwerkingsvereniging VZW, AG VESPA, Koinklijk Comité tot Bescherming van het Katholiek Onderwijs VZW, Fameus VZW, Antwerpen Kunstenstad VZW, De Filharmonie VZW, Prospekta VZW, MUHKA VZW, Vredescentrum van de provincie en de stad Antwerpen VZW, Antwerp Headquarters VZW, De Vrienden van het Rubenshuis VZW, Induss NV, Water-link, Stadsmarketing en toerisme VZW, Platin Gennootschap VZW and Belgian Waste-to-Energy VZW
Luc Hujoel	General Manager of Interfin SCRL, Director and member of the Nomination & Remuneration Committee and the Audit Committee of Fluxys SA, Director and member of the Strategic Committee, the Nomination & Remuneration Committee and the Audit Committee of Fluxys Belgium SA, Director and Vice-Chairman of the Board of Directors of Publigaz SCRL, Director of Publi-T SCRL, Member of the General Council of the CREG, Director of CEDEC and Director of Centre International de Recherches et d'information sur l'Economie Publique, Sociale et Coopérative ASBL	General Manager at Sibelga SCRL, Brussels Network Operations SCRL and IBE (Intercommunale bruxelloise d'Electricité – Brusselse Elektriciteitsintercommunale), Director at Metrix SCRL, Atrias SCRL, Synergrid VZW/ASBL, Network Research Belgium SA, Managing Director at HBH Consultants SA
Roberte Kesteman	Manager of Symvouli BVBA, Chairman of the Board of Directors of Henkel Pension Fund Belgium OFP and Senior Advisor Benelux of First State Investments International Limited (via Symvouli BVBA)	General manager of EPA Thessalonikis A.E and of EPA Thessalias A.E. and external advisor (via Symvouli BVBA) of Fluxys S.A.
Jane Murphy	Founder and Manager of Jane Murphy Avocat SPRL, Independent Director of Ageas SA, Independent Director of Ageas France, Independent Director of Puilaetco Dewaay Private Bankers SA, Founder and Chair of the European Data Protection Office SA (EDPO) and Vice-Chair of the Board of Directors of the Chamber of Commerce Canada-Belgium-Luxembourg ASBL	Non-executive director and member of the remuneration committee of AGEAS UK Limited
Dominique Offergeld	Chief Financial Officer of ORES SCRL and Director of Club L ASBL, director of Contassur SA	Director of N-Allo CVBA, director and member of the audit committee of Touring Club Royal de Belgique (TCB) ASBL.

Name	Principal outside interests as at December 31, 2018	Past outside interests
Rudy Provoost	Member of the Supervisory Board and of the Governance and Nomination Committee of Randstad Holding NV, Director of Vlerick Business School and Founder and Managing Director of Yquity BVBA	CEO and President of the Board of Directors of Rexel S.A.
Saskia Van Uffelen	Director of Universiteit Antwerpen, Director of AXA Belgium NV, Mandate of the Government at Digital Champion België, Director of BPOST NV, and Director and Chair of the Board of Directors of Media Invest Vlaanderen NV	Chair of the Board of Directors of Ericsson Luxemburg SA, Managing Director of Ericsson NV (Chairman), Director of Berenschot Belgium NV

The following paragraphs contain brief biographies of each of the directors.

**Bernard Gustin** – Mr Gustin is the Chairman of the Board of Directors of Elia, a position he assumed in 2017. He is member of the Board of Directors of European Sports Academy ASBL (since 2012), member of the Advisory Board of Médecins Sans Frontières ASBL, and member of the President's Committee of the Association of European Airlines ASBL (since 2012). He served as a member of the Global Executive Board of Lufthansa AG and as a member of the Chief Executive Board of Star Alliance. Mr. Gustin was the Co-CEO (2008-2012) and later CEO of Brussels Airlines NV/SA (2012-2018). Prior to his functions with Brussels Airlines, he was a partner with Arthur D. Little (1999-2008). Born in 1968, he holds a commercial engineering degree from ICHEC, a degree in international comparative management from ICHEC (Loyal College Maryland) and an MBA from Solvay Business School.

**Claude Grégoire** – Mr Grégoire is Vice-Chairman of the Board of Directors of Elia, Fluxys Belgium SA, PUBLIGAZ SCRL and Circuit de Spa-Francorchamps SA. He also serves as a member of the Board of Directors of Fluxys SA, Publi-T SCRL, S.R.I.W. Environnement SA, Filterres SA, C.E.+T. SA, C.P.D.H. SA, C.E.+T. ENERGRID SA, JEMA SA, Spa Grand Prix SA, Mutualité Solidaris, L.L.N. Services SA and SEREL Industrie SA. He is furthermore the permanent representative of Socofe SA, (director of S.P.G.E. SA). Born in 1954, he holds a degree of electro-mechanical civil engineering.

**Geert Versnick** – Mr Versnick is a former Vice-Governor of the Province of East Flanders, a former alderman of the city of Ghent and a former member of the federal Parliament. He is the Chairman of the Board of Directors of Publi-T CVBA and serves as a member of the Board of Directors of Fluxys Belgium NV, Farys CVBA and Infohos CVBA. Born in 1956, he holds a Master of Laws from the University of Ghent, a certificate of Board Effectiveness from Guberna and a certificate of High Performance Boards from IMD. In addition, he attended the Board Education retreat organised by IMD and the AVIRA program organised by INSEAD.

**Michel Allé** – Mr Allé is the former Chief Financial Officer of SNCB SA (2013-2015) and SNCB Holding SA (2005-2013). Prior to his functions with SNCB and SNCB Holding, he served as Chief Financial Officer of BIAC SA/NV (2001-2005) and held various management functions with COBEPA SA (1987-2000). He currently serves as Director (as permanent representative of GEMA SPRL) of D'leteren SA and Eurvest SA and is a Manager of GEMA SPRL. He also is a director of Bio Cap Invest SA. He is also an Independent Director of Elia and (as permanent representative of GEMA SPRL) of DIM3 SA, where he also serves as Chairman of the Board of Directors (as permanent representative of GEMA SPRL). He is also Chairman of the Board of Directors (as permanent representative of Bio Cap Invest S.A.) of EPICS THERAPEUTICS SA, Director of Solvay Executive Education Vietnam ASBL and Managing Director of CEPAC ASBL. Born in 1950, Mr. Allé holds a Master in Physics Civil Engineering and a Master in Economics from the University of Brussels (ULB).



**Luc De Temmerman** – Mr De Temmerman serves as a member of the Board of Directors of Everlam Holding NV, ChemicalInvest Holding B.V., AnQore Topco B.V. and De Krainer Bieënvrienden VZW. He is an Independent Director in the Board of Directors of Elia, is Manager of InDeBom Strategies Comm. VA. and Chairman of the Board of Directors of AOC Aliancys Composite Resins Holding B.V. He is the former CEO (2011-2012) of Galata Chemicals, the former CEO of EVERLAM NV, the former COD of Solutia, Inc. and a former SVP (1997-2009) of Solutia, Inc. Born in 1954, he holds a Doctorate in Applied Sciences (PhD), a degree in Chemical Engineering (MS) from the University of Leuven (KUL) and a degree in Business Administration (CEPAC/MBA) from the University of Brussels (ULB).

**Frank Donck** – Mr Donck is the Managing Director of 3D NV and Ibervest NV. He serves as Chairman of the Board of Directors of Atenor SA and Chairman of the Supervisory Board of Tele Columbus AG (until 04/2019). He is an independent Director of Elia and Barco NV and a Director of KBC Groep NV. Mr. Donck is also Vice-Chairman of the Vlerick Business School and a Director of Belgium's Corporate Governance Commission. Born in 1965, he holds a Master of Laws from the University of Ghent and a Master in Financial Management from the Vlerick Business School.

**Cécile Flandre** – Ms Flandre is the Chief Financial Officer of Ethias SA since 2017. She serves as a member of the Board of Directors of Ethias SA and certain subsidiaries, Ethias Services, Ethias Patrimoine, NEB Participations SA and NEB Foncière SA. Before she was the Chief Financial Officer of Belfius Insurance SA from 2012 until 2017 and member of its Management Board and Board of Directors. Born in 1971, she holds a Master of Actuarial Sciences and a Master of Mathematics, specialisation in Statistics from the University of Brussels (ULB).

**Philip Heylen** – Mr Heylen was the Vice Mayor of the city of Antwerp from 2004 until November 2016. He serves as a member of the Board of Directors of Elia, Anima Care NV, Hofkouter NV, BPI Real Estate Belgium NV, RENT A PORT NV, and various cultural organisations. He also serves as a Member of the daily management of Sofinim NV. Born in 1968, he holds a Master of Laws from the University of Antwerp.

**Luc Hujoel** – Mr Hujoel serves as a member of the Board of Directors of Elia, Fluxys SA, Fluxys Belgium SA, Publi-T SCRL and is the Vice-Chairman of the Board of Directors of Publigaz SCRL. In addition, Mr. Hujoel is general manager of Interfin SCRL and a member of the General Council of the CREG, Director of CEDEC and Director of CIRIEC (Belgium) (until June 14 2019). Born in 1951, he holds a Master of Economics from the University of Leuven (UCL) and a Bachelor in Philosophy and Literature from the University of Saint-Louis.

**Roberte Kesteman** – Ms Kesteman is Senior Advisor Benelux (via Symvouli BVBA) of First State Investments Limited since 2018. She is the former CEO (2008-2012) and CFO and HR Director (2002-2008) of Nuon Belgium NV. She serves as an Independent Director of Elia and as a Director of Henkel Pension Fund Belgium OFP and Manager of Symvouli BVBA. Born in 1957, Ms. Kesteman holds a Master in Commercial and Consular Sciences from the Vlaamse Economische Hogeschool Brussel and attended the International Corporate Finance Course at INSEAD (France).

**Jane Murphy** – Ms Murphy serves as an Independent Director in the Board of Directors of Puilaetco Dewaay Private Bankers SA, Ageas SA, Ageas France, and Elia. In addition, she is the Vice-President of the Board of Directors of the Canada-Belgium-Luxembourg Chamber of Commerce since 2007 and Founder and Chair of the Board of the European Data Protection Office SA (EDPO) since 2018. She is also Founder and Manager of Jane Murphy Avocat SPRL. Born in 1967, Ms. Murphy holds a Law Degree (LLL) from Laval University, an LLM in European and International Law from the University of Brussels (VUB), a Masters of Laws from the University of Brussels (ULB) and a Certification in European Data Protection from Solvay Brussels School of Economics and Management.

**Dominique Offergeld** – Ms Offergeld is the Chief Financial Officer of ORES SCRL. She serves as a member of the Board of Directors of Elia and Club L ASBL. Born in 1963, she holds a Master in Economics from the University of Namur, a certificate of General Management from INSEAD and Corporate Governance from Guberna.

**Rudy Provoost** – Mr Provoost is the founder and managing director of Yquity BVBA and currently a member of the Board of Directors and Chairman of the Strategic Committee of Elia as well as a member of the Supervisory Board and the Governance & Nomination Committee of Randstad Holding NV and a member of the Board of Directors of Vlerick Business School. Furthermore, he is

the former CEO and Chairman of the Board of Directors of Rexel. Before joining Rexel, he was a member of the Management Board of Royal Philips and successively CEO of Philips Consumer Electronics and CEO of Philips Lighting. He also held a variety of senior leadership positions and executive management positions at Whirlpool, Canon and Procter & Gamble. Born in 1959, Mr. Provoost holds a Master in Psychology from the University of Ghent and a Master in Management from Vlerick Business School.

**Saskia Van Uffelen** – Ms Van Uffelen serves as independent director of bpost NV, AXA Belgium NV, Universiteit Antwerpen and Elia. She is also an independent director and Chairman of the Board of Directors Media Invest Vlaanderen NV. Since 2011 Saskia is mandated by the European Commission and the Belgian Federal Government to help Belgium with the Digital Transformation. Born in 1961, she has an education background in Pedagogy at the Hoger Pedagogisch Instituut Antwerpen and Physical Education at the Hoger Instituut voor Lichamelijke Opvoeding Antwerpen.

#### **Litigation statement concerning the directors**

At the date of this Prospectus, none of the directors of the Company has, other than as set out in the following paragraph, for at least the previous five years:

- been convicted in relation to fraudulent offences;
- held an executive function as a senior manager or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation;
- been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body); or ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of affairs of any company.

Mr. Geert Versnick was a member of the board of directors of Optima Group NV, from which he resigned on June 21, 2016. The shareholders of Optima Group NV have resolved to put the company into liquidation on September 2, 2016.

#### **Conflict of interest**

As a Belgian listed company, the Company is not aware of any potential conflicts of interest between any duties owed to the Company by the members of the Board of Directors or the members of the Executive Committee and the other duties or private interests of those persons.

As a Belgian public company, the Company must comply with the procedures set out in Article 523 of the Belgian Companies Code regarding conflicts of interest within the Board of Directors and Article 524 of the Belgian Companies Code regarding related party transactions.

Each director and member of the Executive Committee has to arrange his or her personal and business affairs so as to avoid direct and indirect conflicts of interest with the Company.

Article 523 of the Belgian Companies Code contains a special procedure, which must be complied with if a director has a direct or indirect conflicting interest of a patrimonial nature in a decision or transaction within the authority of the Board of Directors.

No such conflicts of interest have arisen and the procedure has not been applied in the financial year 2018.

Article 524ter of the Belgian Companies Code provides for a similar procedure as Article 523 of the Belgian Companies Code in the event of a conflict of interest of members of the Executive Committee.

No such conflicts of interest have arisen and the procedure has not been applied in the financial year 2018.

#### **Representatives of the federal government**

In accordance with Article 9, §10bis of the Electricity Act and the Articles of Association, the Belgian Government may, by Royal Decree, appoint to the Board of Directors two representatives of the federal government taken from two different language lists.

These representatives have a consultative vote when attending meetings of the Board of Directors.

Additionally, within a period of four business days, they may lodge an appeal with the federal minister responsible for energy against any decision of the Board of Directors that they consider to be contrary to the guidelines of the government's general policy with regard to the national security of supply in relation to energy or against any decision by the Board of Directors with respect to the budget that the Board of Directors requires to prepare each financial year. This period runs from the day of the meeting at which the decision in question was taken, provided that the representatives on the Board of Directors were duly given notice thereof and, otherwise, as from the day on which those representatives or one of them took cognizance of the decision. The appeal is of suspensive effect. If the federal minister responsible for energy has not set aside the decision in question within a period of eight working days from the appeal, the decision becomes final.

Mrs. N. Roobrouck is currently the sole representative of the federal government on the Board of Directors of the Company.

### **Committees of the Board of Directors**

The Board of Directors of the Company has established: (i) a Corporate Governance Committee; (ii) an Audit Committee; and (iii) a Remuneration Committee, as required by the Electricity Act and the Articles of Association. The Board of Directors has also established a Strategic Committee.

In 2018, the Board of Directors approved the establishment of an ad hoc advisory committee in accordance with Article 522 of the Belgian Companies Code. The purpose of the ad hoc advisory committee was to assist the Board of Directors and the Executive Committee in the exercise of the Company's pre-emptive right to acquire an additional 20 per cent. stake in Eurogrid International (see Section "*The Group's business*"). The ad hoc advisory committee was composed of Bernard Gustin (Chair), Michel Allé, Luc Hujoel, Roberte Kesteman and Geert Versnick. Such committee has now completed its mission.

### **Corporate Governance Committee**

The Corporate Governance Committee is required to be composed of at least three and at most five non-executive directors, of which a majority shall be independent directors and at least one-third shall be non-independent directors. Its duties include, among others, the following:

1. to nominate independent candidates for election to the Board of Directors by the Company's shareholders at the Shareholders' Meeting;
2. to give prior approval for the election and/or, as the case may be, the dismissal of members of the Executive Committee;
3. to examine, if so requested by an independent member of the Board of Directors, by the Chairman of the Executive Committee, by the CREG or by any other authorized regulatory authority, any case of conflict of interest between the Company and a shareholder who is a municipality, a dominant shareholder (as defined in the Electricity Act) or an affiliated company of a dominant shareholder and to report to the Board of Directors regarding such examination;
4. to make a decision in case of incompatibility with regard to any members of the Executive Committee or the personnel;
5. to monitor, without prejudice to the powers of the CREG or any other authorized regulatory authority, the Company's compliance with the legal provisions relating to the management of the electricity network, to assess the efficiency of the Company's policies with respect to the requirements of independence and impartiality of the TSO and to report, on an annual basis, to the Board of Directors and to the CREG or any other authorized regulatory authority with regard to these issues; and
6. to convene a meeting of the Board of Directors in accordance with the convening formalities set out in the Articles of Association upon the request thereto by one-third of the members of the Board of Directors.

The current members of the Corporate Governance Committee are:

- Luc Hujoel, Chairman;
- Luc De Temmerman;

- Frank Donck;
- Philip Heylen; and
- Jane Murphy.

Frank Donck, Luc De Temmerman and Jane Murphy are independent directors in the meaning of the Electricity Act and the Articles of Association.

### **Audit Committee**

The Audit Committee is required to be composed of at least three and at most five members, all of whom are required to be non-executive members of the Board of Directors. A majority of its members shall be independent directors and at least one-third of its members shall be non-independent directors. All members shall have sufficient and necessary experience and expertise in the field of accounting, finance and audit to perform the role of the Audit Committee.

Without prejudice to the legal responsibilities of the Board of Directors, the Audit Committee shall have at least the following responsibilities:

- verifying the Company's accounts and controlling the budget;
- monitoring the financial reporting process;
- monitoring the effectiveness of the Company's internal control and risk management systems;
- monitoring the internal audit and its effectiveness;
- monitoring the statutory audit ("contrôle legal" / "wettelijke controle") of the statutory financial statements, including any follow-up on any questions and recommendations made by the statutory auditors and, as the case may be, by the external auditor charged with the audit of the consolidated financial statements;
- reviewing and monitoring the independence of the statutory auditors, and, as the case may be, of the external auditor charged with the audit of the consolidated financial statements, in particular regarding the provision of additional services to the Company;
- making proposals to the Board of Directors on the (re)appointment of the statutory auditors, as well as making recommendations to the Board of Directors regarding the terms of their engagement; and
- reviewing the effectiveness of the external audit process.

The Audit Committee reports regularly to the Board of Directors on the exercise of its duties, and at least when the Board of Directors prepares the annual accounts, and where applicable the condensed financial statements intended for publication.

The current members of the Audit Committee are:

- Michel Allé, Chairman;
- Frank Donck;
- Roberte Kesteman;
- Dominique Offergeld; and
- Rudy Provoost.

Michel Allé, Frank Donck and Robert Kesteman are independent directors in the meaning of the Electricity Act and the Articles of Association.

### **Remuneration Committee**

The Remuneration Committee of the Company is required to be composed of at least three and at most five members, all of whom are required to be non-executive members of the Board of Directors. A majority of its members shall be independent directors and at least one-third of its members shall be non-independent directors.

The Remuneration Committee is charged with the following tasks:

- to make recommendations to the Board of Directors, in accordance with the laws, decrees, rules and Articles of Association, with regard to the remuneration of the directors and the members of the Executive Committee, and on the remuneration policy determined by the Remuneration Committee;
- to prepare a remuneration report and submit this to the Board of Directors. At the General Shareholders' Meeting of the Company, the Remuneration Committee will provide any necessary information regarding this report;
- to set the conditions under which the members of the Executive Committee and the personnel can participate, in any way, in the financial results of a producer, one of the network owners, a distributor, an intermediary or a dominant shareholder (these terms having the strictest definition that can be given to them by the Articles of Association, the legislation, the decrees, the orders and the rules) or in the products sold or the services provided by these entities. The restrictions set by the Remuneration Committee shall remain in force for a period of 24 months after the relevant members of the Executive Committee or the personnel have left their position at the system operator. The remuneration criteria may link a variable part of the remuneration to the evaluation of the work, the performance and the value of the Company; and
- to ensure that the Company offers competitive remuneration conditions in order to recruit and retain competent and qualified personnel.

The current members of the Remuneration Committee are:

- Luc De Temmerman, Chairman;
- Philip Heylen;
- Roberte Kesteman;
- Dominique Offergeld; and
- Saskia Van Uffelen.

Luc De Temmerman, Roberte Kesteman and Saskia Van Uffelen are independent directors in the meaning of the Electricity Act and the Articles of Association.

### ***Strategic Committee***

The extraordinary Shareholders' Meeting of the Company approved on May 15, 2018 the proposal to set up a strategic committee. The Strategic Committee of the Company is required to be composed of at least three and at most five members, all of whom are required to be non-executive members of the Board of Directors. The Strategic Committee has an advisory role and makes recommendations to the Board of Directors in relation to the Company's strategy. It is responsible:

- to identify and examine market developments and contextual factors that are likely to influence the Group's strategic orientation and the corresponding strategic choices and priorities in the medium and long term;
- to prepare and maintain dialogue on key themes and related options and scenarios that are relevant to the Group's medium- and long-term strategy; and
- to develop and submit proposals concerning the key strategic choices and priorities that are crucial for the future Group in the medium and long term.

The current members of the Strategic Committee are:

- Rudy Provoost, Chairman;
- Claude Grégoire;
- Bernard Gustin;
- Luc Hujoel; and
- Geert Versnick.



Bernard Gustin is an independent director in the meaning of the Electricity Act and the Articles of Association. Michel Allé, independent director, is a permanent invitee of the Strategic Committee.

## **Executive Committee**

### *Powers, composition, functioning and reporting of the Executive Committee*

In accordance with Article 9 of the Electricity Act, the Board of Directors has established an Executive Committee ("*comité de direction*" / "*directiecomité*") within the meaning of Article 524*bis* of the Belgian Companies Code.

Article 524*bis* of the Belgian Companies Code stipulates that the articles of association may authorize the board of directors to delegate its management powers to an executive committee. This delegation cannot comprise the general policy of the Company or any of the decisions reserved by law to the board of directors. The board of directors must supervise the executive committee. The executive committee is comprised of several persons, who do not have to be directors. The conditions of appointment and dismissal, term of office and remuneration of the members of the executive committee and the functioning of the committee are provided for by the articles of association (or, absent provisions in the articles of association, by the board of directors). The articles of association may grant to one or more members, acting alone or jointly, of the executive committee the power to represent the Company.

The Executive Committee of the Company consists of eight members, who are selected based on their competence, experience and independence to manage all technical, financial and human resources matters relating to the operation of the electricity network. Its competences include:

- (i) the operational management of the electricity networks, including the related services, including all commercial and technical services, financial, regulatory and personnel matters related to this operational management, including, *inter alia*:
  - (a) all commitments: (i) when the amount is less than or equal to €15,000,000; or (ii) when the amount and its main characteristics are explicitly provided for in the annual budget;
  - (b) all contracts, irrespective of the amount, relating to connection to, access to and use of the network, as well as capacity reservation contracts, concluded in accordance with the main conditions approved by the CREG;
  - (c) all applications to the competent authorities, including in particular:
    - transport permits, public utility works, construction and operating permits; and
    - applications or submissions of files to the European and Belgian regulatory authorities;
  - (d) contracts for the purchase and sale of land or immovable property, or for the establishment of easements connected with the installations or with the operation and maintenance of the network, as well as contracts submitted to landowners in the context of legal easement for public use;
  - (e) the operation, maintenance and development, within the framework of the business plan or annual budget approved by the board of directors, of secure, reliable and efficient electricity networks, including their interconnectors to other networks in order to ensure the continuity of supply;
  - (f) the improvement, renewal and expansion of the electricity networks, within the framework of the development plan, the investment plans and the adaptation plan as approved by the board of directors;
  - (g) the operational management of electricity flows on electricity networks taking into account exchanges with other interconnected networks and, in this context, ensuring the coordination of the deployment of generation installations and determining the use of interconnectors on the basis of objective criteria in order to ensure, by the means at its disposal, a constant balance of electricity flows resulting from the supply and demand of electricity;



- (h) to this end, and with the means at its disposal, ensuring the safety, reliability and efficiency of electricity networks, including the implementation of appropriate support services;
  - (i) contributing, with the means at its disposal, to security of supply through adequate transmission capacity and reliability of electricity networks;
  - (j) the communication policy in the context of the management of the electricity networks;
  - (k) the protection in law and in fact of electricity networks; and
  - (l) entering into and carrying out the obligations of the company as system operator in the context of promoting the international market integration of electricity networks, as prescribed by Article 8, §1bis of the Act of April 29, 1999 on the organization of the electricity market;
- (ii) the regular reporting to the board of directors on its management activities in the company in execution of the powers granted to the Executive Committee, with due observance of the legal restrictions in the area of access to the commercial and other confidential data concerning the network users and the processing thereof and the preparation of the decisions of the board of directors, including, in particular:
    - (a) the timely and accurate preparation of the annual accounts and other financial information of the company, in accordance with the applicable accounting standards and the policy of the company, and the appropriate communication in this respect;
    - (b) preparing for the adequate publication of important non-financial information about the company;
    - (c) the preparation of the financial information in the half-yearly statements to be submitted to the audit committee for opinion to the board of directors as part of its overall task of monitoring the financial reporting process;
    - (d) the implementation of internal controls and risk management based on the framework approved by the board of directors, without prejudice to the follow-up of the implementation within this framework by the board of directors and of the investigation carried out for this purpose by the audit committee;
    - (e) submitting the financial situation of the company to the board of directors; and
    - (f) providing the information necessary for the board of directors to carry out its duties, in particular by preparing proposals on the policy matters referred to in Article 17.2 of the Articles of Association;
  - (iii) the regular reporting to the board of directors on its policy in the key subsidiaries designated by the board of directors and annual reporting to the board of directors on its policy in the other subsidiaries and on the policy in the companies in which the company directly or indirectly holds a participation; and
  - (iv) all decisions relating to proceedings (both before the Council of State and other administrative courts and before the ordinary courts and before arbitration) and in particular decisions, in the name and on behalf of the company, to file, amend or revoke appeals and to appoint one or more lawyers to represent the company.

It is also entrusted with the day-to-day management of the Company and with all other powers delegated to it by the board of directors (and assigned to it by the Articles of Association).

In accordance with the Electricity Act and the Articles of Association, all members of the Executive Committee are appointed and/or dismissed by the board of directors, upon the prior approval by the Corporate Governance Committee.

The Chairman and the Vice Chairman of the Executive Committee attend the meetings of the board of directors, with a consultative vote.

The Executive Committee charter, which defines the duties and reporting rules of the Executive Committee, is adopted by the board of directors and the Executive Committee, acting together.

Typically, the Executive Committee meets on a monthly basis and endeavors to decide all matters by consensus. It can hold meetings whenever necessary. Meetings are convened by its Chairman, as the case may be upon request of one of its members.

The Executive Committee is required to report to the board of directors regarding the exercise of its duties. All such reports must be made in accordance with any legal restrictions imposed by law, including those relating to the protection of confidential information, individual data related to the network users and commercially sensitive information, the disclosure of which could create a competitive advantage. Possible conflicts or questions in this respect should be submitted to the Corporate Governance Committee.

A linguistic balance must be pursued and maintained upon renewal of members of the Executive Committee.

### ***Confidentiality***

The protection of information relating to the Company's clients from third parties, particularly the shareholders of the Company, can, generally, be summarized as follows:

- further to Article 11 of the federal Grid Code, communication of confidential or commercial information (as defined by said code) to third parties is strictly limited by the conditions provided in such code;
- further to the Corporate Governance Decree, the Company is obliged to take all necessary technical and organizational measures to limit access to commercial information relating to network users only to the members of the Executive Committee and to the Company's staff, insofar as such access is necessary for the performance of their duties; and
- further to the Electricity Act, members of the Executive Committee and Elia's staff are under a duty of professional secrecy in relation to confidential information acquired while performing their duties for the TSO, the infringement of which is criminally sanctioned.

In accordance with the Articles of Association, the members of the Executive Committee and the Company's employees may not perform any function or activities, compensated or not, for any producer, owner of an electricity network (other than mandates as director or member of the Executive Committee of a subsidiary of the Company), distributor, intermediary, holder of a license to supply energy or any affiliate of such enterprises or any shareholder holding 10 per cent. or more of the voting rights or the capital of the Company.

### ***Current members of the Executive Committee***

The current members of the Executive Committee are listed in the table below.

<b>Name</b>	<b>Function</b>
Chris Peeters	Chairman of the Executive Committee and Chief Executive Officer
Markus Berger	Chief Infrastructure Officer
Frédéric Dunon	Chief Assets Officer
Pascale Fonck	Chief External Relations Officer
Ilse Tant	Chief Public Acceptance Officer
Patrick De Leener	Chief Customers, Market and System Officer
Catherine Vandendorpe	Chief Financial Officer
Peter Michiels	Chief Human Resources & Internal Communication Officer

**General information on the members of the Executive Committee**

In the five years preceding the date of this Prospectus, the members of the Executive Committee have held the following directorships (apart from their directorships of the Company or its subsidiaries) and memberships of administrative, management or supervisory bodies and/or partnerships:

<b>Name</b>	<b>Principal outside interests as at December 31, 2018</b>	<b>Past outside interests</b>
Chris Peeters	Member of the Supervisory Board and Member of the Remuneration Committee of EPEX SPOT, director of Synergrid	Director at Schlumberger Limited
Markus Berger	Director of Union Wallone des Entreprises (UWE), director of Union Wallone des Entreprises de Liège (UWEL), director of BEMAS VZW, director of CIGRE	Director of Ampacimon SA
Frédéric Dunon		Director of Point de contact federal informations cables et conduites (KLIM-CICC) VZW
Pascale Fonck	Director of Coreso S.A. and ENTSO-E AISBL	
Ilse Tant		Director at VOKA – Kamer van Koophandel Antwerpen-Waasland VZW
Patrick De Leener	Member of the Supervisory Board of Joint Allocation Office (JAO), director of Coreso SA, replacement of the permanent representative of a director of Synergrid VZW	
Catherine Vandenborre	Director of Contassur SA, director and chairman of the audit committee of Proximus SA, director of Proximus Pension Fund OFP	
Peter Michiels	Director of Elgabel OFP and Enerbel OFP, member of the remuneration committee of Synergrid VZW	

The following paragraphs contain brief biographies of each of the members of the Executive Committee.

**Chris Peeters** – Mr Peeters is the Chairman of the Executive Committee and Chief Executive Officer of the Group since July 2015. Before he was partner of McKinsey&Company from 1998 to 2012 and also co-founder of Altro Steel. He also held the position of director of the Business Consulting division of Schlumberger in Europe, Africa, Middle-East and Russia from 2012 to 2015. He holds a degree of science civil engineering from the Catholic University of Leuven (KUL).

**Markus Berger** – Mr Berger is the Chief Infrastructure Officer of the Company and member of the Investment Committee. He is also a member of the board of directors of Eurogrid International, Union Wallone des Entreprises (UWE), Union Wallone des Entreprises de Liège (UWEL), Bemas, Ampacimon, CIGRE. He holds a degree of electro-mechanical civil engineering from the University of Brussels (ULB) and also an Executive Master in Management and Business Administration from the Solvay Business School and a degree from INSEAD.

**Frédéric Dunon** – Mr Dunon is the Chief Assets Officer of Elia System Operator since January 2014. He joined Elia in 2001 in the Brussels control centre where he was in charge of the operation of the grid. Before he was consultant at Hewlett Packard. He holds a degree of civil engineering from the University of Brussels (ULB) and also a Master form the Solvay Business School and a Master in Energy from the European Energy Institute (EEI).

**Pascale Fonck** – Ms Fonck is Director of External Relations of Elia Sytem Operator. Before she was the Company's head of the Group Function European Activities and of the Department European Market Integration from 2012 to 2015. She is also a member of the board of directors of Coreso SA. She also worked as a project engineer of Tractebel Energy Engineering from 1996 to 1998 and a researcher of the University of Liège from 1990 to 1996. Born in 1967, she holds a degree of Mathematics and a PhD in Applied Mathematics from the University of Liège.

**Ilse Tant** – Ms Tant is the Chief Community Relations Officer since January 2017, responsible for permits, negotiations, property, project communications, CSR and environment. Before, she was Chief Corporate Officer of Elia since January 2014. And before that she was a lawyer at Stibbe. She holds a Master in laws from the Catholic University of Leuven (KUL) and the Northwestern University (Chicago), she also has a middle management degree from the Vlerick Business School.

**Patrick De Leener** – Mr De Leener is the Chief Customers, Market and System Officer of Elia. Before he held various positions in Elia, including head of the Energy Management Department, head of the National Control Centre Department and head of the Grid Services Area. He also served as Chief Executive Officer of Coreso and project engineer of Tractel Energy Engineering (from 1990 to 1999). Born in 1965, he holds a degree of electro-mechanical civil engineering from the University of Brussels (ULB) and he also followed the Business Program SBPA (Séminaire belge de perfectionnement aux affaires).

**Catherine Vandenborre** – Ms Vandenborre is the Chief Financial Officer of Elia since September 2013. She has been working for the Company for 20 years and has held various positions including Chief Corporate Affairs Officer and and CEO of Belpex. She currently serves as chairman of the board of directors of Eurogrid GmbH, member of the board of directors of Eurogrid International and Contassur and she is also an independent director of Proximus. She holds degrees of Applied Economics, Tax and financial risks management. Furthermore, she pursued an International Executive Program at Insead.

**Peter Michiels** – Mr Michiels is the Chief Human Resources & Internal Communication Officer since January 2017. Before he was Global Vice President HR at Esko from 2013 to 2016. He also held the position of Global Business Partner of Huntsman Chemicals from 2009 to 2013 and the position of Corporate HR Director of EAME. He holds a Bachelor of Business Administration from the Catholic University of Leuven (KUL) and a Master of Linguistics from the University of Antwerp.

#### ***Litigation statement concerning the members of the Executive Committee***

At the date of this Prospectus, none of the members of the Executive Committee of the Company, or, in the case of legal entities being members of the Executive Committee, none of their permanent representatives, has, for the previous five years:

- been convicted in relation to fraudulent offences;
- held an executive function as a senior manager or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation;
- been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body); or
- ever been disqualified by a court from acting as member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of affairs of any company.

#### **Corporate governance**

Corporate governance within the Company is based on two pillars: on the one hand, the corporate governance rules for companies whose shares are admitted to trading on a regulated market in Belgium (including the Belgian Companies Code and the Corporate Governance Code, which the

Company has adopted as a benchmark), and, on the other hand, the rules provided for by the Electricity Act, the Corporate Governance Decree and the Shareholders' Agreement.

The Corporate Governance Code is based on a "comply or explain" system: Belgian listed companies are requested to comply with the Corporate Governance Code, but may deviate from its provisions and guidelines (though not the principles) provided that they disclose the justifications for such deviation.

In accordance with the provisions of the Corporate Governance Code, the Electricity Act and the Corporate Governance Decree, the Board of Directors of the Company approved the latest version of its corporate governance charter on November 29, 2018 (the "**Corporate Governance Charter**"). The Company's Board of Directors complies with the Corporate Governance Code, but deviates from it in certain instances in view of the Company's particular situation. These deviations are the following:

- Clause III.2.3. of the Corporate Governance Charter: the members of the Board of Directors are appointed for a term of six years. This six-year term deviates from the term of four years recommended by the Corporate Governance Code (provision 4.6, second section Corporate Governance Code), a fact justified by the technical, financial and legal specificities and complexities associated with the tasks of the TSO.
- Clauses IV.2.1. of the Corporate Governance Charter: in deviation from provisions 4.2, 4.6 (the first section only) and 5.3 of the Corporate Governance Code, the Company does not have a nomination committee that makes recommendations to the Board of Directors regarding the appointment of the non-independent directors. This arrangement is justified by the fact that the Board of Directors constantly seeks consensus, wherever possible. The Corporate Governance Committee acts as a nomination committee for the appointment of the independent directors.
- Clause III and V of the Corporate Governance Charter: in deviation from provision 1.4 Corporate Governance Code, the powers and duties entrusted to the Executive Committee are not included in the terms of reference of the Board of Directors. This is explained by the fact that these powers and duties are already described in the Electricity Act, the Articles of Association and the terms of reference of the Executive Committee.

### **Intention of the directors and the members of the Executive Committee to participate in the Offering**

To the knowledge of the Company, Chris Peeters (chief executive officer and chairman of the Executive Committee, currently holding 3,324 shares in the Company) and Geert Versnick (non-independent Director and vice chairman of the Board, currently holding no shares in the Company) intend to participate in the Offering.

### **Remuneration of directors and executive officers**

#### **General**

In accordance with Articles 16.1 and 15.1 of the respective Articles of Association of the Company and Elia Asset, a remuneration policy for members of the Board of Directors and the Executive Committee was drawn up in 2016 by the Remuneration Committee and approved by the Boards of Directors of the Company and Elia Asset.

The remuneration policy for members of the Board of Directors was approved by the General Meeting of Shareholders of the Company and Elia Asset on 17 May 2016. The remuneration policy for members of the Strategic Committee was approved by the Extraordinary General Meeting of Shareholders of the Company and Elia Asset on 15 May 2018.

The composition and activities of the Remuneration Committee are covered in greater detail in section "*Committees of the Board of Directors – Remuneration Committee*".

#### **Directors**

Following the decision adopted by the Ordinary General Meeting of Elia on 17 May 2016, the rules on the remuneration of directors were amended. The new rules, effective from 1 January 2016, are described below. The total cost of gross remuneration paid to the 14 directors in 2018 was €885,128.26 (€478,895.33 for the Company and €406,232.93 for Elia Asset).

These amounts were calculated on the basis of nine meetings of the Board of Directors of the Company and eight meetings of the Board of Directors of Elia Asset in 2018. In 2018, the Audit Committee met seven times, the Corporate Governance Committee four times, the Remuneration Committee of the Company six times, the Remuneration Committee of Elia Asset five times, the Strategic Committee three times and the ad-hoc Advisory Committee of the Company eleven times.

Directors' remuneration consists of a basic remuneration of €25,000 per annum (€12,500 for the Company and €12,500 for Elia Asset) and an attendance fee of €1,500 (€750 for the Company and €750 for Elia Asset) per Board meeting, starting with the first Board meeting attended by the director. The basic annual remuneration and the attendance fee are increased by 100 per cent. for the Chairman of the Board of Directors and by 30 per cent. for each Vice-Chairman of the Board of Directors.

For each company, additional basic remuneration for each member of an advisory committee to the Board of Directors (the Audit Committee, the Remuneration Committee, the Corporate Governance Committee and the ad-hoc Advisory Committee of the Company) is set at €3,000 per annum per committee, and the attendance fee for each member of a committee is €750 per committee meeting (starting with the first meeting attended by the member). Both the basic remuneration and the attendance fee are increased by 30 per cent. for each committee chairman. The members of the Strategic Committee are not remunerated, with the exception of the Chairman, who is remunerated in the same way as the Chairs of the Board of Directors' other advisory committees.

The basic annual remuneration and the attendance fees are indexed in January each year on the basis of the consumer price index for January 2016. The basic annual remuneration and the attendance fees cover all costs, except (a) any costs incurred by a director resident outside Belgium in connection with the exercise of his/her office (such as travel and accommodation costs) providing that the director in question was resident outside Belgium at the time of appointment or, if the director changed his/her place of residence after appointment, providing that the Remuneration Committee gave its approval; (b) any costs incurred by a director in the event that a meeting of the Board of Directors is held outside Belgium (e.g. in Germany); and (c) any costs incurred by a director travelling abroad in connection with the exercise of his/her office upon the request of the Chairman or a Vice-Chairman of the Board of Directors. All remuneration and costs are included in the company's operating costs.

All remuneration is paid on a *pro rata* basis according to the duration of the director's term of office. An advance on annual remuneration is paid to the directors at the end of the 1st, 2nd and 3rd quarter. A detailed account is prepared during the month of December for the current year.

Directors do not receive any other benefits in kind, stock options, special loans or advances. Neither the Company nor Elia Asset has issued credit to or on behalf of any member of the Board of Directors.

The table below lists the individual gross sums paid to each director for Elia.

<b>Name of director</b>	<b>Gross sum paid in 2018</b>
	(€)
Bernard Gustin	94,090.50
Claude Grégoire	54,883.08
Geert Versnick	67,411.08
Michel Allé	73,549.80
Luc De Temmerman	75,977.10
Frank Donck	69,165.00
Cécile Flandre	37,062.00
Philip Heylen	56,824.92
Luc Hujoel	65,093.40
Roberte Kesteman	69,540.84
Jane Murphy	50,373.00
Dominique Offergeld	63,088.92
Rudy Provoost	56,317.54
Saskia Van Uffelen	51,751.08



### ***Members of the Executive Committee***

The Company has entered into employment agreements with all its executive officers. Pursuant to such agreements, executive officers receive a base salary and are eligible for a performance-based variable compensation on an annual basis. Additionally, all executive officers receive certain fringe benefits.

Pursuant to the employment agreements and/or Belgian law, each executive officer remains subject to a confidentiality undertaking upon termination. Certain executive officers also remain subject to non-competition clauses upon termination. Retirement age of the executive officers, for the purposes of extra-legal benefits, is between 60 and 65.

### ***Executive Committee remuneration policy***

The Group's remuneration system is designed to attract, retain and motivate the most talented individuals with a view to achieving our short- and long-term goals within a consistent framework.

The principles governing remuneration of the Group's executives are:

- Focus on safety first and work in the interests of the company by targeting operational performance;
- Design a salary scheme that encourages executives to live up to our core values of entrepreneurship, collaboration, accountability and agility;
- Attract, retain and nurture the best talent to achieve our strategy and goals in the short and long term;
- Ensure that our variable remuneration rewards both team success at company level and individual contributions;
- Develop a job classification and staff remuneration system based on an objective and measurable methodology;
- Position the remuneration system at the appropriate point of reference in the marketplace to attract the talent we need and to be competitive, using data from multiple providers (including Hay);
- Do not discriminate between employees on any grounds whatsoever through our remuneration system; and
- Design our benefit plans to promote retention and provide a secure environment for our employees and their families.

In 2018, among others, the Remuneration Committee began a review of the guiding principles behind the remuneration policy for the Group's executives. This review will continue in 2019.

The Remuneration Committee evaluates the members of the Executive Committee once a year. Any change in the basic remuneration is linked to the position of each member of the Executive Committee with respect to the general benchmark salary in the market and the assessment of the member's individual performance. In addition, the Remuneration Committee may, on a case-by-case basis, recommend the Board of Directors to award exceptional bonuses in view of particular performances in specific, non-recurring matters.

Since 2004, the Hay Group methodology has been used to define the weighting for each management position and to ensure that remuneration is in line with the going market rate.

The remuneration of members of the Executive Committee consists of the following components:

- basic salary;
- short-term variable remuneration;
- long-term variable remuneration;
- pension; and
- other benefits.

In accordance with Article 17.9 of the articles of association of the Company, an exemption from the provisions of Article 520ter(1) and (2) of the Belgian Companies Code is provided for members of the Executive Committee.

As regards variable remuneration, the Remuneration Committee evaluates the members of the Executive Committee at the end of each year based on a number of qualitative and quantitative targets. Since 2008, variable remuneration has comprised two components: a short-term one and a long-term one.

### **Base remuneration**

All the members of the Executive Committee of the Company and Elia Asset have employee status.

In 2018, the basic remuneration paid to the Chairman of the Executive Committee was €417,910.66. The basic remuneration paid to the other members of the Executive Committee totalled €1,489,240.99 (€1,002,173.93 for management employed by the Company and €487,067.06 for management employed by Elia Asset).

Total basic remuneration of €1,907,151.65 was therefore paid to members of the Executive Committee in 2018.

### **Short-term variable compensation**

The first component of variable remuneration is based on the attainment of a certain number of targets set by the Remuneration Committee at the start of the year, with 30 per cent. of variable remuneration related to the attainment of individual targets and 70 per cent. related to the attainment of the collective targets of the Group ( "short-term incentive plan").

The collective targets for 2018 were:

Net finance costs after tax

- OPEX efficiency
- Safety
- Implementation and monitoring of collective projects and our company transformation
- AIT (grid reliability)

In 2018, the short-term variable remuneration earned by the Chairman of the Executive Committee was €285,312.01.

The variable remuneration earned by other members of the Executive Committee in 2018 was €605,338.46 (€415,045.65 for management employed by the Company and €190,297.82 for management employed by Elia Asset).

A total of €890,650.47 in variable remuneration was therefore earned by members of the Executive Committee in 2018.

Following the successful acquisition of an additional 20% stake in Eurogrid International, the holding company of the German TSO 50Hertz Transmission GmbH, the Board of Directors – acting on the advice of the Remuneration Committee – decided to award certain members of the Executive Committee additional remuneration totalling €190,000 for their additional work. €100,000 of this was paid to the Chairman of the Executive Committee, while €90,000 was paid to certain other members of the Executive Committee (for the Company). This remuneration, which is part of the exceptional remuneration for particular performances in certain specific, non-recurring matters, was added to the aforementioned short-term variable remuneration earned for 2018.

### **Total annual remuneration**

In 2018, the total remuneration earned by the Chairman of the Executive Committee was €803,222.67.

The total annual remuneration of other members of the Executive Committee was €2,184,579.45 (€1,507,124.58 for management employed by the Company and €677,364.88 for management employed by Elia Asset).

Total annual remuneration for all members of the Executive Committee in 2018 was therefore €2,987,802.12.

### **Long-term variable compensation**

The second component of variable remuneration is based on multi-annual criteria covering a period of four years ('long-term incentive plan'). The variable remuneration earned in 2018 can be estimated at €58,005.32 (maximum amount in the event of full attainment of the multi-annual criteria for the tariff period concerned) for the Chairman of the Executive Committee and €375,321.71 for the other members of the Executive Committee (€252,592.13 for management employed by the Company and €122,729.03 for management employed by Elia Asset, respectively).

These amounts are reviewed at the end of each year based on the achievement of the multi-annual criteria. The first part of the long-term variable remuneration for the 2016-2019 tariff period was paid in 2018. The balance will be paid in 2020. The remuneration is definitively acquired at the moment of payment.

### **Clawback**

Bonuses paid for the prior period may be clawed back in case of proven fraud or material misstatement.

### **Contributions to the supplementary pension scheme**

Since 2007, all pension plans for Management Committee members have been defined contribution plans, where the amount paid, excluding tax, is calculated on the basis of annual remuneration. In 2018, the Company paid a total of €107,935.55 for the Chairman of the Executive Committee.

For the other members of the Executive Committee, Elia paid a total of €332,032.48 (€213,207.19 for management employed by the Company and €118,825.29 for management employed by Elia Asset).

### **Other benefits**

Other benefits awarded to members of the Executive Committee, such as guaranteed income in the event of longterm illness or an accident, healthcare and hospitalisation insurance, invalidity insurance, life insurance, tariff benefits, other allowances, assistance with public transport costs, provision of a company car, employer-borne costs and other minor benefits are in line with the regulations applying to all company executives.

The cost of these other benefits for 2018 was valued at €38,823.00 for the Chairman of the Executive Committee and at €215,832.65 for the other members of the Executive Committee (€145,427.27 for management employed by the Company and €70,405.38 for management employed by Elia Asset).

No stock options were awarded at Elia for the Executive Committee in 2018.

### **Insurance**

The Company has contracted a securities offering liability insurance policy in relation to the Offering. In addition, the Company maintains a directors and officers insurance policy covering claims that would be made against members of the Board of Directors of the Company and its executive officers in relation to their functions.

### **Provisions of employment contracts and severance pay for members of the Executive Committee**

The employment contracts of Management Committee members concluded after 3 May 2010 were drawn up in accordance with the prevailing legislation on notice periods and dismissal.

The employment contracts of members of the Executive Committee hired before 3 May 2010 contain no specific provisions regarding dismissal.

If the company decides to impose a 12-month non-compete restriction on a Management Committee member, that member is entitled to an additional six months' compensation.

### Shares held by directors and executive officers

As at the date of this Prospectus, none of the members of the Board of Directors held any shares in the Company.

As at the date of this Prospectus, the members of the Executive Committee held the following number of shares in the Company:

Chris Peeters <i>Chief Executive Officer and Chairman of the Executive Committee</i>	3,324
Markus Berger <i>Chief Infrastructure Officer</i>	9,156
Patrick De Leener <i>Chief Customers, Market and System Officer</i>	2,652
Frédéric Dunon <i>Chief Assets Officer</i>	2,016
Pascale Fonck <i>Chief Officer External Relations</i>	661
Peter Michiels <i>Chief Human Resources &amp; Internal Communication Officer</i>	729
Ilse Tant <i>Chief Public Acceptance Officer</i>	3,002
Catherine Vandenborre <i>Chief Financial Officer</i>	1,406

No stock options were awarded at the Company for the members of the Executive Committee in 2018. Members of the Executive Committee may purchase shares via existing capital increases reserved for members of personnel or on the stock exchange.

### College of Statutory Auditors

As provided in Article 23 of the Articles of Association, the Company is required to engage the services of two joint auditors. Currently, the Company's joint auditors are:

- Ernst & Young Réviseurs d'Entreprises/Bedrijfsrevisoren BCVBA (B160), represented by Patrick Rottiers; and
- KPMG Réviseurs d'Entreprises/Bedrijfsrevisoren CVBA (B001), represented by Alexis Palm.

They are responsible for the audit of the consolidated financial statements of the Company and of the statutory accounts of the Company.

In 2018, the total remuneration for the audit of the consolidated financial statements of Elia System Operator NV/SA and the audit of the statutory financial statements of Elia System Operator NV/SA, Elia Asset NV/SA, Elia Engineering NV/SA, Elia Grid International NV/SA and Eurogrid International CVBA amounted to €169,692. The auditors were appointed for a period of three years. Their mandate is therefore due to expire at the end of the General Shareholders' Meeting for the year ending December 31, 2019.

In 2018, additional fees in the amount of €170,753 were paid to the Belgian auditors for duties relating to the IFRS accounts, tax advice and other special tasks.

## Employees and independent contractors

### Number of employees

The number of employees (heads) employed by the Company in Belgium at the end of 2018, 2017 and 2016 was as follows:

	2018	2017	2016
EA	815	783	756
ESO	340	333	289
EE	187	206	180
EI	6	7	6
EGI	18	21	21
Total	1366	1350	1252

The number of employees (heads) employed by 50Hertz in Germany at the end of 2018, 2017 and 2016:

	2018	2017	2016
<b>50Hertz Transmission GmbH.</b>	<b>1041</b>	<b>1012</b>	<b>981</b>
E-/H-Departments (CEO/CHRO)	101	98	101
F-Departments (CFO)	179	174	152
M-Departments (CMO)	220	208	196
T-Departments (CTO)	192	171	162
Regional Centres (CTO)	349	361	371
North	71	73	69
South.	43	47	48
Southwest.	51	49	50
East.	49	48	54
West	41	43	43
Hamburg.	21	24	27
Centre.	73	77	80
Contracts of definite duration	42	39	41
Personnel expenses	€108,049,389.49	€98,836,109.72	€96,242,503.01
<b>Eurogrid GmbH</b>	<b>6</b>	<b>6</b>	<b>6</b>
Contracts of definite duration	0	0	0
Personnel expenses	€618,840.62	€569,284.42	€543,607.62
50Hertz Transmission GmbH	1041	1012	981

### Employment contracts

The main type of employment contract is a contract of indefinite duration.

### Temporary workers

On December 31, 2018, the Group counted four contracts of definite duration.

### Compensation

In 2018, the costs for personnel amounted to €212,330,628.07 million (excluding costs for non-active staff members) for the Company and its fully owned subsidiaries, excluding costs relating to the non-active staff members.

### Collective labor law

The employment regulations are mainly driven by sectoral collective labor agreement that are, when necessary, completed by a company labor agreement.

### ***Social funds***

There are two social funds within Elia (one for non-management staff and one for management staff), which fund corporate social responsibility (CSR) actions and complement a limited number of social security benefits.

The social funds are financed by the Company and managed by a joint group of representatives of the employer and the employees.

### ***Pensions***

Elia has nine different pension schemes for its personnel, of which five are defined contribution schemes, there are funded defined benefit schemes and one is an unfunded defined benefit scheme:

- Defined contribution schemes: under this system, the amount of the pension capital is determined based on the premiums that have been paid during the career of the employee, as well as the proceeds of the premiums.
  - Enerbel: pension scheme open for all employees hired since January 1, 2002 with personal contributions paid into a group insurance and employer contributions that amount to three times the personal contributions paid into a pension fund;
  - Powerbel Bis: pension scheme open for all management staff hired since January 1, 2004 with personal contributions paid into a group insurance and employer contributions that amount to three times the personal contributions paid into a pension fund;
  - Elia Engineering scheme: pension scheme open for all employees hired by Elia Engineering since April 1, 2003 with personal contributions paid into a group insurance and employer contributions paid into a pension fund;
  - TopEx plan: pension scheme open for the management without personal contributions; and
  - Powerbel: a closed pension scheme only available for management staff hired prior to January 1, 2004 with personal contributions paid into a group insurance and employer contributions that amount to four times the personal contributions paid into a pension fund.
- Defined benefit schemes: under this system, the employee receives a pension capital based on the last annual salary after deduction of the legal pension when they retire.
  - Elgabel New: Employees hired prior to January 1, 2002 receive a pension capital according to the following formula:  $N/45 \times (2.7 \times \text{capped salary} + 9.6 \times \text{salary above cap}) \times \text{average working time}$ ;
  - Pensiobel New: Management staff hired prior to May 1, 1999 and provided that they have not opted for Powerbel receive a pension capital according to the following formula:  $N/45 \times (2.5 \times \text{capped salary} + 10 \times \text{salary above cap}) \times \text{average working time}$ ; and
  - Elia Engineering scheme: employees hired by Elia Engineering prior to April 1, 2003 receive a pension capital according to the following formula:  $N/45 \times (30 \text{ per cent. of capped salary} + 75 \text{ per cent. of salary above cap}) \times 11.6 \times \text{average working time}$ .
- Monthly pension allowances paid through withholding on general costs: under this system, the pension is not funded and no premiums are paid. This system is a closed system, which only applies to 355 retired employees and 18 current employees yet to retire.

The CREG has determined that the Company's pension costs are not unreasonable and that they could, therefore, be reflected in the electricity tariffs, except for the costs relating to 20 former employees.

### ***Capital increases for the benefit of personnel***

The Company has built a tradition of extraordinary capital increases reserved specifically for its personnel. The first capital increase occurred in 2005 at the occasion of the Company's listing. Since then, capital increases have taken place every year except in 2011. The price equaled each



time the average of the closing prices during a period of 30 calendar days preceding the issuance date, reduced by a discount of 16.66 per cent. In order to benefit from this reduction, the shares remain blocked on the employee's investment account for a period of two years starting from the date of the actual capital increase.

#### **Contemplated changes to the Company's articles of association**

A summary of the proposed changes to the governance of the Company which will be proposed to the shareholders' meeting of the Company once it is no longer the transmission system operator is included in Section *"The Group's business – Regulatory framework – Contemplated internal reorganization of Elia in light of potential impact of the new tariff methodology – Proposed changes to the Company's articles of association"*.

## RELATIONSHIP WITH SIGNIFICANT SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### Share Ownership

Based on the transparency notifications received, the major shareholders of the Company hold the following shares in the Company:

Shareholders	Cat. shares	Shares	% Shares	% Voting rights
Publi-T	B and C	27,308,507	44.97 <sup>(*)</sup>	44.97 <sup>(*)</sup>
Katoen Natie Group	B	3,157,624	5.21 <sup>(*)</sup>	5.21 <sup>(*)</sup>

<sup>(\*)</sup> These percentages are calculated using the denominator applicable at the time of the transparency notification

Publi-T CVBA ("**Publi-T**") is a Belgian cooperative company with limited liability, with its registered office at Galerie Ravenstein 4 (bte 2)/Ravensteingalerij 4 (bus 2), 1000 Brussels, Belgium (enterprise number 0475.048.986 (Brussels)). According to a transparency notification dated March 30, 2011, no person ultimately controls Publi-T.

Publi-T's shareholding currently gives it the right to propose candidates for half of the board members of the Company. Under the Company's bylaws and the Shareholders' Agreement, Publi-T's shareholding and board representation allows it to block certain board resolutions and all shareholders' resolutions. The Company is thus directly controlled by Publi-T. This constitutes a *de jure* and exclusive control within the meaning of the Belgian Companies Code, even though in accordance with the Electricity Act half of directors currently qualify as independent directors. For more information, see section "Shareholders' Agreement".

Publipart NV ("**Publipart**") is a Belgian limited liability company, with its registered office at Rue Royale 55/Koningstraat 55, 1000 Brussels, Belgium (enterprise number 0875.090.844 (Brussels)). According to a transparency notification dated May 11, 2010, Publipart is controlled by Publiec CVBA, a Belgian cooperative company with limited liability, with its registered office at Place Communale, 4100 Seraing, Belgium (enterprise number 0219.808.433 (Liège)), which owns 64.93 per cent. of the shares in Publipart.

According to a transparency notification dated March 30, 2011, Publi-T and Publipart are acting in concert within the meaning of article 3 §1, 13° b) of the Belgian law of May 2, 2007 on the disclosure of major holdings in issuers whose shares are admitted to trading on a regulated market and laying down miscellaneous provisions (the "**Transparency Act**"), meaning that Publi-T and Publipart have concluded an agreement on the concerted exercise of their voting rights with a view to establishing a lasting common policy regarding the Company.

On October 29, 2014, the Company received a transparency notification from Katoen Natie Group SA in accordance with the Transparency Act. According to this transparency notification, the participation of Katoen Natie Group SA in the Company's shares exceeded the threshold of 5 per cent. Katoen Natie Group SA is a Luxembourg limited liability company, having its registered office at Boulevard Joseph II 15, 1840 Luxembourg, Luxembourg (enterprise number B0110988).

On October 29, 2014, the Company further received a transparency notification from the Federale Participatie- en Investeringsmaatschappij NV (the "**Federal Holding and Investment Company**") in accordance with the Transparency Act by virtue of the shares held by Belfius Insurance. According to this transparency notification, the participation of the Federal Holding and Investment Company in the Company's shares fell below the threshold of 5 per cent. The Federal Holding and Investment Company is a public limited liability company which is fully owned by the Federal Government.

On January 9, 2017, the Company received a transparency notification from Publi-T in accordance with the Transparency Act. According to this transparency notification, the participation of Publi-T in the Company's shares has decreased under the threshold of 45 per cent. of the Company's shares and reached 44.97 per cent. on December 22, 2016. The Federal Holding and Investment Company, which is acting in concert with Publi-T within the meaning of article 3 §1, 13° b) of the Transparency Act, informed Elia on January 17, 2017 that its interest in the Company had slightly decreased to 2.02 per cent. on December 22, 2016. The change in ownership is a result of the capital increase reserved for the personnel as at the end of 2016.

Based on the number of shares presented at the annual shareholders' meeting held on May 21, 2019, the major shareholders of the Company hold the following shares in the Company. These figures may not accurately reflect the total number of shares held by such shareholder.

Shareholders	Cat. shares	Shares	% Shares	% Voting rights
Publi-T	B and C	27,383,507 <sup>(1)</sup>	44.87	44.87
Publipart	A and B	1,979,762 <sup>(2)</sup>	3.24	3.24
Belfius Insurance	B	714,357	1.17	1.17
Katoen Natie Group	B	4,228,344	6.93	6.93
Interfin	B	2,598,143	4.26	4.26
Other Free float	B	24,120,721	39.53	39.53
<b>Total Amount of the Shares</b>	<b>A, B and C</b>	<b>61,024,834</b>	<b>100</b>	<b>100</b>

(1) Including 27,308,507 C shares and 75,000 B shares.

(2) Including 1,526,756 A shares and 453,006 B shares.

As a result of the capital increase in favor of the members of the personnel of the Company and its Belgian subsidiaries, as recorded in a notarial deed of March 22, 2019, the Company issued 9,776 new shares. On March 22, 2019, the Company released the following information in accordance with the Transparency Act: 1,526,756 shares of class A, 32,189,571 shares of class B and 27,308,507 shares of class C. The total number of shares of the Company has risen to 61,024,834.

### Intention of the Existing Shareholders to participate in the Offering

By letter dated June 4, 2019, Publi-T irrevocably and unconditionally committed to the Company to exercise all of the Preferential Rights to which it is entitled in the context of the Rights Offering and to subscribe for the resulting number of New Shares.

By letter dated May 28, 2019, Publipart has irrevocably and unconditionally committed to the Company to exercise all of the Preferential Rights to which it is entitled in the context of the Rights Offering and to subscribe for the resulting number of New Shares.

### General Shareholders' Meetings

The General Shareholders' Meeting decides in accordance with the quorum and majority requirements provided for in the Belgian Companies Code. In addition, the approval of any shareholders' resolution also requires the approval of holders of a majority of class A and/or class C as long as the holders of class A and/or class C shares own at least 25 per cent. of the total outstanding share capital of the Company (or 15 per cent. in the event of dilution following a capital increase).

### Governance structure

The Shareholders' Agreement reflects the special corporate governance rules imposed on the Company as TSO by law with a view to ensuring the independence of the Company and certain of its subsidiaries vis-à-vis its shareholders and market operators. For more information, see section "Management and Governance – Shareholders' Agreement".

According to the Articles of Association, the Board of Directors consists of 14 directors, including seven independent directors. This is consistent with Article 9, §2, of the Electricity Act (as amended), which requires that at least half of the directors be independent.

The directors other than the independent directors are elected by the General Shareholders' Meeting from among candidates proposed by the holders of class A and class C shares to the extent that the holders of class A and class C shares alone or together represent more than 30 per cent. of the Company's capital. The directors other than the independent directors are elected by the General Shareholders' Meeting from among candidates proposed by the holders of class A and class C shares to the extent that the holders of class A and class C shares alone or together represent more than 30 per cent. of the Company's capital. With respect to a number of important Board decisions (to be taken at the level of the Company or any of its subsidiaries), any four

directors (including at least one independent director in case of decisions to be taken at the level of the Company or Elia Asset) may require that the matter be deferred for further discussion and decision at a new Board meeting, to be held the first Business Day after a 10-day “cool-off” period. Those decisions include: (i) the adoption or follow-up of, and changes to, the business plan; (ii) entering into any commitment in excess of €15,000,000 (if not reflected in the annual budget and when the agreement does not relate to the connection to, access to and use of the work, as well as capacity reservation agreements concluded in accordance with the main conditions approved by the CREG); (iii) decisions regarding the corporate or financial structure of the Company or any of its subsidiaries; (iv) any decision to retain profits; (v) strategic acquisitions or alliances, transfers of important assets or termination of core activities; (vi) any change to accounting and tax policies; (vii) the incorporation of subsidiaries or the transfer of shares of subsidiaries; (viii) engaging in new activities not contemplated in the business plan; (ix) the issuance of any securities; (x) any changes to the activities of subsidiaries; (xi) the granting of guarantees or security interests; and (xii) the appointment and dismissal of management personnel.

### **Transactions with affiliates**

Article 524 of the Belgian Companies Code which applies to the Company provides a special procedure to be followed when the Company's decisions or transactions concern relationships between the Company, on the one hand, and affiliated companies (other than subsidiaries) of the Company, on the other hand. The procedure contained in Article 524 must also be followed for decisions or transactions that concern relationships between the Company's subsidiaries and affiliated companies of such subsidiaries (other than subsidiaries of those subsidiaries). Such a procedure does not apply to transactions that are entered into in the ordinary course of business at usual market conditions or for decisions and transactions whose value does not exceed 1 per cent. of the Company's consolidated net assets.

Prior to a decision or transaction to which Article 524 applies, a committee of three independent members of the Board of Directors, assisted by one or more independent experts, must give an assessment thereof, identifying advantages and disadvantages for the Company and its shareholders and its financial impact and determining whether or not the decision or transaction is manifestly detrimental in light of the Company's policies. The committee's assessment must be submitted in writing to the Board of Directors, which then makes a decision in light of the committee's recommendation. The Board of Directors may deviate from the committee's recommendation, but, if it does, it must justify the reasons for such a deviation. The committee's conclusions must be published, together with an excerpt of the minutes of the Board of Directors' conclusions, in the Company's annual report.

The Company has not applied this procedure in 2016, 2017 or 2018.

## DESCRIPTION OF SHARE CAPITAL AND ARTICLES OF ASSOCIATION

### General

The Company is a public limited liability company ("*société anonyme*" / "*naamloze vennootschap*") and was incorporated under the laws of Belgium on December 20, 2001 for an indefinite period of time. The Company's registered office is located at Boulevard de l'Empereur/Keizerlaan 20, 1000 Brussels, Belgium and it is registered with the Belgian register for legal entities under number 0476 388 378. The Company may be reached by telephone at the number +32 (0) 2 546 70 11.

The Company also qualifies as a listed company ("*société cotée*" / "*genoteerde vennootschap*") within the meaning of Article 4 of the Belgian Companies Code and as a company having made a public call on savings ("*société faisant ou ayant fait publiquement appel à l'épargne*" / "*vennootschap die een openbaar beroep op het spaarwezen doet of heeft gedaan*") within the meaning of Article 438 of the Belgian Companies Code.

Pursuant to the Belgian Companies Code, the liability of shareholders of a public limited liability company is limited to the amount of their respective committed contribution to the capital of the Company.

This section summarizes the Company's corporate purpose, share capital and rights attached to certain shares and is based on the Articles of Association.

This section provides details of certain provisions of Belgian law and information on the Company's group structure. The description provided hereafter is only a summary and does not purport to provide a complete overview of the Articles of Association or the relevant provisions of Belgian law.

### Corporate purpose

Subject to the limits and conditions set out in the Electricity Act as well as its implementing decrees and regulations, the Company may, according to Article 3 of its Articles of Association, engage in:

- the management of electricity networks, directly or via shareholdings in entities that own electricity networks and/or are active within the electricity sector, including related services;

the performance of the following tasks in relation to the electricity networks mentioned above:

- the operation, maintenance and development of secure, reliable and effective networks, including the interconnectors from them to other networks in order to guarantee the continuity of supplies;
- the improvement, study, renewal and extension of networks, particularly in the context of a development plan, in order to ensure the long-term capacity of the networks and to meet reasonable demand for the transmission of electricity;
- the management of electricity flows on networks having regard to exchanges with other mutually connected networks and, in this context, ensuring coordination of the switching-in of production plants and determination of the use of interconnectors on the basis of objective criteria in order to guarantee a durable balance among the electricity flows resulting from the demand for and supply of electricity;
- the provision of secure, reliable and effective electricity networks and, in this connection, ensuring availability and implementation of the necessary support services and particularly emergency services in the event of defects in production units;
- the contribution to security of supply by providing for adequate transmission capacity and network reliability;
- the guaranteeing that no discrimination arises among network users or categories of network users, particularly in favor of affiliated or associated undertakings;
- the collection of revenues from congestion management;
- the granting and managing of third-party access to the networks;
- in the context of the foregoing tasks, endeavoring and taking care that market integration and energy efficiency are promoted according to the law applicable to the Company;

- the instruction, under the control and supervision of the Company and in accordance with applicable law, to one or more subsidiaries in carrying out certain of its activities set out above;
- the carrying out, in Belgium and abroad, of any operation which facilitates the achievement of its corporate purpose, and any public services mission imposed on it by law. However, the Company may not perform any activities with regard to the production or sale of electricity, other than production in the Belgian supply area in relation to support services and sales required by its coordination activity as network operator;
- the carrying out of any actions or transactions, whether of industrial, commercial, financial or any other nature, relating to moveable or immoveable property, which, directly or indirectly, relate to its corporate purpose. The Company may, in particular, be the owner of any property, moveable or immoveable, which it manages or exercise or acquire any rights in respect thereof which are necessary in order to perform its tasks; and
- the acquisition of interests under any form in any businesses or entities that may contribute to the achievement of the Company's corporate purpose, and the Company may, in particular, acquire interests (whether or not in the capacity of shareholder), cooperate or enter into any form of cooperation agreement, commercial, technical or of any other nature, with any Belgian or foreign person, business or company that carries on similar or related activities, provided, however, unless authorized under relevant legislation, that the Company may not hold direct or indirect membership rights in any form whatsoever in generators, distribution system operators, suppliers and intermediaries any of which have to do with electricity and/or natural gas, or in affiliated or associated undertakings to the above-mentioned undertakings.

The terms “generator”, “distribution system operator”, “supplier”, “intermediary” and “subsidiary” have the meanings provided in Article 2 of the Electricity Act.

#### **Amount of capital, number and categories of shares**

All shares have identical voting, dividend and liquidation rights, but, as described in further detail below, the class A and the class C shares carry certain special rights regarding the nomination of candidates for appointment to the Board of Directors and the voting of shareholders' resolutions.

On the date of this Prospectus, the Company's share capital amounts to €1,522,073,126.98 represented by 61,024,834 ordinary shares without nominal value, each representing 1/61,024,834th of the Company's share capital. The capital is fully paid up.

The shares are divided into three classes of shares, as follows:

- class A: 1,526,756 shares held by Publipart;
- class B: 32,189,571 shares held in free float (of which 75,000 held by Publi-T and 453,006 held by Publipart); and
- class C: 27,308,507 shares held by Publi-T.

All shares have the same rights irrespective of their class, except as otherwise provided in the Articles of Association. Pursuant to the Articles of Association, the class A and class C shares are conferred with special rights regarding the nomination of candidates for appointment to the Board of Directors and the voting of shareholders' resolutions.



The table below provides an overview of the history of the Company's share capital since January 1, 2016.

	Date	Number of shares issued	Issue price per share (€)	Capital increase	Subscribed capital after transaction	Aggregate number of shares after capital increase
Capital increase 2016	December 22, 2016	140,919	37,61	5,299,963.59	1,518,738,998.33	60,891,158
Capital increase 2017	March 23, 2017	9,861	39,66	391,087.26	1,518,984,950.05	60,901,019
Capital increase 2018	December 20, 2018	114,039	46,44	5,295,971.16	1,521,829,295.31	61,015,058
Capital increase 2019	March 22, 2019	9,776	50.56	494,274.56	1,522,073,126.98	61,024,834
<b>Total</b>					1,522,073,126.98	61,024,834

### Capital increase

Pursuant to the Belgian Companies Code, the Company may increase or decrease its share capital upon the approval of 75 per cent. of the votes cast at a General Shareholders' Meeting where at least 50 per cent. of the share capital is present or represented. In addition, pursuant to the Articles of Association, approval of any shareholders' resolution also requires the approval of holders of a majority of class A and/or class C as long as the holders of class A and/or class C shares own at least 25 per cent. of the total outstanding share capital of the Company (or 15 per cent. in the event of dilution following a capital increase) (see section "*Shares – Rights attached to the shares – General Shareholders' Meeting and Voting Rights*").

Subject to the same quorum and majority requirements, the General Shareholders' Meeting can authorize the Board of Directors, within certain limits, to increase the Company's share capital without any further approval of the shareholders. This authorization needs to be limited in time (i. e. it can only be granted for a renewable period of maximum five years) and in scope (i.e. the authorized capital may not exceed the amount of the registered capital at the time of the authorization).

On May 21, 2019, the Extraordinary Shareholders' Meeting authorized the Board of Directors for a period up to 31 July 2020 to increase the Company's share capital in one or more transactions with a maximum amount of €435.000.000.

In the case of a capital increase in cash with issue of new shares, or in the event of an issue of convertible bonds or warrants exercisable in cash, the existing shareholders have a preferential subscription right to subscribe to the new shares, convertible bonds or warrants, *pro rata* to the part of the share capital represented by the shares that they already hold. The General Shareholders' Meeting may, however, limit or cancel such preferential subscription rights subject to substantive and reporting requirements. Such decision must satisfy the same quorum and majority requirements as the decision to increase the Company's share capital. The shareholders can also decide to authorize the Board of Directors to limit or cancel the preferential subscription right, subject to the terms and conditions set forth in the Belgian Companies Code. Normally, the authorization of the Board of Directors to increase the share capital of the Company through contributions in cash with cancellation or limitation of the preferential right of the existing shareholders is suspended as of the notification to the Company by the FSMA of a public tender offer for the investment instruments of the Company.

### Shares' buy-back

In accordance with the Belgian Companies Code and the Articles of Association, the Company can only purchase and sell its own shares by virtue of a shareholders' resolution passed with: (i) a majority of at least 80 per cent. of the votes; (ii) a majority of votes of the class A and/or class C shares as long as the holders of class A and/or class C shares own at least 25 per cent. of the total outstanding share capital of the Company (or 15 per cent. in the event of dilution following a capital increase); and (iii) at an Extraordinary Shareholders' Meeting where at least 50 per cent. of the share capital and at least 50 per cent. of the profit certificates (if any) are present or represented. The prior approval by the shareholders is not required if the Company purchases the shares to offer them to the Company's personnel.

In accordance with the Belgian Companies Code, an offer to purchase shares must be made to all shareholders under the same conditions. This does not apply to:

- (i) the acquisition of shares by companies listed on a regulated market and companies whose shares are admitted to trading on a multilateral trading facility (an “MTF”), provided that the Company ensures equal treatment of shareholders finding themselves in the same circumstances by offering an equivalent price (which is assumed to be the case: (a) if the transaction is executed in the central order book of a regulated market or MTF; or (b) if it is not so executed in the central order book of a regulated market or MTF, in case the offered price is lower than or equal to the highest actual independent bid price in the central order book of a regulated market or (if not listed on a regulated market) of the MTF offering the highest liquidity in the share); or
- (ii) the acquisition of shares that has been unanimously decided by the shareholders at a meeting where all shareholders were present or represented.

Shares can only be acquired with funds that would otherwise be available for distribution as a dividend to the shareholders pursuant to Article 617 of the Belgian Companies Code (see section “*Dividends and Dividend Policy – Dividend policy*”). The total amount of shares held by the Company can at no time be higher than 20 per cent. of its share capital.

No shares’ buy-back authorization has been granted to the Board of Directors of the Company.

## **General Shareholders’ Meeting and voting rights**

### ***Annual Shareholders’ Meeting***

The Annual Shareholders’ Meeting is held on the third Tuesday of May at 10.00 a.m. (Brussels time), or, if not a Business Day, on the next Business Day. At the Annual Shareholders’ Meeting, the Board of Directors submits the audited statutory financial statements under Belgian GAAP, the audited consolidated financial statements under IFRS and the reports of the Board of Directors and of the statutory auditors with respect thereto to the shareholders. The Annual Shareholders’ Meeting then decides on the approval of the statutory financial statements under Belgian GAAP, the proposed allocation of the Company’s profit or loss, the discharge of liability of the directors and the statutory auditors, and, as the case may be, the (re)appointment or dismissal of the statutory auditors and/or of all or certain directors.

### ***Special and Extraordinary Shareholders’ Meetings***

A Special or Extraordinary Shareholders’ Meeting may be convened by the Board of Directors or the auditors whenever the Company’s interests so require and must be convened at the request of one or more shareholders representing at least one-fifth of the Company’s share capital (see Article 24.2 of the Articles of Association).

### ***Notices convening the General Shareholders’ Meeting***

Holders of registered Shares must receive written notice of the Shareholders’ Meeting by regular mail at least 30 days prior to the meeting. The Company must also publish a notice of the meeting in the Belgian state Gazette (“*Belgisch Staatsblad*” / “*Moniteur belge*”), in a newspaper with national distribution (except for those annual Shareholders’ Meetings which take place at the location, place, day and hour indicated in the Articles of Association and whose agenda is limited to the approval of the annual accounts, the annual reports of the Board of Directors and the statutory auditor, discharge to be granted to the directors and statutory auditor, the remuneration report and termination provisions) and in media that can be reasonably considered having effective distribution with the public in the EEA and that is swiftly accessible, and in a non-discriminatory manner. The notices are published at least 30 days prior to the meeting. If a new convocation is required for lack of quorum and the date of the second meeting was mentioned in the first notice, then, in the absence of new agenda items, notices are published at least 17 days in advance of that second meeting.

As from the publication of the notice, the Company shall make the information required by law available on the Company’s website ([www.eliagroup.eu](http://www.eliagroup.eu)) for a period of five years after the relevant Shareholders’ Meeting.

### **Formalities to attend the General Shareholders' Meeting**

A shareholder wishing to attend and participate in the Shareholders' Meeting must:

- have the ownership of its Shares recorded in its name, as at midnight Central European Time, on the 14th calendar day preceding the date of the meeting (the "record date" record date ) either through registration in the shareholders' register in the case of registered Shares or through book-entry in the accounts of an authorised account holder or clearing institution in the case of dematerialized Shares; and
- notify the Company (or the person designated by the Company) by returning a signed original paper form or, if permitted by the Company in the notice convening the Shareholders' Meeting, by sending a form electronically (in which case the form shall be signed by means of an electronic signature in accordance with applicable Belgian law), at the latest on the sixth calendar day preceding the day of the meeting, of its intention to participate in the meeting. In addition, the holders of dematerialized Shares must, at the latest on the same day, provide the Company (or the person designated by the Company), or arrange for the Company (or the person designated by the Company) to be provided, with an original certificate issued by an authorised account holder or a clearing institution certifying the number of Shares owned on the record date by the relevant shareholder and for which it has notified its intention to participate in the meeting.

Holders of any profit-sharing certificates, non-voting shares, bonds, subscription rights or other securities issued by the Company, as well as holders of certificates issued with the co-operation of the Company and representing securities issued by the latter, may participate in the Shareholders' Meeting insofar as the law or the Articles of Association entitles them to do so and, as the case may be, gives them the right to participate in voting. If they propose to participate, such holders are subject to the same formalities concerning admission and access, and forms and filing of proxies, as those imposed on shareholders.

### **Voting rights – quorum and majorities**

Each share is entitled to one vote. Voting rights may, however, be suspended in relation to shares, in the following events, without limitation and without this list being exhaustive:

- which are not fully paid up, notwithstanding the request thereto by the Board of Directors of the Company;
- to which more than one person is entitled, except in the event that a single representative is appointed for the exercise of the voting right;
- which entitle their holder to voting rights above the threshold of 5 per cent., or any multiple of 5 per cent. of the total number of voting rights attached to the outstanding financial instruments of the Company on the date of the relevant General Shareholders' Meeting, except in case the relevant shareholder has notified the Company and the FSMA at least 20 days prior to the date of the General Shareholders' Meeting (see section "*Notification of significant shareholdings*") of its shareholding reaching or exceeding the thresholds above; and
- of which the voting right was suspended by a competent court or the FSMA.

Generally, the Shareholders' Meeting has sole authority with respect to:

- the approval of the statutory financial statements of the Company (statutory financial statements under Belgian GAAP);
- the appointment and dismissal of directors and the Statutory Auditor of the Company;
- the granting of discharge of liability to the directors and the Statutory Auditor;
- the determination of the remuneration of the directors and of the Statutory Auditor for the exercise of their mandate;
- the distribution of profits;
- the filing of a claim for liability against directors;
- the decisions relating to the dissolution, merger and certain other reorganizations of the Company; and

- the approval of amendments to the Articles of Association.

Any owner of securities may be represented at a General Shareholders' Meeting by a special proxy holder, who need not to be a shareholder. The Board of Directors may determine the text of these proxies to the extent that the shareholders' freedom to vote is respected and that the provisions of such proxies do not deprive the shareholder of any right, and may demand that they shall be deposited at the registered office of the Company at least three Business Days prior to the relevant General Shareholders' Meeting.

The Company's Shareholders make decisions at the General Shareholders' Meeting in accordance with the quorum and majority requirements contained in the Belgian Companies Code. In general, there is no quorum requirement for a Shareholders' Meeting and decisions are generally passed with a simple majority of the votes of the shares present and represented. Capital increases (unless decided by the Board of Directors within the framework of the authorized capital), decisions with respect to the Company's dissolution, mergers, demergers and certain other reorganizations of the Company, amendments to the Articles of Association (other than an amendment of the corporate purpose) and certain other matters referred to in the Belgian Companies Code not only require the presence or representation of at least 50 per cent. of the share capital of the Company but also the approval of at least 75 per cent. of the votes cast. An amendment of the Company's corporate purpose and the buy-back of shares require the approval of at least 80 per cent. of the votes cast at a Shareholders' Meeting, which in principle can only validly pass such resolution if at least 50 per cent. of the share capital of the Company and at least 50 per cent. of the profit certificates, if any, are present or represented. In the event that the required attendance quorum is not present or represented at the first meeting, a second meeting needs to be convened through a new notice. The second Shareholders' Meeting can validly deliberate and resolve regardless of the number of shares present or represented.

Additionally, so long as the holders of class A and/or class C shares own at least 25 per cent. of the total outstanding share capital of the Company (or 15 per cent. in the event of dilution following a capital increase), approval of any shareholders' resolution also requires the approval by simple majority of the present or represented holders of such classes.

Any amendment of an article of the Articles of Association which is the transposition of Articles 2 to 11 of the Corporate Governance Decree has to be submitted to the CREG for approval.

### ***Distribution of profits***

All shares participate in the same manner in the Company's profits (if any).

In general, the Company may pay dividends only upon the approval of the Company's Shareholders at the General Shareholders' Meeting, although the Board of Directors may declare interim dividends without such shareholder approval. Dividends can only be distributed if, following the declaration and payment of the dividends, the amount of the Company's net assets on the date of the closing of the last financial year as follows from the statutory financial statements prepared in accordance with Belgian GAAP (i.e. the amount of the assets as shown in the balance sheet, decreased with provisions and liabilities), decreased with the non-amortized activated costs of incorporation and extension and the non-amortized activated costs for research and development, does not fall below the amount of the paid-up capital (or, if higher, the called capital), increased with the amount of non-distributable reserves. In addition, pursuant to the Belgian Companies Code and the Articles of Association, the Company must allocate at least 5 per cent. of its annual net profits under its statutory non-consolidated accounts to a legal reserve until the reserve equals 10 per cent. of the Company's share capital. With regard to distributable profits over and above the required allocation to the legal reserve, the Articles of Association provide that in principle 85 per cent. of the yearly profits available for distribution must be allocated for the payment of dividends, unless the shareholders decide otherwise at the General Shareholders' Meeting (it being understood that the holders of class A shares and class C shares must concur in such decision). In recent years, the shareholders have decided to declare a dividend representing less than 85 per cent. of the yearly profits available for distribution.

In accordance with Belgian law, the right to collect dividends declared on ordinary shares expires five years after the date the Board of Directors has declared the dividend payable, whereupon the Company is no longer under an obligation to pay such dividends. If, with respect to bearer shares, the Company decides to enforce the expiration of the five-year term, the amounts not distributed

must be made available in accordance with the provisions of Belgian law and, ultimately, will accrue to the Belgian State.

For more information, see section *“Dividends and Dividend Policy”*.

### **Liquidation**

The Company can only be dissolved by a shareholders' resolution passed: (i) with a majority of at least 75 per cent. of the votes; (ii) with a majority of votes of the class A and/or class C shares as long as the holders of class A and/or class C shares own at least 25 per cent. of the total outstanding share capital of the Company (or 15 per cent. in the event of dilution following a capital increase); and (iii) at an Extraordinary Shareholders' Meeting where at least 50 per cent. of the share capital is present or represented.

If, as a result of losses incurred, the ratio of the Company's net assets (determined in accordance with Belgian GAAP) to share capital is less than 50 per cent., the Board of Directors must convene a General Shareholders' Meeting within two months from the date the Board of Directors discovered or should have discovered this undercapitalization. At such General Shareholders' Meeting, the Board of Directors must propose either the dissolution of the Company, or the continuation of the Company, in which case, the Board of Directors must propose measures to redress the Company's financial situation. Shareholders representing at least 75 per cent. of the votes validly cast at this meeting can decide to dissolve the Company, provided that at least 50 per cent. of the Company's share capital is present or represented at the meeting. If, as a result of losses incurred, the ratio of the Company's net assets to share capital is less than 25 per cent., the same procedure must be followed, it being understood, however, that in such event shareholders representing 25 per cent. of the votes validly cast at the meeting can decide to dissolve the Company. If the amount of the Company's net assets has fallen below €61,500 (the minimum amount of share capital of a Belgian public limited liability company), each interested party is entitled to request the competent court to dissolve the Company. The court may order the dissolution of the Company or grant a grace period within which the Company is allowed to remedy the situation.

In case of dissolution of the Company for whatever reason, the General Shareholders' Meeting shall appoint and dismiss the liquidator(s), determine their powers and the manner of liquidation. The General Shareholders' Meeting shall fix the remuneration of the liquidator(s), if any.

The liquidators can only take up their function after confirmation of their appointment by the General Shareholders' Meeting by the Enterprise Court pursuant to Article 184 of the Belgian Companies Code.

After settlement of all debts, charges and expenses relating to the liquidation, the net assets shall be equally distributed among all the shares, after deduction of that portion of such shares that are not fully paid, if any.

### **Form of shares**

As described in section *“Information on the Offering – The New Shares – Form”*, the New Shares will be delivered in registered or dematerialized (book-entry) form, depending on their preference, except for the Existing Shareholders holding registered shares, who will receive New Shares in registered form.

The Shares of the Company may be in registered or dematerialized form.

A dematerialized Share is represented by an entry in the name of the owner or holder with an approved account holder or a settlement agency. A Share entered on the account will be transferred by transfer from account to account. The number of dematerialized Shares in circulation at any given time will be registered in the related register of Shares in the name of the settlement agency.

The Belgian Companies Code and the Articles of Association entitle shareholders to request, in writing and at their expense, the conversion of their dematerialized shares in registered shares. Moreover, holders of class B shares can also request the conversion of their registered shares in dematerialized shares.

If a holder of class A shares or of class C shares requests the conversion of its registered class A or class C shares into dematerialized shares with a view to selling such shares on the stock exchange, such conversion is subject to the pre-emption right (see section *“Transfer Restrictions”*) to



the benefit of the holders of the other class of shares (class C respectively class A) at market price, defined as the average of the 20 most recent closing prices on the stock exchange preceding the date of the request for conversion into dematerialized shares.

### ***Transfer of shares***

The class B shares are freely transferable.

Each holder of class A shares or class C shares may freely transfer part or all of its class A or class C shares: (i) to an affiliated or associated person as defined in Articles 11 and 12 of the Belgian Companies Code, who agrees to be bound by the terms of and by the transferor's obligations under the Shareholders' Agreement; and (ii) to the persons indicated in the Shareholders' Agreement, subject to the terms set forward in the Shareholders' Agreement being fulfilled.

Pledges, options or similar rights may be granted on the class A and class C shares if the beneficiary of the pledge, option or other right commits in writing to be bound by the applicable pre-emption rights.

### ***Transfer restrictions***

Other than in the cases of the transfers discussed above, the Articles of Association provide for reciprocal pre-emption rights that apply with respect to transfers of class A and class C shares. In case of such intended transfer, the transferor must notify the holder(s) of the other class of shares (class C respectively class A) (the "**Beneficiary**") and the Company's Board of Directors of the intended transfer and the terms and conditions under which such transfer is to take place. Each Beneficiary then has a 60-day period (the "**Offer Period**") to exercise its pre-emption right upon the same terms and conditions as the proposed transfer. The notification constitutes an offer to the Beneficiaries, which is irrevocable during the Offer Period. Each Beneficiary can exercise the pre-emption right in respect of a maximum number of shares equal to the total number of New Shares, multiplied by the number of shares of the beneficiary class held by the Beneficiary and divided by the total number of shares of the beneficiary class. If a Beneficiary fails to exercise (part of) its pre-emption rights, the other Beneficiaries may, in a manner agreed by them or, if no agreement can be reached, proportionally, acquire the New Shares in respect of which the pre-emption rights were not exercised. The pre-emption right can only be exercised by the Beneficiaries in respect of all, and not a part, of the New Shares. If the pre-emption right is not exercised within the Offer Period, the transferor must transfer the New Shares to the candidate-transferee within a period of one month following the Offer Period.

No transfer of shares shall be enforceable against the Company or the shareholders if such transfer has not been executed in accordance with the applicable restrictions.

Details on the lock-up undertaking of Publi-T and the standstill commitment of the Company can be found in section "*Information on the Offering – Lock-up and standstill arrangements*".

### ***Change of the class of shares as a result of a share transfer***

Upon transfer to a holder of class A shares or to affiliates of, or persons acting in concert with, a holder of class A shares, class C shares automatically convert into class A shares and, similarly, upon transfer to a holder of class C shares or to affiliates of, or persons acting in concert with, a holder of class C shares, class A shares automatically convert into class C shares. Class A shares or class C shares sold on Euronext or any other regulated market within the European Union in accordance with the provisions outlined below will automatically convert into class B shares when they are converted into dematerialized shares.

Class B shares remain class B shares, regardless of the transfer between holders of different classes of shares.

### ***Notification of significant shareholdings***

Pursuant to the Belgian Law of 2 May 2007 on the disclosure of significant shareholdings in issuers whose securities are admitted to trading on a regulated market and containing various provisions (the "**Transparency Law**"), a notification to the Company and to the FSMA is required by all natural persons and legal entities on the occurrence of, among other things, any one of the following triggering events, subject to limited exceptions:



- an acquisition or disposal of voting securities, voting rights or financial instruments that are treated as voting securities;
- the reaching of a threshold by persons or legal entities acting in concert;
- the conclusion, modification or termination of an agreement to act in concert;
- the downward reaching of the lowest threshold;
- the passive reaching of a threshold;
- the holding of voting securities in the Company upon first admission of them to trading on a regulated market;
- where a previous notification concerning financial instruments treated as equivalent to voting securities is updated;
- the acquisition or disposal of the control of an entity that holds the voting securities in the Company; and
- where the Company introduces additional notification thresholds in the Articles of Association,

in each case where the percentage of voting rights attached to the securities held by such persons reaches, exceeds or falls below the legal threshold, set at 5 per cent. of the total voting rights, and 10 per cent., 15 per cent., 20 per cent. and so on in increments of 5 per cent. or, as the case may be, the additional thresholds provided in the Articles of Association.

The notification must be made as soon as possible and at the latest within four trading days following the occurrence of the triggering event. Where the Company receives a notification of information regarding the reaching of a threshold, it has to publish such information within three trading days following receipt of the notification.

No shareholder may cast a greater number of votes at a Shareholders' Meeting than those attached to the rights or securities it has notified in accordance with the Transparency Law at least 20 days before the date of the Shareholders' Meeting, subject to certain exceptions.

### **Public Takeover Bids**

Public takeover bids for shares and other securities giving access to voting rights (such as subscription rights or convertible bonds, if any) are subject to supervision by the FSMA. Public takeover bids must be extended to all of the voting securities, as well as all other securities giving access to voting rights. Prior to making a bid, a bidder must publish a prospectus which has been approved by the FSMA prior to publication.

Belgium has implemented the Thirteenth Company Law Directive (European Directive 2004/25/EC of 21 April 2004) in the Belgian Law of 1 April 2007 on public takeover bids (the "**Takeover Law**") and the Belgian Royal Decree of 27 April 2007 on public takeover bids (the "**Takeover Royal Decree**"). The Takeover Law provides that a mandatory bid must be launched if a person, as a result of its own acquisition or the acquisition by persons acting in concert with it or by persons acting for their account, directly or indirectly, holds more than 30 per cent. of the voting securities in a company having its registered office in Belgium and of which at least part of the voting securities is traded on a regulated market or on a multilateral trading facility designated by the Takeover Royal Decree. The mere fact of exceeding the relevant threshold through the acquisition of shares will give rise to a mandatory bid, irrespective of whether the price paid in the relevant transaction exceeds the current market price. The duty to launch a mandatory bid does not apply in certain cases set out in the Takeover Royal Decree such as (i) in case of an acquisition if it can be shown that a third party exercises control over the company or that such party holds a larger stake than the person holding 30 per cent. of the voting securities or (ii) in case of a capital increase with preferential subscription rights decided by the Shareholders' Meeting.

There are several provisions of Belgian company law and certain other provisions of Belgian law, such as the obligation to disclose significant shareholdings (see section "*Notification of significant shareholdings*" above) and merger control, that may apply towards the Company and which may create hurdles to an unsolicited tender offer, merger, change in management or other change in control. These provisions could discourage potential takeover attempts that other shareholders may consider to be in their best interest and could adversely affect the market price of the Shares. These provisions may also have the effect of depriving the shareholders of the opportunity to sell

their Shares at a premium. In addition, pursuant to Belgian company law, the board of directors of Belgian companies may in certain circumstances, and subject to prior authorization by the shareholders, deter or frustrate public takeover bids through dilutive issuances of equity securities (pursuant to the “authorised capital”) or through share buy-backs (i.e., purchase of own shares).

On May 21, 2019, the Extraordinary Shareholders’ Meeting authorized the Board of Directors for a period up to 31 July 2020 to increase the Company’s share capital in one or more transactions with a maximum amount of €430.000.000. The Board of Directors may however not use this authorization to deter or frustrate a public takeover bid.

No shares’ buy-back authorization has been granted to the Board of Directors of the Company.

### **Squeeze-out**

Pursuant to Article 513 of the Belgian Companies Code or the regulations promulgated thereunder, a person or legal entity, or different persons or legal entities acting alone or in concert, who own together with the company 95 per cent. or more of the securities with voting rights in a public company are entitled to acquire the totality of the securities with voting rights in that company following a squeeze-out offer. The securities that are not voluntarily tendered in response to such an offer are deemed to be automatically transferred to the bidder at the end of the procedure. At the end of the squeeze-out procedure, the company is no longer deemed a public company, unless bonds issued by the company are still spread among the public. The consideration for the securities must be in cash and must represent the fair value (verified by an independent expert) so as to safeguard the interests of the transferring shareholders.

A squeeze-out offer is also possible upon completion of a public takeover bid, provided that the bidder holds at least 95 per cent. of the voting capital and 95 per cent. of the voting securities of the public company. In such a case, the bidder may require that all remaining shareholders sell their securities to the bidder at the offer price of the takeover bid, provided that, in case of a voluntary takeover offer, the bidder has also acquired 90 per cent. of the voting capital to which the offer relates. The shares that are not voluntarily tendered in response to any such offer are deemed to be automatically transferred to the bidder at the end of the procedure.

### **Sell-out right**

Within three months following the expiration of an offer period related to a public takeover bid, holders of voting securities or of securities giving access to voting rights may require the offeror, acting alone or in concert, who own at least 95 per cent. of the voting capital and 95 per cent. of the voting securities in a public company following a takeover bid, to buy their securities from them at the price of the bid, on the condition that, in case of a voluntary takeover offer, the offeror has acquired, through the acceptance of the bid, securities representing at least 90 per cent. of the voting capital subject to the takeover bid.

## TAXATION

### Taxation in Belgium

The paragraphs below present a summary of certain Belgian federal income tax consequences of the ownership and disposal of the Shares by an investor that acquires such Shares in connection with this Offering. The summary is based on laws, treaties and regulatory interpretations in effect in Belgium on the date of this Prospectus, all of which are subject to change, including changes that could have retroactive effect.

Investors should appreciate that, as a result of evolutions in law or practice, the eventual tax consequences may be different from what is stated below.

This summary does not purport to address all tax consequences of the investment in, ownership in and disposal of the Shares, and does not take into account the specific circumstances of particular investors, some of which may be subject to special rules, or the tax laws of any country other than Belgium. This summary does not describe the tax treatment of investors that are subject to special rules, such as banks, insurance companies, collective investment undertakings, dealers in securities or currencies, persons that hold, or will hold, Shares as a position in a straddle, share-repurchase transaction, conversion transactions, a synthetic security or other integrated financial transactions. This summary does not address the local taxes that may be due in connection with an investment in the Shares, other than Belgian local surcharges which generally vary from 0 per cent. to 9 per cent. of the investor's income tax liability.

For purposes of this summary, a Belgian resident is an individual subject to Belgian personal income tax (i.e. an individual who is domiciled in Belgium or has his seat of wealth in Belgium or a person assimilated to a resident for purposes of Belgian tax law), a company subject to Belgian corporate income tax (i.e. a corporate entity that has its statutory seat, its main establishment, its administrative seat or seat of management in Belgium and that is not excluded from the scope of the Belgian corporate income tax), an Organization for Financing Pensions subject to Belgian corporate income tax (i.e. a Belgian pension fund incorporated under the form of an Organization for Financing Pensions), or a legal entity subject to Belgian income tax on legal entities (i.e. a legal entity other than a company subject to Belgian corporate income tax, that has its statutory seat, its main establishment, its administrative seat or seat of management in Belgium).

A non-resident investor is any person that is not a Belgian resident investor.

Investors should consult their own advisors regarding the tax consequences of an investment in Shares in the light of their particular circumstances, including the effect of any state, local or other national laws.

### Dividends

For Belgian income tax purposes, the gross amount of all benefits paid on or attributed to the Shares is generally treated as a dividend distribution. By way of exception, the repayment of capital of the Company carried out in accordance with the Belgian Companies Code is deemed to be paid out on a *pro rata* basis of the fiscal capital and certain reserves (i.e. and in the following order: the taxed reserves incorporated in the statutory capital, the taxed reserves not incorporated in the statutory capital and the tax-exempt reserves incorporated in the statutory capital). Only the part of the capital reduction that is deemed to be paid out of the fiscal capital may, subject to certain conditions, for Belgian withholding tax purposes, not be considered as a dividend distribution. This fiscal capital includes, in principle, the actual paid-up statutory share capital and, subject to certain conditions, the paid-up issue premiums.

A Belgian withholding tax of 30 per cent. is normally levied on dividends, subject to such relief as may be available under applicable domestic or double tax treaty provisions.

In case of a redemption of the Shares, the redemption distribution (after deduction of the portion of the fiscal capital represented by the redeemed Shares) will be treated as a dividend subject to a Belgian withholding tax of 30 per cent., subject to such relief as may be available under applicable domestic or double tax treaty provisions. No Belgian withholding tax will be triggered if such redemption is carried out on Euronext or a similar stock exchange and meets certain conditions.

In case of liquidation of the Company, any amounts distributed in excess of the fiscal capital will in principle be subject to the Belgian withholding tax at a rate of 30 per cent., subject to such relief as may be available under applicable domestic or double tax treaty provisions.

Non-Belgian dividend withholding tax, if any, will be neither creditable against any Belgian income tax due nor reimbursable to the extent that it exceeds Belgian income tax due.

According to the Belgian Law of January 11, 2019 containing measures to combat tax fraud and tax evasion with respect to withholding tax (which entered into force on January 22, 2019), Belgian withholding tax can be levied in the hands of a holder of the Shares who has unlawfully obtained dividend income without withholding tax or who has unlawfully obtained a refund of the withholding tax.

### **Resident individuals**

For Belgian resident individuals who acquire and hold Shares as a private investment, the Belgian dividend withholding tax fully discharges their personal income tax liability. They may nevertheless elect to report the dividends in their personal income tax return. Where such individual opts to report them, dividends will normally be taxable at the lower of the generally applicable 30 per cent. Belgian withholding tax rate on dividends or at the progressive personal income tax rates applicable to the taxpayer's overall declared income. If the beneficiary reports the dividends, any income tax due on such dividends will not be increased by local surcharges. In addition, if the dividends are reported, the dividend withholding tax levied at source may be credited against the personal income tax due and is reimbursable to the extent that it exceeds the personal income tax due, provided that the dividend distribution does not result in a reduction in value of or a capital loss on the Shares. The latter condition is not applicable if the individual can demonstrate that he has held the Shares in full legal ownership for an uninterrupted period of 12 months prior to the payment or attribution of the dividends.

For dividends paid or attributed as of January 1, 2018, an exemption from personal income tax could in principle be claimed by Belgian resident individuals in their personal income tax return for a first tranche of dividend income up to the amount of €800 (for income year 2019), subject to certain formalities. For the avoidance of doubt, all reported dividends (hence, not only dividends distributed on the Shares) are taken into account to assess whether said maximum amount is reached.

For Belgian resident individuals who acquire and hold the Shares for professional purposes, the Belgian withholding tax does not fully discharge their personal income tax liability. Dividends received must be reported by the investor and will, in such case, be taxable at the investor's personal income tax rate increased with local surcharges. Belgian withholding tax levied at source may be credited against the personal income tax due and is reimbursable to the extent that it exceeds the personal income tax due, subject to two conditions: (i) the taxpayer must own the New Shares in full legal ownership at the dividend record date; and (ii) the dividend distribution may not result in a reduction in value of or a capital loss on the New Shares. The latter condition is not applicable if the investor can demonstrate that he has held the full legal ownership of the New Shares for an uninterrupted period of 12 months prior to the payment or attribution of the dividends.

### **Resident corporations**

#### *Corporate income tax*

For Belgian resident companies, the dividend income (after deduction of any non-Belgian withholding tax but including any Belgian withholding tax) must be declared in the corporate income tax return and will be subject to a corporate income tax rate of 29.58 per cent. (including the 2 per cent. crisis surcharge) and 25 per cent. as of 2020 (i.e. for financial years starting on or after January 1, 2020). Subject to certain conditions, a reduced corporate income tax rate of 20.4 per cent. (including the 2 per cent. crisis surcharge) and 20 per cent. as of 2020 (i.e. for financial years starting on or after January 1, 2020) applies for Small Enterprises (as defined by Article 15, §1 to §6 of the Belgian Companies Code) on the first €100,000 of taxable profits.

Belgian resident companies can, under certain conditions, deduct 100 per cent. of the gross dividend received from their taxable income (the "**Dividend Received Deduction**"), provided that at the time of a dividend payment or attribution: (i) the Belgian resident company holds Shares representing at least 10 per cent. of the share capital of the Company or a participation in the

Company with an acquisition value of at least €2,500,000 (it being understood that only one out of the two tests must be satisfied); (ii) the Shares of the Company have been or will be held in full ownership for an uninterrupted period of at least one year immediately prior to the payment or attribution of the dividend; and (iii) the conditions relating to the taxation of the underlying distributed income, as described in Article 203 of the Belgian Income Tax Code (the “**Article 203 ITC Taxation Condition**”) are met (together, the “**Conditions for the application of the dividend received deduction regime**”).

Conditions (i) and (ii) above are, in principle, not applicable for dividends received by an investment company within the meaning of art. 2, §1, 5°, f) ITC. The Conditions for the application of the dividend received deduction regime depend on a factual analysis and for this reason the availability of this regime should be verified upon each dividend distribution.

Any Belgian dividend withholding tax levied at source can be credited against the Belgian corporate income tax due and is reimbursable to the extent it exceeds such corporate income tax, subject to two conditions: (i) the taxpayer must own the Shares of the Company in full legal ownership at the dividend record date; and (ii) the dividend distribution does not result in a reduction in value of or a capital loss on the Shares of the Company. The latter condition is not applicable: (i) if the taxpayer can demonstrate that it has held the Shares in full legal ownership for an uninterrupted period of 12 months immediately prior to the payment or attribution of the dividends; or (ii) if, during that period, the Shares never belonged to a taxpayer other than a Belgian resident company or a non-resident company that has, in an uninterrupted manner, invested the Shares in a Belgian permanent establishment (the “**PE**”).

#### *Withholding Tax*

Dividends distributed to a Belgian resident company will be exempt from Belgian withholding tax provided that the Belgian resident company holds, upon payment or attribution of the dividends, at least 10 per cent. of the share capital of the Company and such minimum participation is held or will be held during an uninterrupted period of at least one year.

In order to benefit from this exemption, the Belgian resident company must provide the Company or its paying agent with a certificate confirming its qualifying status and the fact that it meets the required conditions. If the Belgian resident company holds the required minimum participation for less than one year, at the time the dividends are paid on or attributed to the Shares, the Company will levy the withholding tax but will not transfer it to the Belgian Treasury provided that the Belgian resident company certifies its qualifying status, the date from which it has held such minimum participation, and its commitment to hold the minimum participation for an uninterrupted period of at least one year. The Belgian resident company must also inform the Company or its paying agent if the one-year period has expired or if its shareholding will drop below 10 per cent. of the share capital of the Company before the end of the one-year holding period. Upon satisfying the one-year shareholding requirement, the dividend withholding tax which was temporarily withheld, will be refunded to the Belgian resident company.

Please note that the above described dividend received deduction and withholding tax exemption will not be applicable to dividends which are connected to an arrangement or a series of arrangements (“*rechtshandeling of geheel van rechtshandelingen*”/“*acte juridique ou un ensemble d’actes juridiques*”) for which the Belgian tax administration, taking into account all relevant facts and circumstances, has proven, unless evidence to the contrary, that this arrangement or this series of arrangements is not genuine (“*kunstmatig*”/“*non authentique*”) and has been put in place for the main purpose or one of the main purposes of obtaining the dividend received deduction, the above dividend withholding tax exemption or one of the advantages of the EU Parent-Subsidiary Directive of 30 November 2011 (2011/96/EU) (“Parent-Subsidiary Directive”) in another EU Member State. An arrangement or a series of arrangements is regarded as not genuine to the extent that they are not put into place for valid commercial reasons which reflect economic reality.

#### **Organizations for financing pensions**

For organizations for financing pensions (the “**OFPs**”), i.e. Belgian pension funds incorporated under the form of an OFP (“*organismes de financement de pensions*” / “*organismen voor de financiering van pensioenen*”) within the meaning of Article 8 of the Belgian Law of October 27, 2006, the dividend income is generally tax exempt.



Subject to certain limitations, any Belgian dividend withholding tax levied at source may be credited against the OFPs corporate income tax due and is reimbursable to the extent that it exceeds the corporate income tax due.

#### **Other taxable Belgian resident legal entities subject to Belgian legal entities tax**

For taxpayers subject to the Belgium income tax on legal entities, the Belgian dividend withholding tax in principle fully discharges their Belgian income tax liability in this respect.

#### **Belgian non-resident individuals and companies**

For non-resident individuals and companies, the dividend withholding tax at the rate of 30 per cent. will be the only tax on dividends in Belgium, unless the non-resident holds the Shares in connection with a business conducted in Belgium through a fixed base in Belgium or a PE.

If Shares of the Company are acquired by a non-resident investor in connection with a business in Belgium, the investor must report any dividends received, which are taxable at the applicable Belgian non-resident individual or corporate income tax rate, as appropriate. Any Belgian withholding tax levied at source can be credited against the Belgian non-resident individual or corporate income tax and is reimbursable to the extent it exceeds the income tax due, subject to two conditions: (i) the taxpayer must own the Shares of the Company in full legal ownership at the dividend record date; and (ii) the dividend distribution does not result in a reduction in value of or a capital loss on the Shares. The latter condition is not applicable if: (i) the non-resident individual or the non-resident company can demonstrate that the Shares were held in full legal ownership for an uninterrupted period of 12 months immediately prior to the payment or attribution of the dividends; or (ii) with regard to non-resident companies only, if, during the said period, the Shares have not belonged to a taxpayer other than a resident company or a non-resident company which has, in an uninterrupted manner, invested the Shares in a PE.

Non-resident companies that have attributed their Shares in the Company to a PE can deduct 100 per cent. of the gross dividends included in their taxable profits if, at the date dividends are paid or attributed, the Conditions for the application of the Dividend Received Deduction regime are satisfied. Application of the Dividend Received Deduction regime depends, however, on a factual analysis to be made upon each distribution and its availability should be verified upon each distribution.

#### *Belgian Dividend Withholding Tax Relief for Non-residents*

Dividends paid or attributed to Belgian non-resident individuals who do not use the Shares in the exercise of a professional activity may be exempt from Belgian non-resident individual income tax up to the amount of €800 (amount applicable for income year 2019). For the avoidance of doubt, all dividends paid or attributed to such non-resident individual (and hence not only dividends paid or attributed on the Shares) are taken into account to assess whether said maximum amount is reached. Consequently, if Belgian withholding tax has been levied on dividends paid or attributed to the Shares, such Belgian non-resident may request in his or her Belgian non-resident income tax return that any Belgian withholding tax levied on dividends up to the amount of €800 (amount applicable for income year 2019) be credited and, as the case may be, reimbursed. However, if no such Belgian income tax return has to be filed by the Belgian non-resident individual, any Belgian withholding tax levied on such an amount could, in principle, be reclaimed by filing a request thereto addressed to the tax official to be appointed in a Royal Decree. Such a request has to be made at the latest on December 31 of the calendar year following the calendar year in which the relevant dividend(s) have been received, together with an affidavit confirming the non-resident individual status and certain other formalities which are still to be determined in a Royal Decree.

Under Belgian tax law, withholding tax is not due on dividends paid to a foreign pension fund which satisfies the following conditions: (i) it is a non-resident saver within the meaning of Article 227, 3° ITC which implies that it has separate legal personality and has its tax residence outside of Belgium; (ii) whose corporate purpose consists solely in managing and investing funds collected in order to pay legal or complementary pensions; (iii) whose activity is limited to the investment of funds collected in the exercise of its corporate purpose, without any profit making aim; (iv) which is exempt from income tax in its country of residence; and (v) provided that it is not contractually obliged to redistribute the dividends to any ultimate beneficiary of such dividends for whom it would manage the Shares, nor obliged to pay a manufactured dividend with respect to the Shares under a



securities borrowing transaction. The exemption will only apply if the foreign pension fund provides a certificate confirming that it is the full legal owner or usufruct holder of the Shares and that the above conditions are satisfied. The organisation must then forward that certificate to the Company or its paying agent.

Dividends distributed to non-resident qualifying parent companies established in a Member State of the EU or in a country with which Belgium has concluded a double tax treaty that includes a qualifying exchange of information clause, will, under certain conditions, be exempt from Belgian withholding tax provided that the Shares held by the non-resident company, upon payment or attribution of the dividends, amount to at least 10 per cent. of the share capital of the Company and such minimum participation is held or will be held during an uninterrupted period of at least one year. A non-resident company qualifies as a parent company provided that (i) for companies established in a Member State of the EU, it has a legal form as listed in the annex to the EU Parent-Subsidiary Directive, as amended from time to time, or, for companies established in a country with which Belgium has concluded a qualifying double tax treaty, it has a legal form similar to the ones listed in such annex; (ii) it is considered to be a tax resident according to the tax laws of the country where it is established and the double tax treaties concluded between such country and third countries; and (iii) it is subject to corporate income tax or a similar tax without benefiting from a tax regime that derogates from the ordinary tax regime.

In order to benefit from this exemption, the non-resident company must provide the Company or its paying agent with a certificate confirming its qualifying status and the fact that it meets the required conditions.

If the non-resident company holds a minimum participation for less than one year at the time the dividends are attributed to the Shares, the Company must levy the withholding tax but does not need to transfer it to the Belgian Treasury provided that the non-resident company provides the Company or its paying agent with a certificate confirming, in addition to its qualifying status, the date as of which it has held the minimum participation, and its commitment to hold the minimum participation for an uninterrupted period of at least one year. The non-resident company must also inform the Company or its paying agent when the one-year period has expired or if its shareholding drops below 10 per cent. of the Company's share capital before the end of the one-year holding period. Upon satisfying the one-year holding requirement, the dividend withholding tax which was temporarily withheld, will be refunded to the non-resident company.

Please note that the above withholding tax exemption will not be applicable to dividends which are connected to an arrangement or a series of arrangements ("rechtshandeling of geheel van rechtshandelingen"/"acte juridique ou un ensemble d'actes juridiques") for which the tax Belgian tax administration, taking into account all relevant facts and circumstances, has proven, unless evidence to the contrary, that this arrangement or this series of arrangements is not genuine ("kunstmatig"/"non authentique") and has been put in place for the main purpose or one of the main purposes of obtaining the dividend received deduction, the above dividend withholding tax exemption or one of the advantages of the Parent-Subsidiary Directive in another EU Member State. An arrangement or a series of arrangements is regarded as not genuine to the extent that they are not put into place for valid commercial reasons which reflect economic reality.

Dividends distributed by a Belgian company to non-resident companies on a share participation of less than 10 per cent. will under certain conditions be subject to an exemption from withholding tax, provided that the non-resident companies (i) are either established in another Member State of the EEA or in a country with which Belgium has concluded a double tax treaty, where that treaty, or any other treaty concluded between Belgium and that jurisdiction, includes a qualifying exchange of information clause which is necessary to give effect to the provisions of the domestic laws of the contracting states; (ii) have a legal form as listed in Annex I, Part A to the Parent-Subsidiary Directive as amended from time to time, or a legal form similar to the legal forms listed in the aforementioned annex and which is governed by the laws of another Member State of the EEA or a similar legal form in a country with which Belgium has concluded a double tax treaty; (iii) hold a share participation in the Belgian dividend distributing company, upon payment or attribution of the dividends, of less than 10 per cent. of the Company's share capital but with an acquisition value of at least €2,500,000; (iv) hold or will hold the Shares which give rise to the dividends in full legal ownership during an uninterrupted period of at least one year; and (v) are subject to the corporate income tax or a tax regime similar to the corporate income tax without benefiting from a tax regime which deviates from the ordinary regime. The exemption from withholding tax is only applied to the

extent that the Belgian withholding tax which would be applicable absent the exemption could not be credited nor reimbursed at the level of the qualifying, dividend receiving, company. The non-resident company must provide the Company or its paying agent with a certificate confirming, in addition to its full name, legal form, address and fiscal identification number (if applicable), its qualifying status and the fact that it meets the required conditions mentioned under (i) to (v) above, and indicating to which extent the withholding tax which would be applicable absent the exemption is in principle creditable or reimbursable on the basis of the law as applicable on 31 December of the year preceding the year during which the dividend is paid or attributed. Belgian dividend withholding tax is subject to such relief as may be available under applicable tax treaty provisions. Belgium has concluded tax treaties with more than 95 countries, reducing the dividend withholding tax rate to 20 per cent., 15 per cent., 10 per cent., 5 per cent. or 0 per cent. for residents of those countries, depending on conditions, among others, related to the size of the shareholding and certain identification formalities. Such reduction may be obtained either directly at source or through a refund of taxes withheld in excess of the applicable treaty rate.

Prospective holders of Shares should consult their own tax advisors to determine whether they qualify for a reduction in withholding tax upon payment or attribution of dividends, and, if so, to understand the procedural requirements for obtaining a reduced withholding tax upon the payment of dividends or for making claims for reimbursement.

### ***Capital gains and losses***

#### **Belgian resident individuals**

In principle, Belgian resident individuals acquiring Shares of the Company as a private investment should not be subject to Belgian income tax on capital gains realized upon the disposal of the Shares; capital losses are not tax deductible.

However, capital gains realized by a private individual are taxable at 33 per cent. (plus local surcharges) if the capital gain is deemed to be realized outside the scope of the normal management of the individual's private estate. Capital losses are, however, not tax deductible in such event.

Moreover, capital gains realised by Belgian resident individuals on the disposal of the Shares, outside the exercise of a professional activity, to a non-resident company (or body constituted in a similar legal form), to a foreign State (or one of its political subdivisions or local authorities) or to a non-resident legal entity, each time established outside the EEA, are in principle taxable at a rate of 16.5 per cent. (plus local surcharges) if, at any time during the five years preceding the sale, the Belgian resident individual has owned, directly or indirectly, alone or with his/her spouse or with certain relatives, a substantial shareholding in the Company (i.e. a shareholding of more than 25 per cent. in the Company). Capital losses are, however, not tax deductible in such event.

Belgian resident individuals who hold Shares of the Company for professional purposes are taxable at the ordinary progressive personal income tax rates (plus local surcharges) on any capital gains realized upon the disposal of the Shares, except for: (i) capital gains on Shares realized in the framework of the cessation of activities, which are taxable at a separate rate of 10 per cent. or 16.5 per cent. (depending on the circumstances); or (ii) Shares held for more than five years, which are taxable at 16.5 per cent., plus local surcharges. Capital losses on the Shares incurred by Belgian resident individuals who hold the Shares for professional purposes are, in principle, tax deductible.

Gains realized by Belgian resident individuals upon the redemption of Shares of the Company or upon the liquidation of the Company are generally taxable as a dividend (see above). In the case of a redemption of the Shares followed by their annulment, the redemption distribution (after deduction of the part of the fiscal capital represented by the redeemed Shares) will be treated as a dividend subject to a Belgian withholding tax of 30 per cent., subject to such relief as may be available under applicable domestic or tax treaty provisions. No withholding tax will be triggered if this redemption is carried out on a stock exchange and meets certain conditions.

In case of liquidation of the Company, any amounts distributed in excess of the fiscal capital will in principle be subject to a 30 per cent. withholding tax, subject to such relief as may be available under applicable domestic or treaty provisions.

### **Belgian resident companies**

Belgian resident companies are not subject to Belgian corporate income tax on capital gains realized upon the disposal of Shares of the Company provided that: (i) the Belgian resident company holds Shares representing at least 10 per cent. of the share capital of the Company or a participation in the Company with an acquisition value of at least €2,500,000 (it being understood that only one out of the two tests must be satisfied); (ii) the Article 203 ITC Taxation Condition is satisfied; and (iii) the Shares have been held in full legal ownership for an uninterrupted period of at least one year.

If all of the above conditions except the last one, i.e. the one-year minimum holding condition, are satisfied, the capital gains realized upon the disposal of Shares of the Company by a Belgian resident company are taxable at a separate corporate income tax rate of 25.5 per cent. (including the 2 per cent. crisis surcharge) (or, if applicable, a reduced rate of 20.40 per cent. for Small Enterprises, as defined by Article 15, §1 to §6 of the Belgian Companies Code) and as of 2020 (i.e. financial years starting on or after January 1, 2020) at the ordinary corporate income tax rate of 25 per cent (or, if applicable, the reduced corporate income tax rate for Small Enterprises, as defined by Article 15, §1 to §6 of the Belgian Companies Code).

If conditions (i) and/or (ii) above are not met, the capital gains realized upon the disposal of shares in the Company by a Belgian resident company will be taxable at the ordinary corporate income tax rate as applicable in the relevant financial year, unless the reduced corporate income tax rate applies for Small Enterprises, as defined by Article 15, §1 to §6 of the Belgian Companies Code.

Capital gains realized by Belgian resident companies upon the redemption of Shares by the Company or upon the liquidation of the Company will, in principle, be subject to the same taxation regime as dividends (see above).

Capital losses on Shares of the Company incurred by resident companies are as a general rule not tax deductible.

Shares of the Company held in the trading portfolios of qualifying credit institutions, investment enterprises and management companies of collective investment undertakings are subject to a different regime. The capital gains realized by these investors will be subject to corporate income tax at the general rates, and capital losses are tax deductible. Internal transfers to and from the trading portfolio are assimilated to a realization.

### **Organizations for financing pensions**

OFPs are, in principle, not subject to Belgian corporate income tax on capital gains realized upon the disposal of the Shares, and capital losses are not tax deductible.

### **Other taxable legal entities**

Belgian resident legal entities subject to the legal entities income tax are, in principle, not subject to Belgian capital gains taxation on the disposal of Shares.

Capital gains realized by Belgian resident legal entities upon the redemption of Shares or upon the liquidation of the Company will, in principle, be taxed as dividends (see above).

Capital losses on Shares incurred by Belgian resident legal entities are not tax deductible.

### **Belgian non-resident individuals**

Capital gains realised on the Shares by a non-resident individual that has not held the Shares in connection with a business conducted in Belgium through a fixed base in Belgium are in principle not subject to taxation, unless in the following cases if such capital gains are obtained or received in Belgium:

- the gains are deemed to be realised outside the scope of the normal management of the individual's private estate. In such case, the capital gains have to be reported in a non-resident tax return for the income year during which the gain has been realised and may be taxable in Belgium; or

- the gains originate from the disposal of (part of) a substantial participation in a Belgian company (being a participation representing more than 25 per cent. of the share capital of the Company at any time during the last five years prior to the disposal) to a non-resident company (or a body constituted in a similar legal form), to a foreign State (or one of its political subdivisions or local authorities) or to a non-resident legal entity, each time established outside of the EEA. Then, the realised capital gains may, under certain circumstances, give rise to a 16.5 per cent. tax (plus local surcharges of currently 7 per cent.).

However, Belgium has concluded tax treaties with more than 95 countries which generally provide for a full exemption from Belgian capital gains taxation on such gains realised by residents of those countries. Capital losses are generally not tax deductible.

Capital gains realised by Belgian non-resident individuals upon the redemption of Shares or upon the liquidation of the Company will generally be taxable as a dividend (see above).

Capital gains will be taxable at the ordinary progressive income tax rates and capital losses will be tax deductible, if those gains or losses are realised on Shares by a non-resident individual that holds Shares in connection with a business conducted in Belgium through a fixed base in Belgium.

### **Belgian non-resident companies or entities**

Capital gains realized by non-resident companies or other non-resident entities that hold the Shares in connection with a business conducted in Belgium through a PE are generally subject to the same regime as Belgian resident companies or other Belgian resident legal entities subject to Belgian legal entities tax.

Capital gains realised by non-resident companies or non-resident entities upon redemption of the Shares or upon liquidation of the Company will, in principle, be subject to the same taxation regime as dividends (see above).

### **Tax on stock exchange transactions**

No tax on stock exchange transactions is due upon subscription to Shares (primary market transactions).

The purchase and the sale and any other acquisition or transfer for consideration of existing shares (secondary market transactions) in Belgium through a professional intermediary is subject to the tax on stock exchange transactions ("*taxe sur les opérations de bourse*" / "*taks op de beursverrichtingen*") of 0.35 per cent. of the purchase price, capped at €1,600 per transaction and per party.

Following the Law of December 25, 2016, the scope of application of the tax on the stock exchange transactions has been extended as of January 1, 2017 to secondary market transactions of which the order is, directly or indirectly, made to a professional intermediary established outside of Belgium by: (i) a private individual with habitual residence in Belgium; or (ii) a legal entity for the account of its seat or establishment in Belgium (both referred to as a "**Belgian Investor**"). In such a scenario, the tax on the stock exchange transactions is due by the Belgian Investor, unless the Belgian Investor can demonstrate that the tax on the stock exchange transactions due has already been paid by the professional intermediary established outside of Belgium. In the latter case, the foreign professional intermediary also has to provide each client (which gives such intermediary an order) with a qualifying order statement ("*bordereau*" / "*borderel*"), at the latest on the business day after the day the transaction concerned was realized. Alternatively, professional intermediaries established outside of Belgium could appoint a stock exchange tax representative in Belgium, subject to certain conditions and formalities ("**Stock Exchange Tax Representative**"). Such Stock Exchange Tax Representative will then be liable towards the Belgian Treasury for the tax on stock exchange transactions due and for complying with reporting obligations and the obligations relating to the order statement in that respect. If such a Stock Exchange Tax Representative would have paid the tax on stock exchange transactions due, the Belgian Investor will, as per the above, no longer be the debtor of the tax on stock exchange transactions.

A request for annulment has been introduced with the Constitutional Court in order to annul the application of the tax on stock exchange transactions to transactions carried out with professional intermediaries established outside of Belgium (as described above). The Constitutional Court has asked a preliminary question in that regard to the Court of Justice of the European Union. If the

Constitutional Court were to annul said application of the tax on stock exchange transactions without upholding its effects, restitution could be claimed of the tax already paid.

No tax on stock exchange transactions is due on transactions entered into by the following parties provided they are acting for their own account: (i) professional intermediaries described in Article 2,9° and 10° of the Belgian Law of August 2, 2002 on the supervision of the financial sector and financial services; (ii) insurance companies described in Article 2, § 1 of the Belgian Law of July 9, 1975 on the supervision of insurance companies; (iii) pension institutions referred to in Article 2,1° of the Belgian Law of October 27, 2006 concerning the supervision of pension institutions; (iv) collective investment institutions; (v) regulated real estate companies; and (vi) Belgian non-residents provided that they deliver a certificate to their financial intermediary in Belgium confirming their non-resident status.

On February 14, 2013, the EU Commission adopted the Draft Directive on a Financial Transaction Tax (the “**FTT**”). The Draft Directive currently stipulates that, once the FTT enters into effect, the participating Member States shall not maintain or introduce any taxes on financial transactions other than the FTT (or VAT as provided in the Council Directive 2006/112/EC of November 28, 2006 on the common system of value added tax). For Belgium, the tax on stock exchange transactions should thus be abolished once the FTT enters into effect. The Draft Directive is still subject to negotiation between the participating Member States and may, therefore, be further amended at any time.

The rules regarding the tax on stock exchange transactions equally apply to the purchase and sale of the Preferential Rights prior to the closing of the Rights Subscription Period.

### ***Tax on securities accounts***

Pursuant to the law of February 7, 2018, Belgian resident and non-resident individuals are taxed at a rate of 0.15 per cent. on their share in the average value of qualifying financial instruments (such as shares, bonds, certain other type of debt instruments, units of undertakings for collective investment, warrants) held on one or more securities accounts with one or more financial intermediaries during a reference period of 12 consecutive months starting on October 1, and ending on September 30, of the subsequent year (“**Tax on Securities Accounts**”).

No Tax on Securities Accounts is due, provided that the holder's share in the average value of the qualifying financial instruments on those accounts amounts to less than €500,000. If, however, the holder's share in the average value of the qualifying financial instruments on those accounts amounts to €500,000 or more, the Tax on Securities Accounts is due on the entire share of the holder in the average value of the qualifying financial instruments on those accounts (and hence, not only on the part which exceeds the €500,000 threshold).

Qualifying financial instruments held by non-resident individuals only fall within the scope of the Tax on Securities Accounts, provided that they are held on securities accounts with a financial intermediary incorporated or established in Belgium. Note that, pursuant to certain double tax treaties, Belgium has no right to tax capital. Hence, to the extent the Tax on Securities Accounts is viewed as a tax on capital within the meaning of these double tax treaties, treaty override may, subject to certain conditions, be claimed.

A financial intermediary is defined as: (i) a credit institution or a stockbroking firm as defined by Article 1, §2 and §3 of the Law of April 25, 2014 on the legal status and supervision of credit institutions and stockbroking firms; and (ii) the investment companies as defined by Article 3, §1 of the Law of October 25, 2016 on access to the activity of investment services and on the legal status and supervision of portfolio management and investment advice companies, which are pursuant to national law admitted to hold financial instruments for the account of customers.

The Tax on Securities Accounts is, in principle, due by the financial intermediary incorporated or established in Belgium if: (i) the holder's share in the average value of the qualifying financial instruments held on one or more securities accounts with said intermediary amounts to €500,000 or more; or (ii) the holder instructed the financial intermediary to levy the Tax on Securities Accounts due (e.g. in case such holder holds qualifying financial instruments on several securities accounts held with multiple intermediaries of which the average value of each of these accounts do not amount to €500,000 or more but of which the holder's share in the total average value of these accounts exceeds €500,000). Otherwise, the Tax on Securities Accounts needs to be declared and is due by the holder itself, unless the holder provides evidence that the Tax on Securities Accounts



has already been withheld, declared and paid by an intermediary which is not established or located in Belgium. In that respect, intermediaries located or established outside of Belgium could appoint a Tax on the Securities Accounts representative in Belgium, subject to certain conditions and formalities ("**Tax on the Securities Accounts Representative**"). Such a Tax on the Securities Accounts Representative is then liable towards the Belgian Treasury for the Tax on Securities Accounts due and for complying with certain reporting obligations in that respect.

Belgian resident individuals have to report in their annual income tax return their various securities accounts held with one or more financial intermediaries of which they are considered as a holder within the meaning of the Tax on Securities Accounts. Non-resident individuals have to report in their annual Belgian non-resident income tax return their various securities accounts held with one or more financial intermediaries incorporated or established in Belgium of which they are considered a holder within the meaning of the Tax on Securities Accounts.

Several requests for annulment have been introduced with the Constitutional Court in order to annul the Tax on Securities Accounts. If the Constitutional Court were to annul the Tax on Securities Accounts without upholding its effects, all taxpayers will be authorised to claim restitution of the tax already paid.

Prospective investors are strongly advised to seek their own professional advice in relation to the Tax on Securities Accounts.

### ***Common reporting standard***

Following recent international developments, the exchange of information is governed by the Common Reporting Standard ("**CRS**"). As of October 29, 2018, 104 jurisdictions signed the multilateral competent authority agreement ("**MCAA**"), which is a multilateral framework agreement to automatically exchange financial and personal information, with the subsequent bilateral exchanges coming into effect between those signatories that file the subsequent notifications.

More than 48 jurisdictions, including Belgium, have committed to a specific and ambitious timetable leading to the first automatic information exchanges in 2017, relating to income year 2016 ("**early adopters**"). Under CRS, financial institutions resident in a CRS country will be required to report, according to a due diligence standard, financial information with respect to reportable accounts, which includes interest, dividends, account balance or value, income from certain insurance products, sales proceeds from financial assets and other income generated with respect to assets held in the account or payments made with respect to the account. Reportable accounts include accounts held by individuals and entities (which includes trusts and foundations) with fiscal residence in another CRS country. The standard includes a requirement to look through passive entities to report on the relevant controlling persons.

On December 9, 2014, EU Member States adopted Directive 2014/107/EU on administrative cooperation in direct taxation ("**DAC2**"), which provides for mandatory automatic exchange of financial information as foreseen in CRS. DAC2 amends the previous Directive on administrative cooperation in direct taxation, Directive 2011/16/EU.

The mandatory automatic exchange of financial information by EU Member States as foreseen in DAC2 started as of September 30, 2017 (as of September 30, 2018 for Austria).

The Belgian government has implemented said Directive 2014/107/EU, respectively, the Common Reporting Standard, per the Law of December 16, 2015 regarding the exchange of information on financial accounts by Belgian financial institutions and by the Belgian tax administration, in the context of an automatic exchange of information on an international level and for tax purposes.

As a result of the Law of December 16, 2015, the mandatory automatic exchange of information applies in Belgium: (i) as of income year 2016 (first information exchange in 2017) towards the EU Member States (including Austria, irrespective of the fact that the automatic exchange of information by Austria towards other EU Member States is only foreseen as of income year 2017); (ii) as of income year 2014 (first information exchange in 2016) towards the US; and (iii) with respect to any other non-EU States as of the respective date as determined by the Royal Decree of June 14, 2017. The Royal Decree provides that: (i) for a first list of 18 countries, the mandatory exchange of information applies as of income year 2016 (first information exchange in 2017); (ii) for a second list of 44 countries, the mandatory automatic exchange of information applies as of income year 2017



(first information exchange in 2018), and (iii) for one country, the mandatory automatic exchange of information applies as of income year 2018 (first information exchange in 2019).

Investors who are in any doubt as to their position should consult their professional advisors.

### **Taxation in the Federal Republic of Germany**

The paragraphs below present a summary of certain German federal income tax consequences of the ownership and disposal of the Shares by an investor that acquires such Shares in connection with this Offering. The summary is based on laws, treaties and regulatory interpretations in effect in the Federal Republic of Germany on the date of this Prospectus, all of which are subject to change, including changes that could have retroactive effect.

Investors should appreciate that, as a result of evolutions in law or practice, the eventual tax consequences may be different from what is stated below.

The following section presents a number of key German taxation principles which generally are or can be relevant to the acquisition, holding or transfer of shares by a shareholder (an individual, a partnership or corporation) that has a tax domicile in Germany (that is, whose place of residence, habitual abode, registered office or place of management is in Germany). The information is not exhaustive and does not constitute a definitive explanation of all possible aspects of taxation that could be relevant for investors. In particular, this summary does not provide a comprehensive overview on tax considerations that may be relevant to a shareholder that is a tax resident of a jurisdiction other than Germany. The information is based on the tax laws in force in Germany as of the date of the Prospectus (and their interpretation by administrative directives and courts) as well as typical provisions of double taxation treaties that Germany has concluded with other countries. Tax law can change, sometimes retrospectively. Moreover, it cannot be ruled out that the German tax authorities or courts may consider an alternative interpretation or application to be correct that differs from the one described in this section.

This section cannot serve as a substitute for tailored tax advice to individual potential investors. Potential investors are therefore advised to consult their tax advisers regarding the individual tax implications of the acquisition, holding or transfer of shares and regarding the procedures to be followed to achieve a possible reimbursement of German withholding tax (*Kapitalertragsteuer*). Only such advisors are in a position to take the specific tax relevant circumstances of individual investors into due account.

#### ***Tax residents***

The section “*Tax residents*” refers to persons who are tax residents of Germany (i.e., persons whose residence, habitual abode, statutory seat, or place of effective management and control is located in Germany).

### **Taxation of dividend income**

#### ***Shares held as non-business assets***

Dividends received by a German tax resident individual holding the Shares as non-business assets are, as a general rule, taxed as investment income (*Einkünfte aus Kapitalvermögen*) and, as such, subject to a 25% flat tax plus 5.5% solidarity surcharge thereon resulting in an aggregate tax rate of 26.375% (flat tax regime, *Abgeltungsteuer*), plus church tax, if applicable. If the Shares are held in a custodial account with a German branch of a German or non-German bank or financial services institution (*inländisches Kredit- oder Finanzdienstleistungsinstitut*), a German securities trading company (*inländisches Wertpapierhandelsunternehmen*) or a German securities trading bank (*inländische Wertpapierhandelsbank*) (the “**German Disbursing Agent**” – *inländische Zahlstelle*) the German Disbursing Agent generally withholds German tax at a rate of 25% (plus 5.5% solidarity surcharge thereon and, if applicable, church tax) on the gross amount of the dividends paid by the Company. However, the German Disbursing Agent must credit the amount of tax withheld in Belgium against the amount of the German withholding tax. The German tax resident individual’s personal income tax liability with respect to dividends is generally satisfied through the withholding. To the extent withholding tax has not been levied, such as in the case of Shares kept in custody abroad, the shareholder must report his or her income derived from the Shares on his or her tax return and then will also be taxed at a rate of 25% (plus solidarity surcharge and church tax thereon, where applicable).

Shareholders who are subject to unlimited tax liability in Germany and hold their Shares as non-business assets may provide to the German Disbursing Agent either an exemption declaration (*Freistellungsauftrag*) in the maximum amount of the saver's allowance (*Sparer-Pauschbetrag*) of €801 (or, for investors filing jointly, €1,602) or a non-assessment certificate (*Nichtveranlagungsbescheinigung*).

An automatic procedure for deducting church tax (*Kirchensteuer*) applies unless the shareholder has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern, Hauptdienstsz Bonn-Beuel, An der Kuppe 1, 53225 Bonn, Germany*). The church tax (*Kirchensteuer*) payable on the dividend is withheld and passed on by the German Disbursing Agent. In this case, the church tax (*Kirchensteuer*) for dividends is satisfied by the German Disbursing Agent withholding such tax. Church tax (*Kirchensteuer*) withheld at source may not be deducted as a special expense (*Sonderausgabe*) in the course of the tax assessment, but the German Disbursing Agent may reduce the withholding tax (including the solidarity surcharge (*Solidaritätszuschlag*)) by 26.375% of the church tax (*Kirchensteuer*) to be withheld on the dividends. If the shareholder has filed a blocking notice and no church tax (*Kirchensteuer*) is withheld by a German Disbursing Agent, a shareholder subject to church tax (*Kirchensteuer*) is obligated to declare the dividends in his income tax return. The church tax (*Kirchensteuer*) on the dividends is then levied by way of a tax assessment.

The individual shareholder is taxed on his/her aggregate investment income, less the saver's allowance. Income-related expenses are generally not tax-deductible. Private investors may apply to have their investment income assessed in accordance with the general rules on determining the individual tax rate of the shareholder if this results in a lower tax, but even in this case, income-related expenses are generally not tax-deductible. Further, in such a case, tax withheld in Belgium can generally be credited against the German tax liability on the Belgium dividends received by the German tax resident individual. The double tax treaty between Germany and Belgium does not provide for a further reduction of Belgium withholding tax on dividends for individuals to a rate lower than 15%.

Exceptions from the flat tax regime apply upon application for shareholders who have a shareholding of at least 25% in the Company and for shareholders who have a shareholding of at least 1% in the Company and work for the Company in a professional capacity, which enables them to exert significant entrepreneurial influence on the Company's business activities. In this situation, the tax treatment described below under "*Taxation in the federal republic of Germany – Tax residents – Taxation of dividend income – Shares held as business assets*" applies.

### ***Shares held as business assets***

If the Shares are held as business assets by a German tax resident holder, the taxation of dividends differs depending on whether the shareholder is a corporation, a sole proprietor or a partnership. The flat tax regime does not apply to dividends paid on Shares held by a German tax resident shareholder as business assets.

#### ***Corporations***

For corporations subject to an unlimited corporate income tax liability in Germany, dividends are, as a general rule, tax exempt from corporate income tax (including solidarity surcharge) provided that the corporation holds a direct participation of at least 10% in the share capital of the Company at the beginning of the calendar year in which the dividends are paid. However, in this case 5% of the dividend income is deemed to be non-deductible business expenses and, as such, is subject to corporate income tax; business expenses actually incurred in connection with dividend income from a tax perspective are generally tax-deductible. However, dividends that a shareholder receives are fully subject to corporate income tax (including solidarity surcharge thereon) if the shareholder holds a direct participation of less than 10% in the share capital of the Company at the beginning of the calendar year in which the dividends are paid (a "**Portfolio Participation**" – *Streubesitzbeteiligung*). Participations of at least 10% acquired during a calendar year are deemed to be acquired at the beginning of the calendar year. Participations in the share capital of the Company which a corporate shareholder holds through a partnership, including a partnership that is a partnership being engaged or deemed to be engaged in a business ("**Co-Entrepreneurship**" – *Mitunternehmerschaft*), are attributable to the shareholder *pro rata* in the amount of the participation. Dividends are fully subject to trade tax, unless the shareholder holds at least 10% of the registered share capital of the Company at the beginning of the relevant tax assessment period; the 10% threshold derives from

the fact that the Company is a Belgium limited company (*société anonyme*) and, therefore, falls within the scope of application of the EU Parent/Subsidiary Directive. In case of such a participation of at least 10%, effectively 95% of the dividends are also exempt from trade tax. However, a recent decision by the European Court of Justice (the “**ECJ**”) in this respect has to be considered. The ECJ held that the German provision pursuant to which the conditions for the participation exemption regarding shares in foreign corporations are stricter compared to shares in domestic corporations violates EU law (ECJ, September 20, 2018, C-685/16). The German Federal Ministry of Finance has recently published a draft bill for the Annual Tax Act 2019 which implements the recent decision by the ECJ into German law. According to the draft bill the distinction between German and non-German corporations (including non-EU corporations) would be abolished and the trade tax participation exemption applies if the shareholder held an interest of at least 15% in the share capital of the company making the distribution at the beginning of the relevant assessment period. Business expenses actually incurred in connection with the dividends are deductible for corporate income tax and – subject to certain restrictions – also for trade tax purposes.

Tax withheld on the dividends in Belgium is generally not creditable against the corporate income tax liability of the corporate shareholder in Germany. However, it should generally be creditable against corporate income tax imposed on Belgium investment income to the extent it relates to dividends from Portfolio Participations.

Even if the Shares are held in a custodial account with a German Disbursing Agent, there is generally no German withholding tax on dividends paid by the Company to a corporate shareholder.

#### *Sole proprietors (individuals)*

Where the Shares are held as business assets by an individual who is subject to unlimited tax liability in Germany, 60% of the dividends are taxed at the applicable individual income tax rate plus 5.5% solidarity surcharge on such income tax (partial income taxation method, *Teileinkünfteverfahren*) totaling up to a maximum rate of around 47.5%, plus church tax, if applicable. Correspondingly, only 60% of any business expenses related to the dividends may be deducted for income tax purposes. Dividends are fully subject to trade tax, unless the sole proprietor holds at least 10% of the Company’s registered share capital at the beginning of the relevant tax assessment period. In this case, the net amount of the dividend (i.e., after deduction of the business expenses directly connected to it) is exempt from trade tax. As mentioned above a recent decision by the ECJ (September 20, 2018, C-685/16) as well as potential changes due to the draft bill for the Annual Tax Act 2019 has to be considered (for further details please see above under “*Shares held as business assets*” – “*Corporations*”). In general, business expenses are deductible for trade tax purposes but certain restrictions may apply. All or part of the trade tax levied may be credited on a lump sum basis against the sole proprietor’s income taxes, depending on the multiplier set by the relevant municipality and the individual tax situation of the individual shareholder.

Tax withheld in Belgium should generally be creditable against the German personal income tax liability with respect to the dividend income.

If the Shares are held in a custodial account with a German Disbursing Agent, the German Disbursing Agent is not obliged to withhold German tax on dividends paid by the Company provided that the individual certifies to the German Disbursing Agent on an officially prescribed form that the dividends constitute business income of a German business.

#### *Partnerships*

If the shareholder is a Co-Entrepreneurship, the individual income tax or corporate income tax is not charged at the level of the partnership, but at the level of the respective partner. The taxation of each partner depends on whether the partner is a corporation or an individual. Thus, (corporate) income tax (including solidarity surcharge) and, if applicable, church tax will be assessed and levied only at the level of the partners, whereby, in principle, the respective rules applicable to a direct shareholding described above in section “*Shares held as non-business assets*” and “*Shares held as business assets*” apply accordingly.

Trade tax, however, is assessed and levied at the level of the partnership if the Shares are attributable to a permanent establishment of a commercial business of the partnership in Germany; this applies irrespective of whether the dividends are attributable to individual partners or corporate partners. The trade tax paid by the partnership and attributable to the individual’s general profit

share is completely or partially credited against the shareholder's individual income tax on a lump-sum basis.

The creditability of the tax withheld in Belgium against the German corporate or personal income tax depends on whether the partner is a corporation or an individual. If the partner is a corporation, the principles explained for corporations above apply (see "*Taxation in the Federal Republic of Germany – Shares held as business assets – Corporations*" above). If the partner is an individual, the principles explained for individuals above apply (see "*Taxation in the Federal Republic of Germany – Shares held as business assets – Sole proprietors (individuals)*" above).

If the Shares are held in a custodial account with a German Disbursing Agent, no German withholding tax arises provided that the partnership certifies to the German Disbursing Agent on an officially prescribed form that the dividends constitute business income of a German business.

Special rules apply to credit institutions (*Kreditinstitute*), financial services institutions (*Finanzdienstleistungsinstitute*), financial enterprises (*Finanzunternehmen*), life insurance and health insurance companies and pension funds.

## **Taxation of capital gains**

### ***Shares held by individual shareholders as non-business assets***

Capital gains from the sale of Shares which an individual shareholder holds as non-business assets are generally subject to a 25% flat tax (plus 5.5% solidarity surcharge thereon, resulting in an aggregate withholding tax rate of 26.375%), plus church tax, if applicable. Losses from the sale of such Shares can only be used to offset capital gains from the disposal of shares in stock corporations during the same year or in subsequent years. The amount of the taxable capital gain from the sale is the difference between (a) the proceeds from the sale and (b) the cost of acquisition of the Shares and the expenses directly related to the sale. Income-related expenses may not be deducted from capital gains. If the Shares are deposited with or administered by a German Disbursing Agent, the tax on the capital gains is generally settled by way of withholding through the German Disbursing Agent which is required to deduct a withholding tax of 26.375% (including solidarity surcharge), plus church tax, if applicable (as described under "*Taxation in the Federal Republic of Germany – Shares held as non-business assets*"), of the capital gains from the sale proceeds and remit it to the tax authority. To the extent withholding tax has not been levied, such as in the case of Shares kept in custody abroad, the individual holder must report his or her capital gains derived from the Shares on his or her tax return and then will also be taxed at a rate of 25% (plus solidarity surcharge and church tax thereon, where applicable).

If, however, a shareholder, or in the case of a gratuitous acquisition, the shareholder's legal predecessor, directly or indirectly held at least 1% of the share capital of the Company at any time during the five years preceding the sale of Shares (a "**Qualified Participation**"), the flat tax regime does not apply and, rather, 60% of any capital gain resulting from the sale is taxable as business income at the shareholder's individual income tax rate plus 5.5% solidarity surcharge (and church tax, if applicable) on such income tax. Accordingly, 60% of a capital loss from the disposal of the Shares is generally recognized for tax purposes. Withholding tax is also deducted by a German Disbursing Agent in the case of a Qualified Participation, but this does not have the effect of a settlement of the shareholder's tax liability. Upon the shareholder's assessment to income tax, the withheld and remitted tax is credited against the individual income tax liability. To the extent that the amounts withheld exceed the individual income tax liability of the shareholder, it will be refunded.

### ***Shares held as business assets***

Gains on the disposal of Shares held by an individual or corporation as business assets are in principle not subject to the 25% flat tax plus 5.5% solidarity surcharge thereon (and church tax, if applicable). Withholding tax must only be withheld in the case of a German Disbursing Agent. The tax withheld, however, is not considered to be final as under the flat tax regime. The amount of tax withheld is credited against the shareholder's individual or corporate income tax liability and any amounts withheld in excess of such individual or corporate income tax liability will be refunded. Even if the Shares are held in a custodial account with a German Disbursing Agent, there is generally no German withholding tax (i) in the case of a corporate shareholder, or (ii) if the shareholder holds the Shares as assets of a business in Germany and certifies this on an officially prescribed form to the German Disbursing Agent.



The taxation of capital gains from the disposal of Shares held as business assets depends on whether the shareholder is a corporation, a sole proprietor or a partnership:

#### *Corporations*

For corporations subject to unlimited corporate income tax liability in Germany, capital gains from the sale of Shares are, as a general rule and currently irrespective of any holding period or percentage level of participation, tax exempt from corporate income tax (including solidarity surcharge) and trade tax. 5% of the capital gains is deemed to be non-deductible business expenses and, as such, is subject to corporate income tax plus solidarity surcharge; business expenses actually incurred in connection with the capital gains from a tax perspective are generally tax-deductible. Losses from the sale of Shares and other reductions in profit in connection with the Shares are generally not deductible for corporate income tax and trade tax purposes. Capital gains are, irrespective of the percentage level of shareholding, effectively 95% exempt from trade tax.

#### *Sole proprietors (individuals)*

60% of capital gains from the sale of Shares are taxed at the individual income tax rate plus 5.5% solidarity surcharge (plus church tax, if applicable) on such income tax where the Shares are held as business assets by an individual who is subject to unlimited tax liability in Germany. Correspondingly, only 60% of the capital losses, other reductions in profit in connection with the Shares and business expenses resulting from a share sale may be deducted for income tax purposes. Only 60% of the capital gains are subject to trade tax. Correspondingly, subject to general restrictions, only 60% of the business expenses resulting from a share sale may generally be deducted for trade tax purposes. All or part of the trade tax levied may be credited on a lump sum basis against the sole proprietor's income taxes, depending on the multiplier set by the relevant municipality and the individual tax situation of the individual shareholder.

#### *Partnerships*

If the shareholder is a Co-Entrepreneurship, the individual income tax or corporate income tax is not charged at the level of the partnership, but at the level of the respective partner. The taxation of each partner depends on whether the partner is a corporation or an individual. Thus, (corporate) income tax (including solidarity surcharge) and, if applicable, church tax will be assessed and levied only at the level of the partners, whereby, in principle, the respective rules applicable to a direct shareholding described above in "*Taxation in the Federal Republic of Germany – Shares held as business assets – Corporations*" and "*Taxation in the Federal Republic of Germany – Shares held as business assets – Sole proprietors (individuals)*" apply accordingly. Trade tax, however, is assessed and levied at the level of the partnership if the Shares are attributable to a permanent establishment of a commercial business of the partnership in Germany. Generally, 60% of a capital gain attributable to an individual partner and 5% of a capital gain attributable to a corporate partner are taxable. Capital losses or other reductions in profit in connection with the Shares sold are not taken into account for purposes of trade tax to the extent they are attributable to a partner that is a corporation, and subject to general restrictions only 60% of these losses or expenses are taken into account to the extent they are attributable to a partner who is an individual. The trade tax paid by the partnership and attributable to the individual's general profit share is completely or partially credited against the shareholder's individual income tax in accordance with such lump-sum method.

Special rules apply to credit institutions (*Kreditinstitute*), financial services institutions (*Finanzdienstleistungsinstitute*), financial enterprises (*Finanzunternehmen*), life insurance and health insurance companies and pension funds.

#### ***Disposal of Preferential Rights***

The rules applicable to "*Taxation in the Federal Republic of Germany – Taxation of capital gains – Shares held by individual shareholders as non-business assets*" and "*Taxation in the Federal Republic of Germany – Taxation of capital gains – Shares held as business assets*" (except for "*Taxation in the Federal Republic of Germany – Taxation of capital gains – Shares held as business assets – Corporations*") apply in principle accordingly to the taxation of capital gains from the disposal of Preferential Rights. In case of a disposal of Preferential Rights held as non-business assets the acquisition costs for the disposed Preferential Rights are deemed to be zero.

Different to the taxation of a capital gain from a disposal of Shares (*"Taxation in the Federal Republic of Germany – Taxation of capital gains – Shares held as business assets – Corporations"*) capital gains from the disposal of Preferential Rights held by corporations (or by a corporation indirectly through a partnership) are fully taxable for corporate income tax and trade tax purposes irrespective of the individual shareholding.

### **Non-residents**

#### **Taxation of dividend income**

Shareholders who are not tax resident in Germany are only subject to taxation in Germany in respect of their dividend income if their Shares form part of the business assets of a permanent establishment or a fixed place of business in Germany, or constitute business assets for which a permanent representative has been appointed in Germany. In general, the situation described above for shareholders tax resident in Germany who hold their Shares as business assets applies accordingly (*"Taxation in the Federal Republic of Germany – Tax residents – Taxation of dividend income – Shares held as Business Assets"*).

#### **Taxation of capital gains**

Capital gains from the disposal of Shares or Preferential Rights by a shareholder not tax resident in Germany are only taxable in Germany if the selling shareholder holds the Shares or the Preferential Rights through a permanent establishment or fixed place of business or as business assets for which a permanent representative is appointed in Germany. In such a case, the description above for German tax resident shareholders who hold their Shares as business assets applies accordingly (*"Taxation in the Federal Republic of Germany – Tax residents – Taxation of capital gains – Shares held as business assets"*).

#### **Inheritance and gift tax**

The transfer of Shares to another person mortis causa or by way of gift is generally subject to German inheritance or gift tax if:

- the place of residence, habitual abode, place of management or registered office of the decedent, the donor, the heir, the donee or another acquirer is, at the time of the asset transfer, in Germany, or such person, as a German national, has not spent more than five continuous years outside of Germany without maintaining a place of residence in Germany; or
- the decedent's or donor's shares belonged to business assets for which there had been a permanent establishment in Germany or a permanent representative had been appointed; or
- the decedent or the donor, at the time of the succession or gift, held a direct or indirect interest of at least 10% of the Company's share capital either alone or jointly with other related parties.

The small number of double taxation treaties in respect of inheritance and gift tax which Germany has concluded to date usually provide for German inheritance or gift tax only to be levied in the cases under the first bullet and, subject to certain restrictions, in the cases under the second bullet. Special provisions apply to certain German nationals living outside of Germany and to former German nationals.

#### **Other taxes**

No German capital transfer tax, value added tax, stamp duty or similar taxes are levied on the purchase or disposal of shares or other forms of share transfer. Currently net assets tax is not levied in Germany. However, an entrepreneur can opt to pay value added tax on the sale of shares, despite being generally exempt from value added tax, if the shares are sold to another entrepreneur for the entrepreneur's business.

#### **Financial Transaction Tax**

On February 14, 2013, the EU Commission adopted a proposal for a Council Directive (the **"Draft Directive"**) on a common financial transaction tax (**"FTT"**). According to the Draft Directive, the FTT shall be implemented in certain EU member states, including Germany.



The proposed FTT has very broad scope and could, if introduced, apply to certain dealings in the shares (including secondary market transactions) in certain circumstances. The issuance and subscription of shares should, however, be exempt.

According to the coalition agreement between the German Christian Democratic Party and the Christian Social Union as well as the German Social Democratic Party, the current German government still has the intention to introduce a FTT. In June 2018, Germany and France agreed to further pursue the implementation of a FTT in the EU for which the current French financial transaction tax (which is mainly focused on transactions regarding shares in listed companies with a market capitalization of more than EUR 1 billion) could serve as a role model. Therefore, France and Germany recently presented a common position paper on the introduction of an EU-wide FTT based on the French model to the High Level Working Party at a meeting of the Council of the European Union.

Any FTT proposal is however still subject to negotiation between (certain) EU member states. Therefore, it is currently uncertain whether and when the proposed FTT will be enacted by the participating EU member states and when it will take effect with regard to dealings in the shares.

Prospective investors are advised to seek their own professional advice in relation to the FTT.

## INFORMATION ON THE OFFERING

### Information related to the capital increase

Pursuant to an authorization granted by the Company's extraordinary shareholders' meeting of May 21, 2019 and article 7 of the Company's Articles of Association, the Board of Directors has the authority to issue the New Shares within the framework of authorized capital and to increase the share capital by a maximum amount of EUR 435,000,000.00 (including issue premium).

On June 3, 2019 the Board of Directors decided to increase the Company's share capital by a maximum amount of EUR 435,000,000.00 (including issue premium), by way of issuance of New Shares with Preferential Rights granted to the Shareholders at closing of Euronext Brussels on June 5, 2019. The Board of Directors delegated to an ad hoc committee (the "**Ad Hoc Committee**") the determination of the Issue Price, the Ratio and the maximum number of New Shares.

On June 4, 2019, the Ad Hoc Committee decided to fix the Issue price at €57.00, and the maximum number of New Shares at 7,628,104. It was also decided that the Ratio is 1 New Share for 8 Preferential Rights.

The Company reserves itself the right to revoke or suspend the Offering if (i) it determines that market conditions would make the Offering more difficult in a material way, or (ii) the Underwriting Agreement has not been signed or has been terminated in accordance with its terms and conditions (see Section "*Revocation or suspension of the Offering*").

### The New Shares offered

#### **Type and class**

The New Shares subscribed to by a holder of class A shares will be class A shares provided that the New Shares are issued as a result of such holder exercising its Preferential Rights separated from class A shares. The New Shares subscribed to by a holder of class C shares will be class C shares provided that the New Shares are issued as a result of such holder exercising its Preferential Rights separated from class C shares. A holder of different classes of shares cannot combine Preferential Rights separated from shares of a different class to receive New Shares.

The New Shares subscribed to by any other person will be class B shares.

#### **Applicable law and jurisdiction**

The Offering and the New Shares are subject to Belgian law.

The competent courts in case of disputes concerning the Offering or the New Shares will be determined in accordance with applicable rules.

#### **Form**

The New Shares will be delivered in registered or dematerialized (book-entry) form, except for the Existing Shareholders holding registered shares, who will receive New Shares in registered form.

Shareholders may ask the Company for their Shares in dematerialized form to be converted into registered Shares, or vice versa, in accordance with the Articles of Association.

The new class B shares will be admitted to trading on Euronext Brussels. They will be traded under the same ISIN code as the Existing Shares, that is BE0003822393.

#### **Currency**

The Offering is in euro.

#### **Rights attached to the New Shares**

From their issue date, the New Shares will be subject to all provisions of the Articles of Association. The New Shares will carry the right to a dividend with respect to the financial year that started on January 1, 2019 and, from the date of their issue, will carry the right to any distribution made by the Company.

The rights attached to the Shares are described in "*Description of share capital and Articles of Association – General Shareholders' Meeting and voting rights*".

### ***Restrictions on free trading in the New Shares***

The class B shares are freely transferable. Each holder of class A shares or class C shares may freely transfer part or all of its class A or class C shares: (i) to an affiliated or associated person as defined in Articles 11 and 12 of the Belgian Companies Code, who agrees to be bound by the terms of and by the transferor's obligations under the Shareholders' Agreement; and (ii) to the persons indicated in the Shareholders' Agreement, subject to the terms set forward in the Shareholders' Agreement being fulfilled. See in this respect also section "*Description of share capital and Articles of Association – General Shareholders' Meeting and voting rights – Transfer of shares*".

See section "*Plan of distribution and allocation of the New Shares*" regarding restrictions applicable to the Offering".

See section "*Lock-up and standstill arrangements*" regarding the lock-up undertaking of Publi-T and the standstill commitment of the Company.

### **Terms and conditions of the Offering**

#### ***Shares offered with an extra-legal preferential right***

The offering by the Company of the New Shares is carried out with extra-legal preference rights for the Existing Shareholders. The statutory preference right of the Existing Shareholders of the Company as set forth in Article 592 and following of the Belgian Companies Code has been disapplied with respect to the Offering. However, the Existing Shareholders are being granted Preferential Rights, each conferring an extra-legal preference right, as described below.

From a practical perspective, the Preferential Rights do not substantially differ from statutory preference rights, and the Offering procedure does not differ substantively from the procedure that would otherwise have applied if the Offering had taken place with the statutory preference rights as provided for by the Belgian Companies Code. In particular, the Preferential Rights will be separated from the underlying Shares and, provided they are in dematerialized form, will be separately tradable on the regulated market of Euronext Brussels during the Rights Subscription Period.

As one of the exceptions to the procedure that would have applied if the Offering had taken place with statutory preference rights, the Rights Subscription Period will have a term of 8 days instead of 15 days.

#### ***Preferential Rights***

Each Share will entitle its holder to receive one Preferential Right. The Preferential Right is represented by coupon nr. 16. The Preferential Rights will be detached from the Existing Shares on June 5, 2019 after closing of Euronext Brussels and, provided they are in dematerialized form, will be negotiable during the entire Rights Subscription Period on Euronext Brussels under the ISIN code BE0970172756.

#### ***Reduced capital increase***

The Company has a right to proceed with a capital increase in a reduced amount. The final number of New Shares issued and the final amount of the capital increase will be confirmed in a press release issued by the Company on or about June 14, 2019.

#### ***Amount of the capital increase***

If all New Shares are subscribed to, the total amount of the capital increase (including issue premium) will be €434,801,928 million. As indicated above, the Company reserves itself the right to proceed with a capital increase for a reduced amount. No minimum has been set for the Offering.

#### ***Issue Price and Ratio***

The Issue Price is equal to €57.00 per New Share.

The Issue Price represents a discount to the closing price of June 4, 2019 (which amounted to €62.60) of 8.95 per cent. Based on the closing price, the theoretical ex-right price ("**TERP**") is €61.98, the theoretical value of a Preferential Right is €0.62, and the discount of the Issue Price compared to TERP is 8.03%.

The holders of Preferential Rights can subscribe to the New Shares in the Ratio of 1 New Share for 8 Preferential Rights, it being understood that a holder of different classes of shares cannot combine Preferential Rights separated from shares of a different class to receive New Shares.

The Issue Price per New Share will be contributed as share capital up to the exact fractional value of the Existing Shares (i.e., approximately EUR 24.95 per Share, for legibility purposes, rounded to the nearest whole eurocent) multiplied by the number of New Shares and then rounded up to the nearest whole eurocent. The difference between this contribution to the share capital and the total Issue Price, after deduction of possible costs, will be allocated to a non-disposable account ("share premium account").

#### Subscription periods and procedure

##### *Rights Offering*

The Rights Subscription Period shall be from June 6, 2019 up to and including June 13, 2019, 3 p.m. CET.

After the Right Subscription Period, the Preferential Rights may not longer be exercised or traded and as a result subscription requests received thereafter will be void.

##### *Subscription procedure*

As indicated above, the Preferential Rights, represented by coupon nr. 16 of the Existing Shares, will be separated from these Shares on June 5, 2019 after the closing of Euronext Brussels:

- (i) Existing Shareholders whose holding of shares in the Company is registered in the share register of the Company will receive, at the address indicated in the share register, a letter or e-mail from the Company informing them of the procedures that they must follow, subject to the restrictions in this Prospectus and subject to applicable securities laws.
- (ii) Existing Shareholders who hold dematerialized shares in the Company will automatically be allocated, by book-entry into their securities account, a corresponding number of Preferential Rights in the securities account they hold with their bank, subject to the restrictions in this Prospectus and subject to applicable securities laws. They will, in principle, be informed by their financial institution of the procedure that they must follow.

Subject to restrictions under applicable securities laws (see section "*Plan of distribution and allocation of the New Shares*") investors holding Preferential Rights in dematerialized form (including Existing Shareholders) can, during the Rights Subscription Period, irreducibly subscribe to the New Shares free of charge directly at the counters of KBC Bank, CBC Banque, KBC Securities, Belfius Bank and ING Belgium if they have a client account there, or indirectly through any other financial intermediary. Subscribers should inform themselves about any costs that these other financial intermediaries might charge and which they will need to pay themselves. At the time of subscription, the subscribers should remit a corresponding number of Preferential Rights in accordance with the Ratio.

Existing Shareholders whose holding of shares in the Company is registered in the share register of the Company, must elect to exercise their Preferential Rights and remit the respective amount for such subscription into the blocked account of the Company (as will be indicated in the instruction letter of the Company) by June 11, 2019, 4 p.m. CET latest. Failure to do so will imply failure of such Existing Shareholders to exercise their Preferential Rights, in which case these will receive the Net Scrips Proceeds (as defined below), if any, for such unexercised Preferential Rights.

##### *Trading of Preferential Rights*

During the Rights Subscription Period, Preferential Rights in dematerialized form can be traded on Euronext Brussels.

Preferential Rights can no longer be exercised or traded after June 13, 2019, 3 p.m. CET, the "**Closing Date**" of the Rights Subscription Period.

An announcement of the results of the subscription with Preferential Rights will be made by a press release on or about June 14, 2019.

### *Scripts Private Placement*

At the Closing Date of the Rights Subscription Period, the unexercised Preferential Rights will be automatically converted into an equal number of Scripts and these Scripts will be sold to institutional investors by way of a private placement. Through such a procedure, a book of demand will be built to find a single market price for the Scripts. Investors who acquire Scripts irrevocably commit to exercise the Scripts and thus to subscribe to the corresponding number of New Shares at the Issue Price and in accordance with the Ratio.

The Scripts Private Placement is expected to last for one day and is expected to take place on June 14, 2019.

The Scripts Private Placement will only take place if not all of the Preferential Rights have been exercised during the Rights Subscription Period.

The net proceeds from the sale of Scripts (rounded down to a whole eurocent per unexercised Preferential Right) after deducting expenses, charges and all forms of expenditure which the Company has to incur for the sale of the Scripts (the “**Net Scripts Proceeds**”), if any, will be distributed proportionally between all holders of Preferential Rights who have not exercised them. The Net Scripts Proceeds will be published by a press release and made available to the Existing Shareholders upon presentation of coupon nr. 16. There is, however, no assurance that any or all Scripts will be sold during the Scripts Private Placement or that there will be any Net Scripts Proceeds. Neither the Company nor the Underwriters procuring a sale of the Scripts will be responsible for any lack of Net Scripts Proceeds arising from the sale of the Scripts in the Scripts Private Placement.

If the Net Scripts Proceeds are less than €0.01 per unexercised Preferential Right, the holders of Preferential Rights who have not exercised them are not entitled to receive any payment and, instead, the Net Scripts Proceeds will be transferred to the Company. If the Company announces that Net Scripts Proceeds are available for distribution to holders of unexercised Preferential Rights and such holders have not received payment thereof within a reasonable time following the closing of the Scripts offering, such holders should contact their financial intermediary, except for registered shareholders who should contact the Company.

The results of the subscription with Preferential Rights and with Scripts, the results of the sale of Scripts and the amount due to holders of unexercised Preferential Rights will be published on or about June 14, 2019 by a press release.

### *Rules for subscription*

Subject to the Ratio, there is no minimum or maximum number of New Shares that may be subscribed to pursuant to the Rights Offering.

Investors should be aware that all New Shares they have subscribed to will be fully allocated to them. All subscriptions are binding and irrevocable, except as described in section “*Supplement to the Prospectus*”.

Holders of dematerialized Preferential Rights wishing to exercise and subscribe for New Shares need to instruct their financial intermediary accordingly. The financial intermediary is responsible for obtaining the subscription request and for duly transmitting such subscription request to the Underwriters. Holders of registered Preferential Rights wishing to exercise and subscribe for New Shares need to comply with the instructions delivered to them in the letter received from the Company. It is not possible to combine Preferential Rights attached to registered Shares with Preferential Rights attached to dematerialized Shares to subscribe for New Shares.

In principle, joint subscriptions are not possible: the Company recognizes only one owner per Share.

Subscriptions through the exercise of Preferential Rights or Scripts will not be reduced. Hence, no procedure to refund any excess amounts paid by subscribers needs to be organized.

Existing Shareholders or investors who do not own the exact number of Preferential Rights required to subscribe for a whole number of New Shares can, during the Subscription Period, either buy (through a private transaction or on the regulated market of Euronext Brussels) the lacking Preferential Rights to subscribe for one or more additional New Shares, sell (through a private transaction or on the regulated market of Euronext Brussels) the Preferential Rights representing a

share fraction, or hold such Preferential Rights in order for them to be offered for sale in the form of Scrips after the Subscription Period. Purchasing or selling Preferential Rights and/or acquiring Scrips may entail certain costs.

#### *Minimum or maximum amount that may be subscribed*

Subject to the Ratio, there is no minimum or maximum amount that may be subscribed pursuant to the Offering.

#### *Revocation or suspension of the Offering*

The Company reserves the right to revoke or suspend the Offering if (i) it determines that market conditions would make the Offering more difficult in a material way, or (ii) the Underwriting Agreement has not been signed or has been terminated in accordance with its terms and conditions. If the Company decides to revoke or suspend the Offering, a press release will be published and, to the extent such event would legally require the Company to publish a supplement to the Prospectus, such supplement will be published.

### **Publications in respect of the Offering**

#### *Supplement to the Prospectus*

The Company will update the information provided in this Prospectus by means of a supplement in the event that any significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the evaluation of the Offering by prospective investors arises or is noted prior to the Closing Date of the Rights Subscription Period, or, as the case may be, prior to the start of the trading of the New Shares on Euronext Brussels. Any prospectus supplement will be subject to approval by the FSMA and will be published in the Belgian financial press and by a press release.

If a supplement to the Prospectus is published on or prior to the Closing Date of the Rights Subscription Period, subscribers in the Rights Offering shall have the right to withdraw their subscriptions made prior to the publication of the supplement. Such withdrawal must be done within the time limits set forth in the supplement (which shall not be shorter than two business days after publication of the supplement). If, however, a supplement to the Prospectus is published in relation to the termination of the Underwriting Agreement, subscriptions in the Rights Offering and subscriptions in the Scrips Private Placement will automatically be cancelled.

Subscribers withdrawing their subscription after the close of the Scrips Private Placement will not share in the Net Scrips Proceeds and will not be compensated in any other way, including the purchase price (and any related cost) paid in order to acquire any Preferential Rights or Scrips.

#### *Results of the Offering*

The results of the subscription with Preferential Rights will be made public by a press release before the market opening on or about June 14, 2019.

The results of the subscription with Preferential Rights and with Scrips, the results of the sale of Scrips and the payment of the Net Scrips Proceeds will be published on or about June 14, 2019 in the Belgian financial press and by press release.

### **Payment and delivery of the New Shares**

The payment of the subscriptions with dematerialized Preferential Rights is expected to take place on or around June 18, 2019 and will be done by debit of the subscriber's account with the same value date (subject to the relevant financial intermediary procedures). Payment of subscriptions with registered Preferential Rights will be done by payment into a blocked account of the Company. Payment must have reached such account by June 11, 2019, 4 p.m. CET as indicated in the instruction letter from the Company.

The payment of the subscriptions in the Scrips Private Placement is expected to take place on or around June 18, 2019. The payment of the subscriptions in the Scrips Private Placement will be made by delivery against payment.

Delivery of the New Shares will take place on or around June 18, 2019. The New Shares will be delivered under the form of dematerialized Shares (booked into the securities account of the subscriber) or as registered Shares recorded in the Company's Share register.



## Dividend entitlement

The New Shares will be entitled to a share in the results of the financial year that started on January 1, 2019 and of the following years.

## Expected timetable of the Offering

Detachment of coupon nr. 16 (representing the Preferential Right) after closing of the markets	T	June 5, 2019
Availability to the public of the Prospectus	T+1	June 6, 2019
Trading of Shares ex-Right	T+1	June 6, 2019
Opening of Rights Subscription Period	T+1	June 6, 2019
Listing of the Preferential Rights on Euronext Brussels	T+1	June 6, 2019
Payment Date for the Registered Preferential Rights exercised subscribers	T+6	June 11, 2019
Closing Date of the Rights Subscription Period	T+8	June 13, 2019
End of listing of the Preferential Rights on Euronext Brussels	T+8	June 13, 2019
Announcement via press release of the result of the subscription with Preferential Rights	T+9	June 14, 2019
Accelerated private placement of the Scrips	T+9	June 14, 2019
Allocation of the Scrips and the subscription with Scrips	T+9	June 14, 2019
Announcement via press release of the results of the subscription with Preferential Rights and with Scrips and the Net Scrip Proceed (if any) due to holders of coupons nr. 16	T+9	June 14, 2019
Payment Date for the Dematerialized Preferential Rights exercised subscribers	T+13	June 18, 2019
Realization of the capital increase	T+13	June 18, 2019
Delivery of the New Shares to the subscribers	T+13	June 18, 2019
Listing of the New Shares on Euronext Brussels	T+13	June 18, 2019
Payment to holders of non-exercised Preferential Rights	T+16	June 21, 2019

The Company may amend the dates and times of the share capital increase and periods indicated in the above timetable and throughout this Prospectus. If the Company decides to amend such dates, times or periods, it will notify Euronext Brussels and inform investors by a press release. Any material alterations to this Prospectus will be published in a press release and as a supplement to this Prospectus in the Belgian financial press and on the website of the Company.

## Plan of distribution and allocation of the New Shares

### *Intention to subscribe*

*See the section "Relationship with significant shareholders – Intention of the Existing Shareholders to participate in the Offering" and the section "Management and governance – Intention of the directors and the members of the Executive Committee to participate in the Offering".*

### *Allocation and potential investors*

The Offering is carried out with non-statutory preference rights for the Existing Shareholders. The Preferential Rights are allocated to all the shareholders of the Company as of the closing of Euronext Brussels on June 5, 2019, and each share in the Company will entitle its holder to one Preferential Right. Both the initial holders of Preferential Rights and any subsequent purchasers of Preferential Rights, as well as any purchasers of Scrips in the Scrips Private Placement, may subscribe for the New Shares, subject to the restrictions under applicable securities laws.

The Preferential Rights are granted to the Existing Shareholders of the Company and may only be exercised by the Existing Shareholders of the Company (or subsequent purchasers of the Preferential Rights) who can lawfully do so under any law applicable to them. The New Shares to be issued upon exercise of the Preferential Rights are being offered only to holders of Preferential Rights to whom such offer can be lawfully made under any law applicable to those holders. The Company has taken all necessary actions to ensure that Preferential Rights may lawfully be exercised by, and New Shares to be issued upon the exercise of Preferential Rights may lawfully be offered to, the public (including shareholders of the Company and holders of Preferential Rights) in Belgium and Germany. The Company has not taken any action to permit any offering of Preferential Rights or New Shares to be issued upon the exercise of Preferential Rights in any other jurisdiction outside of Belgium and Germany.

The Scrips, and the New Shares to be issued upon exercise of Scrips as a result of the Scrips Private Placement, are being offered only in an accelerated bookbuild private placement to investors in Belgium and by way of an exempt private placement in such other jurisdictions as shall be determined by the Company in consultation with the Underwriters. The Scrips, and New Shares to be issued upon exercise of Scrips as a result of the Scrips Private Placement, are not being offered to any other persons or in any other jurisdiction.

#### *Selling restrictions*

The distribution of this Prospectus, the acceptance, sale, purchase or exercise of Preferential Rights, the purchase and the exercise of Scrips and the subscription for and acquisition of New Shares may, under the laws of certain countries other than Belgium, be governed by specific regulations. Individuals in possession of this Prospectus, or considering the acceptance, sale, purchase or exercise of Preferential Rights, the purchase or exercise of Scrips or the subscription for, or acquisition of, New Shares, must inquire about those regulations and about possible restrictions resulting from them, and comply with those restrictions. Intermediaries cannot permit the acceptance, sale or exercise of Preferential Rights, the purchase or exercise of Scrips or the subscription for, or acquisition of, New Shares, for clients whose addresses are in a country where such restrictions apply. No person receiving this Prospectus (including trustees and nominees) may distribute it in, or send it to, such countries, except in conformity with applicable law. The Company and the Underwriters expressly disclaim any liability for non-compliance with the aforementioned restrictions.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Preferential Rights, the Scrips and New Shares to which they relate or an offer to sell or the solicitation of an offer to buy Preferential Rights, Scrips or New Shares in any circumstances in which such offer or solicitation is unlawful.

The following sections set out specific notices in relation to certain countries that, if stricter, shall prevail over the foregoing general notice.

#### *Certain Member States of the EEA*

The Company has not authorized any offer to the public of New Shares, Preferential Rights or Scrips in any Member State of the European Economic Area (each, a “**Member State**”) other than Belgium. With respect to each Member State that has implemented the Prospectus Directive (each, a “**Relevant Member State**”), no action has been undertaken or will be undertaken to make an offer to the public of New Shares, Preferential Rights or Scrips requiring a publication of a prospectus in that Relevant Member State. As a result, the New Shares, Preferential Rights or Scrips may only be offered in a Relevant Member State under the following exemptions of the Prospectus Directive, if they have been implemented in that Member State:

- (i) to any legal entity that is a qualified investor as defined in Article 2(1)(e) of the Prospectus Directive;
- (ii) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Underwriters for any such offer; or
- (iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of New Shares shall result in a requirement for the publication by the Company or any Underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this paragraph, the expression an “**offer to the public**” of New Shares, Preferential Rights or Scrips in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the New Shares, Preferential Rights or Scrips to be offered so as to enable an investor to decide to purchase or subscribe to any such securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State; the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State, and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

#### *United Kingdom*

This Prospectus is directed solely at persons in the United Kingdom who (i) have professional experience in matters relating to investments and who fall within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (ii) are high net worth entities and other persons to whom such communication may otherwise lawfully be made falling within Article 49(2)(A) to (D) of the Order (all such persons together being referred to as “**Relevant Persons**”). This Prospectus must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this communication relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. Persons distributing this communication must satisfy themselves that it is lawful to do so.

In any case, the Scrips Offering shall only be made to Relevant Persons in the United Kingdom. There shall be no public offering of the Preferential Rights, the Scrips or the New Shares in the United Kingdom.

#### *United States*

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the New Shares, the Preferential Rights or the Scrips offered hereby.

No actions have been taken to register or qualify the New Shares, the Preferential Rights or the Scrips offered hereby or otherwise permit a public offering of the New Shares, the Preferential Rights or the Scrips offered hereby in the United States. The New Shares and the Preferential Rights are being offered in the United States on a private placement basis solely to “qualified institutional buyers” (“QIBs”) within the meaning of Rule 144A under the Securities Act pursuant to the exemption from the registration requirements of the Securities Act set forth in Section 4(a) (2) thereof. Outside the United States, the Right Offering is being made pursuant to Regulation S under the Securities Act. The Scrips Private Placement (if any) will be made only outside the United States in reliance on Regulation S.

The New Shares, the Preferential Rights and the Scrips offered hereby have not been and will not be registered under the Securities Act and may not be offered, sold or resold in, or to persons in, the United States except in accordance with an available exemption from registration under the Securities Act.

Investors may not exercise Preferential Rights, and may not purchase the New Shares or the Preferential Rights in the United States, unless they are QIBs. Investors that are QIBs may exercise their Preferential Rights only if such investors sign and timely deliver to the Company an investor letter. Investors that are QIBs exercising Preferential Rights will be deemed to have made certain representations and warranties, including the following:

- (i) It is and at the time of any exercise by it of Preferential Rights or acquisition of New Shares will be, a QIB.
- (ii) It understands and acknowledges that neither the New Shares nor the Preferential Rights have been or will be registered under the Securities Act, and may not be offered, sold, pledged, delivered or otherwise transferred, directly or indirectly, in or into the United States, other than in accordance with paragraph (iv) below.
- (iii) As a purchaser in a private placement of securities that have not been registered under the Securities Act, it is acquiring the New Shares or the Preferential Rights for its own account, or for the account of one or more other QIBs for which it is acting as duly authorised fiduciary or

agent with sole investment discretion with respect to each such account and with full authority to make the acknowledgments, representations and agreements herein with respect to each such account, in each case for investment and not with a view to any resale or distribution of any New Shares or Preferential Rights

- (iv) It understands and agrees that, although offers and sales of the Preferential Rights are being made only to QIBs, and that the Preferential Rights may be exercised only by QIBs, such exercises of Preferential Rights are not being made under Rule 144A, and that if in the future it or any such other QIB for which it is acting, as described in paragraph (iii) above, or any other fiduciary or agent representing such investor decides to offer, sell, deliver, hypothecate or otherwise transfer any New Shares, Preferential Rights or Scrips, it will do so only (i) pursuant to an effective registration statement under the Securities Act, (ii) to a QIB, (iii) outside the United States in an “offshore transaction” pursuant to Rule 904 under Regulation S under the Securities Act (and not in a pre-arranged transaction resulting in the resale of such New Shares or Preferential Rights into the United States), (iv) in another transaction exempt from, or not subject to, the registration requirements of the Securities Act or (v) in the case of New Shares, in accordance with Rule 144 under the Securities Act and, in each case, in accordance with any applicable securities laws of any state or territory of the United States and of any other jurisdiction. It understands that no representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for the resale of New Shares.
- (v) It understands that for so long as such New Shares are “restricted securities” within the meaning of US federal securities laws, no such New Shares may be deposited into any American depositary receipt facility established or maintained by a depositary bank, other than a restricted depositary receipt facility, and that the New Shares will not settle or trade through the facilities of The Depository Trust Company or any other US exchange or clearing system.
- (vi) It has received a copy of this Prospectus and has had access to such financial and other information concerning the Company as it has deemed necessary in connection with making its own investment decision to purchase or exercise the New Shares or the Preferential Rights. It acknowledges that neither the Company nor the Underwriters nor any person representing the Company or the Underwriters has made any representation with respect to the Company or the offering or sale of any New Shares or Preferential Rights other than as set forth in the Prospectus, and upon which it is relying solely in making its investment decision with respect to the New Shares or the Preferential Rights. It has held and will hold any offering materials, including the Prospectus, it receives directly or indirectly from the Company or the Underwriters in confidence, and it understands that any such information received by it is solely for it and not to be redistributed or duplicated.
- (vii) It, and each other QIB, if any, for whose account it is acquiring the New Shares or the Preferential Rights, in the normal course of business, invest in or purchase securities similar to the New Shares, the Preferential Rights or the Scrips, has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of purchasing any of the New Shares or the Preferential Rights and it is aware that it must bear the economic risk of an investment in each New Share or Preferential Right for an indefinite period of time and is able to bear such risk for an indefinite period.
- (viii) It understands that these representations and undertakings are required in connection with United States securities laws.
- (ix) It undertakes promptly to notify the Company and the Underwriters if, at any time prior to the closing of the Offering, any of the foregoing ceases to be true.

Terms used in this section “*United States*” but not otherwise defined above have the meanings given to them by Regulation S.

In addition, until the expiration of the 40-day period beginning on the date of this Prospectus, an offer to sell or a sale of the New Shares or the Preferential Rights within the United States by a broker/dealer (whether or not it is participating in the Rights Offering) may violate the registration requirements of the Securities Act unless such offer to sell or sale is made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws.

### ***Lock-up and standstill arrangements***

Publi-T agreed to a lock-up undertaking pursuant to which it agrees to not, directly or indirectly, without the prior written consent of the Underwriters, at any time prior to the date which is 90 days after the Closing Date:

- (i) offer, sell, transfer, contract to sell, charge, lend, assign, grant any option, right or warrant to purchase or agree to offer, sell, lease, transfer, contract to sell, charge, mortgage, pledge, create liens, gift, lend, hypothecate, encumber, enter into any swap or other agreement or transaction which transfers, in whole or in part, any of the voting rights or economic consequences of ownership of the shares, assign, grant any option to purchase or otherwise dispose of, directly or indirectly, any shares or any interests in any shares (or any other securities convertible into or exchangeable for shares or which carry rights to subscribe or purchase Shares); and
- (ii) enter into any transaction (including a derivative transaction) having an effect on the trading of the shares similar to that of a sale; and
- (iii) publicly announce any intention to do any of such things referred to in subclauses (i) or (ii) above.

However, nothing in the foregoing will prohibit Publi-T from (i) accepting a public tender offer made to all or substantially all holders of shares, or (ii) transferring shares to a third party provided that the transferee shall enter into similar lock-up arrangements with the Joint Global Coordinators prior to the transfer for the remainder of the lock-up period, or (iii) maintaining any pledge, charge, lien or encumbrance on any shares in the context of any existing financing or creating any pledge, charge, lien or encumbrance on any shares in the context of one or more transactions aimed at financing or re-financing any acquisition or subscription by Publi-T of shares in the Company.

The Company has committed to the Underwriters that it will not, directly or indirectly, for a period of 180 calendar days after the first listing date of the New Shares, except with the prior written consent of the Joint Global Coordinators (acting on behalf of the Underwriters), (i) issue or sell, or attempt to dispose of, or solicit any offer to buy any shares, warrants or other securities or grant any options, convertible securities or other rights to subscribe for or purchase shares or enter into any contract (including derivative transactions) or commitment with like effect or (ii) purchase any of its securities or otherwise reduce its share capital, except within the framework of employee incentive plans in line with past practice.

### **Admission to trading and dealing arrangements**

#### ***Admission to trading***

##### *Preferential Rights*

The Preferential Rights, represented by coupon nr. 16, will be separated from the underlying shares in the Company on June 5, 2019 after the closing of Euronext Brussels.

The Company has applied for admission to trading of the Preferential Rights on Euronext Brussels. The Preferential Rights will be listed and traded on Euronext Brussels under ISIN BE0970172756 from June 6, 2019 to June 13, 2019 (inclusive).

##### *Scripts*

No application for admission to trading of the Scripts will be made.

##### *Listing*

The New Shares will be listed on Euronext Brussels under the ISIN code BE0970172756.

##### *No Stabilization*

No stabilization will be carried on by the Underwriters in the framework of the Rights Issue.

#### ***Liquidity contract***

The Company has entered into liquidity contracts with KBC Securities, Bank Degroof Petercam and Belfius Bank.



### **Financial service**

The financial services for the shares of the Company (including the New Shares) are provided in Belgium by BNP Paribas Fortis, KBC and Belfius Bank. No financial institution has been appointed in Germany to provide financial services in relation to the Offering. The costs of these financial services are borne by the Company. The Underwriters' role in the context of the transaction will not extend to the offer to the public in Germany and they will not accept any responsibility in this respect.

### **Costs of the Offering**

The gross and net proceeds of the Rights Offering are estimated at up to €434,801,928.00 and €429,134,671.23 million, respectively. The expenses related to the Rights Offering, which the Company will pay, are estimated at up to €5,667,257 million and include, among other things, underwriting fees and commissions of €3,802,257 million, the fees due to the FSMA and Euronext Brussels and legal and administrative expenses, as well as publication costs.

### **Dilution**

#### **Consequences in terms of participation in the share capital**

Assuming that an Existing Shareholder holding 1.0% of the Company's share capital prior to the Rights Offering does not subscribe for the New Shares, such Existing Shareholder's participation in the Company's share capital would decrease to 0.89% as a result of the Rights Offering.

If a shareholder exercises all Preferential Rights allocated to it, there will be no dilution in terms of its participation in the Company's share capital or in terms of its dividend rights. However, to the extent that a shareholder is granted a number of Preferential Rights that does not entitle it to a round number of New Shares in accordance with the Ratio, such shareholders may slightly dilute if it does not purchase the missing Preferential Right(s) on the secondary market and exercises such Preferential Right(s) accordingly.

### **Financial consequences**

Shareholders who decide not to exercise all of their allocated Preferential Rights should take into account the risk of a financial dilution of their portfolio. Such risk is a consequence of the fact that the Offering is priced at an Issue Price lower than the market price of the Share. The table below sets out the extent of such a dilution. Theoretically, the value of the Preferential Rights should compensate for the reduction in the financial value caused by the Issue Price being lower than the market price. Existing Shareholders may suffer a financial loss if they cannot trade (sell) their Preferential Rights at their theoretical value (and the price at which the Scrips will be sold during the Scrips Private Placement does not lead to a payment equal to the theoretical value of the Scrips), please see table below for illustration purposes.

	Price before Rights Offering <sup>(1)</sup>	Theoretical ex-Right price	Theoretical Right value + 50%	Theoretical Right value - 50%	Theoretical Right value - 100%
After the issue of 7,628,104 New Shares	€62.60	€61.98	€0.93	€0.31	€0.00
% of financial dilution			0.50%	(0.50%)	(0.99%)

Notes:

(1) Price of the shares in the Company as of June 4, 2019

### **Interest of natural and legal persons involved in the Rights Offering**

There is no natural or legal person involved in the Offering and having an interest that is material to the Offering, other than the Underwriters.

The Underwriters are expected to enter into an Underwriting Agreement with the Company on or about June 14, 2019.



Belfius has long term credit lines outstanding with the Company and Belfius Insurance is one of the main shareholders of the Company (1.17%). A specific attention will be devoted to the conflict of interests and their disclosures to investors.

## UNDERWRITING AGREEMENT

The Company and the Underwriters expect (but have no obligation) to enter into an Underwriting Agreement, which is expected to take place on or about June 14, 2019.

Subject to the terms and conditions to be set forth in the Underwriting Agreement, each of the Underwriters, severally and not jointly, agrees to underwrite the Offering by procuring payment for all New Shares taken up in the Offering, excluding (i) the New Shares that certain Existing Shareholders have committed to take up pursuant to their take-up commitments (as set out in section “Intention of the Existing Shareholders to participate in the Offering” above) and (ii) the New Shares subscribed to by the Existing Shareholders holding registered shares.

Subject to the terms and conditions to be set forth in the Underwriting Agreement, the Underwriters will severally agree to underwrite the following percentage of underwritten shares:

Underwriter	Underwriting commitment (%)
J.P. Morgan Securities plc	35%
KBC Securities NV	35%
Belfius Bank NV	15%
ING Belgium NV	15%

The Underwriters will be under no obligation to purchase any New Shares prior to the execution of the Underwriting Agreement (and then only on the terms and subject to the customary conditions set out therein).

The Underwriting Agreement will provide that the Joint Global Coordinators will have the right to terminate the Underwriting Agreement before the completion of the share capital increase in relation to the Offering and the Scrips Private Placement and the listing and delivery to subscribers of the New Shares subscribed with the Preferential Rights and with Scrips upon: (i) any statement contained in any document relating to the Offering is, or has become, or has been discovered to be, inaccurate or misleading in any material respect; (ii) non satisfaction of the conditions precedent set out in the Underwriting Agreement (including but not limited to the successful completion of the Pre-Commitments); (iii) any matter has arisen which would, if the documents relating to the Offering were to be issued at that time, constitute a material inaccuracy or omission therefrom; (iv) failure of the Company to comply with its material obligations under the Underwriting Agreement, and in particular when the Company breaches the covenants and undertakings included in the Underwriting Agreement in any material respect; (v) breach of any of the representations and warranties of the Company in any material respect or an event occurs which, if those representations and warranties were repeated immediately after that event, would make any of those representations and warranties materially untrue, incorrect or misleading (vi) the Company fails to issue the New Shares, (vii) the application for admission to listing of the New Shares on Euronext Brussels is withdrawn or refused; (viii) any event or development that causes or results or is likely to result in a material adverse effect, ie any event or effect materially and adversely affecting the Company’s ability to comply with or complete the operations as set forth in the Underwriting Agreement or to complete the Offering as described in this prospectus as well as any material adverse effect in or affecting the value, state or condition (financial, legal or otherwise) of shareholders’ equity or the property, assets, rights, business, management, prospects, earnings, net worth or results of operations, general affairs, solvency of the Group, it being understood that a material adverse effect shall also be deemed to have occurred in all cases where isolated events would not have such an effect but where the aggregate of two or more of such events would, taken in aggregate, have such effect, (ix) other specific circumstances described in the Underwriting Agreement such as a suspension or material limitation of trading in the Company’s securities on Euronext Brussels; a suspension or material limitation in trading of securities on Euronext Brussels or the New York Stock Exchange; a material disruption in commercial banking or securities settlement or clearance services in the United States or Belgium, a material adverse change in the financial markets in the United States or Belgium or in the international financial markets, or a general moratorium on commercial banking activities declared by the relevant authorities in Brussels or New York, if any such event, in the reasonable judgement of the Joint Global Coordinators, is likely to materially prejudice the completion of the Offering, the subscription and delivery of the New Shares; (x) the issue of a

supplement to this prospectus or the publication of additional disclosures which is materially prejudicial to the completion of the Offering. If the Underwriting Agreement is terminated in accordance with its terms, the Underwriters shall be released from their obligation to subscribe to any underwritten New Shares. If the Underwriting Agreement is terminated, the Company shall publish a prospectus supplement that will be subject to approval by the FSMA in which case subscription to the Offering and subscription to the Scrips Private Placement will automatically be cancelled.

In the Underwriting Agreement, the Company will make certain representations, warranties and undertakings to the Underwriters and the Company will agree to indemnify the Underwriters against certain liabilities in connection with the Offering.

## GLOSSARY OF SELECTED TERMS

The following explanations are not intended as technical definitions, but are provided in order to assist the reader to understand the most important terms as used in this Prospectus:

<b>Access Contract:</b>	The contract concluded between Elia and a network user connected to the network or concluded between Elia and an electricity supplier or an ARP designated thereto by the network user, concerning the access to Injection and/or Off-take points on the network.
<b>Access Responsibility Contract:</b>	The contract concluded between Elia and an ARP concerning the balancing obligations of the ARP for the Injections and Off-takes of electricity within its responsibility.
<b>Access Responsibility Party (ARP):</b>	Any producer, trader or eligible customer listed in the register of Access Responsible Parties that concluded an Access Responsibility Contract with Elia.
<b>AIT:</b>	Average interruption time, which is the quality indicator for lasting power interruptions, expressed in minutes/customer per year.
<b>Ancillary services:</b>	The services for primary control, secondary control, tertiary reserve, regulation of the voltage and the reactive power, congestion management and black start.
<b>Belpex:</b>	The Belgian day-ahead power exchange, to be incorporated by the Company as majority shareholder, in partnership with APX (the Amsterdam power exchange), Powernext (the French power exchange), TenneT (the Dutch Transmission System Operator) and probably RTE (the French Transmission System Operator).
<b>Black start service:</b>	An ancillary service for restoring the power system after a blackout assuring the availability of generation means fit to start and to supply electricity to the network without the need for external electricity supply from the network.
<b>CHP:</b>	<p>CHP or cogeneration is an energy conversion process, where electricity and useful heat are produced simultaneously in one process. CHP heat can be used either for district heating or for industrial processes.</p> <p>The CHP process may be based on the use of steam or gas turbines or combustion engines. The primary energy source can be a wide range of fuels, including biomass and fossil fuels, as well as geothermal or solar energy.</p>
<b>Congestion Management:</b>	All the measures taken by electricity network operators to alleviate capacity constraints on the network and maximize the availability of network capacity to the market actors.
<b>Connection Contract:</b>	The agreement entered into between Elia and the network users, which provides for the rights and obligations of Elia and the network users regarding the connection, including the relevant technical specifications.
<b>CREG:</b>	The Commission for the Regulation of Electricity and Gas (" <i>Commission de Régulation de l'Electricité et du Gaz</i> " / " <i>Commissie voor de Regulering van de Elektriciteit en het Gas</i> "), the Belgian federal regulator for gas and electricity.
<b>CWaPE:</b>	The " <i>Commission Wallonne Pour l'Energie</i> ", the regulator for gas and electricity for the Walloon Region.
<b>Distribution network:</b>	The electricity network, consisting of overhead lines, underground cables, substations and other equipment necessary to enable the transport of electricity at voltages up to 70kV in the Flemish

	Region, lower than 36kV in the Brussels-Capital Region and lower than 30kV in the Walloon Region.
<b>Distribution:</b>	The transport of electricity on networks with a view to its delivery to customers on voltages up to 70kV in the Flemish Region, lower than 36kV in the Brussels-Capital Region and lower than 30kV in the Walloon Region, with the exception of the supply to these customers.
<b>DSO:</b>	A natural or legal person responsible for operating, maintaining and developing a distribution system in a given area and, where applicable, its interconnections with other systems in order to seek to ensure the long-term ability of the system to meet reasonable demands for the distribution of electricity.
<b>EEG:</b>	Gesetz zur Neuregelung der Rechts der Erneuerbaren Energien im Strombereich und zur Änderung damit zusammenhängender Vorschriften (EEG 2009), last amended October 25, 2008. In addition to the technical functions (frequency and voltage control) that prevail in other countries as well, German TSOs are also responsible for operating all electricity fed into the network in compliance with the German Renewable Energy Sources Act (EEG), managing the associated payments as well as managing payments associated with the law for conservation, modernization and expansion of cogeneration plants (KWKG).
<b>Electricity demand:</b>	The total consumption of electrical energy in a given geographical area during a given period of time.
<b>Eligible customers:</b>	Customers who are free to purchase electricity from the supplier of their choice, as per the Electricity Act.
<b>EMF:</b>	Electric and magnetic fields.
<b>ENTSO-E:</b>	European Network of Transmission System Operators for Electricity, the international association of 42 transmission system operators from 34 European countries providing for a European-wide harmonization of network access and conditions for usage, especially for cross-border electricity trade.
<b>Generation:</b>	The production of electricity.
<b>Green certificates:</b>	Tradable certificates that are allocated to producers of renewable energy (green electricity).
<b>Grid Code:</b>	The technical rules (either at a federal level or at a regional level) governing the operation, the access to and the use of the electricity network and the respective rights and obligations of the network users (generators, traders, suppliers and end users) and of the transmission or distribution system operators.
<b>GW</b>	Stands for gigawatt. One gigawatt corresponds to 1 billion watts.
<b>High-voltage (electricity) network:</b>	The 30kV to 70kV electricity network.
<b>Power Hub:</b>	A bilateral market platform to exchange electricity between Access Responsible Parties.
<b>IBGE / BIM:</b>	The “ <i>Institut Bruxellois pour la Gestion de l’Environnement</i> ” / “ <i>Brussels Instituut voor Milieubeheer</i> ”, an administration that houses the regulator for gas and electricity for the Brussels-Capital Region, in a service called “Energy markets regulation” managed inside the department “Energy, undertakings and environment”.
<b>Injection:</b>	The injection of electricity into the network.

<b>Interconnectors:</b>	The equipment (mostly overhead lines) used to connect electricity networks between neighboring countries that are operated by system operators.
<b>kWh:</b>	Stands for kilowatt hour, which is a unit of energy equal to 3.6 megajoules.
<b>KWKG:</b>	Gesetz zur Förderung der Kraft-Wärme-Kopplung (KWKG 2009).
<b>Load shedding contracts:</b>	Contracts with large industrial energy consumers used to enable the decrease of electricity demand in order to seek to maintain the balance between total supply and demand within a given control area and, as much as possible, to prevent congestions on the TSO network.
<b>Local Transmission:</b>	The transport of electricity on the electricity network of a tension of 30 up to 70kV in the Walloon Region.
<b>Metering:</b>	The activity that consists in measuring Off-takes and/or Injections of a network user from and/or into the network.
<b>MW:</b>	Stands for megawatt. One megawatt corresponds to 1 million watts.
<b>Nomination:</b>	The activity of providing, in accordance with the Access Contract or the Access Responsibility Contract, schedules to Elia which comprise the tables indicating the quantity of active power per time frame to be injected and/or off-taken for such day.
<b>Off-take:</b>	The off-take of electricity from the network.
<b>Primary control or Very Fast Reserve:</b>	An Ancillary service supplied by generation units that automatically and within seconds adapt their Injection of active power in function of variations in the measured frequency.
<b>Power Station:</b>	An industrial installation that is able to generate electricity.
<b>Regional Transmission:</b>	The transport of electricity on the electricity network of a tension of 30-36kV in the Brussels-Capital Region.
<b>RAB:</b>	The Regulated Asset Base, which corresponds to the iRAB plus investments minus depreciation minus divestments minus decommissioning plus/minus change in working capital need of successive years.
<b>Renewable Energy Sources:</b>	Renewable non-fossil energy sources (wind, solar, geothermal, wave, tidal, hydropower, biomass, landfill gas, sewage treatment plant gas, biogases, etc.).
<b>Retail Supplier:</b>	A person who produces or buys electricity in order to sell it to one or more end users.
<b>Return on Equity (adj.)</b>	This represent the ratio between the net profit attributable to owners of ordinary shares and the equity attributable to owners of ordinary shares
<b>Secondary Control:</b>	An Ancillary service to restore the balance between Injections and Off-takes within minutes, by adapting the Injection of active power of pre-contracted generation units using a signal calculated and emitted by a TSO.
<b>Settlement:</b>	The process that handles the calculation of the invoicing to customers related to the contracts.
<b>Subscription:</b>	The yearly and monthly reservation of capacity for Injection and/or Off-take points directly connected to the Company's network on a use it or lose it basis.
<b>Supply:</b>	The sale, including resale, of electricity to end-users.



<b>TEP:</b>	Third Energy Package
<b>Tertiary Reserve:</b>	An Ancillary service contracted with producers to restore the balance between Injections and Off-takes, used as a last resort reserve in case of an emergency on the TSO network.
<b>Trader:</b>	A person, other than a producer or a distributor, who buys electricity in order to resell it.
<b>Transmission network:</b>	The electricity network, consisting of overhead lines, underground cables, substations and other equipment necessary to enable the transmission of electricity at the voltages of 30kV to 380kV.
<b>Transmission system operator (TSO):</b>	A natural or legal person responsible for operating, maintaining and, when necessary, developing a Transmission network in a given area and, where applicable, its interconnections with other networks, in order to seek to ensure the long-term ability of the network to meet reasonable demands for the transmission of electricity.
<b>Transmission:</b>	The transport of electricity on the very high-voltage and, except if otherwise defined by regional regulation, high-voltage interconnected network with a view to its delivery to final customers or to distributors, but not including supply.
<b>TW:</b>	Stands for terawatt. One terawatt corresponds to 1 trillion watts.
<b>Very high-voltage (electricity) network:</b>	The 380kV to 150kV electricity network.
<b>VREG:</b>	The “ <i>Vlaamse Reguleringsinstantie voor de Elektriciteits – en Gasmarkt</i> ”, the regulator for gas and electricity for the Flemish Region.
<b>W:</b>	Stands for watt, which is a derived unit of power in the International System of Units (SI) and measures the rate of energy conversion.

## **Annex A**

### **The 2018 audited consolidated financial statements of Eurogrid GmbH in support of the Company's unaudited *pro forma* financial information**

This Annex A to the Prospectus contains the audited consolidated financial statements of Eurogrid GmbH as at December 31, 2018. These financial statements are included in support of the Company's unaudited *pro forma* financial information as required in accordance with Article 3 of Annex II to the Prospectus Directive, which requires that the sources of the *pro forma* financial information have to be stated and, if applicable, the financial statements of the acquired businesses or entities must be included in the prospectus.

As described in the section "Unaudited *pro forma* financial information" of the Prospectus, the presentation of the consolidated financial statements of the Company for the year ended December 31, 2018, is affected by the acquisition of an additional 20 per cent stake in Eurogrid International, which the Company acquired on April 26, 2018. This transaction increased the Company's shareholding in Eurogrid International from 60 per cent. to 80 per cent., giving the Company control over Eurogrid International. The consolidation method of Eurogrid International and its affiliates was consequently switched from the equity method, which applied for the first four months of the 2018 financial year, to a full consolidation as from acquisition May 1, 2018 following completion of the acquisition of the additional 20 per cent. stake. Since the actual 2018 income statement only fully consolidates Eurogrid International as from May 1, 2018, *pro forma* profit and loss accounts for 2018 have been included in this Prospectus assuming full consolidation of Eurogrid International as from January 1, 2018.

Note that the financial information included in this Annex A does not relate to the Company. The audited consolidated financial statements of the Company for the years ended December 31, 2016, 2017 and 2018 are incorporated by reference in this Prospectus and are available on the website of the Company ([www.eliagroup.eu](http://www.eliagroup.eu)).

Im Hinblick auf die Anforderungen von § 322 Abs. 7 HGB tritt die elektronische Fassung nicht an die Stelle, sondern neben die Papierfassung im Sinne einer elektronischen Kopie.

*Considering the requirements of Sec. 322 (7) HGB, the electronic version does not replace the hardcopy but is prepared in addition to it and is an electronic copy thereof.*

# **Eurogrid GmbH Berlin**

## **Short-form audit report Consolidated financial statements and group management report in accordance with Sec. 315e HGB pursuant to IFRSs 31 December 2018**

*Translation from the German language*

**Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft**



*Translation from the German language*

## **Table of contents**

Audit opinion

Financial reporting

Engagement Terms, Liability and Conditions of Use

General Engagement Terms

## **Note:**

We have issued the audit opinion presented below in compliance with legal and professional requirements subject to the conditions described in the enclosed "Engagement Terms, Liability and Conditions of Use."

If an electronic version of this document is used for disclosure in the Bundesanzeiger [German Federal Gazette], only the files containing the financial reporting and, in the case of a statutory audit, the audit opinion or the report thereon are intended for this purpose.

## **Independent auditor's report**

To Eurogrid GmbH

### **Report on the audit of the consolidated financial statements and of the group management report**

#### **Qualified opinions**

We have audited the consolidated financial statements of Eurogrid GmbH, Berlin, and its subsidiaries (the Group), which comprise the consolidated income statement and consolidated statement of comprehensive income for the fiscal year from 1 January to 31 December 2018, the consolidated statement of financial position as of 31 December 2018, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Eurogrid GmbH for the fiscal year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the group non-financial statement included in section "Consolidated non-financial statement" of the group management report or the group statement on corporate governance included in section "Corporate governance declaration" of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- ▶ with the exception of the effects of the matter described in section "Basis for the qualified opinions", the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, with the exception of these effects, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of 31 December 2018, and of its financial performance for the fiscal year from 1 January to 31 December 2018, and
- ▶ with the exception of the effects of the matter described in section "Basis for the qualified opinions", the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, with the exception of the effects of the matter, this group management report is

consistent with consolidated financial statements prepared in accordance with German commercial law, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the group non-financial statement or the corporate governance declaration referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that, with the exception of the limitations of the opinions on the annual financial statements and the management report described, our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

#### **Basis for the qualified opinions**

Obligations from regulatory issues of EUR 444.5m (prior year: EUR 335.4m) have been recognised in the statement of financial position as well as the associated deferred tax assets/liabilities. The change in the claims and obligations from regulatory issues and the deferred taxes thereon result in a change in group equity recognised through profit or loss of EUR 76.8m in the fiscal year from 1 January to 31 December 2018 (decrease in group equity; prior year: increase in group equity of EUR 205.3m). The IASB has been developing accounting principles for regulatory claims and obligations since 2014, but had not yet published any standard at the time that these consolidated financial statements were issued. According to the IFRS interpretations applied in Germany, it is not currently possible to recognise claims or obligations from regulatory issues.

This matter also has a negative effect on the presentation of the development of business in the management report, including the business result and the Group's position, and the presentation of opportunities and risks of future development.

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition,



in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinions on the consolidated financial statements and on the group management report.

### **Key audit matters in the audit of the consolidated financial statements**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

In addition to the matter described in section "Basis for the qualified opinions", we determined the following matters to be a key audit matter, which are disclosed in our auditor's report:

#### **1. Recognition of property, plant and equipment with particular regard to the estimation of useful lives**

##### *Reasons why the matter was determined to be a key audit matter*

The consolidated financial statements of Eurogrid GmbH as of 31 December 2018 include property, plant and equipment which account for around 63% of total assets. The property, plant and equipment almost exclusively comprise grid systems, in particular high-voltage overhead lines and high-voltage cables as well as substations including transformers; this also includes related land and buildings as well as prepayments and assets under construction.

The correct demarcation and allocation of investment and maintenance expenses is of high importance for the Group's net assets and results of operations. On the one hand, recognition of property, plant and equipment results in expenses in the form of depreciation only after their customary useful life - some of which can comprise up to several decades. On the other hand, costs for maintenance measures represent the full amount of immediate expenses in the fiscal year in which they are incurred. On account of the associated effects on the Group's net assets and results of operations, we identified the recognition of property, plant and equipment as a key audit matter.

Besides the cost of materials, depreciation represents the most significant expense item. The amount of depreciation is determined on the basis of the estimated useful life of the fixed assets. The estimation of useful lives therefore represents another key audit matter.

#### *Auditor's response*

During our audit, we verified the process to recognise property, plant and equipment and in particular the demarcation of maintenance expenses. This was done on the basis of the documentation on the project plans provided to us in the form of invoices, performance specifications and performance records verifying the construction of a new asset. We also discussed the process with the executive directors and tested the effectiveness of the internal controls implemented at the significant group company, 50Hertz Transmission GmbH.

We also performed substantive audit procedures on a sample basis. This involved analysing the proper allocation of costs to investment/maintenance projects using the statutory recognition requirements, verifying the additions to the property, plant and equipment using a reconciliation with the corresponding invoices as well as the reconciliation of recognised finished fixed assets with corresponding acceptance and commissioning reports. We also examined whether the useful lives reflect general and industry-specific expectations.

Our audit of the classification of such investment/maintenance expenses was based on the criteria of IAS 16 Property, Plant and Equipment.

Our audit procedures did not lead to any reservations relating to the recognition of property, plant and equipment with particular regard to the estimation of useful lives.

#### *Reference to related disclosures*

The accounting policies applied regarding property, plant and equipment are contained in the notes to the consolidated financial statements in section "3.5. Property, plant and equipment".

For the disclosures relating to property, plant and equipment, we refer to section "6. Notes to the statement of financial position", sub-section "6.1. Property, plant and equipment" in the notes to the consolidated financial statements as well as to their development in the fiscal year presented separately.

## 2. Revenue recognition

### *Reasons why the matter was determined to be a key audit matter*

For fiscal year 2018, the Eurogrid Group reports revenue which is counterbalanced by income-matching expenses in the income statement, as they largely result from regulatory surcharges.

Surcharge-based income results from levying the EEG surcharge, the surcharge for KWKG, from the settlement pursuant to Sec. 19 (2) StromNEV, the offshore liability surcharge and the surcharge for interruptible loads. The expenses (initially) borne by the transmission system operator 50Hertz Transmission GmbH in this connection are recognised through profit and loss by 50Hertz (generally identical in terms of amount and time) when measuring the network user charges.

The income from (non-derivative) network user charges is generally based on the revenue cap for calendar year 2018 set by the responsible regulatory authority.

Due to the high importance of revenue for the Eurogrid Group's results of operations in terms of amount, the complexity of surcharge-based income as well as the regulatory peculiarities that have to be taken into account when determining income, we identified revenue recognition as a key audit matter.

### *Auditor's response*

During our audit, we analysed the accounting policies applied in the consolidated financial statements of Eurogrid GmbH for revenue recognition using the criteria defined in IFRS 15.

We verified in particular the process of recognising revenue from grid usage as well as the process of non-profit business from surcharges based on the documentation outlining the individual process steps provided to us and discussed this with the executive directors.

We also performed analytical procedures to report revenue from grid usage and analysed samples. This also included analyses regarding the correlation of revenue entries with the corresponding items of the statement of financial position. Furthermore, we verified the method used to determine the revenue cap for the reporting year. In addition, the recording of regulatory obligations and claims was

verified based on the assumptions contained in the revenue cap compared to the actual development.

With regard to revenue from regulatory surcharges, we verified the method used to calculate accruals in the EEG business. We also analysed developments during the year to determine whether they are in line with our expectations. Our expectations were based on the prior-year development and approved amounts for the surcharges. This in turn also included correlation analyses. We also verified the cut-off procedure and reconciled the related accruals.

In this connection, we also relied in particular on the income approved by the regulatory authority responsible for 50Hertz Transmission GmbH and costs on the basis of regulatory framework conditions.

Except for the reservation presented in the “Opinions” section of this report on the audit of the consolidated financial statements and group management report, our audit procedures did not lead to any other reservations relating to revenue recognition.

#### *Reference to related disclosures*

The accounting policies applied regarding revenue are contained in the notes to the consolidated financial statements in section “3.16. Revenue recognition.”

For the disclosures relating to revenue, we refer to section “5. Notes to the income statement”, sub-sections “5.1. Non-profit business” and “5.2. Total revenue”, thereof “5.2.1. Revenue from the grid business” as well as “5.2.2. Other income” in the notes to the consolidated financial statements.

#### **Other information**

The executive directors are responsible for the other information. The other information comprises the group non-financial statement contained in the group management report pursuant to Sec. 315b HGB and the group statement on corporate governance pursuant to Sec. 315d.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- ▶ is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- ▶ otherwise appears to be materially misstated.

**Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the group management report**

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

**Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also ·

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. ·



- ▶ Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- ▶ Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- ▶ Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- ▶ Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- ▶ Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Other legal and regulatory requirements

### Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the shareholder meeting on 15 March 2018 and, since no group auditor was appointed, we are thus group auditor pursuant to Sec. 318 (2) HGB. We were engaged by management on 23 July 2018. We have been the group auditor of Eurogrid GmbH without interruption since fiscal year 2011.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the supervisory board functioning as audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

### German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Thilo Kausch-Blecken von Schmeling.

Berlin, 13 February 2019

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

- signed -

Kausch-Blecken von Schmeling  
Wirtschaftsprüfer  
[German Public Auditor]

- signed -

Ottenhus  
Wirtschaftsprüfer  
[German Public Auditor]

# Group management report and consolidated financial statements for fiscal year 2018

Eurogrid GmbH  
Berlin

*Translation from the German language*



## **Group management report of Eurogrid GmbH**

### **Background of the Group**

#### **Purpose of the Company**

The Eurogrid GmbH Group (the “Group”) comprises Eurogrid GmbH (“Eurogrid”) as well as 50Hertz Transmission GmbH (“50Hertz Transmission”) and 50Hertz Offshore GmbH (“50Hertz Offshore”; together with 50Hertz Transmission also referred to as “50Hertz”) as affiliates of Eurogrid, also including the equity investments of 50Hertz Transmission. Equity investments include that in Elia Grid International NV/SA, which is accounted for as an associate using the equity method. The three affiliates have their registered offices in Berlin, while Elia Grid International NV/SA, in which 50Hertz Transmission holds a direct interest, has its registered office in Brussels.

A consolidated non-financial statement has been added in a new separate section of the group management report of Eurogrid GmbH. This part of the management report applies the standards of the Global Reporting Initiative (GRI) which came into force for reports or other documents published after 1 July 2018. The twenty criteria of the German Sustainability Code (GSC), on the other hand, were no longer taken into account so as to improve international comparability.

#### **Eurogrid**

Eurogrid GmbH is a wholly owned subsidiary of Eurogrid International CVBA/SCRL (“Eurogrid International”) with its registered office in Brussels, Belgium. Elia System Operator NV/SA (“Elia”), Brussels, Belgium, and Kreditanstalt für Wiederaufbau AöR (KfW) with registered offices in Frankfurt hold 80% and 20% shareholdings in Eurogrid International, respectively. Of the 40% shareholding of Global InfraCo S.à.r.l., Luxembourg, in Eurogrid International as of 31 December 2017, 20% was sold step by step to Elia and 20% to KfW in fiscal year 2018. Elia is the Belgian national transmission system operator and a company listed in Belgium.

Eurogrid GmbH is an associate of Elia System Operator NV/SA, Brussels, Belgium, after the transactions in the amended ownership structure were ended on 26 April 2018. Eurogrid GmbH as well as its subsidiaries 50Hertz Transmission and 50Hertz Offshore are included in the consolidated financial statements of Elia as associates. However, the consolidated financial

statements of Elia do not have an exempting effect. Eurogrid therefore has to prepare its own consolidated financial statements.

The purpose of Eurogrid is the acquisition, holding and operation of equity investments, in particular the investment in 50Hertz Transmission. 50Hertz Transmission in turn has a shareholding in 50Hertz Offshore and additional companies such as Elia Grid International SA, European Energy Exchange AG ("EEX"), Joint Allocation Office S.A. ("JAO"), TSCNET Services GmbH ("TSCNET") and Coreso SA ("Coreso"). In fiscal year 2018, Eurogrid primarily arranged and secured the financing of 50Hertz's construction and operating activities.

There is a cash pooling agreement as part of the uniform financial management of all the German companies. This agreement included GridLab GmbH, a subsidiary of Eurogrid International located in Schönefeld near Berlin, until 31 August 2018. With economic effect as of the end of 31 August 2018, Eurogrid's investment in GridLab GmbH was sold. At the same time, the cash pooling agreement in place with GridLab GmbH was rescinded.

## **50Hertz Transmission and 50Hertz Offshore**

As transmission system operator, 50Hertz Transmission operates a grid which, at voltage levels of 150 kilovolts (kV), 220 kV and 380 kV, spans northern and eastern Germany with a network grid length of around 10,390 km. In this connection, the Company is also responsible for maintenance and needs-based expansion as well as for maintaining the balance of generation and consumption within the balancing zone's whole electricity supply system. The business activities of 50Hertz Offshore comprise the planning, approval, construction, acquisition, maintenance and operational management of electricity lines as well as the associated plants and facilities for connecting offshore wind turbines/farms erected in the Baltic Sea to the grid.

50Hertz Transmission performs the accounting of the legal provisions of the EEG ["Erneuerbare-Energien-Gesetz": German Renewable Energy Act], the KWKG ["Kraft-Wärme-Kopplungsgesetz": German Combined Heat and Power Act] and particular surcharges pursuant to the EnWG ["Energiewirtschaftsgesetz": German Energy Industry Act] as well as the StromNEV ["Stromnetzentgeltverordnung": Ordinance on Electricity Network User Charges]. These transactions do not have any impact on profit for the transmission system operator; however, their cash effects have a considerable influence on the consolidated statement of financial position.



## Management system

The operational management of the Group is performed by the management of 50Hertz Transmission as the Group's leading company using a key performance indicator system that contains economic, technical and personnel performance indicators. The board of directors of Eurogrid International is responsible for monitoring the Group's activities. All performance indicators are analysed on a monthly basis comparing actual figures, forecast and planning.

In addition to the usual tasks of a supervisory board, Eurogrid GmbH's supervisory board also performs the function of an audit committee under Sec. 324 HGB with reference to the relevant provisions of German stock corporation law.

From an economic point of view, the Group's business is managed using the net result in accordance with IFRS as well as an absolute value for operating expenses (OPEX) which reflects the efficiency value of 50Hertz. These operating expenses primarily contain personnel expenses and non-energy-related expenses. The investment behaviour for the transmission grid is managed by the achievement of specific milestones, the value added of the projects, the level of capital expenditures per year and the quality of the project management. The net result and capital expenditures are discussed in more detail in the "Net assets, financial position and results of operations" and "Forecast" sections. The financial position of the Group is assessed by means of rolling liquidity planning which primarily takes into account the status of investment accounting.

Furthermore, Eurogrid GmbH issued a dividend policy on the corresponding board resolutions of the shareholders (Eurogrid International) outlining the key points of an independent financing strategy of Eurogrid GmbH. For example, these key points stipulate that the cash pooling agreement of Eurogrid GmbH remains in place even after the change of ownership within Eurogrid International and that a distribution rate of 70% on average of net earnings is expected to ensure sufficient internal financing within Eurogrid GmbH. The aim is to initially secure a stable rating for the duration of the third regulatory period by having a sustainable financing structure in place.

Grid availability is used as a technical performance indicator while the accident rate, severity of accidents and employee availability are used as personnel performance indicators.

In 2018, a sustainability rating was published by research agency Sustainalytics for the second time with an improved ESG score. The findings are transferred to the intercompany control system.

## Overall economic and industry-related conditions

### Economic and political environment

In 2018, the economic situation in Germany continued to be shaped by positive economic growth, although growth rates slowed over the course of the year. Rising uncertainty in world trade could apparently not be entirely offset by the stabilizing effects of continuing rises in wages and salaries in Germany. According to initial calculations of the German Federal Statistics Office, the growth in gross domestic product (GDP) for 2018, adjusted for inflation, decreased by 1.5%<sup>1</sup>, a fall of 0.8 percentage points compared to the forecasts made in the spring.

According to preliminary figures of the German Federal Statistical Office, the number of persons in gainful employment reached another record high of 44.8 million on average over the year. The average price increase in consumer spending for the year is predicted to be 1.9% for 2018.

In light of developments already unfolding in 2018 as well as the expectations for industry and commerce, the economic outlook for 2019 is viewed more sceptically at the beginning of 2019 than a year ago. In the 2019 annual economic report discussed by the federal cabinet on 30 January 2019, GDP is now expected to record an increase of 1.0% adjusted for inflation, the primary factors here being the uncertainty in foreign trade and the resulting drop in trade surplus. Inflation is expected to be down at 1.5%.

Employment will nevertheless continue to increase to 45.2 million employed persons, which at the same time will cause unemployment to fall.

According to preliminary forecasts, energy consumption in Germany in 2018 fell by just under 5% on the prior year owing to rising energy prices, the mild weather as well as the improvement in energy efficiency. Fossil fuel usage decreased considerably as did CO<sub>2</sub> emissions. Nuclear power recorded only a slight decrease in its share of the energy mix. By contrast, the share of renewable energies in Germany's gross domestic electricity consumption increased considerably. In the area of renewable energies, wind power and in particular solar energy saw a sharp increase in their share of energy and electricity consumption, while hydropower experienced a drop in its share on account of a prolonged dry period.

---

<sup>1</sup> Press release from the German Federal Statistics Office dated 15 January 2019

According to preliminary figures, the share of renewable energies in Germany's gross domestic electricity consumption increased overall from 36.1% in 2017 to over 38% in 2018. First projections suggest a ratio of around 57% in the 50Hertz balancing zone in 2018.

In light of the considerable progress made in terms of sustainably adjusting the inflation path to bring it in line with the medium-term target, the Governing Council of the European Central Bank (ECB) announced in its 2018 June meeting that it would most likely end net bond purchases. By contrast, the ECB's key interest rates remained unchanged. This announcement was substantiated by the ECB Governing Council on 13 December 2018: Net bond purchases made under the asset purchase programme were ended in December 2018. However, this announcement as well as an indication that principal payments from the purchase programme are to be reinvested, the ECB is underscoring its "cheap money" policy. The ECB Governing Council assumes that the key interest rates will remain at their current level beyond summer 2019 at least and definitely for as long as the ECB deems it necessary.

This monetary policy, a wait-and-see policy compared to that in the USA, remains dependent on the overall situation in the euro zone. Political uncertainty within the European Union as well as rising uncertainty regarding major international trading partners outside of the EU means that the monetary reins are being tightened once again.

The development of the economy as a whole as well as the development in electricity consumption did not have any significant influence on the Eurogrid Group's earnings.

For the first time on 30 July 2018, the rating agency Standard & Poor's published a report on the Eurogrid Group, issuing a "BBB+" rating with a stable outlook. Together with the "Baa1" rating (with a stable outlook) confirmed by Moody's, this contributed to an excellent standing on the capital market in 2018.

Due to lengthy coalition negotiations and difficulty forming a government, any political decisions were initially suspended at the beginning of fiscal year 2018. The 2018 coalition agreement, which was later concluded between CDU/CSU and SPD in March 2018, stipulates that renewable energies are to be expanded in a way that is "more efficient, more synchronized with the grid and increasingly more market-oriented" and that the aim is to increase the share of renewable energies to around 65% by 2030. In order to achieve this target, the Federal Ministry for Economic Affairs and Energy (BMWi) has put its focus on grid expansion and optimisation. The "Aktionsplan Stromnetz" (action plan electricity grid) it presented in August 2018 with the double strategy involving the optimisation and increased utilisation of electricity grids on the one hand, and the acceleration of grid expansion on the other, signalled the symbolic start of political measures relating to grid supply.

This is reflected in the process for amending the NABEG [“Netzausbaubeschleunigungsgesetzes Übertragungsnetz”: Grid Expansion Acceleration Act], EnWG and BBPIG [“Bundesbedarfsplangesetz”: German Federal Requirement Plan Act]. Further knock-on changes to other laws and regulations were also initiated. The draft act passed by the federal cabinet in December 2018 provides for, among other things, the laying of conduits, the waiving of federal planning in certain cases, the specification of the notification procedure pursuant to Sec. 43f EnWG as well as other procedural amendments.

Changes in the financial compensation of agricultural and forestry land owners when expanding the grid as well as in the introduction of a standard regulatory regime for redispatch and feed-in management have also been included in the draft of the NABEG.

For the first time, the resolution on financial compensation concluded by the federal government has created a national standard framework when it comes to compensating land owners for projects relating to the BBPIG or EnLAG [“Energieleitungsausbaugesetz”: German Act to Accelerate the Extension of Extra-High-Voltage Lines]. However, the established practice of making one-time payments remains in place. There is also to be an additional acceleration payment (“Beschleunigungszuschlag”) made upon the transmission system operator and land owner coming to an amicable agreement if reached within eight weeks of the offer having been received.

The draft act also creates a new standard framework for grid operators to intervene in the operations of production facilities to alleviate grid bottlenecks, combining feed-in management for renewable energy and CHP plants as well as redispatch for conventional plants into one regime in the EnWG.

Parliamentary proceedings are set to be concluded at the beginning of the second quarter of 2019. From a European law perspective, 2018 was dominated by tripartite negotiations on the EU “Clean Energy for all Europeans” package (‘CEP’). The draft guidelines and regulations published at the end of 2016 were negotiated and finalised by the European Parliament and the Council of the European Union at the end of 2018. This CEP, comprising nine draft regulations and guidelines with the purpose, among other things, of further developing regulations for cross-border electricity trading as well as regulations on the regional cooperation of transmission system operators and the tasks and responsibilities of the European regulatory agency ACER, will most likely be formally signed off in spring 2019 and, once it has come into effect, will be the main determinant for shaping the legal framework for the energy sector in Europe.

## Regulatory framework for the energy industry

### European law

The further development of the European legal framework was determined by the implementation of additional network codes. With the last network codes coming into effect in 2017, transmission system operators are now obligated to develop and consult on a large number of applications, methods and modalities and also in most cases to present them to the regulatory authorities for approval.

Some of the decisions issued on account of the network codes can be subject to judicial review and some have already been reviewed by a court. More and more decisions that define the application and interpretation of the network codes in more detail are to be expected from the European and national courts in future.

The growing influence of the European Commission on how the legal energy framework is shaped became clear following several decisions in this area being made regarding state aid. In this regard, the Commission initially approved certain EEG surcharge privileges in German law, later followed by the capacity reserve provided for in the EnWG as well as reductions in the offshore surcharge for energy-intensive companies. While the Commission also confirmed the electricity tariff privilege system for energy-intensive companies as a form of state aid, the StromNEV exemptions from network user charges valid in 2011 were not classified as compliant with state aid requirements. However, 50Herz is not affected by the reversal on this matter.

The European Court of Justice (ECJ) also dealt with issues from German energy law relating to state aid. It classified the EEG surcharge limits for energy-intensive companies from EEG 2012 as not compliant with state aid requirements and followed herewith the Commission.

Decisions made by the European courts again had an impact on 50Hertz's area of business in 2018. This relates in particular to decisions on planning and environmental law.

On 12 April 2018, the ECJ determined in a preliminary ruling concerning the interpretation of Art. 6 (3) of the Fauna-Flora-Habitat (FFH) Directive (Directive 92/43/EEC) that the FFH screening may not take into account damage limitation or prevention/mitigation measures. It ruled that the effectiveness of such measures cannot be assessed during rough screening, but rather only in the course of the more in-depth FFH impact assessment. This increases the work involved in preparing application documents as most likely more FFH impact assessments will now have to be carried out.

In its ruling from 7 August 2018 on an Austrian question referred for a preliminary ruling, the ECJ ruled that the Environmental Impact Assessment Directive is to be construed as meaning that the “clearance of a path” for the purpose of the construction of a power supply system and for the duration of its lawful existence represents “deforestation for the purposes of conversion to another type of land use” as defined by Annex II Point 1(d) of the Environmental Impact Assessment Directive. Such clearance projects are thus to be included in the projects subject to an environmental impact assessment. This court ruling could also have an impact on how national regulations on forest conversion are interpreted with the effect of there being more cases of forest conversion in future that will require compensation having to be paid.

In its ruling from 7 November 2018, the ECJ again increased its requirements considerably for the FFH impact assessment. It now also calls for species and habitats that are not explicitly protected to be included in the FFH impact assessment if any adverse effects on such species and habitats were to have an impact on the conservation status of the conservation objectives. According to the Advocate General’s Opinion, this refers not only to the typical species of a protected habitat, but also relates for example to habitats and species not explicitly protected that play a significant role in the conservation of the protected habitats and species (e.g., with regard to species’ diet or reproduction). Protection of the surrounding area is also being expanded further: any adverse effects on species and habitats surrounding a site must also be examined if they were to have a sustainable impact on the conservation status of the conservation objectives. Contrary to the federal administrative court’s previous ruling, this can for example also relate to protected species’ feeding habitats outside the territory.

The ECJ’s ruling thus pushes up expenses incurred in the course of planning and approval procedures and can therefore have an effect in terms of both time and cost.

## **National law**

At national level, the legal framework for 50Hertz was primarily defined by the implementation of the NEMoG [“Netzentgeltmodernisierungsgesetz”: German Grid User Charge Modernisation Act], rulings by the highest court and the entry into force of various planning and environmental regulations.

The gradual national standardisation of the transmission grid user charges, first set out by the NEMoG, was refined in 2018 with amendments to the StromNEV and ARegV [“Anreizregulierungsverordnung”: German Incentive Regulation Ordinance], and has resulted in the first 20% national share of network user charges in 2019. This share will gradually increase over the next few years. As of 1 January 2023, transmission grid user charges will be fully



standardised. Any gains or losses that are incurred as a result will be offset by means of financial offsetting between the transmission system operators.

In addition, effective 1 January 2019, the NEMoG has incorporated the refinancing of grid connection costs for offshore wind farms from network user charges to a new offshore grid levy according to Sec. 17f EnWG. This largely resulted in amendments to the ARegV and StromNEV being worked on in 2018, to be implemented by means of the regulation for the purpose of calculating the offshore grid levy and amending regulatory law which is so far only available in the form of a draft signed off by the federal government on 19 December 2018. The aim of this regulation is to set out how offshore grid costs are calculated. As things currently stand, the offshore grid levy will in future be compared annually with the actual grid costs incurred in prior years, as a planned cost approach will initially be taken for the current year. This requires an equivalent clarification to be made in the StromNEV.

For the cost of capital for connection lines that have been entirely or largely completed, the grid costs in principle ought to continue being recognised in accordance with the provisions of the ARegV in its current valid form. In effect, the new regulations are to be similar to the existing ones. Additional individual regulations on investment measures are also being amended in the ARegV, including for operating expenses to be recognised in a lump sum.

Only at the end of 2018 was it resolved to further develop the EEG and KWKG with the “Omnibus Energy Act” package. The package extends the KWKG until 2025 and also details the structure of tender procedures for certain renewable energies and how they are compensated for in the EEG.

With the Higher Regional Court of Düsseldorf ruling that the equity interest rate for the third regulatory period was determined incorrectly by the Federal Network Agency, an integral part of the calculation of network user charges has been opened up to readjustment. However, the ruling was referred to the BGH [“Bundesgerichtshof”: German Federal Court of Justice], which has yet to issue a ruling on the matter.

Jurisdiction once again influenced the national framework conditions in 2018.

In the area of planning and environmental law, the BVerwG [“Bundesverwaltungsgericht”: German Federal Administrative Court] has issued numerous landmark rulings, including various rulings on planning procedures for extra-high-voltage lines in accordance with the EnLAG.

In its ruling from 12 September 2018, the BVerwG ruled that the requirement plan in accordance with the EnLAG determining the start and end date of a project does not state the exact location of plants and facilities and therefore permits modifications and specifications. However, the grid connection point must be stated. Any deviations in how the project is carried out mean that it is no longer the same project. This applies even if only a shorter path is

planned than the one specified by law ("minus"). This in turn means that the consequences associated with including the project in the requirement plan no longer apply, for the EnLAG this means the first-instance responsibility of the BVerwG and legally determining the necessity for the energy sector. For projects of the BBPIG that are not part of proceedings, the consequences would be even more serious as the jurisdiction of the Federal Network Agency would also no longer apply here, thereby threatening the validity of the orders. The ruling clarifies any previous legal uncertainties in this regard.

In various rulings from 14 March 2018, the BVerwG defined its requirements for inspection obligations for concurrent projects pursuant to Sec. 78 VwVfG ["Verwaltungsverfahrensgesetz": German Administrative Procedures Act], for the obligation to keep preventable damage to the nature and the landscape as low as possible of Sec. 4 of the 26th BImSchV ["Verordnung zur Durchführung des Bundes-Immissionsschutzgesetzes": German Ordinance on the Implementation of the Federal Environment Protection Act], for the evaluation of emissions below the legal limit of Sec. 3 of the 26th BImSchV as well as the requirements for the scope and degree of detail necessary for determining and evaluating issues when examining alternatives.

In its ruling from 8 March 2018, the BVerwG recognises for the first time the Bernotat/Dierschke method, a controversial method in the area of environmental planning, as one possible way of assessing the mortality risk related to species protection. The court expressly states that it is the express will of the legislature that such concepts be developed and refined in practice. Applying this concept can cause additional work, but also to greater legal certainty when it comes to grid expansion projects.

In its ruling on the Moorburg power plant from 29 May 2018, the BVerwG implemented the ECJ's ruling from 26 April 2017 and defined requirements for the cumulative effects review in FFH law. According to the ruling, existing plants are also to be included in the cumulative effects review. This ruling increases inspection efforts during the planning and approval procedures.

In its resolution from 23 October 2018, the Federal Constitutional Court (BVerfG) came to a fundamental decision on the regulatory nature conservation prerogative in making decisions in the area of species protection and the compatibility with Art. 19 (4) Sentence 1 GG ["Grundgesetz": German Basic Law]. The BVerfG rejects the justification for limited judicial control with a regulatory prerogative in making decisions. Nevertheless, it rules that it is permitted to limit judicial control for actual extrajudicial gaps in knowledge, simply because, objectively speaking, the correctness of the administrative decision in terms of nature conservation cannot be conclusively assessed. According to the BVerfG, when it comes to basic rights, the legislator may not without any further requirements enshrine in law any decisions made in the absence of experts on the matter, a "vacuum" that neither the

administration nor the courts themselves are capable of filling. It rules that in these cases the legislator must at the very least ensure the creation of non-legislative standards, for example by appointing specialist bodies to determine uniform standards and methods; at the very least, more precise rules ought to be imposed to facilitate an administrative decision between several acceptable opinions. According to the BVerfG, the decision may foster discussion on the need for setting specific standards within nature conservation law. These issues are relevant for 50Hertz's planning and approval procedures and the extra work this involves.

## **Grid development plans**

Drafting of the sixth German network development plan (NEP) for the onshore and offshore electricity grid began in January 2018 with the transmission system operators having to draft the scenario framework. As with the fifth plan, the needs assessment again relates to the target years 2030 and 2035. For the first time, an intermediate scenario was also taken in consideration (for the target year 2025). The public was also able to give its opinion on the matter between 17 January and 21 February 2018. With the Federal Network Agency approving the 2019-2030 scenario framework on 15 June 2018, the energy targets agreed on in the federal government's coalition agreement were taken into account. Compared to the 2017-2030 scenario framework, the assumed installed capacity of renewable energies has increased significantly as the scenarios are based on the federal government's coalition agreement that provide for an increase in renewable energies' share of gross electricity consumption of 65%.

By contrast, existing conventional power plants show a sharp decrease compared to the previous scenario framework. The interim scenario for the target year 2025 is to be used to review the ad-hoc measures submitted by the transmission system operators to minimise the redispatch requirement. Transmission system operators are now also required to present new and innovative technical approaches for grid operating equipment as well as its operation when preparing the grid development plan. Its suitability for increasing transport capacity and the best possible use of the existing grid is also assessed by the transmission system operators.

For the first time, the 2019-2030 scenario framework provides for the use of flow-based market coupling (FBMC) on all of Germany's borders with neighbouring countries. The modelling used the current views and objectives set out in the "Clean Energy for All European Package" that were still at the consultation stage in December 2018. In future, at least 70% of line capacity must be made available for trading. As a result, only lines between the market areas (interconnectors) are taken into account in FBMC as critical branches and 70% of the thermal capacity of the FBMC procedure is provided on these lines.

Transmission system operators are now also required to provide an economic cost-benefit analysis in the draft of the 2019-2030 grid development plan for those interconnectors that are not contained in the current version of the BBPIG. For 50Hertz, the Hansa PowerBridge project will also be subject to such an analysis.

Due to the above mentioned requirements for approving the scenario framework, these new requirements are expected to have an impact on the results of the NEP. The publication of and consultation on the grid development plan is planned to take place at the beginning of 2019.

The O-NEP ("Offshore-Netzentwicklungsplan": Offshore Network Development Plan) was the last to be prepared and presented by the transmission system operators in accordance with Sec. 17b (5) EnWG. In future, the need for offshore grid connections will be determined in the NEP on the basis of the requirements of the area development plan. For this reason, the estimated installed capacity of offshore wind farms ought to be distributed in line with the requirements of the area development plan.

The connection systems confirmed in the 2017-2030 O-NEP are subject to them being confirmed again in the 2019-2030 NEP on the basis of the area development plan.

From the starting grid, there are already three connection systems in operation in the Baltic Sea with a total transmission capacity of around 650 MW. Two additional connection systems with a total output of 500 MW are currently under construction or being prepared for construction. There are also three connection systems at the pre-approval or approval stage, which also have a total output of 750 MW.

Overall, beyond the starting grid there is expansion potential of offshore wind energy in the Baltic Sea of around 1,750 MW. In order to tap this potential, the 2017-2030 O-NEP contained plans for two connection systems with a capacity of 900 MW (OST-2-4) and 750 MW (OST-3-3). Of this 1,750 MW, the drafts of the area development plan from 25 May 2018 and 26 October 2018 only accounted for 460 MW. The Federal Network Agency also followed this target in the scenario framework NEP 2030-Version 2019 and only approved an offshore wind capacity of 2.2 GW for the Baltic Sea in all scenarios. In the NEP 2030-Version 2017 this figure still stood at 3.3 GW. However, these figures are not yet final. The area development plan as well as the second draft of the NEP is scheduled for publication mid-April 2019.

## Business development

### Financing

Eurogrid is responsible for the procurement of funds for the business operations of 50Hertz and for financing its approved investment programme within the Group.

Eurogrid borrowed funds totalling EUR 2,840m in external financing. These funds were provided by the Group for 50Hertz's business activities and to finance its investment programme.

In fiscal year 2018, no new funds had to be raised on the money and capital market on account of the sound liquidity position.

### Grid use

50Hertz's network user charges for the calendar year 2019 were published on 11 December 2018. Compared to the prior year, the average network user charges are down by around 23%. The reduction in network user charges is primarily due to deducting the offshore costs. The offshore costs had previously been allocated horizontally between the transmission system operators pursuant to Sec. 17d (6) EnWG and subsequently financed via the network user charges of the respective transmission system operator. As of 2019, the offshore costs are to be recognised across Germany via the offshore grid levy. Under the NEMoG, transmission grid user charges are also being gradually aligned starting from 2019 through 2023. For 2019, this means that for the first time there will be a standard federal share of network user charges of 20% recognised for the fees of the four German transmission system operators.

### Regulatory issues

In 2018, the activities to determine the regulatory framework conditions for the upcoming third regulatory period (2019 to 2023) were continued. Key framework conditions relating to the third regulatory period that have to be specified are the cost basis, the general sectoral productivity factor as well as the individual efficiency value.

On 5 October 2016, the equity interest rates for the third regulatory period were set at 6.91% (before corporate income tax for new plants as of 2006) and 5.12% (before corporate income tax for existing plants as of 2006). 50Hertz filed an appeal against this equity interest rate. On 22 March 2018, the equity interest rates set by the Federal Network Agency were revoked by ruling of the Higher Regional Court of Düsseldorf in the first instance and the court ruled that

they be set again. The Federal Network Agency filed an appeal with the BGH against the Higher Regional Court of Düsseldorf's ruling. The appeal proceedings will continue at the BGH in 2019.

The general sectoral productivity factor has to be redefined for the third regulatory period using state-of-the-art methods. Industry data was also collected from the grid operators in 2018 to calculate the productivity factor. The 0.9% determined for the third regulatory period was published on 5 December 2018 in the Official Gazette of the Federal Network Agency.

In accordance with the requirements of Sec. 22 ARegV, an individual efficiency value has to be defined for transmission system operators before the start of the third regulatory period. The Federal Network Agency performed a relative model network analysis pursuant to Sec. 22 (2) ARegV. There was no comparable data of a sufficient number of transmission system operators from other member states of the European Union to perform an international efficiency comparison.

By resolution of the Federal Network Agency dated 3 November 2017, the transmission system operators were required to submit the necessary load, structure, sales and cost data for the years 2005 and 2016 to the Federal Network Agency. On 3 December 2018, the hearing on the revenue cap for the third regulatory period was reported to us with a preliminary efficiency value for 50Hertz of 100%.

The notice issued by the Federal Network Agency from 23 January 2019 to determine the revenue cap for the third regulatory period was received on 24 January 2019. This notice confirmed the outcome of the hearings as part of the cost review for the cost basis as well as for the above mentioned efficiency value.

The electricity market act entered into force on 29 July 2016, which redefined the appropriate remuneration for redispatching power plant capacities. The Federal Network Agency's previous calculation of appropriate remuneration in 2015 had been annulled by ruling of the Higher Regional Court of Düsseldorf. Discussions within the industry on an arrangement that satisfies all sides were continued in 2018 and brought to a conclusion with an "industry compromise". The industry compromise was implemented by Ruling Chamber 8 of the Federal Network Agency in determining an effective process regulation of costs and income from the procurement and remuneration of redispatch measures pursuant to Sec. 13 (1) No. 2 EnWG from 17 October 2018. However, a complaint was submitted by Uniper Kraftwerke GmbH to the Higher Regional Court of Düsseldorf in November 2018. 50Hertz is considering joining the proceedings.

To regulate the bearing of costs for the "Nutzen statt Abregeln" matter pursuant to Sec. 13 (6a) EnWG, 50Hertz applied by letter dated 12 December 2017 for a "voluntary commitment"



pursuant to Sec. 32 (1) No. 4 ARegV in conjunction with Sec. 11 (2) and (4) ARegV with Ruling Chamber 8 of the Federal Network Agency. The application was preceded by a lengthy discussion with the Federal Network Agency and a public consultation. The voluntary commitment became effective with the resolution of Ruling Chamber 8 of the Federal Network Agency dated 12 January 2018.

By letter dated 12 October 2018, the Federal Network Agency confirmed that the voluntary commitments “Costs of European Initiatives”, “Compensation Payments under the ITC mechanism” and “Bottleneck Management Procedures” would also continue in the third regulatory period and be used accordingly.

By 31 December 2018, 50Hertz had received a total of 94 approvals out of the 127 active applications filed since 2008 for the approval of investment measures. Based on the total application volume of EUR 15.0b, an investment volume of EUR 10.4b had been approved by the Federal Network Authority by the aforementioned date.

## **Energy management**

### **Balancing group management**

50Hertz settles all balancing groups in its balancing zone on a monthly basis. As of the end of 2018, there were 1,860 balancing groups for the 655 traders, electricity distributors, generators and grid operators operating in the balancing zone.

### **EEG settlement**

In 2018, the supply of EEG electricity within 50Hertz’s balancing zone increased by approximately 4% in comparison to the prior year, in particular due to the expansion of offshore wind energy as well as in improved photovoltaic supply. At the same time, the share of output sold directly increased again in 2018. Overall, only just under 14% of EEG electricity output in 50Hertz’s balancing zone was sold by 50Hertz.

Despite the EEG output being higher than the forecast, the account balance again remained consistently positive in 2018 due to a corresponding development in market prices. As of 30 September 2018, there was a nationwide account balance of EUR 3.6b which was included in the calculation of the EEG surcharge for 2019.

On 15 October 2018, the four German transmission system operators published the EEG surcharge for 2019. At 6.405 ct/kWh, it is 5.7% lower than the surcharge for 2018.

### **Other surcharges in the energy industry**

In many cases, levying the KWKG surcharge for privileged energy-intensive companies led to losses in revenue due to insolvency. These were taken into account in the KWKG certification in 2018 such that they are being refinanced via the KWKG cost allocation mechanism. With regard to this approach, there is still ongoing consultation with the engaged auditors in which the Federal Network Agency is also involved.

The EU Commission declared retroactively for the years 2012 and 2013 the full exemption of energy-intensive companies from network user charges pursuant to Sec. 19 (2) StromNEV to be unlawful. The Federal Network Agency or the regulatory authorities responsible at state level issued repurchase notices, which had to be paid in September 2018. Unlike the usual cost allocation mechanism, the payments made by the companies affected and received by the distribution grid operators were promptly passed on to the transmission system operators and immediately included in calculating the surcharge pursuant to Sec. 19 (2) StromNEV for 2019, which had the effect of reducing revenue. For 50Hertz the amount came to EUR 21.7m, for the transmission system operators in Germany a total of EUR 81.2m. The amounts are offset in the annual financial statements for calendar year 2018 and taken into account in the surcharge for calendar year 2020.

Under the NEMoG, it was determined that as of 1 January 2019 privileges would also be granted for the offshore liability surcharge only on the basis of the special equalisation scheme (BesAR) of the EEG. This means that in future this surcharge will also be levied directly by the transmission system operators on the BesAR companies. As further cost items (offshore grid connection costs) are also financed at the same time via this surcharge, the surcharge is being renamed the "Offshore-Netzumlage" (offshore grid levy). The market partners were informed of this in writing.

## **Grid operation and system management**

50Hertz makes sure that secure grid operation is ensured and that the electricity grid is available within the entire balancing zone. In addition to constantly managing the entire grid taking into account new construction and maintenance projects, the grid operator has to regularly intervene in electricity generation in order to ensure that the system remains stable.

### **Energy needed to cover grid losses**

In 2018, grid losses came to 2.5 TWh. 50Hertz covers the energy it needs to cover grid losses by means of a risk-averse procurement strategy, based on the existing regulations of a voluntary commitment. In order to minimise risks, approximately 2.4 TWh was procured for 2019 in the reference period from 1 July 2017 to 30 June 2018. It is planned to procure a total of around 2.5 TWh for 2020, of which 1.3 TWh had already been covered by 31 December 2018.

### **Employees**

The number of employees in the Group increased from 995 to 1,027 as of 31 December 2018, a rise of 3.2% compared to the prior year.

There were 20 industrial and commercial apprentices. A total of 5 employees are completing a trainee programme with stations in the different departments of 50Hertz as well as European transmission system operators and non-governmental organisations (NGO).

For the sixth time, employees were able to participate in the success of the preceding fiscal year in the form of a stock programme. Each employee was offered up to 24 Elia shares at a discounted price. This offer was exercised by almost 58% of the eligible employees.

### **Occupational health and safety**

The primary aim is to shape conditions at the workplace or in the working environment in such a way that they fulfil the employees' health and safety requirements at all times and prevent accidents in the workplace.

In order to achieve this target, occupational health and safety is seen as a continuous improvement process and in 2018 was again one of the top projects in the business plan. As part of the accompanying awareness campaign "gib8", various target groups were addressed with targeted measures. The focus here is on strengthening the risk prevention culture by

promoting safe behaviour and integrating occupational health and safety as a company value into the thoughts and actions of all employees. The analysis of incidents, the detailed analysis of accidents as well as the reporting and evaluation of near misses was also improved further. With the aim of avoiding future accidents at work, each accident was thoroughly evaluated and measures on occupational safety taken from this and implemented.

In the reporting period there were three reportable work-related accidents within the Group. The target for accident rate and accident severity was met in 2018.

50Hertz has also set itself the target of including employees from subcontractors in the high standards it applies for its own employees. The instructions for guaranteeing occupational safety when contracting external companies for work in the scope of 50Hertz Transmission GmbH's transmission grid (OAFN) was revised completely. This made requirements for contractors in terms of occupational health and safety more precise and transparent. The number of work-related accidents at third-party companies in 2018 decreased from 16 to 11 in total compared to the prior year. An extensive package of measures was implemented in 2014 as part of the "quality assurance on construction sites" project, which has since been continued intensively. In 2018, more than 1,190 external and internal construction site inspections in terms of quality, environment and occupational health and safety were performed using standard checklists. The findings of the inspections were sent to contractors to allow them to react swiftly and appropriately. Standardised reports based on the findings of the inspections also make it possible to determine what the areas of focus need to be and allow for a comparison of the contracted companies in terms of the quality on their construction sites. For new agreements concluded with suppliers as of 1 July 2017, the "agreement on quality of construction sites at 50Hertz" is an integral component of the agreement. This includes an unrestricted right for 50Hertz to carry out checks. If the required standards are not met, there is a penalty point system as well as an escalation model system.

## Research and development

For 50Hertz, active lead management - including in the WindNODE<sup>2</sup> project, which is being promoted as part of the SINTEG<sup>3</sup> showcase programme of the BMWi - and participation in R&D projects are an integral part of innovation management. In diverse cooperations with academic and industry partners, focus is largely placed on activities in the areas of new technology, energy markets and system security, the integration of renewable energies and the required

---

<sup>2</sup> WindNODE: The showcase for intelligent energy from northeastern Germany

<sup>3</sup> SINTEG: The showcase for intelligent energy – Digital energy for the energy transition

development of the electrical system. Overall, around EUR 2m was spent on research and development projects in 2018 (prior year: around EUR 3m). This was counterbalanced by EUR 0.15m that 50Hertz received in public non-repayable subsidies.

## Net assets, financial position and results of operations of the Group

Instead of the minus sign, figures are put into brackets. For the figures presented, rounding differences remain irrelevant.

### Results of operations

The figures for fiscal year 2018, as in the prior year, relate to the respective calendar year for all group companies. Presentations and explanations are based on the accounting system in accordance with the version of the International Financial Reporting Standards (IFRSs) that applies for the member states of the European Union.

### Income statement

EUR m	2018	2017 (restated*)
Revenue	10,205.2	9,803.3
Cost-matching income	(8,907.7)	(8,545.7)
<b>Revenue from grid business and other revenue</b>	<b>1,297.5</b>	<b>1,257.6</b>
Other income	67.4	72.3
Cost of materials and purchased services	(9,681.4)	(9,299.4)
Income-matching cost	8,907.7	8,545.7
<b>Cost of materials and purchased services, grid business</b>	<b>(773.7)</b>	<b>(753.7)</b>
Result from equity investments accounted for using the equity method	(0.3)	(0.1)
Amortization	(161.3)	(149.5)
Financial result	(45.6)	(54.3)
Income taxes	(101.9)	(85.4)
<b>Group profit</b>	<b>237.6</b>	<b>182.6</b>

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for financial year 2017 have been restated. We refer to note 2 in the attached Notes to the condensed consolidated financial statements for more details.

The Group's income and expenses were largely characterised by the non-profit settlement of the EEG and additional cost allocations.

Transmission system operators sell the renewable electricity fed in by upstream grid operators and directly connected producers to an electricity exchange, provided that this is not sold directly. In addition to this sales revenue, transmission system operators levy a charge for all



trading and distribution companies operating in the balancing zone to cover the difference between the costs for the reimbursement of electricity generated from renewable sources and the revenue from selling the electricity generated from renewable sources. The settlement of the EEG generated revenue of EUR 7,376.9m (prior year: EUR 7,208.7m), the settlement of the KWKG income of EUR 276.2m (prior year: EUR 303.4m) and the settlement of the cost allocation pursuant to Sec. 19 (2) StromNEV income of EUR 253.6m (prior year: EUR 332.8m). Income of EUR 36.0m (prior year: EUR 0.7m) was generated in the fiscal year from the offshore liability cost allocation for delays and interruptions when establishing grid connections. The allocation mechanism pursuant to Sec. 18 (1) AbLaV ["Verordnung zu abschaltbaren Lasten": Regulation on agreements on interruptible loads] generated income of EUR 5.4m in the fiscal year (prior year: EUR 6.4m).

Overall, income and expenses from the individual allocation mechanisms are recognised without affecting the profit or loss of the Group. In fiscal year 2018, the settlement volume of services rendered to third parties generated revenue of EUR 959.6m (prior year: EUR 693.7m), which is matched by expenses of the same amount.

In the fiscal year, a total business volume of EUR 8,907.7m (prior year: EUR 8,545.7m) relates to the settlement of non-profit issues.

Revenue from the grid business breaks down as follows:

EUR m	2018	2017 (restated*)
Horizontal grid income national	215.6	194.3
Horizontal grid income international	18.2	15.9
Vertical grid income	1,047.4	1,241.4
Electricity income national	120.8	93.6
Electricity income international	0.6	0.5
Construction cost subsidies	1.0	0.8
Net result from regulatory items	(106.1)	(288.9)
<b>Revenue</b>	<b>1,297.5</b>	<b>1,257.6</b>

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for financial year 2017 have been restated. We refer to note 2 in the attached Notes to the condensed consolidated financial statements for more details.

In fiscal year 2018, there was a negative net result from regulatory items of EUR 106.1m (prior year: net loss of EUR 288.9m). This was mainly caused by reversals of regulatory claims for Sec. 14/15 EEG compensation and regulatory obligations for redispatch measures, incurred back in 2016 already and which were realised via grid tariffs in 2018 as well as the set-up of a material regulatory obligation of redispatch measures incurred in 2018.

Other income of EUR 67.4m (prior year: EUR 72.3m) primarily contained other own work capitalised.

Operating expenses contained expenses for the procurement of electricity as well as purchased services, personnel expenses, amortisation and depreciation, the change in provisions as well as other expenses. Personnel expenses amounted to EUR 108.7m (prior year: EUR 99.4m). This increase is primarily due to the continued growth in headcount in 2018.

Other expenses amounted to EUR 7.5m (prior year: EUR 4.6m). They contain losses from the sale of assets and cost allocations for laying underground cables and other taxes.

An amount of EUR 161.3m (prior year: EUR 149.5m) relates to amortisation and depreciation. The development of amortisation and depreciation corresponds to the constant progress of investing activities.

The result from equity investments accounted for using the equity method relates entirely to Elia Grid International NV/SA.

The financial result amounts to EUR -45.6m (prior year: EUR -54.3m). It contains finance income (EUR 2.5m; prior year: EUR 1.9m) and finance expenses (EUR -48.1m; prior year: EUR -56.2m).

Earnings before taxes amount to EUR 339.5m (prior year: EUR 268.0m). After deducting income taxes (EUR 101.9m; prior year: EUR 85.4m), the group net profit comes to EUR 237.6m (prior year: EUR 182.6m).

This positive result is shaped by the compensation for the ongoing investment activity, the high income from the Group's core business and the partial release of a provision.

## Net assets and financial position

### Statement of financial position

EUR m	2018	2017 (restated*)
<b>Assets</b>		
Non-current assets	4,919.7	4,582.7
Current assets	2,717.9	2,531.2
	<b>7,637.6</b>	<b>7,113.9</b>
<b>Equity and liabilities</b>		
Equity	1,494.5	1,357.3
Non-current liabilities	3,131.2	3,120.0
Current liabilities	2,567.4	2,301.2
Regulatory items (net)	444.5	335.4
	<b>7,637.6</b>	<b>7,113.9</b>

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for financial year 2017 have been restated. We refer to note 2 in the attached Notes to the condensed consolidated financial statements for more details.

The non-current assets largely contain property, plant and equipment and assets under construction, of which 30.4% (prior year: 29.6%) is covered by equity.

The current assets primarily comprise trade receivables, other receivables and cash and cash equivalents.

Liabilities break down into non-current liabilities (primarily liabilities to bond creditors), current liabilities (primarily trade payables) and the accumulated regulatory obligation at year-end.

Within the current assets and liabilities, the high billing volumes are attributable to the largely non-profit business. The development of the items of the statement of financial position is largely dependent on the feed-in and weather conditions, the regulatory framework conditions and compensatory effects as well as – to a limited degree – the energy costs of the balancing zone.

Compared to 2017 the regulatory obligation increased significantly corresponding to the decrease in the net result from regulatory issues. Regulatory obligations will have to be reallocated via the grid tariffs in the following years.

The increase in equity stems from the result of the prior year deducted by the dividend payment to Eurogrid International during 2018.

Financial management's goals include ensuring the group companies are solvent at all times and minimizing the potentially negative impact from the developments on the financial markets. In the medium and long term, the financial capability for the extensive investment activities as well as an appropriate credit rating should be ensured. To achieve these goals, the financial parameters are continually monitored as based on key performance indicators.

### Consolidated statement of cash flows

EUR m	2018	2017
Cash flow from operating activities	752.7	750.0
Cash flow from investing activities	(473.9)	(466.3)
Cash flow from financing activities	(107.8)	(99.7)
<b>Change in cash and cash equivalents</b>	<b>171.0</b>	<b>184.0</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>1,577.7</b>	<b>1,406.7</b>

The development in the cash flow from operating activities reflects the extent to which the Group's liquidity situation fluctuates, mainly due to the settlement of the non-profit business. A higher volume of cash inflows from network user charges had a positive effect on the liquidity situation, as well as lower cash outflows from the energy procurement and congestion management.

The cash flow from investing activities primarily contains additions to property, plant and equipment. The cash flow from financing activities contains a profit distribution to the shareholder of EUR 107.8m.

In addition to the cash and cash equivalents, Eurogrid has additional undrawn credit facilities in place with several banks of EUR 900.0m.

## Forecast, opportunity and risk report

### Forecast report

The Group will continue to invest in the development of the transmission grid in order to securely and efficiently take up the increasing share of renewable energies and to be able to transport these in the direction of consumption centres. 50Hertz's most investment-intensive onshore projects at present are converting communications technology to modern IP technology, increasing the current carrying capacity of individual lines such as Wolmirstedt-Stendal-West, the further implementation of the mast reinforcement programme in the balancing zone as well as several infrastructure measures in the capital city. Numerous projects that are also of great importance for the medium-term future, such as the South-East link, are currently at the approval stage.

In the offshore area, such projects include the completion of the connection of the Westlich Adlergrund cluster and the Kriegers Flak combined grid solution as well as the preparation of the grid connection to the offshore wind farms of the Westlich Adlergrund 2 cluster, which was awarded approval in the course of the 2018 bidding process.

Capital expenditures in 2019 will be somewhat below the level of the prior year due to the many projects currently at the planning or approval stage (investment volume came to just under EUR 492m in 2018 excluding financial assets). The purchase commitment as of 31 December 2018 amounted to approximately EUR 978m for investments.

There will also be additional financing requirements in future fiscal years on account of persistently strong investing activity. Financing requirements for 2019 are covered by the funds borrowed on the capital market in 2016 as well as the available lines of credit. Liquidity for the settlement of the surcharges (e.g., EEG) is listed separately. The liquidity situation for the EEG business therefore continues to be dominated by fluctuations. The liquidity reserve from the EEG surcharge will remain stable at 6% in 2019. In the medium term, investing activities require the refinement of Eurogrid's financial instruments and active cash management. Financing will be secured via the "Baa1" rating confirmed by Moody's as well as the "BBB+" rating issued for the first time by Standard & Poor's.

The beginning of the new regulatory period in 2019 sees a change in both structure as well as the amount of revenue. Pursuant to NEMoG 2019, this transformation process begins with a 20% national share of network user charges, which is to end with a 100% national share of network user charges by 2023.

Cost development for actual grid operations – in particular, maintenance, personnel, administration and operations – will be shaped by grid expansion as well as the energy policy. 50Hertz strives constantly to ensure a high degree of efficiency in its processes and cost structures in order to minimise the increased costs that are necessary for the energy transition in Germany. The implementation of the cost efficiency project initiated in 2017 will again have the effect of reducing costs in 2019. The costs for system services, redispatch measures as well as grid losses are primarily influenced by the development of electricity prices, weather conditions and grid topology.

OPEX will increase on the prior year (2018: EUR 176m; 2019 planning: EUR 199m) as a result of the growth in plants and general price development in 2019.

The Group's net profit in accordance with IFRS for 2019 (EUR 150m) will be significantly less than the comparative figure from the prior year (net profit in 2018: just under EUR 238m). The decrease in earnings for 2019 is primarily attributable to a positive one-time effect from the reversal of a provision for obligations from the GBBerG ["Grundbuchbereinigungsgesetz": German Act to Rectify the Land Register] in 2018. Furthermore, the lowering of the equity interest rate will have a negative effect on the results of operations for 2019.

The earnings forecast for 2018 in 2017 was exceeded considerably. This was primarily attributable to the unplanned positive one-time effect from the reversal of a provision for obligations from the GBBerG.

The imputed returns can probably be achieved in the coming fiscal year based on the assumptions below.

The forecast for 2019 is mainly based on the following premises:

- Stable regulatory framework in line with the current legislation
- Maintaining a solid investment grade
- Moderate development in energy costs and
- Normal business development of 50Hertz without any extraordinary weather conditions and without any major technical disruptions

With regard to the quality of grid availability, the Group strives constantly to maintain a high level of quality and a low disruption rate. It also continuously tries to bring the rates of accident frequency and availability of employees to a reasonable level, and to maintain this level, by having suitable occupational health and safety offers and measures in place. As an attractive employer, the Group strives to maintain its high level of employee satisfaction.



Overall, the Group expects business development to be positive in 2019 with a sound capital base.

## **Risk management system**

The aims of the risk management system are to avoid any risks jeopardising the Group's ability to continue as a going concern, to reduce existing risk items and to optimise the risk/opportunity profile. Risks are recognised, recorded, evaluated and monitored in a standardised manner applying the risk guidelines. The assessment of potential losses and the likelihood of their occurrence is based on scenarios. This ensures that the risk situation is continually monitored, especially to ensure the early recognition of risks to the Group's ability to continue as a going concern, and supports the selection and implementation of measures to overcome such risks. Enhancement of the risk management system entails the systematic development and central pursuit of plans of action for combating key corporate risks. Relevant individual risks and the overall risk situation are reported regularly to management, the supervisory board and the shareholders. The respective decision makers are informed ad hoc in the event of any significant changes. The functionality and effectiveness of the risk management system is regularly subject to review. Individual items with an estimated value of more than EUR 100k are taken into account.

## **Opportunities and risks**

### **Opportunities**

The Group has the opportunity to improve its regulated asset base and to achieve organic growth by ensuring that it invests in the transmission and grid connections as and when needed without compromising efficiency. Further opportunities for 50Hertz as an independent transmission system operator in Europe involve it actively implementing the changes and new regulations relating to the energy transition in Germany as well as being a reliable and high-performing partner for the customers it supplies in the balancing zone.

## Risks from political, regulatory and legislative matters

50Hertz's network user charges are subject to regulations issued by the Federal Network Agency. Any decisions made by the Federal Network Agency in the current regulatory framework as well as any changes in the regulatory framework in the form of amendments to regulations could have a significant impact on 50Hertz, be it positive or negative. On 19 December 2018, the federal cabinet issued the regulation for the purpose of calculating the offshore grid levy and amending regulatory law which, on the one hand, regulates the separation of offshore costs from the network user charges concluded in 2017 and, on the other, makes changes for the onshore sector (StromNEV and ARegV). These changes primarily relate to investment measures pursuant to Sec. 23 ARegV, for which changes are made to the regulations to take into account operating expenses, to set a time limit for investment measures as well as to start repaying the deduction amount pursuant to Sec. 23 (2a) ARegV. The Upper House of the German Parliament has yet to approve the regulation, but is expected to do so in spring 2019.

Further changes in the legal framework are expected. This could mean a change in the regulatory regime away from the current incentives regulation system and towards an annual review with both a plan/actual comparison, which could result in opportunities (including abolition of the deductible pursuant to Sec. 23 (2a) ARegV, lowering of the risk to earnings from high costs arising from disruptions to operations, etc.) as well as risks (including the absence of base effects, non-recognition of actual costs due to annual revolving cost reviews) for 50Hertz.

Furthermore, the regulatory framework is subject to intense European, national and regional legal debate. 50Hertz monitors and follows European and national legislative proceedings and is actively involved in such discussions. European guidelines and regulations due to be transposed soon into national law (e.g., provisions contained in the EU winter energy package) can also lead to new burdens or risks for 50Hertz.

The Lower House of the German parliament adopted the NEMoG on 30 June 2017. In addition to aligning network user charges at transmission grid level, the NEMoG regulates the separation of offshore costs from the network user charges, which are to be refinanced as of 2019 by means of an allocation mechanism. The specific structure of the new offshore cost mechanism is still unclear. The required detailed specifications are expected only in the course of 2019. Energy policy laws and guidelines on renewable energies have a strong influence on 50Hertz's risk situation and liquidity. Changes to such legislation or the interpretation of this legislation by the Federal Network Agency can either significantly improve or worsen the Company's risk or liquidity situation.

In the settlement process, planning data and estimates are continually processed which are then replaced by the corresponding actual values in subsequent periods as they become available. These estimation processes may give rise to deviations and knock-on effects with an impact on liquidity and/or earnings. These planning data may also deviate significantly from the actual values due to unforeseeable circumstances or weather conditions or other benchmarks may be set in connection with the regulatory transfer or the Federal Network Agency may set new regulations.

Since the electricity market act came into effect on 30 July 2016, the legal framework for the remuneration of redispatch measures changed retrospectively as of 1 January 2013. Uncertainties persist with regard to the appropriateness of redispatch remuneration. Power plant operators could make subsequent claims of more than EUR 100m. 50Hertz expects that it will be possible to allocate these costs to the network user charges. However, a mechanism is not in place yet. A solution developed for the industry cannot yet be applied universally on account of complaints filed with the Higher Regional Court of Düsseldorf.

The rapid development of renewable energies and the fact that the grid expansion is of course unable to keep up with this development may also make it necessary in future for the grid operators to intervene heavily in electricity generation, leading in turn to correspondingly high surcharges.

Investments that are not approved by the Federal Network Agency also lead to lower imputed costs and therefore to a decrease in revenue.

An adjustment or further development of the applicable accounting standards may lead to the Group's net assets, financial position and results of operations being presented differently in future and key performance indicators being impaired in this regard.

## **Technology/infrastructure**

50Hertz's fixed assets are geographically widespread and can be the target of theft, acts of terrorism and sabotage. The facilities are also exposed to environmental influences which can lead to damage, in some cases significantly so, in the event of certain weather conditions or even to their faster wear and tear.

As an infrastructure operator for a secure and reliable electricity supply to some 18 million people, 50Hertz is also obliged to be well-equipped for crisis situations. Crisis tools have therefore been constantly refined and emergency exercises regularly carried out, so as to train skills and identify any potential for improvement.

In the event of voltage fluctuations or interruptions, power outages or a failure to implement legally prescribed emergency measures, 50Hertz can be held liable for any customer and/or third-party damage. Additional costs that will not necessarily be recognised by the regulatory authorities may also be incurred.

The connection and operation of offshore wind farms is a business field with additional technical and organisational challenges, because the legislator has decided to locate wind farms relatively far away from the German coast. Despite careful preparation and analyses, technical problems are often only discovered in the implementation and operating stage and have to then be solved immediately. Delays and changes in the planning and construction stages as well as later, unplanned changes in the operating stage are therefore possible. Should 50Hertz be deemed responsible for the delay or interruption, the Company must reimburse the wind farm operator for most of the financial loss incurred. Any expenses in connection with such indemnification payments can partly be offset by compensation obtained by means of recourse from suppliers. According to the EnWG, the risks for transmission system operators are limited: the transmission system operator only has to pay a portion of the compensation payment itself in the event of culpable, unintentional delay or damage to the connection. Nevertheless, significant risks still remain at the transmission system operator making the connection.

The offshore cables represent a considerable value in the Company's fixed assets. As there is still no experience with the long-term operation of this technology, there is the risk of design flaws only being discovered once the cable is in use. To prevent this, various tests are being performed beforehand. However, this does not ensure that all or indeed a combination of causes of errors can be identified. In extreme cases, this can lead to an entire cable system having to be replaced. This would result in high impairment charges, indemnity payments to the offshore wind farm operators and investment costs. Measures taken to minimise the risk include working closely with suppliers, carrying out function tests before commissioning, monitoring the cable during its operation, taking out insurance policies as well as the possibility of allocating costs by way of an offshore surcharge.

The construction of new lines constantly meets with opposition from locals, leading to long-winded administrative proceedings. Line construction delays are therefore still possible despite the intense efforts of 50Hertz's approval and communication experts. In addition, the complexity of the projects means there are a number of additional potential causes for delays and extra costs which can be minimised with the help of professional project management, although not eliminated entirely. Delays in grid expansion can lead to an increase in critical situations for grid operations as the new lines are urgently needed in high-consumption areas, mainly for transporting the ever-growing volatile feed-in volume of renewable energies in 50Hertz's balancing zone, and also because the planned shutdown of nuclear power plants in southern federal states is getting closer.

50Hertz has a highly available grid control system in place to ensure the secure operation of its transmission grid. The existing grid control system is currently being replaced with a new system as part of complex project. As this project is suffering delays, the old grid control system must operate beyond its planned duration and operations must be secured in cooperation with the manufacturers of the subsystems.

As an operator of critical infrastructure, 50Hertz is required by the IT security act to ensure information security. This involves organising the processing, saving and communication of information in such a way that sufficiently ensures the availability, confidentiality and integrity of the information and systems.

Mandatory from the IT security catalogue of the Federal Network Agency, 50Hertz successfully introduced an information security management system in accordance with ISO 27001 in 2017 and had it certified in January 2018. In November 2018, the first repeat audit was performed.

A total of 26 security alerts and error messages were provided by the German Federal Office for Security in Information Technology (BSI) and evaluated and processed by 50Hertz's IT security department. If possible, recommended protective measures were introduced. No concrete attacks were determined.

The operational tasks of IT security in 2018 also included the detection, analysis and removal of virus infections and spam as well as the monitoring of 50Hertz's internet presence. No successful or reportable cyberattacks on 50Hertz were registered in 2018.

## **Occupational health and safety**

Despite all of the precautionary measures, accidents cannot be ruled out at 50Hertz's facilities or in connection with the construction and use of 50Hertz's plants. These may result in human injury or, in extreme cases, death or other serious consequences. This could result in loss of reputation and lawsuits against 50Hertz, which bring with them considerable financial obligations, as well as reductions in financial and personnel resources. Risk analyses are performed regularly for activities at 50Hertz and the relevant measures developed and implemented. For activities that are susceptible to particular dangers and risks, 50Hertz took additional measures to protect its employees. For jobs in the offshore area, for example, this includes the provision of a rescue helicopter coordinated by an emergency control centre.

The know-how of our employees is vital for the Group's business activities. Essential know-how can be lost as a result of employee turnover and insufficient know-how transfer. Measures are implemented to reduce this risk, e.g., positions are occupied in tandem before an employee leaves the Company.

## Markets and finances

The EEG settlement results in high liquidity risks; however, these have no effect on earnings. Extreme fluctuations can also arise in the costs for balancing energy, grid losses and redispatch measures. Earnings effects here are reduced by regulatory models.

In the area of energy procurement, 50Hertz is subject to the general market risks that are seen on the electricity market. 50Hertz uses electricity products and contracts customary on the market for the energy it needs to cover system-related grid losses, in order to be able to counter the existing market price risks in an appropriate manner. Based on a risk-averse procurement strategy and taking the regulatory framework conditions to compensate for costs for grid losses into account, 50Hertz actively manages its market activities and its related internal risk considerations. When procuring the energy needed to cover grid losses for its own portfolios, 50Hertz acts on the electricity market exclusively with the objective of covering its own needs. Using physical and financial contracts on the electricity market gives rise to general cover risks and also credit risks and liquidity risks in connection with market partners. These are countered by internal control measures.

The Group finances itself on the bank and capital market. Based on a long-term plan, the Group's financial requirements are calculated and, whenever needed, targeted capital market measures and the necessary capital market communication are used to ensure long-term access to the financial markets. Risks from financing bottlenecks are limited by means of a line of credit that has been secured for the long term, but not yet drawn.

A downgrading could raise the financing costs in future. Potential risks relating to follow-up financing of investments in future could arise from unforeseeable bottlenecks stemming from government financing in Europe and the high volatilities on the capital markets.

The interest rate risk is countered by means of constant market observation and targeted capital market communication. Counterparty risks from investing in time deposits are combated by means of a careful and diversified investment strategy, constant market observations and strictly ensuring that the investment policy is adhered to.

Decisions and actions taken at companies where 50Hertz only holds a non-controlling interest and therefore does not have the power to exercise control at these companies, could lead to higher costs and lower revenue or to a lower profit margin from these companies.



## Overall risk situation

The Group's ability to continue as a going concern was not jeopardised by individual risks or its aggregated risk position in fiscal year 2018. There are also no such risks for 2019 after taking ongoing measures into account.

## Accounting-related internal control and risk management system

So that Eurogrid can successfully operate as a group in its complex economic environment, it has created an effective and integrated internal control system, which, in its entirety, contains all relevant business processes. This system regulates the identification, recording, evaluation, documentation and reporting of risks and is integrated into the strategy, planning and budgeting processes as well as the Company's management and reporting systems.

The internal control system forms an integral component of the risk management system. This system comprises preparing reports for the supervisory board of 50Hertz Transmission GmbH, for the supervisory board of Eurogrid GmbH, the audit committee at the level of Eurogrid International as well as the respective management, and is tailored to company-specific requirements in terms of its scope and structure.

Key elements of the internal control system with regard to the financial reporting processes are the consistently applied dual control principle, an auditable voucher system and the strict segregation of duties between/within the specialist departments of 50Hertz Transmission and between 50Hertz Transmission and Eurogrid. The processing of data in the accounting system is organised uniformly for all companies included in Eurogrid's consolidated financial statements and is based on uniform processes regarding the allocation and processing of invoices and vouchers. There is also a uniform method for preparing the financial statements regarding the compilation process and deadlines.

The standard commercial software used for accounting purposes is subject to an annual review regarding the compliance of the IT procedures applied including the structures and procedures of the system in use, taking into account the requirements of an effective internal control system. There is an adequate authorisation concept in place to ensure compliance of accounting and a reduced risk of fraudulent activities. This is applied universally. The business transactions of the Eurogrid group companies are processed centrally in the accounting/tax department at 50Hertz Transmission.

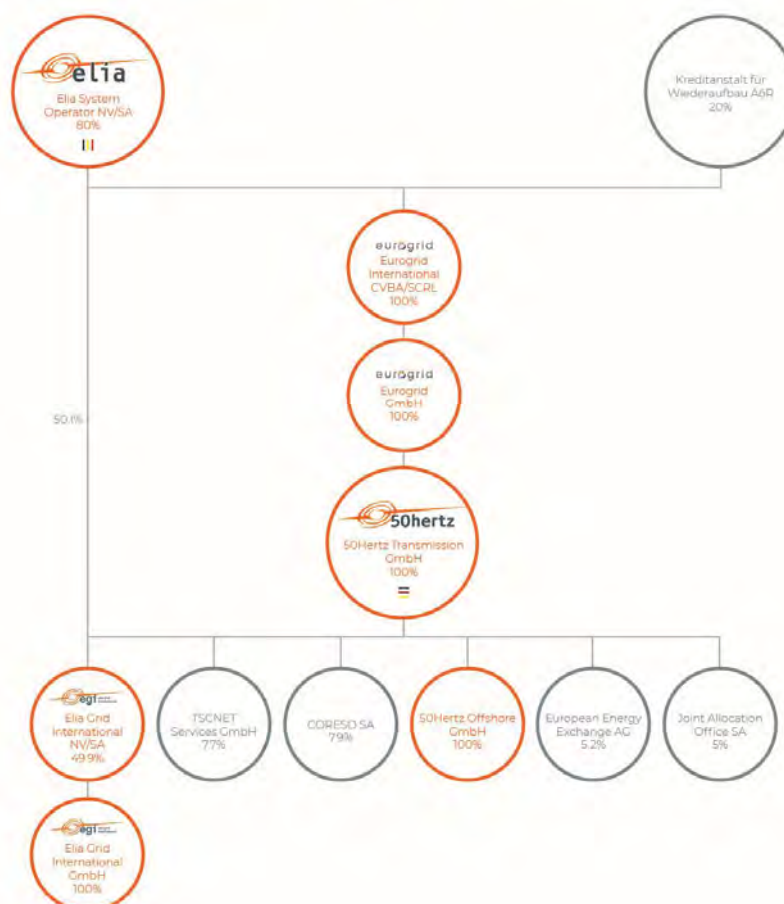
For consolidation at group level, guidelines on accounting and preparing the financial statements are taken as a basis to ensure a uniform application of the recognition, measurement and presentation of the items in the statement of financial position and the income statement taking into account the content and period-based presentation of regulatory issues significant for the transmission system operator business. Furthermore, the plausibility controls performed during each monthly reporting process between financial reporting, controlling and regulatory management alongside the reporting process as well as observing all relevant commercial and tax law standards and the corresponding energy provisions as well as IFRS standards ensure compliance of its accounting and financial reporting in the separate and consolidated financial statements.

Measures to limit accounting-related risks primarily include the clear allocation of responsibilities, graded release strategies, data access rights established according to the principle of segregation of duties and the application of uniform regulations on organisation and setting deadlines as well as the assessment of business transactions. The effectiveness of the internal control system is checked regularly in a separate process by the internal audit function. Moreover, the audit committee of Eurogrid International together with the supervisory board of 50Hertz Transmission as well as the supervisory board of Eurogrid GmbH continuously monitors and checks that management of the Company is being performed properly. The audit committee and the supervisory board base their assessment on regular reports and analyses of the management of 50Hertz Transmission, on the findings of the audit procedures performed by the internal audit function and the audit of the financial statements of the group companies. Furthermore, the group companies and their risk areas are recorded and assessed as part of risk management.

## Consolidated non-financial statement

Fiscal year 2018 marks the second time that Eurogrid GmbH (“Eurogrid”) has submitted a consolidated non-financial statement. The purpose of Eurogrid is the acquisition, holding and operation of equity investments, in particular the investment in 50Hertz Transmission GmbH (“50Hertz”). 50Hertz Transmission GmbH in turn has a shareholding in 50Hertz Offshore GmbH (“50Hertz Offshore”) and additional companies such as Elia Grid International SA, European Energy Exchange AG (“EEX”), Joint Allocation Office S.A. (“JAO”), TSCNET Services GmbH (“TSCNET”) and Coreso SA (“Coreso”). In fiscal year 2018, Eurogrid primarily arranged and secured the financing of 50Hertz’s construction and operating activities. For fiscal year 2018, 50Hertz in its sustainability reporting has conformed to the standards of the Global Reporting Initiative (GRI) under the “Core” option. For fiscal years 2016 and 2017, the framework of the German Sustainability Code had been used, following the specifications for the Global Reporting Initiative GRI4. The latest report was published in May 2018.

### Company structure and shareholdings



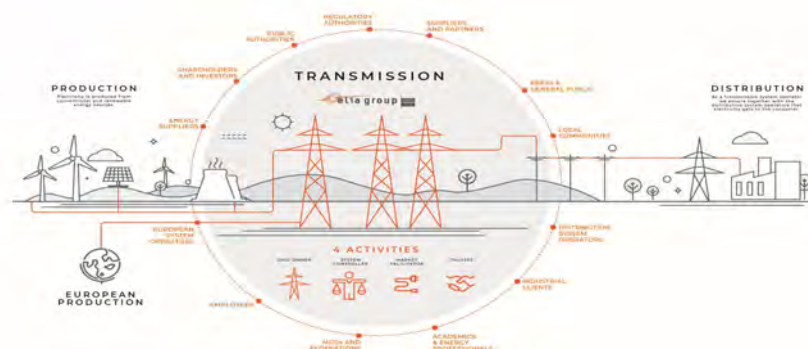
In fiscal year 2018, Eurogrid's shareholding structure changed: Elia System Operator SA/NV ("Elia") now has an 80% shareholding (prior year: 60%) and Kreditanstalt für Wiederaufbau AöR with registered office in Frankfurt ("KfW") has a 20% shareholding. The former shareholder IFM Investors sold 40% of its shares, which it had held via Global InfraCo S.à.r.l. in Luxembourg as of 31 December 2017, to Elia.

The purpose of Eurogrid is the acquisition, holding and operation of equity investments, in particular the investment in 50Hertz Transmission. 50Hertz Transmission in turn has a shareholding in 50Hertz Offshore and additional companies such as Elia Grid International SA, European Energy Exchange AG ("EEX"), Joint Allocation Office S.A. ("JAO"), TSCNET Services GmbH ("TSCNET") and Coreso SA ("Coreso"). In fiscal year 2018, Eurogrid primarily arranged and secured the financing of 50Hertz's construction and operating activities.

There is a cash pooling agreement as part of the uniform financial management of all the German companies.

## Business model

50Hertz operates one of Europe's most modern electricity transmission grids in northern and eastern Germany, thereby ensuring 18 million people are supplied with electricity – 24 hours a day, 365 days a year. In eight locations, 50Hertz acts as an interface between energy producers on the one hand and both distribution grid operators and major consumers on the other with 1,027 50Hertz Group employees to supply electricity around the clock. 50Hertz operates 10,390 kilometres of lines and coordinates the electricity market players in the grid area, manages and coordinates balancing groups and puts electricity from renewable energies that is not directly sold onto the electricity exchange. In order to help successfully shape the energy transition, 50Hertz is developing innovative solutions to aid the system and market integration of volatile renewable energies.



50Hertz has a “natural monopoly” with its transmission grid in its grid area, i.e., in northern and eastern Germany the Company is the only operator of the extra-high-voltage grid in its balancing zone and is therefore subject to regulatory oversight by the national regulatory authority, the Federal Network Agency. The regulatory system has a substantial impact on the business model. The Federal Network Agency also sets the annual revenue cap, upon which the network user charges for 50Hertz are based.



\*new locations as of January 2019 (location concept in emissions section)

## Memberships

50Hertz is involved in various societies, associations, and initiatives in the field of renewable energies, climate and environmental protection, human rights and harmonisation of the European electricity market. For example:

## Memberships

	ENERGY	CLIMATE	ENVIRONMENT	HUMAN RIGHTS
AVEU Arbeitgeberverband Energie- und Versorgungswirtschaftlicher Unternehmen e.V. [employers' association of energy and utility companies]	✓			✓
BDEW – Federal Association of the Energy and Water Industry	✓			
German committee of CIGRE Conseil International des Grands Réseaux Electriques	✓			
ENTSO-E – European Network of Transmission System Operators for Electricity	✓		✓	
GoS – Reliable and Sustainable Power Grids (indirect through Elia)	✓		✓	
RCI – Renewables Grid Initiative	✓		✓	
UN Global Compact		✓	✓	✓
VDE-Elektrotechnischer Verein e.V. [electrotechnical association]	✓			
World Energy Council	✓			
Diversity Charter				✓

## Concepts/Due diligence

### Responsibility

The operational management of the Eurogrid GmbH Group was delegated to the management of 50Hertz Transmission by way of a number of agreements.

In fiscal year 2018, 50Hertz Transmission's management consisted of four members: Boris Schucht (Chief Executive Officer), Dr. Dirk Biermann (Chief Markets and System Operations Officer), Dr. Frank Golletz (Chief Technical Officer) and Marco Nix (Chief Financial Officer). The Chief Human Resources Officer Dr. Katharina Herrmann rounded off the extended management team. She left the Company in October 2018. As of 1 January 2019, Sylvia Borcharding became her successor.

50Hertz always acts in accordance with the law. Its business activities are subject to numerous national and European regulations. The following main laws and European regulations provide the framework for our business activities:

- the EnWG [“Energiewirtschaftsgesetz”: German Energy Industry Act]
- the EEG [“Gesetz für den Ausbau erneuerbarer Energien”: German Renewable Energy Sources Act]
- the NEMoG [“Netzentgeltmodernisierungsgesetz”: German Grid User Charge Modernisation Act]
- the KWKG [“Kraft-Wärme-Kopplungsgesetz”: German Combined Heat and Power Act]
- the BImSchG [“Bundes-Immissionsschutzgesetz”: Federal Immission Control Act]
- the BNatSchG [“Bundesnaturschutzgesetz”: Federal Act for the Protection of Nature]



- the German Digitisation of the Energy Transition Act
- the EU Energy Efficiency Directive
- the Fauna-Flora-Habitat (FFH) Directive
- the EU Birds Directive

In fiscal year 2018, the federal cabinet approved the amendments of the NABEG, which will have an important influence on our business activities. The proposed legislative amendments mainly comprise the simplification and acceleration of approval procedures for laying, strengthening and optimising power lines. The gradual national standardisation of the transmission grid user charges, first set out by the NEMoG in 2017, was refined in 2018 with changes in the StromNEV and ARegV, and has resulted in the first 20% national share of network user charges. In addition, effective 1 January 2019, the NEMoG has incorporated the refinancing of grid connection costs for offshore wind farms from network user charges to a new offshore grid levy according to Sec. 17f EnWG. At a European level, the “Clean Energy for All Europeans” package was negotiated and finalised at the end of 2018.

More details on the laws and regulations relevant for the Company’s business activities can be found in the management report, in particular under “European law” and “National law” in the section “Regulatory framework for the energy industry”.

## Strategy

For 50Hertz, business activity that is successful in the long term is achieved by acting in the best interests of the Company. This is reflected in the Company’s vision: “A successful energy transition – for a sustainable world”. 50Hertz has made it its mission to make the energy transition possible. The Company has set itself five strategic goals to fulfil this task in the best way possible. Thus 50Hertz wants to maintain the highest possible level of supply reliability, expand the transmission grid to meet demand, achieve a competitive and sustainable result, further improve efficiency, and foster its value-based corporate culture with a strong focus on occupational safety. The sometimes opposing objectives and interests of 50Hertz and its stakeholders are to be reconciled as much as possible. Maximum transparency, for example, which is also embodied in this report, provides the basis for this.

50Hertz expresses its commitment to responsible corporate management in its Company Charter, which lays out its intention to comply with the ten principles of the UN Global Compact with regard to human rights, work standards, environmental protection, and the fight against corruption. 50Hertz joined this global values alliance in April 2017 and since then has been active in the German Global Compact Network. Company documentation is also available to our employees containing all applicable guidelines, directives and manuals, work instructions,

process handbooks and company agreements. The Company Charter and guidelines set out what is meant by correct corporate conduct and make clear the fact that all employees comply with the law. These principles flow into organisational measures that are binding for the whole Company.

Under the overall responsibility of the Chief Financial Officer, the Corporate Development department has defined a sustainability concept and a measures roadmap for the steady expansion of sustainability reporting, while the Communications and Public Affairs department continues to define the reporting processes.

The importance of constantly expanding sustainability management is clear from its inclusion in the annual business plan valid for five years. As part of the sustainability strategy, objectives, indicators and measures are systematically developed, reviewed and integrated into the corporate strategy. A company-wide committee at senior management level (CSR<sup>4</sup> Board) oversees this development from the development of measures to reporting presided over by the Chief Financial Officer and the Chief Human Resources Officer. The CSR Board meets twice a year to agree on targets and processes.

The various departments, units and teams are responsible for implementing the individual measures of the Company, as well as for defining and recording the performance indicators. The core CSR team meets every quarter for this purpose. Data controllers make performance indicators understandable and available to the whole Company on the central transparency management platform. In the regular risk analysis and at an annual risk conference, sustainability aspects are also discussed with the management and assessed. In addition, certified management systems, such as OHSAS 18001 in occupational health and safety and ISO 27001 in information security management as well as internal management systems based on recognised standards, including environmental management (according to ISO 14001) and early public participation (according to VDI 7000), are used in the core areas of CSR.

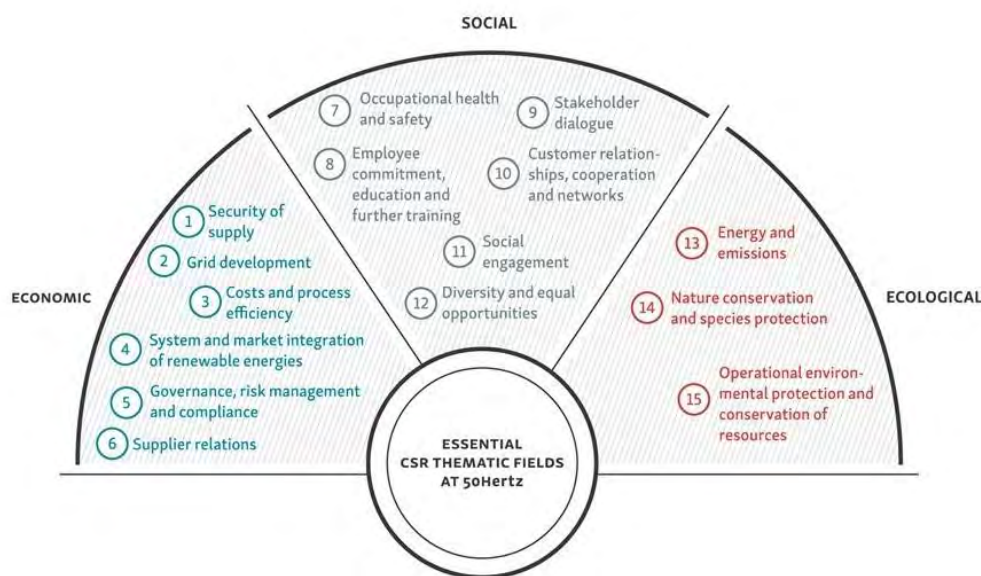
## **Materiality and objectives**

50Hertz examined the economic, environmental and social impacts of its business activities pursuant to the Global Reporting Initiative (GRI) standards for sustainability reporting. The general aspects listed there were translated into topics that are relevant for 50Hertz and aligned with the interests of our stakeholders by means of benchmarks, peer group reports and employee surveys. A detailed survey of stakeholders was conducted in the fourth quarter of 2017 with the aim of systematically developing the materiality analysis and sustainability

---

<sup>4</sup> CSR = Corporate Social Responsibility

management. Our stakeholders include our partners, the public, non-governmental organisations (NGOs), politicians, regulatory agencies, investors, the media, customers, suppliers and representatives of 50Hertz employees. The qualitative survey confirmed the key areas of the report.



#### OUR TARGET VISION FOR SUSTAINABLE ACTION:

- |   |   |   |
|---|---|---|
| <p>1 – High security of supply through sustainable system, market and grid operation</p> <p>– Top performance in comparison to other grid operators</p> <p>– Certified information security management system</p> <p>2 – Need-based grid expansion</p> <p>– Reduction of connection costs for offshore wind farms</p> <p>3 – Continuous improvement of process efficiency</p> <p>– Sustainable increase of cost efficiency</p> <p>4 – Comprehensive system integration of renewable energies, among other things, through physical grid connection of particularly system related components</p> <p>5 – Improved cooperation in the three GRC fields</p> <p>– Strengthening the internal control systems and the compliance function</p> <p>– Set-up of a supervisory committee at holding level</p> <p>– Introduction of a tax compliance management system</p> <p>6 – Consideration of environmental awareness and occupational safety standards for selection of suppliers</p> <p>– Increase ratio of companies with according certification</p> | <p>7 – Prevention of work-related accidents</p> <p>– Promoting awareness for safe behaviour</p> <p>– Re-certification of the occupational safety management system</p> <p>8 – High employee commitment</p> <p>– Promotion of needs and target-oriented development and further training</p> <p>– Offering internal development and career opportunities</p> <p>9 – Early public participation</p> <p>– Applying the 50Hertz standards regarding information, dialogue and participation to all relevant projects</p> <p>– Establishing a lessons learned process, including evaluation for public participation</p> <p>10 – Intensifying cooperation and networks with customers and with politically and socially relevant stakeholders</p> <p>– Reliable and timely communication with customers</p> <p>– Use of customer surveys as a basis for further improvements</p> <p>11 – Appropriate, systematic support for social, cultural and community projects</p> | <p>12 – Equal and fair participation of all employees</p> <p>– Supporting people with disabilities in working life</p> <p>– Maintaining the gender quota for all management levels</p> <p>13 – Minimising controllable energy consumption and emissions</p> <p>– Replacement of the SF6 greenhouse gas</p> <p>14 – Minimising intervention in nature and the landscape when building lines and substations</p> <p>– Implementing compensation measures with the greatest benefits to the whole of society</p> <p>– Forward-looking, intervention-minimising and ecologically sustainable line and route planning</p> <p>– Better protection of birds and amphibians</p> <p>15 – Prevention and recycling of waste generated when building, operating and demolishing plants</p> |
|---|---|---|

## Risk management

As part of its systematic risk management, 50Hertz regularly surveys and assesses the following risk areas:

- Protection of life and limb
- Profit and loss
- Liquidity
- Reputation
- Supply reliability

50Hertz aims to avoid risks to the Company's continued existence, to reduce risk positions as much as possible where feasible and to optimise the opportunity/risk profile. Risk guidelines set down how risks are systematically identified, recorded, assessed and monitored on a quarterly basis. A risk conference is held once a year in which all department heads (second management level), as risk owners, and the risk manager meet with the management to discuss the most significant risks and risk-related issues. In the area of CSR, for example, these are occupational safety and new requirements from environmental legislation.

## Security

As an operator of critical infrastructure, 50Hertz is required to ensure information security under the IT-SiG ["IT-Sicherheitsgesetz": IT Security Act]. Information must be processed, stored and communicated such that the availability, confidentiality and integrity of the information and the systems are adequately ensured.

To this end, an information security management system was introduced in 2017 and certified in 2018 in accordance with ISO 27001. This established security process ensures that IT risks are systematically identified and addressed. In particular, security alerts and warnings that are issued by the German Federal Office for Security Technology (BSI) are recorded and evaluated as part of this process. If required, necessary protective measures are derived and implemented. In the reporting year, no targeted cyberattacks on 50Hertz were registered and no damage from information security incidents was recorded. 50Hertz employees as well as temporary and external employees participated in an online training session on information security in 2018.

In January 2018, 50Hertz received the ISO 27001 information security management system certification, as a result of which 50Hertz has to fulfil its obligation as an operator of critical infrastructure on the basis of the IT security catalogue of the Federal Network Agency. In November 2018, the repeat audit was performed.

For 50Hertz, security goes beyond its corporate boundaries. Therefore, both internal and external stakeholders receive training in crisis management and communication in the form of regular crisis team exercises, among other things. As a result of this, not only existing structures, processes and reporting channels are evaluated and continuously improved, but the crisis team participants and employees also receive intensive training on how to deal with unexpected events under special stresses and quickly make appropriate decisions to manage crises. These and further measures aim to continuously and holistically increase the resilience of 50Hertz.

## **Main risks from business activities**

### **Governance, risk & compliance**

The Company Charter and guidelines on preventing corruption set out 50Hertz's understanding of correct ethical conduct and make it clear that the Company complies with the law and does not tolerate corruption. These principles flow into organisational measures that are binding for the whole Company.

Since 2010, 50Hertz has had a policy in place that regulates the whistleblower system and prescribes the establishment of an internal compliance committee and an external ombudsman. The compliance committee comprises one member from Legal Affairs, one member from Human Resources and a compliance coordinator. The ombudsman reports to the compliance committee once a year in writing about how it has been used and the number of tip-offs received. If the ombudsman passes on a justified tip-off to 50Hertz, the compliance committee is convened immediately to deal with the case in hand and take further internal action if necessary. The committee reports to the management of 50Hertz annually and on an ad hoc basis as required. In 2018, the ombudsman did not receive any tip-offs about corruption. No significant fines were imposed on 50Hertz in fiscal year 2018 in connection with general business activities, power line construction projects or operations. The reporting threshold for administrative offenses was set at EUR 25,000.

### **Anti-corruption**

50Hertz also regularly provides all employees involved in the procurement process with training on the basics of procurement, anti-corruption and compliant behaviour. Since 2016, 19 training sessions have been held across different sites for 200 employees from throughout the Company. For 2019, 4 training sessions are planned for an expected 50 participants.

## Human rights

50Hertz expresses its commitment to respecting human rights, the right to privacy, personal safety and freedom of expression as well as ownership rights of its employees, residents and customers. 50Hertz also assumes responsibility for compliance with social standards in the supply chain. For this reason, 50Hertz is not only a member of the UN Global Compact, it is also committed to the core labour standards of the International Labour Organisation (ILO).

In order to ensure that business partners also observe international rules on human rights – such as the prohibition on forced and child labour – sustainability and ethics are essential components in the assessment of suppliers and service providers.

50Hertz raises awareness for sustainable conduct in regular supplier meetings and thus to ensure that respect for compliance with ethical principles and guidelines continues to grow in the long term. All orders are placed centrally. As a result, all of 50Hertz's business locations are examined to ensure their compliance with human rights obligations. The plan is to gradually expand supply chain management to include sustainability topics over the next few years. A common code of conduct for suppliers of the Elia Group is currently under review and is to become a binding component of all supplier contracts in future. In the reporting year, the first risk assessment on sustainability issues and human rights was carried out in the form of desk research for the 20 largest suppliers, which have a total order value of more than EUR 378m and a share in the Company's entire order volume of around 68%. 19 of the companies assessed have their registered offices in Germany and one in Milan; the majority of the companies are affected by the CSR reporting requirements and must therefore publish reports containing information on non-financial indicators and human rights issues according to international reporting standards. No risks were identified. 50Hertz is looking at further expanding supply chain management and extending reporting to include human rights issues in future.

## Usage of natural resources

### Management approach

Environmental and social sustainability as well as a clear commitment to environmental protection and the conservation of resources are all integral components of the corporate strategy. 50Hertz is a forerunner in the integration of renewable energies into the entire electrical system: In 2018, around 57% of gross electricity consumption in the 50Hertz balancing zone came from wind or photovoltaic power as well as biomass, hydropower and other renewable energies. The development of the extra-high-voltage grid is necessary for



transporting steadily increasing amounts of renewable energies over long distances and ensuring the security of the electricity supply and an effective electricity market. Our goal is to keep the impact of 50Hertz's plants and activities on people and natural habitats to an absolute minimum. Therefore, compliance with the NOVA principle is a matter of course for 50Hertz. NOVA states: grid optimisation (Netz-Optimierung) before reinforcement (Verstärkung) before expansion (Ausbau). What this means in concrete terms is that 50Hertz only builds new lines when all other options for increasing grid capacity have been exhausted.

The planning, operation, maintenance and environmentally friendly conversion and expansion of our transmission grid in the northern and eastern part of Germany follow national and European frameworks and regulations. This operational implementation of environmental requirements is controlled by means of company guidelines and process instructions, which are constantly updated and adapted. In our environmental protection organisation guideline, 50Hertz has defined concrete obligations and tasks. Principally, management is responsible for environmental protection. It defines the goals and organisation of the Company's environmental protection efforts. Within management, the Chief Technical Officer Dr. Frank Golletz assumes the function of environmental officer. The management also appoints the hazardous materials, waste and water protection officers, who advise the entire organisation on environmental issues.

50Hertz ensures the availability of any relevant information and all required resources for fulfilling the strategic and operative objectives relating to energy efficiency and environmental protection. Environmental protection activities are documented internally in annual environmental reports. The environmental report for the 2018 reporting year will be published in March 2019. For this reason, some of the figures mentioned are based on estimates and have been marked.

50Hertz consistently and actively works on continuously improving its environmental performance, energy-related performance and improving its management system. To gradually further develop operational environmental protection and energy management, you also need to raise the awareness of and actively involve employees, which are motivated to act in an environmentally friendly and energy-efficient way. The legal requirements for training are met. While the law requires water protection and waste officers to attend two-day training every two years, at 50Hertz they receive one day of training every year. The training for employees and hazardous materials officers involved in the hazardous materials process is provided every five years. Individual company departments, such as the Procurement/Facility Management department and the project units, are given training as required. As of 1 July 2017, all new supplier contracts at 50Hertz include an "agreement for quality assurance on construction sites", which contains matters from the precautionary principle in environmental protection, among

other things. Compliance with these is regularly assessed via IT-supported construction site inspections. In the reporting year, 1,190 construction site inspections were carried out.

## Energy and emissions

50Hertz supports the objectives of the EU and the federal government for reducing CO<sub>2</sub> emissions particularly by expanding the grid, which increases the share of CO<sub>2</sub>-neutral energy sources, but also by optimising the company-wide carbon footprint. In 2015, an external energy audit according to the DIN EN 16247-1 standard was commissioned for the first time to systematically record the energy consumption of our systems and administrative buildings. This audit is set to be repeated in 2019. As yet, there are no current, robust figures available on energy consumption in 2018. 50Hertz is looking into introducing a process for determining consumption figures during the year.

### Energy consumption

ENERGY CONSUMPTION		
	MWh	%
Electricity	50,744.187	84.8
District heating	2,467.109	4.1
Fuel (petrol)	32.910	0.1
Fuel (diesel)	5,799.063	9.7
Natural gas	788.442	1.3
<b>Total energy consumption</b>	<b>59,831.710</b>	<b>100.0</b>

\* Data source: External energy audit according to DIN EN 16247-1 in 2015.  
Periodic reporting is subject to future planning.

The energy audit revealed optimisation potential across the Company, the feasibility of which was carefully examined in terms of economy and sustainability. In 2016, 50Hertz moved to its new headquarters, the 50Hertz "Netzquartier", in Berlin Mitte. Sustainability was a key aspect of the planning and construction of the headquarters building in terms of energy efficiency, ecology, utilisation options and accessibility. The 50Hertz Netzquartier has received the internationally recognised Gold Award of the German Association for Sustainable Building (Deutsche Gesellschaft für Nachhaltiges Bauen – DGNB) and the American LEED Standard (Leadership in Energy and Environmental Design). For new buildings, such as the regional centres in Röhrsdorf, Hamburg Ost and Berlin Charlottenburg, aspects of sustainable construction in terms of energy use have already been taken into account in the planning and implemented where possible.

The vehicles in the fleet have a large impact on the carbon footprint, but are indispensable for comprehensive coverage of our extensive grid area and quick access to our systems. In 2018, these vehicles produced 1,758.18 tons of CO<sub>2</sub><sup>5</sup>.

A new location concept emerged from the efficiency project as a long-term factor, which will come into effect in 2019. 50Hertz is currently increasing its locations in northern and eastern Germany from seven to ten. Among other things, this will decrease the driving distance and will therefore also lead to a reduction in greenhouse gas (GHG) emissions. Moreover, electric and hybrid vehicles are being tested and selectively used as part of fleet management. For reasons of efficiency, there are no plans to use them extensively at present. The fleet is constantly updated with the latest technology in the course of procuring replacements. Vehicles that comply with the EURO 5 emission standard were replaced with vehicles that adhere to the EURO 6 emission standard.

We use sulphur hexafluoride (SF<sub>6</sub>) in our contactors, transformers and gas-insulated switchgear. This gas is a central operating material at 50Hertz because of its excellent insulating and arc properties. At the same time, however, SF<sub>6</sub> has high greenhouse potential, so great caution is taken in transporting, storing and using the gas. 50Hertz complies with the requirements of the European F-Gas Regulation (EU) no. 517/2014, which was updated in 2014. Since 2005, the Company has worked in accordance with the Voluntary Commitment of SF<sub>6</sub> Producers and Users (Freiwillige Selbstverpflichtung der SF<sub>6</sub>-Hersteller und -Nutzer). Its goal is to reduce the loss rate of 0.8% of the total in 2004 to 0.6% in 2020. In the Berlin-Charlottenburg substation, a new kind of gas-insulated 110 kV switchgear is being installed, which instead of the conventional insulation gas SF<sub>6</sub>, uses a gas mix with much lower greenhouse potential. The gas mix called g<sup>3</sup> has the same technical properties as SF<sub>6</sub> but is up to 99% less harmful in terms of the greenhouse effect. As a result of conscientious handling and internal monitoring for operation and maintenance of our gas-insulated systems, in 2018 we came in significantly below the "Voluntary Commitment of SF<sub>6</sub> Producers and Users" with a loss rate of 0.11%<sup>6</sup>.

Some energy is always lost when electricity is transmitted, whether as current heat loss in transmission lines, in transformers and other system elements, or as leakage and corona loss. In 2018, 50Hertz recorded grid losses of 2.5 TWh. The average grid losses at the extra-high-voltage level were 240 MW; those of transformation were 45 MW<sup>7</sup>. With the SuedOstLink between Saxony-Anhalt and Bavaria, 50Hertz is planning the first 400 kV extra-high-voltage direct current transmission line in its grid area. This technology is more suitable than

---

<sup>5</sup> the figures stated are estimates as of 31 December 2018

<sup>6</sup> the figures stated are estimates as of 31 December 2018

<sup>7</sup> Basis for our annual average calculation: output/8,760 hours

conventional three-phase AC current technology to expediently transport large amounts of energy over long distances with lower grid loss and optimal control.

Various modes of transport are used for business trips. In the reporting year, air travel accounted for 335 tons of CO<sub>2</sub> equivalents<sup>8</sup>. In addition, employees produced around 6.66 tons of CO<sub>2</sub><sup>9</sup> by using public transport. 546,000 kilometres were travelled by long-distance train. Long-distance train journeys are not reported, as Deutsche Bahn claims to use 100% green electricity.

50Hertz is currently evaluating the gradual expansion of its climate management and thus the possibility of reducing its GHG emissions. In the 2018 reporting year, direct and indirect GHG emissions were calculated for the first time.

## Greenhouse gas emissions

Greenhouse gas emissions in 2018 in tCO <sub>2</sub> equivalent		
<b>DIRECT (SCOPE 1)</b>		
SF6 leakage	4,277.00	0.34%
Company fleet*	1.29	0.00%
Emergency generator headquarter*	1,758.18	0.14%
<b>Total direct emissions</b>	<b>6,036.47</b>	<b>0.48%</b>
<b>INDIRECT (SCOPE 2)</b>		
District heating*	184.86	0.01%
Electricity consumption headquarter*	1,897.62	0.15%
Grid losses	1,222,500.00	97.39%
Energy consumption own assets	24,310.65	1.94%
<b>Total indirect emissions</b>	<b>1,248,893.13</b>	<b>99.50%</b>
<b>INDIRECT (SCOPE 3)</b>		
Air travel	293.90	0.02%
Rail travel (long-distance)	0.00	0.00%
Rail travel (local)	6.66	0.00%
<b>Total indirect emissions</b>	<b>300.56</b>	<b>0.02%</b>
<b>Total amount</b>	<b>1,255,230.16</b>	<b>100.00%</b>

\* Estimated value as of 31 December 2018

\*the figures stated are estimates as of 31 December 2018. The following calculation bases and emission factors were used to calculate CO<sub>2</sub> equivalents: SF6/IPCC Fifth Assessment Report (ARS), vehicle fleet/direct fuel consumption, energy (electricity, district heating)/Federal

<sup>8</sup> the figures stated are estimates as of 31 December 2018

<sup>9</sup> the figures stated are estimates as of 31 December 2018

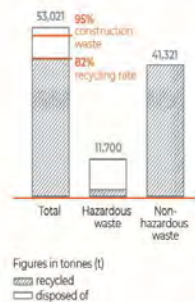
Environmental Agency 2017 Scope 2 Guidance, business trips/information provided by service providers, Scope 3 Guidance

The calculated figure in the carbon footprint corresponds to 1,222 tons of CO<sub>2</sub> equivalents per person including grid losses and 32 tons of CO<sub>2</sub> equivalents per person excluding grid losses (basis: 1,027 employees).

## Waste disposal

When it comes to handling waste, 50Hertz's top priority is prevention. However, the annual waste production and composition is heavily dependent on restructuring and dismantling projects as well as compensatory and replacement measures. A year-by-year comparison is therefore not appropriate. When dealing with waste that cannot be prevented, we act on the principle "Reuse – reduce – recycle – dispose". When we build, convert or dismantle a system, we dispose of any parts we no longer need in resource-friendly ways.

### Waste disposal 2018



\*Estimate/projection as of 31 December 2018

50Hertz was able to comply with the legally prescribed recycling requirement (recycling before disposal) at a recycling rate of about 82%. In the 2018 reporting year, two larger environmental remediation projects took place in Ragow and Berlin Charlottenburg. These projects largely related to floors that were cleaned or disposed of properly if they could not be cleaned.

## Nature conservation

It is the policy of 50Hertz to keep its impact on nature and the restriction of biodiversity as low as possible. During permit approval procedures for project planning, we not only consider the economy, needs of residents and technological concerns, but always keep in mind the protection of plant and animal life. In the preliminary stages of such procedures, environmental impact assessments are carried out to minimise any nature conservation conflicts at an early stage. Then an appropriate corridor is identified in which, in a subsequent step, the exact route of the line through that corridor is mapped and a list of necessary protective, compensatory and replacement measures is compiled. All of these examinations are conducted together with external environmental planners, routing experts and, if necessary, other scientific and nature conservation specialists. Only once the entire process is completed can the construction project commence – under external ecological construction supervision. Site preparation and construction schedules are implemented in ways that minimise even the temporary impact on natural features, take conservation periods and requirements into consideration early in the process, and obligate companies subcontracting for 50Hertz to consider the ecological aspects of their operations. Following this, a final assessment is performed.

According to the BNatSchG [“Bundesnaturschutzgesetz”: Federal Act for the Protection of Nature], there is an obligation to avoid causing preventable damage to nature and the landscape or to otherwise keep it as low as possible. Whenever possible and reasonable, lines are bundled with existing overhead lines and infrastructures such as railway beds and highways. Line routes are adapted to the local natural features so as to impact the integrity of the landscape no more than necessary. Where interference is unavoidable, 50Hertz takes compensatory and replacement measures. These can be divided into six categories: planting measures, forestry measures, water measures, species protection, dismantling measures and other measures. When planning and implementing compensatory and replacement measures, 50Hertz involves the affected communities, conservation agencies, interested citizens and NGOs early in the process. 50Hertz works with them as partners to develop suitable plans early on and suggest these to the authorities as part of our approval planning. For this purpose, regional eco pools are being used more and more. Eco pools are contributions to projects of other organisations as well as compensation payments, which enable more comprehensive measures than planting individual replacement plants and are therefore more effective, efficient and sustainable. In 2017, 50Hertz adopted guidelines for targeted compensation management. They define the action areas necessary for successful approval and implementation of the measures. An internal assessment commission meets every two months to decide on the measures. The chosen measures are recorded in a real estate cadastre. There are currently 292 compensatory and replacement measures being planned in the 50Hertz grid area and 418



being implemented and maintained. Therefore, the total number of compensatory and replacement measures has increased from 630 in 2017 to 710 in the reporting year.



There are many different protection zones in the 50Hertz grid area, which are recorded in a cadastre. The FFH protection zones, national parks and biosphere reserves are displayed in the picture. Among other things, the grid area contains many bird sanctuaries, which 50Hertz makes sure to protect when building new lines.

To build overhead lines in forested areas, we generally have to establish aisles because the lines need enough space to the sides and be high enough off the ground to maintain the necessary safety distances. Sections of these aisles therefore have to be regularly kept clear of trees. Trees and shrubs, however, are habitats for countless species of animals and plants. The goal of 50Hertz is to impact these natural spaces as little as possible in the long term, thereby increasing biodiversity under the lines. Using a system of ecological aisle management (Ökologisches Schneisenmanagement or ÖSM) developed in 2010 in cooperation with Erfurt University, the company plans and manages line routes with foresight, minimal impact and ecological sustainability: The aisle under an overhead line is redeveloped in ways that restore natural habitats while still facilitating safe operation. In the course of our project, the aisle therefore develops into a biologically diverse and valuable natural space. 50Hertz applies the ÖSM system as mandated to new line route construction, and also to existing line routes on a voluntary basis.



### Ecological Aisle Management (EAM)

Measures	Area in hectares
Edge of forest, Kälzner Tannen	1.8 ha
Eco-account, Sackkuver Tannen	14 ha
Camellid, Bienenwiese Schönowalde	5.6 ha
Biotope management, NABU area	1.9 ha
Edge of forest eco-account, Hohenzentz	2.5 ha
Edge of forest structuring, Sotow meadow beech	9.8 ha
Grazing, Mahlschulke Kien	6 ha
Hohenstein hedges	6 ha
NABU project, Märzhänel Kien	1.8 ha
Biotope management, Altlandsberg municipal forest	25 ha
Wild flower meadow, Kölsch Mühle	0.4 ha
Edge of forest pond, Rochhausl Heide	13 ha
Edges of forest, Döbener Heide	12.6 ha
Biotope management, Harz conservation area	3.2 ha
Pilckene, Hummelshain	6.3 ha
Prior line, Oberwolfstah	1.6 ha
Biotope structuring, Ruppertsdorf	1 ha
Slope planting, Burklajdsdorf	0.3 ha
Grassland seed test area	0.5 ha

Extra-high-voltage lines harm bird life. Hence 50Hertz also makes a huge effort to protect birds and minimise negative impact. In 2017, a new species-specific method was developed in the course of line construction projects for systematically determining the effects on species populations to enable the identification of targeted protective and compensatory measures. There were plans to install 30 km of bird protection markers in the existing grid in 2018. Due to an accident in the reporting year, the installation was suspended until the accident has been dealt with and an accident avoidance strategy has been developed. The installation of bird protection markers will be continued in 2019 as planned. 50Hertz also continues to actively support the set-up of the “Vogelfund und Stromleitung” (dead birds and power lines) hotline by NABU (Naturschutzbund Deutschland), a German nature conservation association, as part of

the “Renewables Grid Initiative”. 50Hertz conducted a comparative study on the effectiveness of spiral and clack markers, and also installed cameras on two stretches of the grid in a bird sanctuary. All these measures and projects will help to prevent collisions in such places more effectively in future.

Another step toward consistent reduction of interference with the environment is the development of the “compactLine” pylon design. This innovative research and development project features lower masts, narrower line routes and a solid-panel tower of smaller circumference. It will allow us to reduce our interference with landscapes and nature through overhead lines. The compact design provides a good opportunity to integrate a new 380 kV line into existing 220 kV line routes. In August 2018, an approximately two kilometre-long pilot line was trialled.

## Water protection

50Hertz is committed to effective water protection. As the business activities of 50Hertz do not result in significant water usage, its responsibility in this regard is not so much to reduce water consumption, but to consider water resources in the ground during grid and substation projects and to avoid water and soil pollution with hazardous materials. For instance, 50Hertz has installed special safety features in oil-containing systems. To protect the natural environment, elaborate constructions are installed beneath transformers in substations to prevent drips from entering the soil. The safety systems are inspected regularly by maintenance technicians and refurbished or replaced when needed. Waste water is only discharged with appropriate permission from water authorities and if it was regularly tested for hazardous substances. With regard to water protection, the WHG [“Wasserhaushaltsgesetz”: Water Resources Act] and state-specific systems regulations (VAwS) are of particular importance to 50Hertz. Employees are trained in the environmentally friendly operation of our systems and water protection officers are kept continuously updated on all new developments. In the grid area, the requirements of the WHG and VAwS are especially relevant for the coastal regions of Mecklenburg-Western Pomerania. Three submarine cable routes of the Ostwind 1 line construction project, which is currently underway, run south from the Westlich Adlergrund cluster, past the island of Rügen, through Greifswalder Bodden to their landing site near Lubmin. In the landing zone, we have to bore under sensitive natural conservation areas and valuable biospheres. By using the low-impact, ditchless horizontal flush drilling method, 50Hertz significantly reduces interference with flora and fauna in the dune landscape. In addition, 50Hertz is an important contributor to making the Baltic Sea safe for people and the environment. Therefore, every preparation includes the clearing of inherited waste at the bottom of the Baltic Sea, such as weapons from previous world wars.

## Social and personnel matters

### Management approach

50Hertz owes its success entirely to the success of its employees. It is the responsibility of the Company to help them develop their skills, foster their health and commitment, involve them in decisions and guarantee equal opportunities for all. The maintenance and development of the value-based corporate culture is one of the Company's main goals and the strategic foundation for all personnel decisions. As part of the extended management team, the Chief Human Resources Officer is responsible for all personnel strategy issues.

An annually updated five-year business plan serves as a framework for qualitative and quantitative personnel planning. 50Hertz complies with international guidelines beyond the reach of its collective agreements and company agreements, such as the core labour standards of the International Labour Organisation (ILO: C87, C98 and C135) and workers' rights in the UN Global Compact.

Together with the general works council and the IG BCE (Union for the Mining, Chemical and Energy Industries), an agreement was established on fostering and maintaining the employability of our staff. This agreement provides a basis for personnel policies that will help us face the effects of demographic change. Our objective is for employees to be able to carry out their work activities without any limitations until they reach their regular retirement age.

PERCENTAGE OF EMPLOYEES GOING INTO RETIREMENT IN THE NEXT 5 YEARS	M	F
Total 50Hertz Transmission	5.7%	1.2%
Director	0%	0%
Senior Manager	12.82%	0%
Direct leaders	6.33%	0%
White collars	5.31%	1.3%

Employees of 50Hertz benefit from a family-friendly work environment and the opportunity to find a work-life balance. In order to give mothers and fathers the necessary flexibility for managing child care, there is a company agreement promoting compatibility of work and family. The agreement regulates questions of parental leave, support services, flexible work hours, special leave and sabbaticals, as well as professional support. In the 50Hertz Netzquartier building, there is also a day care centre for the children of our employees, which also offers spaces for children from the neighbourhood. Beyond that, we have established a parent-child office for short-term child care needs.

## PARENTAL LEAVE

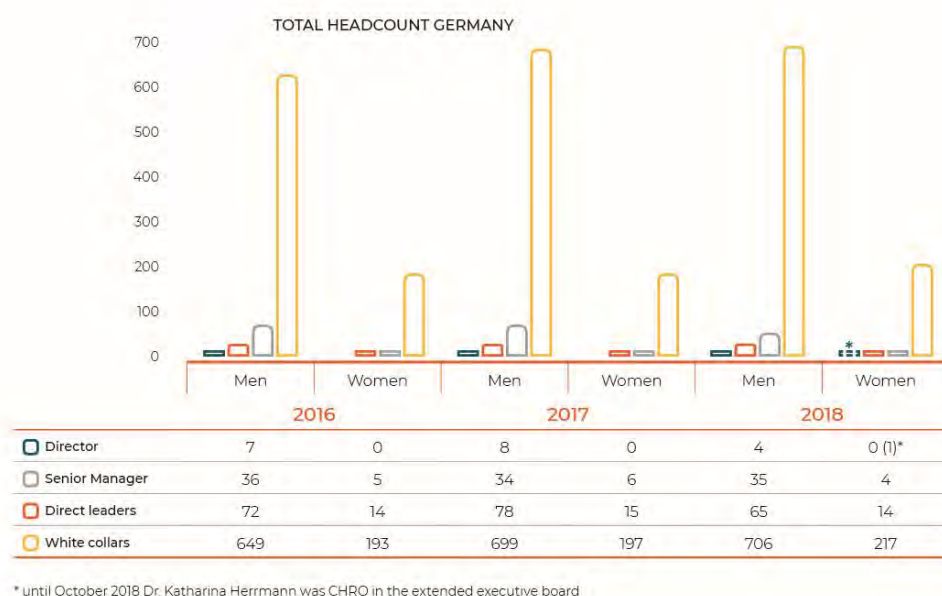
Number of employees on parental and caregiver leave	13
of which male	3
of which female	10
Number of employees on parental leave: 01.01.2018-31.12.2018	78
of which male	53
of which female	25

A regular exchange of opinions with employees is facilitated through various platforms (see stakeholder engagement section) and, in particular, the regularly conducted employee survey “Sag es!” (Say it!). The last employee survey took place in 2017. The results were discussed with staff in workshops in the first quarter of 2018 and specific measures were derived from them.

The average age of employees at 50Hertz is more or less unchanged against the prior year at 43.6.

## AGE

Wage bracket	43.0
AT area	48.3
Senior executives	51.9
Management	50.5





At 50Hertz, protecting the health and safety of employees is the highest priority, as is underscored by the guideline on occupational health and safety, which is binding for all employees. The occupational health and safety area oversees a company-wide occupational safety management system pursuant to OHSAS 18001. The occupational safety management system was again successfully certified according to OHSAS 18001:2007 in November 2017.

## Health and safety

Occupational health and safety and injury and illness prevention are integrated into our corporate strategy and practiced by all employees as they go about their daily business. Every employee is instructed on how to be conscious of hazards, report them immediately and submit suggestions for promoting safe and healthy working conditions. In the fiscal year, occupational health and safety was once again one of the key projects in 50Hertz's business plan. In 2018, the large-scale campaign "gib8" (pay attention) was initiated in order to raise employees' and suppliers' awareness of issues relating to occupational health and safety. By taking specific measures and providing information material, the campaign has a direct impact on potentially endangered areas and addresses a variety of specific target groups. Employees in the professional departments are instructed six times per year, those in the engineering and commercial departments once per year. We also conduct an annual occupational safety competition to further raise the awareness of and motivate our staff. On the one hand, the number of prior-year accidents for each location is taken into consideration and on the other, knowledge on occupational safety is tested and deepened in a practical section that differs every year. The personal protective equipment (PPE) worn by workers is always kept up to date, new PPE is wear tested and the catalogue is adapted in line with the respective requirements.

Occupational health and safety is not limited to our own employees. The stringent 50Hertz standards also apply to contracted companies working on 50Hertz construction sites. During the contracting process and later via IT-supported construction monitoring by specially trained 50Hertz employees, it is ensured that suppliers comply with 50Hertz's strict safety requirements. Special instructions for guaranteeing occupational safety when contracting external companies



for work in the scope of the 50Hertz transmission grid (OAFN) have been transparently and bindingly regulating this since May 2018.

During the 2018 reporting year, 3 reportable accidents occurred at 50Hertz. We therefore met our target for accident rate and accident severity in 2018. With the aim of avoiding future accidents at work, each accident was thoroughly evaluated and measures on occupational safety taken from this and implemented. At 11 in total, the number of work-related accidents in contracted companies declined compared with the prior year. From 1 July 2017, all new contracts at 50Hertz include an agreement for quality assurance on construction sites, including an unrestricted right for 50Hertz to carry out checks. If the required standards are not met, there is a penalty point system as well as an escalation model system. In this connection, further measures for future compliance with safety regulations are set out by binding rules. 1,159 construction site inspections were planned for 2018. With 1,190 inspections (as of December 2018) this target was exceeded.

#### ACCIDENT STATISTICS

	31/12/2016	31/12/2017	31/12/2018
Work-related accidents (with at least 1 day of downtime)	3	6	3
Accident rate <sup>1)</sup>	2.0	4.5	2.0
Accident seriousness <sup>2)</sup>	0.16	0.23	0.02
Number of accidents external companies	21	16	11

<sup>1)</sup> Number of work-related accidents resulting in downtime (24 day) x 1,000,000 /  
Number of hours actually worked.

<sup>2)</sup> Number of days lost due to work-related accidents in calendar days x 1,000 /  
Number of hours actually worked.

The early recognition and prevention of work-related illnesses as well as maintaining the employability of staff are also integral components of occupational health and safety at 50Hertz. To achieve these goals, 50Hertz provides appropriate occupational medical care, which primarily focuses on personal protection and prevention of health risks. In addition, 50Hertz regularly provides all of its employees with occupational medical consultations, vaccinations and advice on ergonomics in the workplace. A qualified and confidential external consultation is made available at all times in the event of personal stress, conflicts or addiction issues. Employees can also participate in various public events like the “Berlin Team Relay race”, the “HSH Nordbank Run” benefiting the children’s charity “Kinder helfen Kindern” (Children helping Children), the bicycle race “Jedermann-Radrennen Cyclastics” in Hamburg or the “Rennsteig-Herbstlauf” run in Thuringia.

## Qualifications

The Company can only reach its corporate goals if the staff is highly qualified and thoroughly informed about current developments. Employees are therefore offered individually tailored education and training opportunities and relevant additional qualifications. Systematic succession planning guarantees that a sufficient number of potentially suitable employees are available for all management positions, and that we can fill vacancies from within the Company whenever possible. To that end, we identify and develop talent – for instance through programmes for “Young Professionals” designed and offered in cooperation with the Elia Group. 50Hertz obtains qualified new talent through our own internal apprenticeship programme, a 24-month trainee programme and by hosting internships and supervising doctoral, bachelor’s, and master’s theses in cooperation with universities and colleges. In 2018, a total of 35 student employees and 5 trainees worked for 50Hertz. Currently, 20 young men and women are completing their industrial or business apprenticeships, which corresponds to a trainee rate of 1.9%. On average, each employee received 11.76 hours of training in the reporting year, excluding regular safety training.

In addition, management staff are offered 50Hertz-specific training modules for developing individual leadership skills. Since 2014, 123 management employees (division, department and team heads) have participated, working cross-departmentally and cross-hierarchically on specific cases from their day-to-day management practice.

## Incentive systems

The remuneration system includes success- and performance-based elements, which offer an incentive for achieving common corporate goals and corresponding individual goals. A number of goals relate to sustainable corporate management, such as compliance with occupational health and safety guidelines or successful social dialogue.

## Remuneration policies

Fair pay for employees and attractive benefits are a matter of course at 50Hertz. The remuneration systems are refined according to need to ensure the Company remains an attractive employer for our staff in future. IG BCE, together with the Employers’ Association of Energy and Supply Companies (Arbeitgeberverband Energie- und Versorgungswirtschaftlicher Unternehmen e.V. – AVEU), negotiates our collective agreements. Fair remuneration based on requirements and performance regardless of gender is supplemented by comprehensive company benefits and the offer of a company pension scheme.

In addition, employees have the option to share in the previous business year's success by means of the Elia Group's stock programme. The year 2018 was the sixth year every employee was offered up to 24 shares at a reduced price. Nearly 58% of eligible employees took advantage of the offer.

50Hertz transparently and voluntarily releases the total earnings of the management team in the consolidated financial statements in detail, listing the fixed and variable overall remuneration, as well as corporate pensions and any other benefits to 50Hertz's management. The features of the remuneration systems are explained with disclosures in the corporate governance declaration.

The factor of compensation of the highest-paid employee to the median annual total compensation for all employees is 8.2.

## Equal opportunities

As a reflection of its convictions and in compliance with the ILO convention 111, 50Hertz is committed to fostering diversity and strictly condemns any discriminatory conduct in all aspects of professional life. All of our employees enjoy equal rights regardless of their ethnic origin, age and gender, their sexual orientation, religious affiliation, political views, national or social origin, or any other factors. In the reporting year, 50Hertz became a member of the German Diversity Charter, a working initiative for fostering diversity in companies and institutions, thus reinforcing an open and appreciative corporate culture.

Equal opportunities for men and women: This goal is part of the "Equality Charter" of the IG BCE, which 50Hertz has signed. The Company feels it is its duty to support the idea of "Fair Share" and strive for a proportion of female employees in our job profiles equal to that outside of the Company. As of 31 December 2018, there was a 9% share of females managers, an almost 17% share at the second management level, a 17% share of supervisory board members and a 0% share in management (20% as of 30 September 2018)<sup>10</sup>. The in-house initiative "50:50 – das Frauennetzwerk" (The Women's Network) works toward promoting the development of personal and professional competence and the presence and influence of women at 50Hertz. The EntgTranspG ["Entgelttransparenzgesetz": German Remuneration Transparency Act] entered into force on 6 July 2017. 50Hertz Transmission GmbH has submitted its first report on equal opportunities and equal pay in the exhibit of the management report as of 31 December 2017.

---

<sup>10</sup> As of 1 January 2019, 50Hertz will once again reach a 20% share of females in management thanks to Sylvia Borchering starting work.

At 50Hertz, fostering diversity and equal opportunity also means giving people with health-related disabilities the same opportunities as people without disabilities. We concluded an inclusion agreement in 2013 with the works council, the spokesmen's committee, and the representative body for disabled employees at 50Hertz, which contains measures aimed at supporting people with disabilities in their working life. An internal inclusion team is charged with implementing and monitoring the agreement. During the fiscal year, the proportion of severely disabled and equivalent employees was 2.3%. In total, 10 employees with restrictions were employed by 50Hertz in the reporting year. This proportion will continue to be gradually increased in accordance with workplace-specific requirements in commercial and technical departments. In 2017, the Company entered into a partnership with the Annedore-Leber Vocational Training Centre and integrated a trainee with disabilities. In the fiscal year, 50Hertz entered into a partnership with AfB gGmbH for the disposal of IT clients' hardware. The renowned inclusion company offers employment to disabled people and contributes to the prevention of further CO<sub>2</sub> emissions by processing and selling used IT equipment.

There were no cases of discrimination in 2018.

## **Codetermination**

50Hertz is not only committed to the freedom of association, collective industrial agreements and the protection of employees' representatives, but also values the trusting and constant cooperation with all codetermination bodies. The supervisory board of 50Hertz comprises six members and is above the equal representation of employee and employer interests as contractually guaranteed by legal requirements. In three supervisory board meetings in 2018, through written reports, and in verbal presentations by the management, the supervisory board was updated about and discussed the current status of our business, our economic situation and the status and development of risks. A spokesmen's committee with information and consultation rights represents the interests of our executives. Our works council is responsible for representing all employees who are covered by collective agreements and all non-pay-scale employees at 50Hertz. A group-wide exchange takes place in the European works council of the Elia Group. During joint activities like the Industrial Group Committee of the Electricity Industry and the Work Group of Network Operators, we actively foster employee interests in the infrastructure networks sector. Furthermore, we regularly send guest speakers and lecturers to educational events hosted by IG BCE. In order to support our employees' union commitment, we offer orientation and information events such as our "Schnupperkurse Mitbestimmung" (trial courses on codetermination). The youth and trainee representation (Jugend- und Auszubildendenvertretung – JAV), which was first established and elected for a two-year term in December 2016, represents the interests of our young employees across the company. JAV works closely with the other codetermination bodies.

## Stakeholder engagement

As part of the materiality analysis process, the 50Hertz stakeholder environment was analysed and defined. The company regularly contacts and exchanges information with these stakeholder groups.

### Stakeholder environment

		Work environment		Finance sector		Environment/ Society						Market							
		Works council	Employees	Mining, chemical energy industrial union	Shareholder	Investor	Rating agencies	Media	Federal Network Agency	Policymakers	Public	Science	NGOs	Citizens' initiatives	Suppliers	Generators	Distribution network operators	Major consumers	Transmission system operators
EXTERNAL	Dialogue formats																		
	Networks work group			✓															
	Electricity industry group committee			✓															
	Guest talks			✓															
	Bankers Day					✓													
	Analysts and investors telephone conferences					✓	✓												
	Financial statement press conference					✓		✓											
	Annual reports				✓	✓	✓		✓	✓	✓	✓	✓						
	Networks state meeting northeast									✓									
	Energy lunch in the network quarter									✓									
	System security conference															✓	✓	✓	✓
	EEC conference																		
	Supplier day														✓				
	Customer day															✓	✓	✓	
	50Hertz art tour										✓								
	Hand-on exhibition										✓								
	Social media							✓			✓								
	Science advisory board											✓							
	University cooperations											✓							
	Dissertations, master's and bachelor's theses											✓							
RGI meeting												✓						✓	
Bird protection conference											✓	✓	✓					✓	
Early public participation									✓	✓			✓						
International visitor groups									✓		✓							✓	
Conference "Controlling load flows, strengthening European electricity trading"																		✓	

When planning and implementing the grid expansion, 50Hertz takes a comprehensive dialogue and participation approach. The involvement of relevant stakeholder groups plays a vital role when it comes to sustainable grid expansion. Firstly, regional and local stakeholder groups are carefully analysed and issues, questions and concerns of those living locally are addressed. For this, 50Hertz follows the VDI 7000 standards. This allows 50Hertz to develop and implement a participation plan together with the region, based on both the standards of early public participation that was a success and the project specifications of each project. In the regions in

which existing capacities are being increased or new transmission substations and lines are being built, the need to inform and involve citizens is varied. 50Hertz want to align itself to the specific needs and engage in dialogue locally. This is the only way to further improve plans, integrate knowledge that is available locally and to involve those affected.

Dialogue with relevant stakeholder groups begins very early in the planning phase of projects. This includes consultations on grid development plans as well as grid enhancement and expansion projects. Dialogue with the affected parties is conducted according to clearly defined requirements, in set formats and by means of a standardised “tool kit”.



\* As part of the consultation on NEP, the 4 transmission system operators are holding information and dialogue events, where selected procedures, methods and used data will be presented for the 1st draft of the NEP. Subsequent to this, opinions about it can be given.



Internal project-related guidelines define the timelines and interplay between project planning, approval, public participation and stakeholder management. This includes comprehensive lessons learned processes, which enable the company to continuously develop the standardised “tool kit” for public participation at 50Hertz. Moreover, 50Hertz participates in the debate on the quality of public participation, for example, in the Alliance for a Diverse Democracy of the Bertelsmann Foundation and as a member of the Dialog-Gesellschaft e.V.

## Cooperations

50Hertz is lead coordinator of the WindNODE joint project, in which over 70 project partners in the northeast German model region are working for four years in total on common solutions for integrating even larger amounts of renewables into the power system as efficiently as possible. The list of participants includes energy supply companies, grid operators and high-tech specialists, but also companies from the automotive industry, the supply and disposal sector, housing and retail enterprises, as well as universities and research institutions in the region. WindNODE encompasses all six northeast German states including Berlin and is under the auspices of the six state premiers and the mayor of Berlin. The companies Siemens and Stromnetz Berlin, as well as economic development agencies Berlin Partner, Energy Saxony and ZukunftsAgentur Brandenburg join 50Hertz in the strategic control of WindNODE. The flexibility platform, an integral part of the project, was trialled in November 2018. This digital purchasing platform enables electricity consumers, electricity producers and storage operators to offer services that are appropriate for the region and flexible in terms of when they are rendered, which ensures that less renewable energy has to be restricted during grid bottlenecks.

A scientific council was established for the purpose of regular exchanges between science and practice. The volunteer committee currently consists of 16 professors from the fields of energy technology, energy industry, energy law and energy policy. The council meets once or twice a year to discuss and assess current topics and future issues relevant to 50Hertz. In 2018, both half-yearly meetings focused on the issues “optimisation of existing grids” and “innovative technologies for the energy transition”. An important aspect of its work is the initiation and execution of joint research and development projects and studies, as well as the supervision of dissertations, bachelor’s and master’s theses. There are plans to also integrate sustainability topics in this dialogue in future.

Beyond this, 50Hertz has worked with a number of universities in the balancing zone for many years. The topics of our joint research deal with, for instance, the voltage quality of extra-high-voltage grids, the operation of three-phase current and direct current on one pylon, the determination of critical conditions in the 50Hertz grid, or the implications of the energy

transition for the economy, politics and society. In addition, we are active at the universities and research institutions by regularly giving practice-oriented lectures, talks and workshops.



For 50Hertz, active lead management and participation in research and development projects are an integral part of innovation management. In diverse cooperations with academic and industry partners, focus is largely placed on activities in the areas of new technology, energy markets and system security, the integration of renewable energies and the required development of the electrical system. Overall, around EUR 2m (prior year: around EUR 3m) was spent on research and development projects in 2018. This was counterbalanced by EUR 0.15m (prior year: around EUR 0.25m) that 50Hertz received in public non-repayable subsidies.

Together with various European environmental associations and other transmission system operators, 50Hertz has founded the Renewables Grid Initiative (RGI), which supports grid expansion for the effective integration of renewable energies across Europe, driving forward the dissemination of innovative consultation practices in the process (further selected memberships within chapter “memberships”).

## Local added value

50Hertz and its subsidiaries are subject to tax. Taxes are used to finance measures and current expenses of regional administration bodies. The different regional administration bodies are then entitled to the revenue generated from the different types of taxes.

As an employer, 50Hertz pays the wage tax for its employees to the tax authorities. This wage tax is recognised under personnel expenses. The federal government primarily levies income and corporate income tax as well as VAT. By means a complicated fiscal equalisation scheme between the regional administration bodies, which is laid down in the financial constitution of German basic law, these taxes partly go indirectly to the regional administration bodies of federal states and communities in 50Hertz's balancing zone. In 2018, 50Hertz paid EUR 40.9m (prior year: EUR 84.5m) in corporate income tax. Further EUR 1,158.3m (prior year: EUR 1,095.4m) VAT and EUR 1,053.3m (prior year: EUR 941.9m) input VAT were incurred.

In addition to these federal taxes, the municipalities also levy real estate tax and trade tax. These taxes go directly to the municipalities. This means that this part of 50Hertz's added value can be directly used in the municipalities of 50Hertz's balancing zone via their households to finance their expenses. In the fiscal year, the 50Hertz Group paid EUR 0.4m (prior year: EUR 0.4m) in real estate tax and EUR 47.9 (prior year: 65.7m) in trade tax.

In its regulations adopted by management, 50Hertz has undertaken not to adopt an "aggressive tax policy" and to pay its taxes on time and in accordance with the law. By making this voluntary commitment in the areas it can influence, 50Hertz has created a framework for sustainably distributing the added value generated. The main beneficiaries of this are structurally weak regions located in 50Hertz's balancing zone.

In 2018, 50Hertz purchased goods and services totalling EUR 921m from companies headquartered in Germany. Of this amount, EUR 141m, or 15.3%, went to companies based in 50Hertz's grid area.

The lower percentage compared to 63% in 2017 is primarily due to awarding the contract for a submarine cable to connect the Ostwind 2 wind farm (Westlich Adlergrund cluster CWA 2) of EUR 542m to a syndicate based in Cologne. This and other orders will be called by the companies in subsequent years as goods delivered and services provided.

## Corporate citizenship

50Hertz supports numerous projects in its grid area, primarily relating to cultural, energy and environmental education as well as youth and social affairs. Clear management and organisational structures have been established for the implementation of our many social

activities. Our Communications and Public Affairs department is responsible for our engagement. The department coordinates with management to set the goals, coordinate the activities and examine inquiries for worthy projects. Our guideline for donations and sponsoring defines our general support principles, assessment criteria and the organisational process transparently and consistently, and is binding for all employees. When granting donations and sponsoring support, it is always ascertained that the cause is commensurate with our corporate values, is geared toward sustainability, offers true added value for our society and the public and follows the defined process.

In the surroundings of the headquarters, the 50Hertz Netzquartier, the Company sees itself as a good corporate citizen, who actively contributes to making the new residential and working district “Europacity” attractive to its residents. The day care centre “Energiebündel” welcomes not only children of 50Hertz employees but youngsters from the neighbourhood as well. Since summer 2017, the “Rundgang 50Hertz” exhibition is held annually in the Netzquartier building. Together with the Hamburger Bahnhof Museum for Contemporary Art in Berlin, outstanding works by graduates of various art academies in the grid area were exhibited. This offered talented young artists a platform for entering the world of the professional art market, making valuable connections and pursuing their career. The project will be continued in 2019.

Specifically educating children and adolescents about the energy transition is of great importance. An interactive exhibit called “Energie gemeinsam wenden” (Changing energy together), developed by 50Hertz and the Independent Institute for Environmental Issues (Unabhängiges Institut für Umweltfragen e.V.) in late 2012, playfully teaches students about different aspects of the energy transition. The interactive exhibit was awarded the title of Project of the UN Decade “Bildung für nachhaltige Entwicklung” (Education for Sustainable Development) by the German UNESCO Commission. In the 2018 reporting year, 1,108 students visited the exhibit.

50Hertz also supports selected projects in its grid area that foster a multi-faceted cultural landscape. As part of the renowned Artist in Residence programme at the Konzerthaus Berlin, the pianist Sir András Schiff was supported. We also supported the Musikfestspiele Mecklenburg-Vorpommern again.

As in prior years, 50Hertz was again actively involved in numerous initiatives, associations and organisations in 2018. Some examples are the Rennsteig-Herbstlauf run in the Thuringian Forest, the Kreisfeuerwehrverband fire services association in Oberlausitz-Spree, the Schulförderverein parent teacher association in Röhrsdorf and the youth chapter for new Volleyball talent of VFB 91 Suhl e.V.

In 2019, 50Hertz plans to compensate for the CO<sub>2</sub> emissions produced by air travel by promoting electrification projects in the Global South.

## Political influence

Because legislative activities have a major impact on the business activities of 50Hertz, the company represents its positions transparently and publicly as part of the political process. This is the responsibility of the Communications and Public Affairs department. This political communication is conducted responsibly and without donations to political parties. Ethical principles for political lobbying were set out. The guidelines on conduct in the political arena, which apply for the whole company and are agreed with the management, define these principles. They stipulate that 50Hertz makes no donations to politicians, parties, or political institutions, and when providing sponsorship ensures appropriate consideration and proper balance. Responsibility for contributions to party-affiliated foundations and associations is embedded centrally in the Communications and Public Affairs department. In this way, together with specific training programmes, 50Hertz ensures that employees who are active in terms of social and energy policy are guided in their communications and their actions by clearly defined principles. Furthermore, 50Hertz is entered in the EU Transparency Register and is committed to its Code of Conduct. In 2018, 50Hertz did not make any contributions to politicians or political parties.

The key laws relevant for sustainability management are described under “Concepts/Due diligence” in the “Responsibility” section. More details on the laws and regulations relevant for the company’s business activities can be found in the management report, in particular under “European law” and “National law” in the section “Regulatory framework for the energy industry”.

## References to related disclosures in the management report

The references below serve to help find topics outside of the consolidated non-financial statement that are also mentioned in the consolidated non-financial statement:

Topics	Reference in other parts of the group management report
Business model	"Corporate information" chapter
Responsibility	"Regulatory framework for the energy industry" in the sections "European law" and "National law"
Risk management	"Risk management system" and "Accounting-related internal control and risk management system" sections
Security	"Technology/infrastructure" section
Cooperations	"Research and development" section
Political influences	"Regulatory framework for the energy industry" in the sections "European law" and "National law"
Health and safety	"Occupational health and safety" and "Opportunities and risks" in the section "Occupational health and safety"
Non-financial key performance indicators	"Occupational health and safety" section Furthermore, non-financial key performance indicators also have an effect on financial performance indicators, which are explained in the "Net assets, financial position and results of operations" chapter.



## **Corporate governance declaration**

### **Increasing the female representation quota in management positions**

At its 48th meeting on 11 September 2015, the supervisory board of 50Hertz Transmission had resolved to have the female representation quota on the supervisory board of 50Hertz Transmission reach 17% and in 50Hertz Transmission's extended management 20% (0% within top management) by 30 June 2017. The target figure for the supervisory board of 50Hertz Transmission was reached in 2018. The quota in the extended management as of 31 December 2018 was not reached due to employees leaving the Company. However, this target figure was achieved again as of 1 January 2019 on account of the Chief Human Resources Officer (CHRO) position being refilled.

On 7 August 2017, the management of 50Hertz Transmission had resolved that the female representation quota in the first management level (division and department heads) below the management was to remain at 10% and in the second management level below (team heads) 16% by 30 June 2022 instead of the 18% it had targeted. As of 30 June 2018, the 10% target for the first management level was just missed at 9%, while the target for the second management level was slightly exceeded at almost 17%. This can be attributed to the setting up of new areas dominated by male employees as well as the constant number of female team heads when there is a higher number of team head vacancies as of the reporting date.

In the medium term, 50Hertz Transmission strives to achieve a fair share in proportion to the talent market, i.e., the representation of women in the typical professions at 50Hertz reflects the quota outside the company.

### **Basic principles of the remuneration system within the Group**

The general managers of Eurogrid GmbH as well as 50Hertz Offshore do not receive any remuneration for their work. At its meeting on 3 January 2017, the management of 50Hertz Transmission resolved to voluntarily disclose additional information regarding the basic principles of remuneration paid to the general managers of 50Hertz Transmission.

In fiscal year 2018, the general managers of 50Hertz Transmission received EUR 2,573,510.47 in consideration, which breaks down as follows:

- Fixed basic salaries EUR 1,088,601.35
- Variable salary components – short-term EUR 312,653.26
- Variable salary components – long-term EUR 758,734.00
- Pension scheme (company pension scheme and direct insurance) EUR 271,496.04
- Other benefits and allowances (including share subscription programme) EUR 142,025.82

The structure and amount of remuneration is reviewed by a committee of the supervisory board of 50Hertz Transmission and determined by the supervisory board of 50Hertz Transmission.

Berlin, 13 February 2019

The management

# Consolidated financial statements for fiscal year 2018

Eurogrid GmbH  
Berlin



## Consolidated income statement

EUR m	Note	2018	2017 (restated*)
Revenue	5.2.1	10,205.2	9,803.3
Cost-matching income	5.1	(8,907.7)	(8,545.7)
Revenue from grid business and other revenue	5.2.1	1,297.5	1,257.6
Other income	5.2.2	67.4	72.3
<b>Total turnover</b>	<b>5.2</b>	<b>1,364.9</b>	<b>1,329.9</b>
Cost of materials and purchased services	5.3.1	(9,681.4)	(9,299.4)
Income-matching cost	5.1	8,907.7	8,545.7
Cost of materials and purchased services, grid business	5.3.1	(773.7)	(753.7)
Personnel expenses	5.3.2	(108.7)	(99.4)
Amortisation, depreciation and write-downs		(161.3)	(149.5)
Changes in provisions		71.7	(0.3)
Other expenses		(7.5)	(4.6)
Result from equity investments accounted for using the equity method	6.5	(0.3)	(0.1)
<b>Earnings before interest and taxes</b>		<b>385.1</b>	<b>322.3</b>
<b>Financial result</b>		<b>(45.6)</b>	<b>(54.3)</b>
Finance income	5.4	2.5	1.9
Finance expenses	5.4	(48.1)	(56.2)
<b>Earnings before taxes</b>		<b>339.5</b>	<b>268.0</b>
Income taxes	5.5	(101.9)	(85.4)
<b>Group profit</b>		<b>237.6</b>	<b>182.6</b>

## Consolidated statement of comprehensive income

EUR m	Note	2018	2017 (restated*)
Group profit for the year		237.6	182.6
Other comprehensive income (OCI):			
<b>Items that will not be reclassified to the income statement in the future:</b>		<b>2.2</b>	<b>1.8</b>
Actuarial gains and losses	5.6	(0.7)	2.6
Deferred taxes on changes recognised directly in equity	5.6	0.2	(0.8)
Changes in fair value of other financial assets designated at fair value through OCI	5.6	2.7	-
Effect from currency exchange	5.6	0.0	-
<b>Other comprehensive income after taxes</b>		<b>2.2</b>	<b>1.8</b>
<b>Total comprehensive income</b>		<b>239.8</b>	<b>184.4</b>

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for fiscal year 2017 have been restated. We refer to note 2 in the attached notes to the condensed consolidated financial statements for more details.

The total comprehensive income disclosed is attributable to Eurogrid International.

**Consolidated statement of financial position**

EUR m	Note	31 Dec 2018	31 Dec 2017
<b>Non-current assets</b>		<b>4,919.7</b>	<b>4,582.7</b>
Property, plant and equipment	6.1	4,826.4	4,484.6
Intangible assets	6.2	59.1	53.7
Trade and other receivables	6.3	0.0	1.0
Other financial assets at fair value through OCI	6.4	27.5	-
Other financial assets at amortised cost	6.4	-	19.4
Investments accounted for using the equity method	6.5	2.7	3.0
Deferred tax assets	6.6	4.0	21.0
<b>Current assets</b>		<b>2,717.9</b>	<b>2,531.2</b>
Inventories		5.0	4.5
Trade and other receivables	6.7	1,133.3	1,117.5
Receivables from income taxes		0.1	0.4
Cash and cash equivalents	6.8	1,577.7	1,406.7
Anticipatory assets	6.7	1.8	2.1
<b>Total assets</b>		<b>7,637.6</b>	<b>7,113.9</b>

EUR m	Note	31 Dec 2018	31 Dec 2017 (restated*)
<b>Equity</b>		<b>1,494.5</b>	<b>1,357.3</b>
Issued capital	6.9	0.0	0.0
Reserves	6.9	1,252.8	1,178.2
Total comprehensive income for the year	6.9	241.7	179.1
<b>Non-current liabilities</b>		<b>3,131.2</b>	<b>3,120.0</b>
Loans	6.10	2,830.9	2,829.3
Provisions for employee benefits	6.11	21.5	18.9
Other provisions	6.12	77.0	119.7
Deferred tax liabilities	6.6	76.7	96.5
Other liabilities	6.13	125.1	55.6
<b>Current liabilities</b>		<b>2,567.4</b>	<b>2,301.2</b>
Loans	6.10	19.7	19.7
Other provisions	6.12	12.6	40.4
Trade payables and other liabilities	6.14	2,438.6	2,151.5
Liabilities from income taxes		91.1	84.4
Anticipatory equity and liabilities	6.15	5.4	5.2
<b>Regulatory items</b>	6.17	<b>444.5</b>	<b>335.4</b>
<b>Total equity and liabilities</b>		<b>7,637.6</b>	<b>7,113.9</b>

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for fiscal year 2017 have been restated. We refer to note 2 in the attached notes to the condensed consolidated financial statements for more details.

**Consolidated statement of changes in equity**

EUR m	Issued capital	Reserves	Total comprehensive income for the year	Total
<b>As of 1 Jan 2017 (as reported)</b>	<b>0.0</b>	<b>1,173.7</b>	<b>122.9</b>	<b>1,296.6</b>
Changes in accounting policy (IFRS 15)*	-	(24.0)	-	(24.0)
<b>As of 1 Jan 2017 (restated)</b>	<b>0.0</b>	<b>1,149.7</b>	<b>122.9</b>	<b>1,272.6</b>
Group profit (restated)	-	-	182.6	182.6
Other comprehensive income (OCI)	-	-	1.8	1.8
<b>Total comprehensive income</b>	-	-	<b>184.4</b>	<b>184.4</b>
Distribution	-	-	(99.7)	(99.7)
Reclassifications	-	28.5	(28.5)	0.0
<b>As of 31 Dec 2017</b>	<b>0.0</b>	<b>1,178.2</b>	<b>179.1</b>	<b>1,357.3</b>

EUR m	Issued capital	Reserves	Total comprehensive income for the year	Total
<b>As of 31 Dec 2017 (as reported)</b>	<b>0.0</b>	<b>1,202.2</b>	<b>178.6</b>	<b>1,380.8</b>
Changes in accounting policies (IFRS 15)*	-	(24.0)	0.5	(23.5)
<b>As of 31 Dec 2017 (restated)</b>	<b>0.0</b>	<b>1,178.2</b>	<b>179.1</b>	<b>1,357.3</b>
Changes in accounting policies (IFRS 9)**	-	(0.2)	5.4	5.2
<b>As of 1 Jan 2018 (restated)</b>	<b>0.0</b>	<b>1,178.0</b>	<b>184.5</b>	<b>1,362.5</b>
Group profit	-	-	237.6	237.6
Other comprehensive income (OCI)	-	-	2.2	2.2
<b>Total comprehensive income</b>	-	-	<b>239.8</b>	<b>239.8</b>
Distribution	-	-	(107.8)	(107.8)
Reclassifications	-	74.8	(74.8)	0.0
<b>As of 31 Dec 2018</b>	<b>0.0</b>	<b>1,252.8</b>	<b>241.7</b>	<b>1,494.5</b>

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for fiscal year 2017 have been restated. We refer to note 2 in the attached notes to the condensed consolidated financial statements for more details.

\*\* The Group has elected to apply the exemption in IFRS 9 under paragraph 7.2.15 relating to transition for classification, measurement and impairment, and, accordingly has not restated comparative periods in the year of initial application. We refer to note 2 in the attached notes to the condensed consolidated financial statements for more details.

Other comprehensive income is explained in more detail in 5.6 Total comprehensive income.

Changes in equity are explained in more detail under section 6.9 Equity.



**Consolidated statement of cash flows**

EUR m	Note	31 Dec 2018	31 Dec 2017 (restated*)
<b><u>Cash flow from operating activities</u></b>			
Group profit		237.6	182.6
<u>Adjusted for:</u>			
Net finance expenses	5.4	45.6	54.3
Income tax expenses	5.5	104.5	183.4
Depreciation of property, plant and equipment and amortisation of intangible assets		161.3	149.6
Gain on the disposal of intangible assets and property, plant and equipment	6.1, 6.2	2.3	0.2
Impairment of current assets		0.5	0.7
Changes in provisions	6.12	(73.4)	0.1
Change in deferred taxes	5.5, 6.6	(12.6)	(98.1)
Share of loss of associates accounted for using the equity method, after tax	6.5	0.3	0.1
		<b>466.1</b>	<b>472.9</b>
Change in inventories		(0.6)	(0.7)
Changes in trade receivables and other receivables	6.7	(15.2)	4.7
Change in trade payables and other liabilities	6.14	345.7	168.7
Change in regulatory items	5.2	106.1	288.9
<b>Change in working capital</b>		<b>436.0</b>	<b>461.6</b>
Interest paid		(62.5)	(60.0)
Interest received		1.6	1.1
Income taxes paid		(88.5)	(125.6)
<b>Cash flow from operating activities</b>		<b>752.7</b>	<b>750.0</b>
<b><u>Cash flow from investing activities</u></b>			
Cash paid for the procurement of property, plant and equipment and intangible assets	6.1, 6.2	(474.6)	(470.4)
Cash received for construction cost subsidies	5.2.1	-	0.3
Cash paid/received for the acquisition of other financial assets measured at fair value through OCI**	6.4	-	(0.2)
Cash received from disposal of other financial assets measured at fair value through OCI**	6.4	-	2.4
Net cash flow from disposals of property, plant and equipment	6.1	0.7	1.6
<b>Cash flow from investing activities</b>		<b>(473.9)</b>	<b>(466.3)</b>
<b><u>Cash flow from financing activities</u></b>			
Distribution	6.9	(107.8)	(99.7)
<b>Cash flow from financing activities</b>		<b>(107.8)</b>	<b>(99.7)</b>
<b>Change in cash and cash equivalents</b>		<b>171.0</b>	<b>184.0</b>
Cash and cash equivalents as of 1 January		1,406.7	1,222.7
Cash and cash equivalents as of 31 December	6.8	1,577.7	1,406.7
<b>Change in cash and cash equivalents</b>		<b>171.0</b>	<b>184.0</b>

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for fiscal year 2017 have been restated. We refer to note 2 in the attached notes to the condensed consolidated financial statements for more details.

\*\*previous year: measured at cost

# Notes to the consolidated financial statements for fiscal year 2018

Consolidated financial statements of Eurogrid GmbH  
Berlin



**Table of contents**

<b>1. Basic information.....</b>	<b>81</b>
<b>2. Basis of presentation.....</b>	<b>81</b>
<b>2.1. Confirmation of compliance with IFRSs.....</b>	<b>81</b>
<b>2.2. Functional and presentation currency .....</b>	<b>89</b>
<b>2.3. Basis of measurement.....</b>	<b>89</b>
<b>2.4. Estimates and judgements.....</b>	<b>90</b>
<b>2.5. Authorisation of the financial statements for issue .....</b>	<b>91</b>
<b>3. Summary of significant accounting policies.....</b>	<b>92</b>
<b>3.1. Basis of consolidation.....</b>	<b>92</b>
<b>3.2. Foreign currency translation.....</b>	<b>93</b>
<b>3.3. Financial instruments .....</b>	<b>93</b>
<b>3.4. Intangible assets.....</b>	<b>96</b>
<b>3.5. Property, plant and equipment.....</b>	<b>96</b>
<b>3.6. Impairment of non-financial assets .....</b>	<b>97</b>
<b>3.7. Inventories.....</b>	<b>97</b>
<b>3.8. Trade receivables.....</b>	<b>97</b>
<b>3.9. Cash and cash equivalents .....</b>	<b>97</b>
<b>3.10. Trade payables.....</b>	<b>98</b>
<b>3.11. Income taxes .....</b>	<b>98</b>
<b>3.12. Pensions and other long-term employee benefits.....</b>	<b>99</b>
<b>3.13. Provisions .....</b>	<b>100</b>
<b>3.14. Regulatory items.....</b>	<b>100</b>
<b>3.15. Grants and subsidies.....</b>	<b>101</b>
<b>3.16. Revenue recognition.....</b>	<b>101</b>

<b>3.17. Leases.....</b>	<b>102</b>
<b>4. Segment reporting .....</b>	<b>103</b>
<b>5. Notes to the income statement .....</b>	<b>107</b>
<b>5.1. Non-profit business .....</b>	<b>107</b>
<b>5.2. Total turnover .....</b>	<b>108</b>
5.2.1 Revenue from the grid business .....	108
5.2.2 Other income .....	109
<b>5.3. Operating expenses.....</b>	<b>109</b>
5.3.1 Cost of materials and services grid business .....	109
5.3.2 Personnel expenses .....	110
<b>5.4. Financial result.....</b>	<b>110</b>
<b>5.5. Income taxes .....</b>	<b>111</b>
<b>5.6. Total comprehensive income .....</b>	<b>112</b>
<b>6. Notes to the statement of financial position .....</b>	<b>113</b>
<b>6.1. Property, plant and equipment.....</b>	<b>113</b>
<b>6.2. Intangible assets.....</b>	<b>114</b>
<b>6.3. Non-current trade receivables and other receivables .....</b>	<b>115</b>
<b>6.4. Other financial assets.....</b>	<b>115</b>
<b>6.5. Equity-accounted investees.....</b>	<b>116</b>
<b>6.6. Deferred taxes .....</b>	<b>117</b>
<b>6.7. Current trade receivables and other receivables (including anticipatory items) .....</b>	<b>119</b>
<b>6.8. Cash and cash equivalents .....</b>	<b>120</b>
<b>6.9. Equity.....</b>	<b>120</b>
<b>6.10. Financial liabilities .....</b>	<b>121</b>
<b>6.11. Provisions for employee benefits .....</b>	<b>122</b>
General description of existing plans in the Group.....	122

Defined contribution plans .....	122
Defined benefit plans.....	123
<b>6.12. Other provisions .....</b>	<b>129</b>
<b>6.13. Other non-current liabilities .....</b>	<b>131</b>
<b>6.14. Trade payables and other liabilities.....</b>	<b>131</b>
<b>6.15. Anticipatory equity and liabilities .....</b>	<b>131</b>
<b>6.16. Financial instruments – fair values.....</b>	<b>132</b>
<b>6.17. Regulatory items .....</b>	<b>134</b>
<b>7. Other notes.....</b>	<b>136</b>
<b>7.1. Financial risk management and factors .....</b>	<b>136</b>
<b>7.2. Capital management.....</b>	<b>139</b>
<b>7.3. Commitment and contingencies .....</b>	<b>141</b>
<b>7.4. Related party disclosures.....</b>	<b>142</b>
<b>7.5. List of shareholdings as of 31 December 2018.....</b>	<b>145</b>
<b>7.6. Subsequent events .....</b>	<b>145</b>
<b>7.7. Auditor's fees in accordance with Sec. 314 (1) No. 9 HGB .....</b>	<b>145</b>
<b>7.8. Exemption options pursuant to Sec. 264 (3)/Sec. 264b HGB.....</b>	<b>145</b>
<b>7.9. Supervisory Board.....</b>	<b>146</b>
<b>7.10. Management.....</b>	<b>146</b>

## 1. Basic information

Eurogrid GmbH, Berlin (“Eurogrid” or the “Company”), is a limited liability company founded in accordance with the law of the Federal Republic of Germany. Via the shareholder Eurogrid International CVBA/SCRL (“Eurogrid International”), Brussels, Belgium, the Belgian transmission system operators Elia System Operator NV/SA (“Elia”) and the Kreditanstalt für Wiederaufbau AöR (“KfW”), have shareholdings in the Company. The ultimate parent is Elia System Operator NV/SA. In fiscal year 2018, Global InfraCo S.à.r.l., Luxembourg, Luxembourg sold its 40% shareholding in Eurogrid International in two steps. Following the transactions Elia obtained control and holds 80% of the share of Eurogrid International as of 31 December 2018. KfW acquired a 20% stake in Eurogrid International. We refer to note 7.4 Related party disclosures for detailed information. Eurogrid GmbH is a Public Interest Entity (PIE) under article 2 No. 13 of the EU Statutory Audit Directive. As a parent company domiciled in Germany, Eurogrid GmbH is required to prepare consolidated financial statements within the meaning of Sec. 315e HGB [“Handelsgesetzbuch”: German Commercial Code]. Eurogrid has its registered office at 10557 Berlin, Heidestrasse 2, and is filed in the commercial register of the Berlin-Charlottenburg district court under HRB 130427 B.

The company established a supervisory board by resolution of its shareholders dated 23 November 2017. The supervisory board contains three members, to be elected by the shareholders of the company.

Eurogrid invests in electric grid infrastructure and holds 100% of the shares in 50Hertz Transmission GmbH. The Group is responsible for the operation, maintenance, planning and expansion of the 380/220 kilovolt transmission grid in eastern Germany, Berlin and Hamburg.

## 2. Basis of presentation

### 2.1. Confirmation of compliance with IFRSs

We complied with the legal obligation to prepare consolidated financial statements and a group management report in accordance with Sec. 290 HGB by preparing consolidated financial statements pursuant to International Financial Reporting Standards (IFRSs) as endorsed by the EU as well as a group management report in accordance with Sec. 315 HGB (Sec. 315e (1) HGB) which is extended by a consolidated non-financial statement (Sec. 315b HGB).

This version of the consolidated financial statements complies with the requirements of Sec. 315e HGB. It represents the legal basis for group accounting according to international financial reporting standards in Germany in conjunction with EC Directive No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the adoption of international



financial reporting standards. The consolidated financial statements comply with all International Financial Reporting Standards (IFRSs) and interpretations of the International Reporting Interpretations Committee (IFRIC) endorsed by the EU. All accounting standards and interpretations whose adoption is mandatory as of 31 December 2018 have been applied. However, as of 31 December 2018, these committees had not yet made a pronouncement on the treatment of regulatory receivables and liabilities.

During the fiscal year Elia obtained control over Eurogrid beside the acquisition of additional 20% of Eurogrid International's stake. Before, the Group already prepared the financial statements in accordance with the uniform accounting policies prepared by the ultimate parent when being consolidated under the equity method. In the context of the changing consolidation method, a group-wide project was set up to harmonise the ways of presenting and structuring the annual financial statements of both groups. There were no changes in the basis of preparation and therefore no restatements of prior-year figures were required.

**New and amended standards and interpretations applied for the first time in fiscal year 2018:**

Standard	Topic	Endorsement date	Application date	Effects on the Group
<b>Amendments to IFRS 2</b>	Classification and Measurement of Share-based Payment Transactions	26 February 2018	1 January 2018	none
<b>IFRS 9</b>	Financial Instruments	22 November 2016	1 January 2018	The new standard has an impact on the Group. For more details see below.
<b>Amendments to IFRS 4</b>	Applying IFRS 9 "Financial Instruments" with "IFRS 4 Insurance Contracts"	3 November 2017	1 January 2018	none

<b>IFRS 15</b>	Revenue from	12 October 2016	1 January 2018	The new standard has an impact on the Group. For more details see below.
	Contracts with Customers			
<b>Amendment to IAS 40</b>	Transfers of Investment Property	14 March 2018	1 January 2018	none
<b>IFRIC Interpretation 22</b>	Foreign Currency Transactions and Advance Consideration	28 March 2018	1 January 2018	none
<b>Annual improvement to IFRS Standards</b>	2014-2016 Cycle	7 February 2018	1 January 2017/ 1 January 2018	none

### Impact of the adoption of new standards

The Group has chosen the full retrospective application of IFRS 15, which implies that comparatives were restated for the effect of IFRS 15.

The Group has elected to apply the exemption in IFRS 9 under paragraph 7.2.15 relating to transition for classification, measurement and impairment, and, accordingly has not restated comparative periods in the year of initial application. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated statement of financial position as of 31 December 2017, but are recognised in the opening statement of financial position on 1 January 2018. In addition, the Group has elected, in accordance with IFRS 9, to recognise changes in fair value of an equity investment that is not held for trading in OCI (aside from dividend income). As a consequence, the impact from the first-time adoption was recognised within OCI.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes are not included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Impact on the consolidated statement of financial position

EUR m	31 Dec 2017 (as reported)	IFRS 15	31 Dec 2017 (restated)	IFRS 9	1 Jan 2018 (restated)
<b>TOTAL ASSETS</b>	<b>7,113.9</b>	-	<b>7,113.9</b>	<b>5.2</b>	<b>7,119.1</b>
<b>Non-current assets</b>	<b>4,582.7</b>	-	<b>4,582.7</b>	<b>5.4</b>	<b>4,588.1</b>
Other financial assets	19.4	-	19.4	5.4	24.8
<b>Current assets</b>	<b>2,531.2</b>	-	<b>2,531.2</b>	<b>(0.2)</b>	<b>2,531.0</b>
Trade and other receivables	1,117.5	-	1,117.5	(0.2)	1,117.3
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>7,113.9</b>	<b>0.0</b>	<b>7,113.9</b>	<b>5.2</b>	<b>7,119.1</b>
<b>Equity</b>	<b>1,380.8</b>	<b>(23.5)</b>	<b>1,357.3</b>	<b>5.2</b>	<b>1,362.5</b>
Reserves	1,202.2	(24.0)	1,178.2	(0.2)	1,178.0
Total comprehensive income for the year	178.6	0.5	179.1	5.4	184.5
<b>Non-current liabilities</b>	<b>3,096.5</b>	<b>23.5</b>	<b>3,120.0</b>	-	<b>3,120.0</b>
Deferred tax liabilities	106.4	(9.9)	96.5	-	96.5
Other liabilities	22.2	33.4	55.6	-	55.6

Impact on the consolidated income statement

EUR m	1 Jan to 31 Dec 2017 (as reported)	IFRS 15	1 Jan to 31 Dec 2017 (restated)
Revenue	9,802.8	0.5	9,803.3
Revenue from grid business and other revenue	1,257.1	0.5	1,257.6
<b>Total turnover</b>	<b>1,329.4</b>	<b>0.5</b>	<b>1,329.9</b>
Earnings before interest and taxes	321.8	0.5	322.3
<b>Earnings before taxes</b>	<b>267.5</b>	<b>0.5</b>	<b>268.0</b>
Income taxes	(85.4)	(0.0)	(85.4)
<b>Group profit</b>	<b>182.1</b>	<b>0.5</b>	<b>182.6</b>

**IFRS 9 Financial Instruments – Impact of adoption**

IFRS 9: Financial Instruments (effective as of 1 January 2018) reflects all phases of the financial instruments project and replaces IAS 39: Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

- Classification and measurement

Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

Equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for these investments. Since future measurement effects will be recognised in OCI the Group has decided to apply the option to present fair-value changes in OCI (FVOCI). The effect of the restatements on the equity shares in non-listed companies is presented below:

Equity shares in non-traded companies

EUR m	Carrying Amount
<b>Closing balance 31 December 2017 – IAS 39</b>	<b>19.4</b>
Reclassification of non-traded equities from available-for-sale to FVOCI	5.4
<b>Opening balance 1 January 2018 – IFRS 9</b>	<b>24.8</b>

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. IFRS 9 does not have an impact on the accounting policies for derecognition of financial assets and liabilities.

- Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12 month- or on a lifetime basis. The Group applies the simplified approach and records lifetime expected losses on all trade receivables.

The valuation allowances for trade receivables as of 31 December 2017 reconcile to the opening valuation allowances on 1 January 2018 as follows:

EUR m	Trade receivables' carrying amount
<b>Closing valuation allowance as of 31 December 2017 calculated under IAS 39</b>	<b>89.2</b>
Amounts restated through opening retained earnings	0.2
<b>Opening valuation allowance as of 1 January 2018 calculated under IFRS 9</b>	<b>89.4</b>

**IFRS 15 Revenue from contracts with Customers – Impact of adoption**

IFRS 15 establishes a new comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18: “Revenue”, IAS 11: “Construction Contracts”, IFRIC 18: “Transfers of Assets from Customers”, and IFRIC 13: “Customer Loyalty Programmes”.

Under IFRS 15, recognised revenue should reflect the consideration received by an entity in exchange for the transfer of control of promised goods or services to customers. The Group used a five-step approach to assess whether a contract falls within the scope of IFRS 15 and how revenue should be recognised.

The only impact of the adoption of IFRS 15 on the Group’s financial situation results from customer contributions. Under IFRIC 18 customer contributions were recognised as revenue at a point in time, whereas under IFRS 15 the cash considerations should be presented as deferred revenue and will be recognised in revenue over the lifetime of the underlying asset.

The financial effects of the first-time adoption of IFRS 15 are disclosed in details above in this chapter.

**Standards, interpretations and amendments to standards that were not yet subject to mandatory adoption in fiscal year 2018 and that have not been early adopted by the Group**

**Endorsed standards**

Standard	Topic	Endorsement date	Application date	Effects on the Group
<b>Amendments to IFRS 9</b>	Prepayment Features with Negative Compensation	22 March 2018	1 January 2019	None
<b>IFRS 16</b>	Leases	31 October 2017	1 January 2019	The new standard will have limited effects on the Group. For more details see below.
<b>IFRIC Interpretation 23</b>	Uncertainty over Income Tax Treatments	23 October 2018	1 January 2019	none

**IFRS 16 “Leases”** (effective 1 January 2019) sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. There are optional exemptions for short-term leases and leases for low-value items for lessees. IFRS 16 replaces IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC-15 “Operating Leases – Incentives” and SIC-27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The interest expense on the liability is required to be recognised separately from the depreciation expense on the right-of-use asset. A lessee is also required to remeasure the lease liability upon occurrence of certain events and recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use.

Lessor accounting remains similar to the current standard.



The Group will adopt IFRS 16 modified retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Comparative information will not be restated. The liability is calculated as the present value of outstanding liabilities / remaining lease payments, discounted using the incremental borrowing rate at the date of transition. The asset is recognised in the amount of the liability. Effects on equity will not be recognised at the date of initial application. Deferred tax assets and liabilities will be recognised in the same amount and offset as the other deferred taxes. The Group will make use of the low value and short term exemptions.

In fiscal year 2018, the Group performed a detailed impact assessment of IFRS 16. The new standard will lead to the recognition of a right-of-use and a corresponding lease liability amounting to EUR 53m as of 1 January 2019. In the income statement there will be a shift from lease expenses previously recognised under operating expenses towards depreciation and interest expenses.

**Standards still not endorsed**

Standard	Topic	Endorsement date	Application date	Effects on the Group
<b>Amendment to IFRS 3</b>	Business Combination	Pending	1 January 2020	none
<b>IFRS 14</b>	Regulatory Deferral Accounts	Endorsement process not launched	unknown	none
<b>IFRS 17</b>	Insurance Contracts	Pending	1 January 2021	none
<b>Amendments to IAS 1 and IAS 8</b>	Definition of Material	Pending	1 January 2020	none or very limited
<b>Amendments to IAS 19</b>	Plan Amendment, Curtailment or Settlement	Pending	1 January 2019	none or very limited
<b>Amendments to IAS 28</b>	Long-term Interests in Associates and Joint Ventures	Pending	1 January 2019	none

<b>Annual improvement to IFRS Standards</b>	<b>2015-2017 Cycle</b>	<b>Pending</b>	<b>1 January 2019</b>	<b>none</b>
<b>Amendments to References to the Conceptual Framework in IFRS</b>		Pending	1 January 2020	none

## 2.2. Functional and presentation currency

The items in the financial statements of each group entity are measured in the currency of the primary economic environment in which the respective entity operates (functional currency). The consolidated financial statements are prepared in euro, which is the functional and presentation currency of Eurogrid GmbH.

Unless otherwise stated, all figures in the notes are presented in millions of euro (EUR m).

Instead of the minus sign, figures are put into brackets. For the figures presented, rounding differences remain irrelevant.

## 2.3. Basis of measurement

The consolidated financial statements were prepared based on historical cost generally recognised in the amount of the fair value of the consideration given in exchange for the asset.

Fair values are determined on the basis of quoted market prices in active markets. If necessary, the values are derived from observed market prices. If there is no active market, fair values are determined using generally accepted valuation techniques on the basis of other observable transactions.

The Group's planning and forecasts show that taking into account expected changes to operating profit, the Group can continue its business operations on the basis of current financing. Management expects the Group to have sufficient liquidity available to continue its business operations in the near future. As a result, the Group prepared the consolidated financial statements assuming the continued existence of the Company as a going concern.

The principal accounting policies adopted are explained below.

## 2.4. Estimates and judgements

Estimates and assumptions are made when preparing the consolidated financial statements. All judgements are reassessed continuously based on experience and expectations as to future events that appear to be appropriate in the circumstances. However, by their very nature, such estimates can only represent an approximation of actual events.

The Group makes estimates and judgements especially when calculating/deriving fair values, measuring fixed assets, calculating and measuring provisions as well as determining deferred revenue in the energy business.

In addition to estimates on the amount of the future expected cash flows, the forecast utilisation, escalation factors and discount rate have a particularly large influence on the measurement of provisions. The interest rates used for discounting are derived from interest rate curves with appropriate maturities taking into account the financing situation of the Group and the market interest rate. Provisions for litigation are subject to uncertainty regarding the outcome of the court case. The Group recognises provisions for pending and contingent litigation proceedings if the outcome is likely to result in an obligation of an uncertain amount.

The useful lives of the fixed assets are chosen so as to obtain the best possible match with the actual depreciation of each asset. Depreciation of property, plant and equipment at 50Hertz Transmission is calculated based on the useful lives recognised by the Federal Network Agency for regulatory purposes; the Group believes that these values represent the best possible approximation of actual events in terms of economic utilisation.

All external borrowings at group level which are actually drawn are included in the calculation of the capitalisation rate used for determining the amount of borrowing costs. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period. The capitalisation ceases in the event of test operation.

When preparing the consolidated financial statements, expenses and income and the corresponding receivables and liabilities in the area of grid-based accounting were determined based on preliminary data provided by third parties and partly based on forecasts. This primarily relates to the settlement of the EEG [“Erneuerbare-Energien-Gesetz”: German Renewable Energy Act] and KWKG [“Kraft-Wärme-Kopplungsgesetz”: German Combined Heat and Power Act] processes, the accounting of the balancing group, grid utilisation as well as the accounting of system services. For a final statement on the actual expenses and income incurred, external data of each partner are decisive, in particular the actual electricity volumes, some of which are only confirmed when the respective certification of the independent auditor has been issued.

Due to the very nature of the activity, these data are not available in their entirety as of the time of preparing the consolidated financial statements, resulting in uncertainties surrounding the amount of expenses and income in these areas. The related items of the consolidated financial statements were determined using the data available as well as relying on estimates and take into account the information available as of the time of preparing the consolidated financial statements.

## **2.5. Authorisation of the financial statements for issue**

The consolidated financial statements were authorised for issue by management on 13 February 2019.

### 3. Summary of significant accounting policies

The principal accounting policies adopted in preparing these consolidated financial statements are presented in the following. The methods described below were consistently applied.

#### 3.1. Basis of consolidation

The consolidated financial statements are prepared in accordance with following consolidation principles.

Generally speaking, all subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities over which Eurogrid has control, from which it receives variable economic returns and can influence the amount of the returns (controlled entities). When determining whether control exists, the existence of any potential voting rights is taken into account. This is not the case within the Group.

Subsidiaries are generally included in Eurogrid's consolidated financial statements (full consolidation) as of the date on which control is transferred to Eurogrid. They are deconsolidated on the date on which Eurogrid ceases to have control. Subsidiaries classified as held for sale are accounted for in accordance with the provisions of IFRS 5.

The purchase method is used to account for acquired subsidiaries. The cost of the business combination corresponds to the fair value of the assets given, the equity instruments issued and the liabilities incurred and assumed as of the date of exchange. Acquisition-related costs are always treated as expenses, regardless of whether they can be directly allocated or not. Identifiable assets, liabilities and contingent liabilities in the course of the business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of non-controlling interests.

The difference between acquisition costs and the pro rata net assets acquired at fair value is recognised as goodwill. If the cost of acquisition is less than the net assets of the subsidiary acquired measured at fair value, the difference is checked again and then recognised directly in profit or loss under other income.

All transactions, balances and unrealised gains resulting from transactions between entities included in the consolidated financial statements of Eurogrid are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The financial statements of the German subsidiaries included in the consolidation are prepared using uniform accounting and measurement methods in accordance with IFRS 10.B87. The accounting policies of subsidiaries were adjusted as appropriate.

Investments in associates are undertakings in which the Group has significant influence but no control. The Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date.

### **3.2. Foreign currency translation**

Transactions in foreign currencies are translated to the functional currency at the rates prevailing at the date of the transaction or at the measurement date for revaluations. Gains and losses from the settlement of such transactions and from the translation at the closing rate of monetary assets and liabilities in foreign currencies are recognised in the income statement unless they are recognised in equity as part of a hedging relationship.

Foreign currency gains and losses resulting from the translation of cash and cash equivalents as well as financial liabilities are generally disclosed in the income statement under financial result.

### **3.3. Financial instruments**

#### Initial recognition and measurement

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus transaction costs.

Financial assets are managed to hold to maturity and to collect contractual cash flows. The financial assets that give rise to cash flows are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities consist of interest-bearing loans and borrowings in the Group. They are recognised initially at fair value less related transaction costs.



### Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets designated at fair value through OCI (equity instruments)

Subsequent to initial recognition, financial liabilities are stated at amortised cost price with any difference between cost price and redemption value being recognised in profit or loss over the period of the loans on an effective interest basis.

#### **Financial assets at amortised cost**

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

#### **Financial assets designated at fair value through OCI (equity instruments)**

Upon initial recognition, the Group irrevocably classifies its equity investments as equity instruments designated at fair value through OCI when the Group does not have significant influence and equity investments are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset. In the latter case, the gains from this are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected irrevocably to classify its non-listed equity investments for which the Group does not have significant influence under this category.

### Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for its debt instruments. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that

result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a valuation allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

IFRS 9 requires the Group to impair financial assets based on a forward-looking expected credit loss (ECL) approach. The Group's trade receivables are subject to this expected credit loss approach. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected valuation allowance for all trade receivables.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for all customers. No segmentation of customers is done as all customers show similar loss patterns. The intercompany trade receivables are excluded as there is no credit risk. In addition, the trade receivables with a pending commercial dispute are excluded to avoid double entry of provisions.

The provision rates are based on the payment profiles of sales over a period of 36 months before 31 December or 1 January of the reporting year respectively and the corresponding historical credit losses experienced within this period. As the Groups' sales and payment profile of its customers is very stable over the years, the Group assesses the historical credit losses as a good proxy for future (expected) credit losses.

Subsequently, a loss given default is calculated as the percentage of the amount of trade receivables that is not covered by a bank guarantee. This percentage is multiplied with the outstanding trade receivables.

#### Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a legal right and intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### Derecognition of financial instruments

Financial assets are derecognised if the rights to cash flows from financial assets have expired or if the right to receive the cash flows has been transferred and the Group has substantially transferred all risks and rewards incidental to ownership.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or is expired.

### 3.4. Intangible assets

Intangible assets are measured at cost upon recognition and amortised over the respective useful life using the straight-line method. Amortisation is based on the following percentages:

Licences	contractual period
Computer software	20.00%-25.00%

Additional impairment losses are recognised, if required.

### 3.5. Property, plant and equipment

Property, plant and equipment are measured at cost. Cost includes any costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended less accumulated depreciation (with the exception of land and assets under construction) and accumulated impairment losses. Costs for easement rights and dismantling are included in the cost of the related item of property, plant and equipment.

All directly allocable costs as well as appropriate portions of overheads are included in the cost of the asset. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset within the meaning of IAS 23 are capitalised as part of the cost of that asset.

The following percentages are used when measuring depreciation. Depreciation on property, plant and equipment is recorded using the straight-line method. Depreciation is generally based on the useful lives prescribed by the regulatory framework and which appropriately reflect the economic usability of the asset.

Administrative buildings	1.67%
Industrial buildings	2.00%
Overhead lines	2.50%
Underground cables	2.50%
Substations (facilities and machines)	2.86%
Remote control	4.00%
Dispatching	4.00%
Other PPE (fitting out rented buildings)	contractual period
Vehicles	2.50 – 20.00%
Office furniture	10.00%
Hardware	25.00 – 33.00%

The residual values and economic useful lives are reviewed at each reporting date and adjusted if necessary. Should the carrying amount of an item of property, plant and equipment exceed its recoverable amount, the carrying amount is adjusted for the impairment loss, accordingly. No use is made of the revaluation method.

### **3.6. Impairment of non-financial assets**

Assets which have an indefinite useful life are not depreciated. They are instead subject to an annual impairment test. Assets which are subject to regular depreciation or amortisation are reviewed for impairment if conditions or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss reflects the excess of the carrying amount over the recoverable amount. The recoverable amount is the higher of fair value of the asset less costs to sell and value in use. For the purpose of impairment testing, assets are summarised at the level of the cash-generating unit. Non-financial assets subject to an impairment loss in the past are reviewed at each reporting date to determine whether a reversal of the impairment is required.

In fiscal year 2018, no impairment losses were recognised on non-financial assets.

### **3.7. Inventories**

Inventories relate to raw materials, consumables and supplies, replacement and spare parts as well as work in process.

Raw materials, consumables and supplies as well as replacement and spare parts are stated at the lower of cost of conversion or net realisable value. As a rule, they are measured at average prices. Net realisable value is the estimated selling price in the ordinary course of business.

Work in process is stated at cost. Cost of conversion does not contain any borrowing costs.

### **3.8. Trade receivables**

Trade receivables relate to the goods and services sold in the Group's core business during the ordinary course of its business.

See note 3.3 Financial instruments for a detailed description of recognition and measurement.

### **3.9. Cash and cash equivalents**

Cash includes cash, checks and bank balances. Cash equivalents are short-term, highly liquid investments that are readily – or within a period of no more than three months – convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are recognised at fair value upon recognition and at amortized cost in subsequent periods.

### **3.10. Trade payables**

Trade payables are payment obligations for the Group relating to the goods or services purchased in the Group's core business during the ordinary course of its business. They are classified under current liabilities if the payment obligation falls due within one year or within the normal business cycle. Otherwise they are recognized under non-current liabilities.

See note 3.3 Financial instruments for a detailed description of recognition and measurement.

### **3.11. Income taxes**

The current tax expense/income is determined on the basis of the taxable income for the year. Taxable income differs from the net profit for the year taken from the income statement as it does not include expenses and income that are never or become only taxable or tax deductible in later years. Liabilities or receivables at Eurogrid from current taxes are calculated on the basis of the applicable tax rates in Germany due to the fact that the Group operates here and generates taxable income.

In accordance with IAS 12, deferred taxes are generally recognised on all temporary differences between the tax carrying amounts and the carrying amounts pursuant to the IFRS financial statements if this results in tax relief or liabilities in the future. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be offset. Deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries are recognised unless the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Expected future tax reductions from loss carryforwards, interest carryforwards and tax credits are recognised if it is likely in the foreseeable future that sufficient taxable income will be generated and offset against unused tax loss carryforwards or tax credits.

Deferred taxes are measured using the tax rates and tax law enacted or substantively enacted by the reporting date and that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax assets and deferred tax liabilities are offset if these income tax claims and liabilities relate to the same tax authority and the same taxable entity. Deferred income tax assets and liabilities are recognised and carried such that – depending on the

treatment of the underlying item – they are recognised either under income taxes through profit or loss or directly in equity in the appropriate equity item.

### **3.12. Pensions and other long-term employee benefits**

The entities included in the Group have both defined benefit and defined contribution plans. A defined benefit contribution plan involves a fixed pension to be paid to an employee upon retirement, which is usually based on one or several factors such as the employee's age, years of service and salary. The provision for defined benefit plans recognised in the statement of financial position corresponds to the present value of the defined benefit obligation (DBO) as of the end of the reporting period, the past service costs less the fair value of the existing plan assets. The DBO is calculated annually by an independent actuary using the projected unit credit method. The present value of the DBO is calculated by discounting the future expected cash outflows using the interest rate on top-rated corporate bonds. The corporate bonds are denominated in the currency in which the benefits are paid and have the same maturities as the pension obligations.

Actuarial gains and losses based on experience adjustments and changes in actuarial assumptions are recorded in other comprehensive income. Past service cost is recognised immediately.

The amounts payable to the pension funds for defined contribution plans are presented under personnel expenses.

The provision for the German phased retirement scheme and for working lifetime accounts is measured in accordance with actuarial reports based on the 2018 G mortality tables from Prof. Dr. Klaus Heubeck using an appropriate discount rate on top-rated corporate bonds.

The provision for long-service bonuses was calculated in accordance with actuarial principles taking into account an appropriate markdown allowing for employee turnover and discount rate on top-rated corporate bonds. It is measured on the basis of the 2018 G mortality tables from Prof. Dr. Klaus Heubeck for the earliest possible age of inclusion for the statutory pension insurance scheme.

Vacation provisions and flextime accounts are measured at the daily rates or the average hourly rate including the social security contributions due.

The covering assets recognised as a result of the insolvency protection of employee entitlements from the provisions for German phased retirement obligations and working lifetime accounts are netted with provisions.

### 3.13. Provisions

Provisions for compensation payments to easement providers, environmental protection measures, dismantling obligations and litigation are recognised when the Group has a present legal or constructive obligation from a past event, it is more likely than not that its settlement will lead to an outflow of resources and the amount of the provision can be determined reliably. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expected cash outflows using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the given obligation. Increases in provisions from unwinding the discount are posted to the income statement as interest expenses.

### 3.14. Regulatory items

The Group is subject to the regulatory framework, which has a direct and significant impact on the grid revenue. Based on the revenue cap determined by the Federal Network Agency for each calendar year relating to the expected or budgeted cost approaches for the regulatory activities of the transmission system operator as well as the permitted returns, there are regularly corrections that are subsequently made to the originally determined revenue cap. In addition to determining and, if necessary, subsequently correcting the revenue cap, the Federal Network Agency also determines other important compensation-related issues for charging in subsequent periods; such subsequent charges are made by specification of or in consultation with the Federal Network Agency.

The IFRS standards and interpretations subject to mandatory application in the EU are not currently applicable to regulatory items; a basis for recognizing the issues described here in the consolidated financial statements is therefore lacking. Referring to IAS 8.10 et seq., management believes that the regulatory items must be included in the consolidated financial statements in order to give a true and fair view of the Group's net assets, financial position and results of operations as this is the only way to provide a basis for the economic decision-making of the users of the financial statements. Failing to present these regulatory items would result in the regulatory framework that is of such importance for the Group as well as the true impact on the economic situation of the Group not being adequately taken into account in the consolidated financial statements.

Regulatory claims and obligations are recognised in these consolidated financial statements. Claims arise if the Group can expect higher grid revenue in future periods as compensation for expenses or losses already incurred; obligations arise if lower grid revenue is expected in future periods as compensation for income or cash inflows already received. The same procedure applies if other expenses and/or income are only compensated for in subsequent periods under



the regulatory framework. The Group is able to very accurately determine the effects of such recalculations on future periods.

Regulatory claims and liabilities are netted and recorded in the statement of financial position on the equity and liabilities side.

The effect of regulatory items on profit and loss is recognised directly in revenue. The corresponding interest effect is included in the financial result.

### **3.15. Grants and subsidies**

Payments from public institutions are handled in such a way that reflects the conditions at which they are granted, depending on whether they are allocated to individual assets or certain purposes. Investment-related grants and expense subsidies are generally amortised over the useful life of the asset concerned.

### **3.16. Revenue recognition**

The IFRS 15 revenue recognition standard, which is applicable as from 1 January 2018, establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The five-steps to consider for each customer contract are as follows:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract(s)
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue when performance obligations are satisfied, or when control of goods or services is transferred to the customer

Revenue from contracts with customers is recognized when performance obligations are fulfilled. As part of its revenue recognition procedures, the Group evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or separate the combined or single contract into multiple performance obligations could change the amount of revenue and profit recognised in a given period.

If a contract is separated into more than one performance obligation, the Group allocates the total transaction price to each performance obligation in an amount based on the estimated

relative standalone selling prices of the promised goods or services underlying each performance obligation.

Variable consideration is estimated at the most likely amount to which the Group expects to be entitled. The Group includes estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved.

The Group adopted IFRS 15 using the full retrospective method of adoption. Further details on the effect of the transition to IFRS 15 are to be found in note 2.1.

Adjusting for the non-profit business, revenue largely results from the transfer of electrical energy via grids, additional services relating to the grid-based business, the establishment and operation of power lines and the related facilities for connecting offshore connection systems to an electricity transmission or distribution grid, regulatory corrections as well as payments for grid connection.

Interest income is recognised using the effective interest method.

### **3.17. Leases**

Leases that substantially transfer all the risks and rewards incident to ownership to the lessee are recognised as finance leases at the lessee pursuant to IAS 17 in conjunction with IFRIC 4.

All other leases that do not transfer the key risks and rewards of ownership of the asset to the Group are recognised as operating leases; payments received or made as part of such agreements are recognised in the income statement in the period they relate to on a straight-line basis over the term of the lease.

#### 4. Segment reporting

Segment reporting is performed in line with the Group's reporting and organisational structure underlying its internal management reporting system. The financial and economic situation of the segments is assessed on this basis and decisions are made on the allocation of resources to the segments.

The chief operating decision-maker for the allocation of resources is Eurogrid's international board of directors. The board of directors has essentially delegated all operating decisions to the management of 50Hertz Transmission/Eurogrid. The management assesses the result of the business segments on the basis of net profit (group profit) of the reporting period. The Supervisory Board is responsible for overseeing the preparation of the consolidated financial statements and the management report in accordance with IFRS.

Segment reporting comprises the reportable segments "Non-profit business" and "Grid business".

The segment "Non-profit business" primarily comprises – based on the EEG and its regulations – the entire purchase and sale of EEG feed-in volumes to the electricity exchange remaining after deliveries to other transmission system operators for settling the burdens nationwide on the transmission system operators stemming from the EEG. The costs not covered by sales revenue are compensated for by levying an annually constant and standard nationwide EEG cost allocation on the electricity distributors. Furthermore, this segment also reports services rendered for third parties if they do not have any impact on profit for the Group, with the exception of any agreed fees for services.

In addition to the settlement of the EEG, this segment also includes the cost allocation procedures in accordance with the KWKG, Sec. 19 (2) StromNEV, Sec. 17e et seq. EnWG as well as in accordance with the AbLaV.

The entire settlement process of this allocation procedure has no impact on the profit and loss and equity of the Group.

The segment "Grid business" primarily comprises grid provision and grid management as well as balancing group management.

The segment figures have been determined in accordance with the accounting policies as described in the paragraphs 1 to 3 of the notes to the consolidated financial statements of the Eurogrid Group. Net profit (group profit) was selected as the segment result.

Segment reporting by business segment for the period from 1 January 2017 to 31 December 2017 (restated\*)

EUR m	Non-profit business	Grid business	Total
Revenue	8,545.7	1,257.6	9,803.3
Other income	-	72.3	72.3
<b>Total turnover</b>	<b>8,545.7</b>	<b>1,329.9</b>	<b>9,875.6</b>
Cost of materials and purchased services	(8,545.7)	(753.7)	(9,299.4)
Personnel expenses	-	(99.4)	(99.4)
Depreciation or amortisation and changes in provisions	-	(149.8)	(149.8)
Other expenses	-	(4.6)	(4.6)
Result from equity investments accounted for using the equity method	-	(0.1)	(0.1)
Net finance expenses	-	(54.3)	(54.3)
Finance income	-	1.9	1.9
Finance expenses	-	(56.2)	(56.2)
<b>Profit before tax</b>	<b>-</b>	<b>268.0</b>	<b>268.0</b>
Income taxes	-	(85.4)	(85.4)
<b>Profit for the year from continuing operations</b>	<b>-</b>	<b>182.6</b>	<b>182.6</b>
<b>Group profit</b>	<b>-</b>	<b>182.6</b>	<b>182.6</b>

## Timing of revenue recognition

At a point in time	8,545.7	1,257.1	<b>9,802.8</b>
Over time	-	0.5	<b>0.5</b>

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for fiscal year 2017 have been restated. We refer to note 2 in the attached notes to the condensed consolidated financial statements for more details.

Segment reporting by business segment for the period from 1 January 2018 to 31 December 2018

EUR m	Non-profit business	Grid business	Total
Revenue	8,907.7	1,297.5	10,205.2
Other income	-	67.4	67.4
<b>Total turnover</b>	<b>8,907.7</b>	<b>1,364.9</b>	<b>10,272.6</b>
Cost of materials and purchased services	(8,907.7)	(773.7)	(9,681.4)
Personnel expenses	-	(108.7)	(108.7)
Depreciation or amortisation and changes in provisions	-	(89.6)	(89.6)
Other expenses	-	(7.5)	(7.5)
Result from equity investments accounted for using the equity method	-	(0.3)	(0.3)
Net finance expenses	-	(45.6)	(45.6)
Finance income	-	2.5	2.5
Finance expenses	-	(48.1)	(48.1)
<b>Profit before tax</b>	<b>-</b>	<b>339.5</b>	<b>339.5</b>
Income taxes	-	(101.9)	(101.9)
<b>Profit for the year from continuing operations</b>	<b>-</b>	<b>237.6</b>	<b>237.6</b>
<b>Group profit</b>	<b>-</b>	<b>237.6</b>	<b>237.6</b>

## Timing of revenue recognition

At a point in time	8,907.7	1,296.5	<b>10,204.2</b>
Over time	-	1.0	<b>1.0</b>

The settlement of the EEG gives rise to interest income and interest expenses for the Group which are refinanced via the EEG cost allocation. These items do not have any impact on profit for the Group and are shown to fully present earnings generated in the operating non-profit business. In the reporting year, this related to interest income of EUR 0.01m (prior year: EUR 1.3m) and interest expenses of EUR 0.6m (prior year: EUR 0.6m). In addition to interest, cross-charges include personnel and other expenses which are allocated to the non-profit business.

All revenue was generated with external customers. Revenue generated with external customers from other countries is immaterial in terms of amount.

Segment reporting by business segment as of 31 December 2017 (restated\*)

EUR m	Non-profit business	Grid business	Total
Non-current assets	-	4,582.7	4,582.7
Current assets	936.7	1,594.5	2,531.2
Non-current liabilities	-	3,120.0	3,120.0
Current liabilities	1,768.2	533.0	2,301.2
Equity and regulatory items	-	1,692.7	1,692.7

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for fiscal year 2017 have been restated. We refer to note 2 in the attached notes to the condensed consolidated financial statements for more details.

Segment reporting by business segment as of 31 December 2018

EUR m	Non-profit business	Grid business	Total
Non-current assets	-	4,919.7	4,919.7
Current assets	882.8	1,835.1	2,717.9
Non-current liabilities	-	3,131.2	3,131.2
Current liabilities	1,912.0	655.4	2,567.4
Equity and regulatory items	-	1,939.0	1,939.0

Of the current assets and liabilities from the non-profit business, EUR 797.4m (prior year: EUR 757.8m) and EUR 1,663.0m (prior year: EUR 1,556.1m) relates to the development of the EEG business, respectively.

## 5. Notes to the income statement

The income statement has been prepared using the cost-summary method.

The following explanations are based on the income statement from the segment reporting.

Total revenue and expenses are presented below and broken down into their components. Segment reporting contains a breakdown of revenue into the segments "Non-profit business" and "Grid business".

### 5.1. Non-profit business

In addition to revenue from the grid business, the Group largely generates income from the non-profit settlement of the EEG and the KWKG, services rendered for third parties, Sec. 19 (2) StromNEV, the offshore liability cost allocation as well as from the cost allocation for interruptible loads. This revenue is matched by expenses of the same amount.

EUR m	2018	2017
EEG income	7,376.9	7,208.7
KWKG income	276.2	303.4
Sec. 19 (2) StromNEV income	253.6	332.8
Other non-operating income	959.6	693.7
Income from the offshore liability cost allocation	36.0	0.7
AbLaV income	5.4	6.4
<b>Cost-matching income</b>	<b>8,907.7</b>	<b>8,545.7</b>
EEG expenses	(7,376.9)	(7,208.7)
KWKG expenses	(276.2)	(303.4)
Sec. 19 (2) StromNEV expenses	(253.6)	(332.8)
Other non-operating expenses	(959.6)	(693.7)
Expenses from the offshore liability cost allocation	(36.0)	(0.7)
AbLaV expenses	(5.4)	(6.4)
<b>Income-matching costs</b>	<b>(8,907.7)</b>	<b>(8,545.7)</b>



## 5.2. Total turnover

Total turnover comprises revenue from the grid business and other income together. This subtotal is not defined under IFRS ("non-GAAP measure") and may not be directly comparable with other companies' adjusted measures.

### 5.2.1 Revenue from the grid business

Revenue from the grid business breaks down as follows:

EUR m	2018	2017 (restated*)
<b>Revenues from contracts with customers</b>	<b>1,403.6</b>	<b>1,546.5</b>
Horizontal grid income national	215.6	194.3
Horizontal grid income international	18.2	15.9
Vertical grid income	1,047.4	1,241.4
Electricity income national	120.8	93.6
Electricity income international	0.6	0.5
Construction cost subsidies	1.0	0.8
<b>Net income from regulatory items</b>	<b>(106.1)</b>	<b>(288.9)</b>
<b>Revenue</b>	<b>1,297.5</b>	<b>1,257.6</b>

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for fiscal year 2017 have been restated. We refer to note 2 in the attached notes to the condensed consolidated financial statements for more details.

Net income from regulatory items portrays the influences on the result for the period resulting from the mechanism of offsetting an increase or decrease in agreed grid revenue. An increase in regulatory claims compensates for expenses already incurred by the Group which will flow back to the Group in subsequent periods via increased grid fees. An increase in regulatory obligations compensates for income already generated by the Group which will lead to a decrease in grid revenue in future periods. A key driver of revenue from the grid business is the inclusion of investments using budget cost estimates in the revenue cap which at the same time are included in the grid fees upon approval of the investment measures.

In fiscal year 2018, the period effects resulting from regulatory items excluding the interest portion led to a EUR 106.1 decrease in consolidated net income (prior year: decrease of EUR 288.9m). Considering the interest portion and a tax rate of 29.58% the recognition of regulatory issues led to a change in group result of EUR -76.8m (prior year: EUR -205.3m).

## 5.2.2 Other income

EUR m	2018	2017
Services and technical expertise	0.5	0.6
Own work capitalised	41.1	37.9
Communication income	2.0	1.6
Sundry other income	23.8	32.2
<b>Total</b>	<b>67.4</b>	<b>72.3</b>

Sundry other income contains no material one-off effects in 2018 (prior year: bonuses for selling of EEG feed-in volumes as well as several one-off effects).

## 5.3. Operating expenses

### 5.3.1 Cost of materials and services grid business

EUR m	2018	2017
Cost of materials	54.2	56.8
<b>Cost of materials</b>	<b>54.2</b>	<b>56.8</b>
Electricity expenses, national	375.0	398.5
Electricity expenses, international	27.9	1.4
Third-party services and other operating expenses	80.6	83.1
Cost of grid utilisation	236.0	213.9
<b>Purchased services</b>	<b>719.5</b>	<b>696.9</b>

Electricity expenses contain the following items:

EUR m	2018	2017
Expenses for system services	27.5	32.8
Expenses to cover grid losses	81.3	66.9
Expenses for measures pursuant to Sec. 13 EnWG	134.4	163.2
Expenses for Sec. 14/15 EEG compensation	59.4	83.4
Expenses for balance energy	23.8	34.6
Expenses for unwanted exchange	1.1	0.4
Expenses for reserve costs	47.5	17.2
<b>Electricity expenses national</b>	<b>375.0</b>	<b>398.5</b>
Expenses for cross-border redispatch	27.9	1.4
<b>Electricity expenses international</b>	<b>27.9</b>	<b>1.4</b>

### 5.3.2 Personnel expenses

Personnel expenses comprise the following components:

EUR m	2018	2017
Salaries and wages	83.9	77.1
Social security contributions	14.1	13.3
Pension and welfare expenses	4.5	4.8
Other personnel expenses	0.4	0.4
Change in personnel provisions	5.8	3.8
<b>Total</b>	<b>108.7</b>	<b>99.4</b>

	2018	2017
Administrative employees	303	295
Technical employees	703	684
<b>Total</b>	<b>1,006</b>	<b>979</b>
Trainees	21	22

Employee figures are calculated on an average basis using the final figures for each quarter.

### 5.4. Financial result

EUR m	2018	2017
<b>Finance income</b>	<b>2.5</b>	<b>1.9</b>
Interest income	1.7	0.7
Other finance income	0.8	1.2
<b>Finance expenses</b>	<b>(48.1)</b>	<b>(56.2)</b>
Interest portion of euro bonds and other interest expenses	(60.4)	(68.1)
Capitalised borrowing costs	17.5	17.2
Interest portion of provisions	(2.1)	(2.6)
Interest portion of regulatory items	(3.1)	(2.7)
Foreign currency translation	(0.0)	(0.0)
<b>Financial result</b>	<b>(45.6)</b>	<b>(54.3)</b>

The total net gains or losses relating to the measurement category “loans and receivables” amount to EUR 0.2m (prior year income: EUR 0.1m). Finance income relating to the measurement category “measured at fair-value through OCI” amounts to EUR 0.8m (prior year “available-for-sale financial assets”: EUR 0.9m).

Interest expenses relating to other financial liabilities (prior year: financial liabilities measured at amortised cost) amount to EUR 60.8m (prior year: EUR 60.8m).

## 5.5. Income taxes

Eurogrid, as the parent of the tax group, concluded a profit and loss transfer agreement with 50Hertz Transmission effective 1 June 2010 and established a consolidated tax group for income tax. The domination and profit and loss transfer agreement in place between 50Hertz Transmission and 50Hertz Offshore since 1 January 2008 still exists with 50Hertz Transmission as the interposed parent.

Income taxes break down as follows:

EUR m	2018	2017 (restated*)
Tax expenses for current year	82.7	151.1
Tax expenses for prior years (prior year: tax income)	21.9	32.8
<b>Current taxes</b>	<b>104.6</b>	<b>183.9</b>
Deferred taxes	(2.7)	(98.5)
<b>Deferred taxes</b>	<b>(2.7)</b>	<b>(98.5)</b>
<b>Taxes recognised in the income statement</b>	<b>101.9</b>	<b>85.4</b>

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for fiscal year 2017 have been restated. We refer to note 2 in the attached notes to the condensed consolidated financial statements for more details.

Deferred tax income of EUR 2.7m (prior year: EUR 98.5m) relates to temporary differences that originated or were reversed in the current year. The following reconciliation presents the differences between the expected tax expense/rate and the disclosed tax expense/rate in the Group:

EUR m	2018	2017 (restated*)
<b>Profit/loss before income taxes</b>	<b>339.5</b>	<b>268.0</b>
Group tax rate	29.58%	29.59%
Expected income taxes	100.4	79.3
Changes in tax rates	(0.1)	0.5
Non-deductible expenses	3.0	3.7
Adjustment for prior years	(0.8)	2.7
Other tax-free income	(0.1)	(0.3)
Other	(0.5)	(0.5)
<b>Effective tax expenses</b>	<b>101.9</b>	<b>85.4</b>

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for fiscal year 2017 have been restated. We refer to note 2 in the attached notes to the condensed consolidated financial statements for more details.

Deferred taxes were calculated using an overall tax rate of 29.58%. The tax rate comprises the corporate income tax rate in Germany of 15.0% plus solidarity surcharge (5.5%) and the trade tax rate of 13.7%, which reflects the weighted levy rate of all the municipalities within Eurogrid's consolidated tax group for 2018.

The difference between the actual tax expenses and the imputed tax expenses is primarily due to trade tax addbacks.

## 5.6. Total comprehensive income

Total comprehensive income comprises all components of the income statement as well as other comprehensive income. Total comprehensive income is the change in equity in a period resulting from business transactions and other events with the exception of changes resulting from business transactions with owners and those presented in the statement of changes in equity.

Other comprehensive income within the Group primarily comprises re-measurements of defined benefit pension plans and related deferred taxes as well as changes in the fair value of other investments.

EUR m	2018	2017
Recognised actuarial gains/losses	(0.7)	2.6
Deferred taxes on changes recognised directly in equity	0.2	(0.8)
Changes in the fair value of other investments	2.7	-
Effect from currency exchange	0.0	-
<b>Total</b>	<b>2.2</b>	<b>1.8</b>

## 6. Notes to the statement of financial position

### 6.1. Property, plant and equipment

Under property, plant and equipment, the Group primarily recognises high-voltage overhead and underground connections as well as substations including transformers.

Prepayments on property, plant and equipment and assets under construction primarily comprise services already rendered for high-voltage grid systems and substations under construction and prepayments thereon.

The development of property, plant and equipment and its key components breaks down as follows:

	Land and buildings	Plant and machinery	Furniture and fixtures, vehicles	Prepayments on property, plant and equipment and assets under construction	Total
EUR m					
<b>Cost</b>					
<b>As of 1 January 2017</b>	<b>211.9</b>	<b>2,885.9</b>	<b>84.2</b>	<b>1,342.2</b>	<b>4,524.2</b>
Additions	3.5	103.0	8.5	355.4	470.4
Disposals	(0.3)	(17.2)	(5.5)	-	(23.0)
Reclassifications	6.6	230.1	10.9	(247.2)	0.4
<b>As of 31 December 2017</b>	<b>221.7</b>	<b>3,201.8</b>	<b>98.1</b>	<b>1,450.4</b>	<b>4,972.0</b>
<b>As of 1 January 2018</b>	<b>221.7</b>	<b>3,201.8</b>	<b>98.1</b>	<b>1,450.4</b>	<b>4,972.0</b>
Additions	3.7	107.5	9.0	374.3	494.5
Disposals	(1.5)	(17.4)	(4.1)	-	(23.0)
Reclassifications	1.6	837.8	7.7	(847.1)	0.0
<b>As of 31 December 2018</b>	<b>225.5</b>	<b>4,129.7</b>	<b>110.7</b>	<b>977.6</b>	<b>5,443.5</b>

	Land and buildings	Plant and machinery	Furniture and fixtures, vehicles	Prepayments on property, plant and equipment and assets under construction	Total
EUR m					
Amortisation, depreciation and impairment					
As of 1 January 2017	(10.4)	(343.6)	(15.2)	-	(369.2)
Depreciation	(3.6)	(120.4)	(15.4)	-	(139.4)
Disposals	0.0	15.7	5.5	-	21.2
As of 31 December 2017	(14.0)	(448.3)	(25.1)	-	(487.4)
As of 1 January 2018	(14.0)	(448.3)	(25.1)	-	(487.4)
Depreciation	(3.6)	(130.2)	(16.1)	-	(149.9)
Disposals	1.2	14.9	4.1	-	20.2
As of 31 December 2018	(16.4)	(563.6)	(37.1)	-	(617.1)

Carrying amount					
As of 1 January 2017	201.5	2,542.3	69.1	1,342.2	4,155.1
As of 31 December 2017	207.7	2,753.5	73.0	1,450.4	4,484.6
As of 1 January 2018	207.7	2,753.5	73.0	1,450.4	4,484.6
As of 31 December 2018	209.1	3,566.1	73.6	977.6	4,826.4

Borrowing costs totalling EUR 17.5m (prior year: EUR 17.2m) were recognised in the fiscal year in accordance with IAS 23. The weighted average interest rate amounted to 1.254% (prior year: 1.291%).

## 6.2. Intangible assets

Intangible assets break down as follows:

	Software	Licenses	Total
EUR m			
Cost			
As of 1 January 2017	51.6	33.3	84.9
Additions	8.0	0.0	8.0
Disposals	(0.2)	-	(0.2)
Reclassifications	(0.5)	0.1	(0.4)
As of 31 December 2017	58.9	33.4	92.3
As of 1 January 2018	58.9	33.4	92.3
Additions	16.9	0.0	16.9
Disposals	(0.4)	-	(0.4)
Reclassifications	0.0	-	0.0
As of 31 December 2018	75.3	33.4	108.7



	Software	Licenses	Total
EUR m			
Amortisation, depreciation and impairment			
As of 1 January 2017	(19.0)	(9.6)	(28.6)
Amortisation	(8.7)	(1.5)	(10.2)
Disposals	0.2	-	0.2
As of 31 December 2017	(27.5)	(11.1)	(38.6)
As of 1 January 2018	(27.5)	(11.1)	(38.6)
Amortisation	(10.0)	(1.4)	(11.4)
Disposals	0.4	-	0.4
As of 31 December 2018	(37.1)	(12.5)	(49.6)

Carrying amount			
As of 1 January 2017	32.6	23.7	56.3
As of 31 December 2017	31.4	22.3	53.7
As of 1 January 2018	31.4	22.3	53.7
As of 31 December 2018	38.2	20.9	59.1

As of 31 December 2018, there were no indications of existing or potential impairment. No internally generated intangible assets were recognised. The average residual useful life of software is 3.6 years, for licenses 14.9 years.

### 6.3. Non-current trade receivables and other receivables

The loan issued to GridLab (prior year: EUR 1.0m) was fully repaid during the fiscal year.

### 6.4. Other financial assets

EUR m	2018	2017
Other investments	27.5	19.4
<b>Total</b>	<b>27.5</b>	<b>19.4</b>

The Group holds shares in EEX of a total value of EUR 26.7m as of the reporting date. These shares are disclosed under other investments as well as a 4.6% shareholding in JAO Joint Allocation Office S.A., Luxembourg, Luxembourg, a 7.9% shareholding in CORESO SA, Brussels, Belgium, a 7.7% shareholding in TSCNET Services GmbH, Munich, Germany, and a 10.4% shareholding in the foundation Stiftung Kurt-Sanderling-Akademie des Konzerthausorchesters Berlin, Berlin, Germany.

Other investments are measured at fair value. At each reporting date, a re-measurement is done to reevaluate these investments. Any deviation from the previous period is recorded under other comprehensive income.

## 6.5. Equity-accounted investees

50Hertz Transmission holds slightly less than 50%, or approximately EUR 2.5m, of the Elia Grid International NV/SA, Brussels, Belgium share capital.

The following table summarises the financial information of the investment, based on its IFRS financial statements, and reconciliation with the carrying amount of the Eurogrid Group's interest in the consolidated financial statements of Elia Grid International NV/SA.

EUR m	Elia Grid International NV/SA	
	31 Dec 2018	31 Dec 2017
<b>Shareholding in %</b>	<b>49.99</b>	<b>49.99</b>
Non-current assets	0.4	0.9
Current assets	27.2	20.1
Non-current liabilities	0.0	0.0
Current liabilities	22.3	15.0
Equity	5.3	6.0
<b>Investment carrying amount</b>	<b>2.7</b>	<b>3.0</b>

EUR m	2018	2017
Revenue and other income	9.5	13.2
<b>Profit before tax</b>	<b>(0.1)</b>	<b>0.2</b>
Income taxes	(0.5)	(0.3)
<b>Net profit for the year</b>	<b>(0.6)</b>	<b>(0.1)</b>
Total comprehensive income	(0.6)	(0.1)
<b>Dividends received from associates</b>	<b>0.0</b>	<b>0.0</b>

## 6.6. Deferred taxes

Deferred tax assets and liabilities are presented in the following tables:

EUR m	2018		2017 (restated*)	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	0.0	-	0.0	-
Property, plant and equipment	2.0	(145.4)	2.0	(159.6)
Other receivables and assets	1.6	-	1.9	(0.1)
Interest-bearing loans and other financial liabilities	-	(2.7)	-	(3.2)
Employee benefits	4.9	-	4.2	-
Provisions	23.4	-	39.8	0.1
Anticipatory liabilities	9.4	(2.9)	9.9	(3.5)
Regulatory items	19.6	-	18.1	-
Off-balance corrections	17.2	-	14.5	-
Other items	0.2	-	0.5	-
<b>Deferred tax assets/liabilities before netting</b>	<b>78.3</b>	<b>(151.0)</b>	<b>90.9</b>	<b>(166.4)</b>
Offsetting	(74.3)	74.3	(69.9)	69.9
<b>Deferred tax assets/liabilities after netting</b>	<b>4.0</b>	<b>(76.7)</b>	<b>21.0</b>	<b>(96.5)</b>

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for fiscal year 2017 have been restated. We refer to note 2 in the attached notes to the condensed consolidated financial statements for more details.

In 2018 deferred tax assets of EUR 74.3m (prior year: EUR 69.9m) are netted with deferred tax liabilities. Deferred tax assets on off-balance corrections of EUR 17.2m were recognised in 2018 (prior year: EUR 14.5m). Temporary differences in accordance with IAS 12.81(f), for which no deferred tax liabilities were recognised, amount to EUR 0.2m (prior year: EUR 1.6m). All deferred taxes are non-current.

The Group does not have any unused corporate income tax or trade tax losses.

EUR m	As of 1 January	Recognised in the income statement	Recognised in OCI	As of 31 December
<b>2017 (restated*)</b>				
Intangible assets	0.0	-	-	0.0
Property, plant and equipment	(150.4)	(7.2)	-	(157.6)
Other receivables and assets	2.3	(0.5)	-	1.8
Interest-bearing loans and other financial liabilities	(3.6)	0.4	-	(3.2)
Employee benefits	4.5	0.5	(0.8)	4.2
Provisions	21.8	18.1	-	39.9
Anticipatory liabilities	5.8	0.5	-	6.3
Regulatory items	(55.9)	74.0	-	18.1
Off-balance corrections	1.7	12.8	-	14.5
Other items	0.6	(0.1)	-	0.5
<b>Total</b>	<b>(173.2)</b>	<b>98.5</b>	<b>(0.8)</b>	<b>(75.5)</b>
<b>2018</b>				
Intangible assets	0.0	-	-	0.0
Property, plant and equipment	(157.6)	14.2	-	(143.4)
Other receivables and assets	1.8	(0.1)	-	1.6
Interest-bearing loans and other financial liabilities	(3.2)	0.5	-	(2.7)
Employee benefits	4.2	0.5	0.2	4.9
Provisions	39.9	(16.5)	-	23.4
Anticipatory liabilities	6.3	0.2	-	6.5
Regulatory items	18.1	1.5	-	19.6
Off-balance corrections	14.5	2.7	-	17.2
Other items	0.5	(0.3)	-	0.2
<b>Total</b>	<b>(75.5)</b>	<b>2.7</b>	<b>0.2</b>	<b>(72.7)</b>

Of the deferred tax assets and liabilities recognised, a total of EUR 1.6m (prior year: EUR 1.5m) was recorded in total comprehensive income within OCI. These deferred taxes relate to the actuarial gains and losses for defined pension obligations and similar obligations.

## 6.7. Current trade receivables and other receivables (including anticipatory items)

EUR m	2018	2017
Trade receivables	963.0	920.4
Prepayments	5.9	0.4
VAT and other taxes	19.9	6.5
Other	144.6	190.3
Anticipatory items	1.8	2.1
<b>Total</b>	<b>1,135.2</b>	<b>1,119.7</b>

Trade receivables are due within 12 months.

Other receivables primarily comprise claims in connection with the settlement of the cost allocations as well as margins at EEX, Nordpool and EXAA electricity exchanges.

The maturities of trade receivables and prepayments break down as follows:

EUR m	2018	2017
Not past due	924.8	806.2
0 to 30 days past due	6.8	3.6
31 to 60 days past due	0.9	7.3
61 days up to one year past due	3.7	1.1
More than one year past due	33.0	102.6
<b>Total (excluding valuation allowances)</b>	<b>969.2</b>	<b>920.8</b>
Doubtful debts	168.4	89.2
Valuation allowances	(168.4)	(89.2)
Provision for expected credit losses	(0.3)	-
<b>Total</b>	<b>968.9</b>	<b>920.8</b>

Trade receivables and prepayments of EUR 968.9m (prior year: EUR 920.8m) were fully recoverable as of 31 December 2018. Trade receivables past due by less than two months are not regarded as impaired by the Company. As of 31 December 2018, trade receivables of EUR 44.4m (prior year: EUR 114.6m) in total were past due but not impaired. The EUR 69.6m decrease in more than one year overdue receivables is primarily attributable to individual transactions from the settlement of the EEG. For non-impaired trade receivables, there were no indications of an urgent need for impairment. The maximum credit exposure on the reporting date corresponds to the recorded net value of the receivables.

The Group's exposure to credit and currency risks, and expected credit losses related to trade and other receivables are shown under chapter 7.1. "credit risk" at the end of the notes.

The Group received security deposits of EUR 3.1m (prior year: EUR 2.6m).

All impairments were accounted for by means of specific bad debt allowances.

## 6.8. Cash and cash equivalents

Cash and cash equivalents relate to bank balances, largely in the form of overnight or weekly deposits.

EUR m	2018	2017
Call deposits	1,332.5	1,278.2
Balance at bank	245.2	128.5
<b>Total</b>	<b>1,577.7</b>	<b>1,406.7</b>

Balance at bank contains restricted cash which primarily relates to a prepayment received on EU funding (EUR 0.1m; prior year: EUR 0.1m). The consortium, which is responsible for the joint development of the subsidised project, is responsible for managing these funds. With a proportional share of 75%, 50Hertz is a part of this consortium and manages the syndicate account. However, the Group may only have free access to its share of the funds at a later date; as a result, a current liability due to the EU and the consortium partner was recognised in the same amount.

## 6.9. Equity

The share capital of Eurogrid is fully paid in, comprises one capital share and amounts to EUR 25,000. The share is wholly held by Eurogrid International.

Changes in equity as well as comprehensive income are presented separately in the statement of changes in equity and the statement of comprehensive income.

Reserves comprise capital reserves and retained earnings.

In 2018, there was an amount remaining from the net profit of the Group for 2017 (EUR 182.6m) of EUR 74.8m in the revenue reserves following a distribution to Eurogrid International in fiscal year 2018 of EUR 107.8m (prior year: EUR 99.7m).

For fiscal year 2018, there was a consolidated net income of EUR 237.6m.

Deferred taxes recorded directly in equity relate to the effect from the measurement of the pension provisions recognised in comprehensive income.

EUR m	2018	2017
Actuarial gains/losses recognised in other comprehensive income	(5.6)	(4.9)
Deferred taxes	1.6	1.5
Changes in fair value of other financial assets designated at fair value through OCI	8.1	-
Effect from currency exchange	0.0	-
<b>Accumulated amounts recognised in other comprehensive income</b>	<b>4.1</b>	<b>(3.4)</b>

We refer to the Group's statement of changes in equity and the statement of comprehensive income.

## 6.10. Financial liabilities

The composition of financial liabilities is presented in the following table:

EUR m	2018	2017
Bonds	2,680.9	2,679.3
Liabilities to banks	150.0	150.0
<b>Loans</b>	<b>2,830.9</b>	<b>2,829.3</b>
Deferred interest	19.7	19.7
<b>Total current financial liabilities</b>	<b>19.7</b>	<b>19.7</b>
<b>Total</b>	<b>2,850.6</b>	<b>2,849.0</b>

In fiscal year 2018, EUR 59.4m were paid for liabilities to banks and bonds.

Information concerning the terms and conditions of the outstanding interest-bearing loans and borrowings is given below:

(EUR m)	Maturity	Nominal value	Carrying amount	Interest rate
Bond as part of Euro Medium Term Note program 2010	2020	500	499.1	3.875% p.a. (fixed)
Bond as part of Debt Issuance Programme 2015	2025	500	497.6	1.875% p.a. (fixed)
Bond as part of Debt Issuance Programme 2015	2023	750	748.4	1.625% p.a. (fixed)
Bond as part of Debt Issuance Programme 2015	2030	140	139.1	2.625% p.a. (fixed)
Bond as part of Debt Issuance Programme 2016	2028	750	746.7	1.500% p.a. (fixed)
Registered bond 2014	2044	50	50.0	3.000% p.a. (fixed)
<b>Total</b>		<b>2,690.0</b>	<b>2,680.9</b>	

Information concerning the contractual maturities of the Group's interest-bearing loans and borrowings (current and non-current) is given in detail in the chapter 7.1. Financial risk management and factors.



All bonds are placed on the Luxembourg Stock Exchange and measured at amortised cost using the effective interest method. The fair value of bonds presented under financial liabilities is disclosed in note 6.16.

The non-current liabilities to banks relate to a syndicated loan agreement.

Information concerning the maturity profile of the Group's financial liabilities based on contractual undiscounted payments is given in note 7.1. Liquidity Risk.

## **6.11. Provisions for employee benefits**

### **General description of existing plans in the Group**

In addition to the benefits provided by state pension insurance institutions and private pension provision, there are also company pension benefits in place for employees in the Group. Company pensions are based on collective bargaining and works agreements as well as on individual contract regulations. In place are defined benefit and contribution obligations, which grant old age, disability and surviving dependants' pensions.

### **Defined contribution plans**

In the case of externally financed defined contribution plans, the Company's obligation consists solely of paying the contributions. For those defined contribution plans recognised in the form of direct guarantees there are pledged congruent employer's liability insurance policies in place.

The defined contribution plans which are financed via a congruent reinsured benefit fund and congruent reinsured direct guarantees grant old age, disability and surviving dependants' pensions.

Following defined contribution plans exist in the Group:

### **Pension obligations for executives as a result of the agreement with the spokesmen of officers from 2003**

This relates to individual contractual pension obligations based on an agreement with the spokesmen of officers in the version from 10 November 2015 valid as of 1 January 2015.

**Pension obligations for executives as a result of the agreement with the spokesmen of officers from 19 August 2008**

This relates to individual contractual pension obligations based on an agreement with the spokesmen of officers on a company pension plan with the Vattenfall Europe Group on 19 August 2008 in the version from 10 November 2015 valid as of 1 January 2015.

**Collective bargaining agreement on the company pension scheme**

This relates to pension obligations based on the collective bargaining agreement on 50Hertz Transmission's company pension scheme on 28 November 2007. These only apply to employees that had joined the Company by 31 December 2006.

**Direct insurance**

This relates to direct insurance policies for all former employees that worked at Vereinigte Energiewerke AG (VEAG) from 1993 to 31 December 2004, with the exception of managers.

**Individual commitments**

There are individual commitments in place which are financed exclusively by external pension funds (welfare fund and pension fund).

**Defined benefit plans**

Defined benefit plans give rise to direct pension claims of the employees against the Company; provisions are recognised in the statement of financial position for this purpose. If plan assets are created, which solely serve to fulfil pension obligations, the amount is offset against the present value of the obligation.

For one individual contractual obligation, a plan asset was recognised in the form of a congruent, pledged employer's liability insurance policy.

The following defined benefit plans exist in the Group:

**Group works agreement on the company pension scheme**

In accordance with the group works agreement on the company pension scheme, employees are granted a company pension plan on the basis of a defined contribution plan (effective 1 January 2007). This agreement applies to all employees within the meaning of Sec. 5 (1) BetrVG ["Betriebsverfassungsgesetz": German Works Constitution Act] and joined the Company on or after 1 January 2007. Participation in the scheme is voluntary. The scheme grants pension benefits upon reaching the statutory retirement age, upon taking early retirement from

the statutory pension insurance, in the event of occupational disability as well as in the event of death. Current pension benefits are increased by 1% p.a.

The scheme is based on a defined building block approach and comprises:

- Building block A: Employee contribution
- Building block B: Employer's contribution
- Building block C: Additional employee contribution

### **Individual contractual and other contribution plans**

Individual contractual contribution plans are in place for management board members and executives. These include old age, disability and surviving dependants' pensions. The contribution plans are based on the 1996 pension scheme for head management ["Ruhegeldordnung leitender Führungskreis 1996"] from 10 May 1996 as well as on pension agreements with individual employees. They all relate to pension obligations that depend on years of service and remuneration. Plan assets were recognised for one of these commitments in the form of a pledged pension insurance policy. These plan assets solely serve to fulfil pension obligations; the present value of the corresponding obligation was therefore offset against the plan assets. Pension obligations also still exist for individual employees that were acquired as a result of their employment at Vattenfall Europe (e.g., 1991 pension scheme, additional regulation to the old-age and life provident scheme for pension fund members).

### **TVV Energie**

This relates to direct guarantees resulting from the collective bargaining agreement from 16 October 1992 (collectively bargained agreement on the termination of the collectively bargained agreement on the company's additional agreement concerning the AVEU's ["Arbeitgeberverband energie- und versorgungswirtschaftlicher Unternehmen"] tariff category "energy" (TVV Energie) dated 20 July 1990/9 October 1990/8 November 1990. This pension plan was closed for new hires from 1 January 1993. These contribution plans apply to employees that worked at Vereinigte Energiewerke AG until 30 November 2001 and whose vested benefits are allocable to Vattenfall Europe Transmission GmbH upon its formation (now 50Hertz Transmission GmbH). This relates to pension obligations that depend on years of service and remuneration and that grant old age and disability pensions, but none for surviving dependants. The indexation of current post-employment benefits due for the first time after 1 January 1993 is not possible.

The Group also has following obligations that are included under other personnel obligations:

- Obligations for long-service benefits
- Obligations from German phased retirement schemes
- Obligations for working lifetime accounts.

Not all of these benefits are funded and, in accordance with IAS 19, these post-employment benefits are classified as defined-benefit plans.

Existing plan assets serve only to fulfil pension commitments and are not available to creditors even in the event of insolvency. For this reason, the present value of the obligation is offset against the value of the plan assets.

The total net liability for employee-benefit obligations contains:

EUR m	2018	2017
Defined benefit plans	20.6	18.3
Post-employment benefits other than pensions, thereof:	2.3	2.0
<i>Obligations from German phased retirement schemes</i>	-	(0.0)
<i>Obligations for long-service benefits</i>	0.7	0.8
<i>Obligations from working lifetime accounts</i>	1.6	1.2
<b>Total provisions for employee benefits</b>	<b>22.9</b>	<b>20.3</b>

Of the total obligation, an amount of EUR 1.4m is current (prior year: EUR 1.3m).

In the following tables, details are given of the outstanding provision for employee benefits, with the split between pension cost ("Pensions") and non-pension costs ("Other"), which encompasses German phased retirement schemes, long-service benefits and working lifetime accounts.

EUR m	Pensions		Other	
	2018	2017	2018	2017
Present value of defined benefit obligation	(20.7)	(18.4)	(19.9)	(16.1)
Fair value of plan assets	0.1	0.1	17.6	14.2
<b>Amount recognised</b>	<b>(20.6)</b>	<b>(18.3)</b>	<b>(2.3)</b>	<b>(1.9)</b>
<b>Net obligation</b>	<b>(20.6)</b>	<b>(18.3)</b>	<b>(2.3)</b>	<b>(1.9)</b>

**Movement in the present value of the defined benefit obligation**

EUR m	Pensions		Other	
	2018	2017	2018	2017
<b>As of 1 January</b>	<b>(18.4)</b>	<b>(19.6)</b>	<b>(16.1)</b>	<b>(13.2)</b>
Current service cost	(1.9)	(1.8)	(3.6)	(2.9)
Interest expenses	(0.3)	(0.3)	(0.3)	(0.2)
<u>Gains/losses recognized in other comprehensive income</u>				
Change in actuarial parameters:				
1) Change in financial assumptions	0.9	0.6	-	-
2) Change from experience adjustments	(1.1)	2.0	-	-
3) Demographic changes	(0.5)	-	-	-
Benefits paid	0.6	0.7	0.1	0.2
<b>As of 31 December</b>	<b>(20.7)</b>	<b>(18.4)</b>	<b>(19.9)</b>	<b>(16.1)</b>

**Movement in the fair value of the plan assets**

EUR m	Pensions		Other	
	2018	2017	2018	2017
<b>As of 1 January</b>	<b>0.1</b>	<b>0.1</b>	<b>14.2</b>	<b>12.4</b>
Employer payments	0.0	0.0	3.6	2.1
Benefits paid	(0.0)	(0.0)	(0.2)	(0.3)
<b>As of 31 December</b>	<b>0.1</b>	<b>0.1</b>	<b>17.6</b>	<b>14.2</b>

All plan assets comprise insurance agreements.

The plan asset for one individual contractual obligation under a defined benefit plan discloses an actual return of 4.70%.

**Amounts recognised in the statement of comprehensive income**

EUR m	Pensions		Other	
	2018	2017	2018	2017
<b>Service cost</b>				
Current service cost	(1.9)	(1.8)	0.0	(0.9)
Benefits paid	0.6	0.6	0.1	0.2
Utilisations	0.0	(0.0)	(0.2)	(0.3)
<b>Net interest expense</b>	(0.3)	(0.3)	(0.3)	(0.2)
<b>Amounts recognised in the income statement</b>	<b>(1.6)</b>	<b>(1.5)</b>	<b>(0.4)</b>	<b>(1.2)</b>
<b>Actuarial gains/losses</b>				
1) Change in financial assumptions	0.9	0.6	-	-
2) Change from experience adjustments	(1.1)	2.0	-	-
3) Demographic changes	(0.5)	-	-	-
<b>Remeasurements of net defined benefit liability/asset recognised in other comprehensive income (OCI)</b>	<b>(0.7)</b>	<b>2.6</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>(2.3)</b>	<b>1.1</b>	<b>(0.4)</b>	<b>(1.2)</b>

Actuarial gains and losses from defined benefit plans for pensions are accrued and recognised in full. They are recognised outside of the income statement in the statement of comprehensive income.

Defined contribution plans are expected to amount to EUR 3.7m in 2019 (prior year: EUR 2.8m). No amounts are expected for defined benefit plans (prior year: none).

**Breakdown of defined benefit obligations**

EUR m	2018	2017
<b>By type of plan participants:</b>	<b>(40.6)</b>	<b>(34.5)</b>
Active plan participants	(30.7)	(24.4)
Terminated plan participants with defined benefit entitlement	(0.3)	(0.2)
Retired plan participants and beneficiaries	(9.6)	(9.9)
<b>By type of benefits:</b>	<b>(40.6)</b>	<b>(34.5)</b>
Retirement and death benefits	(20.7)	(18.4)
German phased retirement schemes	(0.0)	(0.0)
Working lifetime accounts	(19.2)	(15.3)
Long-service awards	(0.7)	(0.8)

## Risks

The Group is exposed to various risks: falling interest rates, an increase in life expectancy as well as rising wages and salaries cause the defined benefit obligations to increase. There are no concentrations of risk.

## Actuarial parameters

(as % unless stated otherwise)	2018	2017
Discount rate	2.00	1.75/0.00 (ATZ) *
Future expected wage and salary increase	3.75	3.35/2.00 (ATZ) *
Expected inflation rate	2.00	2.00
Expected increase in social security costs	2.25	2.25
Future expected pension increase	0.0/1.0/2.0	0.0/1.0/2.0
Average retirement age (in years)	65	65
Biometrics	2018 G Heubeck mortality tables	2005 G Heubeck mortality tables
Life expectancy for a 65-year-old on 31 December (in years):		
male	85.10	84.30
female	88.60	88.36

\*ATZ = Altersteilzeit (phased retirement)

In 2018 Heubeck issued new mortality tables. The first time application of the updated biometrics led to an increase of DBO amounting to EUR 0.5m. These effects were recognised within OCI.

## Sensitivity analysis

EUR m	Effect on defined benefit obligation	
	Increase	Decrease
Discount rate (+/- 0.5%)	(4.3)	4.9
Wage and salary increase (+/- 0.5%)	1.4	(0.2)
Pension increase (+/- 0.25%)	0.3	(0.3)
Life expectancy of a pensioner (+1 year), male and female	1.0	-



## Maturity of defined benefit obligations

The average term of defined benefit plans is 23.9 years. The maturities of the benefit payments break down as follows:

EUR m	< 12 months	1-5 years	6-10 years	> 10 years
Pensions	0.6	2.3	2.9	29.1

## 6.12. Other provisions

Other provisions break down as follows:

EUR m	2018	2017
Provisions for environmental protection measures	1.4	1.8
Provision for GBBerG	6.0	51.5
Provision for dismantling obligations	69.5	66.3
Provision for archiving costs	0.1	0.1
<b>Other non-current provisions</b>	<b>77.0</b>	<b>119.7</b>
Provisions for environmental protection measures	0.7	1.6
Provision for litigation risks	4.5	4.9
Provision for GBBerG	6.0	32.6
<b>Other current provisions</b>	<b>11.2</b>	<b>39.1</b>
<b>Total other provisions</b>	<b>88.2</b>	<b>158.8</b>
Current portion of other personnel obligations	1.4	1.3
<b>Total provisions</b>	<b>89.6</b>	<b>160.1</b>

The item litigation risks contains anticipated burdens from current lawsuits which take into account the principal claim as well as any interest payable.

The obligation for the Group arising from easement rights in accordance with Sec. 9 GBBerG [“Grundbuchbereinigungsgesetz”: German Land Register Adjustment Law] is known on its merits; the actual amount as well as the utilisation date are based on experience and assumptions. A re-assessment of the remaining expected payments led to a partial reversal of the provision through profit and loss in fiscal year 2018.

The provision for dismantling obligations has been set up for offshore platforms, sea cables and several transfer stations.

The development of other provisions can be seen in the statement of changes in provisions below (without the current portion of other personnel obligations):

EUR m	Environmental protection measures	Litigation risks	GBBerG	Dismantling obligations	Other	Total
<b>As of 1 January 2017</b>	<b>3.0</b>	<b>5.4</b>	<b>81.7</b>	<b>63.5</b>	<b>0.1</b>	<b>153.7</b>
Addition	0.4	0.3	2.7	0.5	0.0	3.9
Reversal	-	(0.5)	-	-	-	(0.5)
Utilisation	(0.0)	(0.3)	(0.2)	-	-	(0.5)
Unwinding of the discount/change in interest rate	(0.0)	-	(0.1)	2.3	-	2.2
<b>As of 31 December 2017</b>	<b>3.4</b>	<b>4.9</b>	<b>84.1</b>	<b>66.3</b>	<b>0.1</b>	<b>158.8</b>
Non-current	1.8	-	51.5	66.3	0.1	119.7
Current	1.6	4.9	32.6	-	-	39.1

EUR m	Environmental protection measures	Litigation risks	GBBerG	Dismantling obligations	Other	Total
<b>As of 1 January 2018</b>	<b>3.4</b>	<b>4.9</b>	<b>84.1</b>	<b>66.3</b>	<b>0.1</b>	<b>158.8</b>
Addition	0.0	0.2	-	2.4	-	2.6
Reversal	-	(0.2)	(72.1)	-	-	(72.3)
Utilisation	(1.0)	(0.4)	(0.1)	-	-	(1.5)
Unwinding of the discount/change in interest rate	(0.3)	-	0.1	0.8	(0.0)	0.6
<b>As of 31 December 2018</b>	<b>2.1</b>	<b>4.5</b>	<b>12.0</b>	<b>69.5</b>	<b>0.1</b>	<b>88.2</b>
Non-current	1.4	-	6.0	69.5	0.1	77.0
Current	0.7	4.5	6.0	-	-	11.2

The expected utilisation of other provisions (without the current portion of other personnel obligations) is summarised below:

EUR m	Carrying amount as of 31 December 2017	2018	2019 to 2022	from 2023
Environmental protection measures	3.4	1.6	1.8	-
Litigation risks	4.9	4.9	-	-
GBBerG	84.1	32.6	51.5	-
Dismantling obligations	66.3	-	-	66.3
Other	0.1	-	-	0.1
<b>Total</b>	<b>158.8</b>	<b>39.1</b>	<b>53.3</b>	<b>66.4</b>

EUR m	Carrying amount as of 31 December	2019	2020 to 2023	from 2024
-------	-----------------------------------	------	--------------	-----------

	2018			
Environmental protection measures	2.1	0.7	1.4	-
Litigation risks	4.5	4.5	-	-
GBBerG	12.0	6.0	6.0	-
Dismantling obligations	69.5	-	-	69.5
Other	0.1	-	-	0.1
<b>Total</b>	<b>88.2</b>	<b>11.2</b>	<b>7.4</b>	<b>69.6</b>

#### Other non-current liabilities

EUR m	2018	2017 (restated*)
Grants and subsidies	114.6	43.4
Other	10.5	12.2
<b>Total</b>	<b>125.1</b>	<b>55.6</b>

\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for fiscal year 2017 have been restated. We refer to note 2 in the attached notes to the condensed consolidated financial statements for more details.

Sundry other non-current liabilities comprise a deferred income item with a term until June 2026 (2018: EUR 9.6m) as well as liabilities from the pension plan (2018: EUR 0.6m) and other personnel obligations (2018: EUR 0.3m).

### 6.13. Trade payables and other liabilities

EUR m	2018	2017
Trade payables due to third parties	368.5	284.7
VAT and other taxes	14.0	17.6
Other liabilities, personnel	1.6	1.5
Other liabilities, sundry	304.3	255.1
Accruals and deferrals	1,750.2	1,592.6
<b>Total</b>	<b>2,438.6</b>	<b>2,151.5</b>

Sundry other liabilities relate primarily to liabilities from compensation mechanisms of EUR 155.0m (prior year: EUR 140.1m).

Accruals and deferrals primarily comprise obligations resulting from the settlement of the EEG of EUR 1,597.1m (prior year: EUR 1,490.4m) as well as additional cost allocations of EUR 94.2m (prior year: EUR 72.0m).

All trade payables and other liabilities are current.

### 6.14. Anticipatory equity and liabilities

Deferred income relates to income received in advance for the use of the German section of a high-voltage direct current transmission link.

## 6.15. Financial instruments – fair values

Based on the consolidated statement of financial position, the recognised financial instruments refer to the following measurement categories:

	2017		
	Loans and receivables	Available-for-sale financial assets	Total
EUR m			
<b>Total assets</b>	<b>2,518.5</b>	<b>22.4</b>	<b>2,540.9</b>
<b>Non-current assets</b>	<b>1.0</b>	<b>22.4</b>	<b>23.4</b>
Trade and other receivables	1.0	-	1.0
Other financial assets	-	19.4	19.4
Investments accounted for using the equity method	-	3.0	3.0
<b>Current assets</b>	<b>2,517.5</b>	<b>-</b>	<b>2,517.5</b>
Trade and other receivables	1,110.7	-	1,110.7
Cash and cash equivalents	1,406.7	-	1,406.7
Anticipatory items	0.1	-	0.1

	2017
	Financial liabilities measured at amortised cost
EUR m	
<b>Total equity and liabilities</b>	<b>4,899.4</b>
<b>Non-current liabilities</b>	<b>2,830.3</b>
Loans	2,829.3
Other liabilities	1.0
<b>Current liabilities</b>	<b>2,069.1</b>
Loans	19.7
Trade payables and other liabilities	2,049.4

	2018			
	Loans and receivables	Designated at fair value through OCI	Other financial liabilities	Total
EUR m				
<b>Total assets</b>	<b>2,685.1</b>	<b>27.5</b>	<b>-</b>	<b>2,712.6</b>
<b>Non-current assets</b>	<b>-</b>	<b>27.5</b>	<b>-</b>	<b>27.5</b>
Trade and other receivables	-	-	-	
Other financial assets designated at fair value through OCI	-	27.5	-	27.5
<b>Current assets</b>	<b>2,685.1</b>	<b>-</b>	<b>-</b>	<b>2,685.1</b>
Trade and other receivables	1,107.4	-	-	1,107.4
Cash and cash equivalents	1,577.7	-	-	1,577.7
Anticipatory items	-	-	-	-
<b>Total equity and liabilities</b>	<b>-</b>	<b>-</b>	<b>5,220.2</b>	<b>5,220.2</b>
<b>Non-current liabilities</b>	<b>-</b>	<b>-</b>	<b>2,831.5</b>	<b>2,831.5</b>
Loans	-	-	2,830.9	2,830.9
Other liabilities	-	-	0.6	0.6
<b>Current liabilities</b>	<b>-</b>	<b>-</b>	<b>2,388.7</b>	<b>2,388.7</b>
Loans	-	-	19.7	19.7
Trade payables and other liabilities	-	-	2,369.0	2,369.0

Fair value is the amount for which an asset could be exchanged or a liability settled in an arm's-length transaction. IFRS 7 requires, for financial instruments that are measured in the statement of financial position at fair value, the disclosure of fair-value measurements by level in the following fair value measurement hierarchy:

**Level 1:** The fair value of a financial instrument that is traded in an active market is measured based on quoted (unadjusted) prices for identical assets or liabilities. A market is considered active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis.

**Level 2:** The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to assess the fair value of an instrument are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices), the instrument is included in level 2.

**Level 3:** If one or more of the significant inputs used in applying the valuation technique is not based on observable market data, the financial instrument is included in level 3.

Due to the short-term nature of the current financial assets and current financial liabilities, their carrying amount is assumed to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different to their carrying amounts.

On the reporting date, other financial assets classified as FVOCI had a fair value of in total EUR 27.5m and fall under level 3 in the fair value hierarchy.

The fair value of the bonds presented as non-current loans is EUR 2,739.1m (prior year: EUR 2,775.3m). Fair value was determined by reference to published price quotations in an active market (classified as level 1 in the fair value hierarchy).

The credit quality of financial assets that are neither past due nor impaired is determined based on available credit ratings or past experience of default rates of business partners. No new terms were negotiated in the fiscal year for an asset that would otherwise have been impaired or past due. No financial assets deemed to be material by the Group are past due or impaired.

## 6.16. Regulatory items

On the reporting date, the Group has an obligation surplus resulting from comparison of regulatory claims and obligations.

EUR m	2018	2017
Regulatory claims	13.7	100.1
Regulatory obligations	(458.2)	(435.5)
<b>Total</b>	<b>(444.5)</b>	<b>(335.4)</b>

The obligation surplus as of 31 December 2018 of EUR 444.5m (prior year: EUR 335.4m) is the nominal amount of EUR 459.3m (prior year: EUR 352.5m) less an interest effect of EUR 14.8m (prior year: EUR 17.1m).

On the basis of current assumptions, the nominal figures reported at year-end spread over the subsequent periods as follows:

<b>EUR m</b>	<b>Nominal amount 2017</b>	<b>Less than 1 year</b>	<b>1-5 years</b>	<b>More than 5 years</b>
Regulatory items	352.5	75.8	171.5	105.2

	<b>Nominal amount 2018</b>	<b>Less than 1 year</b>	<b>1-5 years</b>	<b>More than 5 years</b>
Regulatory items	459.3	81.4	293.2	84.7



## 7. Other notes

### 7.1. Financial risk management and factors

Group-wide risk management focuses on the uncertainty of developments on financial markets and aims at minimising potential adverse effects on the cash flows of the Group. Risk management is performed in accordance with the policies issued by management. It identifies, assesses and hedges financial risks in close cooperation with the operating units of the Group. Management defines principles for cross-functional risk management and issues policies for the handling of currency, interest and credit risks, the use of derivative and non-derivative financial instruments as well as the use of liquidity surpluses.

As a result of the Group's operations, Eurogrid and its subsidiaries are generally exposed to a variety of financial risks.

#### **Market risk**

The market risk takes into account negative effects on the financial position and cash flows of the Group arising as a result of price changes on the market which cannot be avoided otherwise. The activities of the Group extend to the electricity market – in particular as part of selling the electricity generated from renewable energies as well as procurement of energy to cover grid energy losses – as well as to the market for short-term deposits.

The Group is not subject to any foreign currency risks for its investments. Market risks stemming from the procurement of commodities are also largely excluded.

#### Foreign currency risk

The Group is only exposed to an insignificant foreign currency risk as a result of the very limited volume of transactions it performs in foreign currency.

#### Interest rate risk

The interest rate risk takes into account any negative effects (e.g., resulting from a fall in market liquidity and/or the rating) by means of changes to the interest rates available on the market. It reflects the danger of the Group making repurchases with its financial resources at poorer conditions. The Group actively manages interest rate risks by continuously observing the market as well as regularly following up on short and mid-term financial planning, allowing it to manage risks and optimise its cash and cash equivalents. Given a long-term financial strategy, the fixed-interest bond of EUR 2,640m issued in 2010, 2015 and 2016 forms the basis of the Group's debt financing, protecting the Group from short-term interest rate risks, along with the

registered bond of EUR 50m issued in 2014 and the syndicated loan agreement taken out in 2016.

### Liquidity risk

The liquidity risk can generally arise at any time as a result of a major deviation between incoming and outgoing cash flows. Liquidity risks can arise from the core business of the group entities 50Hertz Transmission and 50Hertz Offshore if the actual financial requirements deviate significantly from the underlying financial planning in the short term. In particular in connection with the obligation to accept and provide payment for electricity generated from renewable energies as well as the sale of this electricity on the electricity exchange, there are considerable liquidity fluctuations that arise everyday which the Group tries its best to anticipate.

In accordance with agreed maturity dates and interest due, the contractually agreed cash outflows from financial liabilities will be as follows in the future:

EUR m	Carrying amount	Expected cash outflows	6 months or less	6-12 months	1-2 years	2-5 years	> 5 years
Unsecured bonds	2,699.0	(3,108.2)	(20.6)	(36.7)	(57.4)	(633.3)	(2,360.2)
Unsecured bank loans and other loans	150.0	(164.9)	(1.0)	(1.0)	(2.0)	(5.5)	(155.4)
<b>Total as of 31 December 2017</b>	<b>2,849.0</b>	<b>(3,273.1)</b>	<b>(21.6)</b>	<b>(37.7)</b>	<b>(59.4)</b>	<b>(638.8)</b>	<b>(2,515.6)</b>
Unsecured bonds	2,700.6	(3,050.9)	(20.6)	(36.7)	(557.4)	(864.0)	(1,572.2)
Unsecured bank loans and other loans	150.0	(162.9)	(1.0)	(1.0)	(2.0)	(4.9)	(154.0)
<b>Total as of 31 December 2018</b>	<b>2,850.6</b>	<b>(3,213.8)</b>	<b>(21.6)</b>	<b>(37.7)</b>	<b>(559.4)</b>	<b>(868.9)</b>	<b>(1,726.2)</b>

The Group's short-term and medium-term liquidity position is regularly monitored to manage liquidity risks. The Group is soundly equipped with funds and credit lines that can also be drawn at short notice for any liquidity needs that arise. The credit lines available to the Group but not drawn total EUR 900.0m and are provided by various banks.

Details of the used and unused back-up credit facilities are set out below:

EUR m	Maturity	Available amount	Interest rate	Amount used	Amount not used
Confirmed credit line	24 March 2022	750	EURIBOR +0.275%	-	750
Confirmed credit line	unlimited	150	Av. 1M-EURIBOR +0.275%	-	150
Confirmed credit line	14 December 2026	150	0.90%	150	-

The solvency of the Group and its Group entities is secured at all times.

**Credit risk**

The credit risk is managed across the Group. When entering into contractual relationships as well as concluding transactions, the credit rating and creditworthiness are reviewed as standard practice. Business transactions are generally only conducted with partners recognized as being creditworthy. To limit the credit risk on a case-by-case basis, suitable measures are taken to prevent any damage to the Group or subsidiaries. The long-standing customer relationships in some areas and the resulting partnerships also allow the Group to manage potential credit risks.

Observing an investment policy, the Group participates in the short-term investment of freely available funds with various banks with good credit ratings. Investments are only made up to the deposit protection limit. As such, there are no significant risks posed for the Group as a result of the short-term nature of the term deposits and the high rating requirements placed on the banks. No credit limit was exceeded during the reporting period.

The maximum credit risk on the reporting date was equivalent to the total of the loans and receivables issued (EUR 2,685.1m; prior year: EUR 2,518.4m) less the cash and cash equivalents contained therein (EUR 1,577.7m; prior year: EUR 1,406.7m), i.e., EUR 1,107.4m (prior year: EUR 1,111.7m). On the basis of past experience of actual defaults, the actual credit risk is deemed to be low.

Valuation allowances on trade receivables break down as follows:

EUR m	Doubtful debts	Valuation allowances	Balance
<b>As of 1 January 2017</b>	<b>78.2</b>	<b>(78.2)</b>	<b>(0.0)</b>
Changes in the fiscal year	11.0	(11.0)	(0.0)
<b>As of 31 December 2017</b>	<b>89.2</b>	<b>(89.2)</b>	<b>0.0</b>
<b>As of 1 January 2018</b>	<b>89.2</b>	<b>(89.2)</b>	<b>0.0</b>
Changes in the fiscal year	79.2	(79.2)	(0.0)
<b>As of 31 December 2018</b>	<b>168.4</b>	<b>(168.4)</b>	<b>0.0</b>

1 January 2018	Not past due	0-30 days past due	31-60 days past due	61 days - 1 year past due	1 year - 2 years	> 2 years	Total
Expected loss rate	0.03%	3.81%	92.61%	8.79%	100.00%	100.00%	
Carrying amount - trade receivables	365.2	0.4	0.0	0.1	0.1	0.0	365.8
Loss given default							99.37%
<b>valuation allowance</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.2</b>

31 December 2018	Not past due	0-30 days past due	31-60 days past due	61 days - 1 year past due	1 year - 2 years	> 2 years	Total
Expected loss rate	0.04%	4.54%	100.00%	22.24%	100.00%	100.00%	
Carrying amount - trade receivables	260.6	0.9	0.0	0.0	0.1	0.0	261.6
Loss given default							98.66%
<b>valuation allowance</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.3</b>

Loss given default is calculated as the percentage of the amount of trade receivables that is not covered by a bank guarantee. This percentage is multiplied with the outstanding trade receivables.

Receivables from compensation mechanisms are out of scope from the calculation of the expected credit loss and the corresponding valuation allowances due to the existing legal compensation right from third party in the amount and at the time of the default.

## 7.2. Capital management

As part of its medium to long-term planning, the Group uses a projected statement of financial position, taking into account the requirements of capital maintenance. Management of the Group's equity ratio is aimed at maintaining its financing capability and credit rating. This objective is constantly monitored, actively managed and supported by the Group's regulatory management. The Group is not subject to any statutory or other such provisions on capital maintenance.

No changes were made in the objectives, policies or processes for managing capital in fiscal year 2018.

EUR m	2018	2017 (restated**)
Total financial liabilities	5,220.2	4,899.5
Less: cash and cash equivalents	(1,577.7)	(1,406.7)
<b>Net debt</b>	<b>3,342.6</b>	<b>3,492.8</b>
Equity	1,494.5	1,357.3
<b>Total capital</b>	<b>5,137.1</b>	<b>4,850.1</b>
<b>Debt ratio*</b>	<b>71%</b>	<b>72%</b>

\* Debt ratio calculated as ratio of net debt to total capital

\*\* The Group applied IFRS 15 under the full retrospective method under which comparative figures for financial year 2017 have been restated. We refer to note 2 in the attached Notes to the condensed consolidated financial statements for more details

### 7.3. Commitment and contingencies

#### Operating lease commitments – group as a lessee

The Group leases business premises, vehicles and other tools and equipment under cancellable lease agreements. In accordance with the contractual minimum term/the earliest possible termination of the agreement, the contracts currently in place result in the following minimum lease payments for the Group:

EUR m	Less than 1 year	1-5 years	More than 5 years
Buildings	1.1	2.5	5.2
Vehicles, IT and other	3.4	4.3	0.0
<b>Total as of 31 December 2017</b>	<b>4.5</b>	<b>6.8</b>	<b>5.2</b>
Buildings	1.1	2.0	9.8
Vehicles, IT and other	6.2	6.2	0.0
<b>Total as of 31 December 2018</b>	<b>7.3</b>	<b>8.2</b>	<b>9.8</b>

The expenses recognised in the income statement break down as follows:

EUR m	2018	2017
Buildings	1.9	2.0
Vehicles, IT and other	4.2	4.4
<b>Total</b>	<b>6.1</b>	<b>6.4</b>

#### Operating lease commitments – group as a lessor

The Group also acts as lessor under operating leases. The leasing business presented here only represents an ancillary business, however. The contracts in place generally do not relate to separately identifiable assets or the exclusive granting of licenses for the use of a separate asset to a particular customer; as a result, the assets associated with the operating lease have not been disclosed. The contractual relations with the Group as lessor result in the following minimum lease payments:

EUR m	Less than 1 year	1-5 years	More than 5 years
Telecommunications equipment	2.1	3.3	0.4
Buildings	0.1	0.2	0.0
<b>Total as of 31 December 2017</b>	<b>2.2</b>	<b>3.5</b>	<b>0.4</b>
Telecommunications equipment	1.3	2.5	4.3
Buildings	0.1	0.0	0.0
<b>Total as of 31 December 2018</b>	<b>1.4</b>	<b>2.5</b>	<b>4.3</b>

The income recognised in the income statement breaks down as follows:

EUR m	2018	2017
Telecommunications equipment	1.9	1.6
Buildings	0.5	0.6
<b>Total</b>	<b>2.4</b>	<b>2.2</b>

### Contingent rents, purchase options and restrictions

The Group has no contracts which include either contingent rental payments or purchase options agreed in the significant lease contracts. Furthermore, these significant lease contracts do not include any escalation clauses or restrictions that are significant to the use of the respective asset.

### Purchase commitments

On 31 December 2018, there was a purchase obligation for investments measures of EUR 977.9m (prior year: EUR 457.7m).

The purchase commitment for maintenance measures amounts to EUR 21.2m (previous year: EUR 8.0m) as of 31 December 2018.

### Other contingencies and commitments

Offshore expenses between 50Hertz and TenneT TSO arising from the horizontal settlement gives rise to financial obligations for 50Hertz in future periods. The total amount of these future cumulative amounts comes to EUR 17.5m (prior year: EUR 18.6m) and will be reflected in 50Hertz's network user charge calculations in the next years following the corresponding billing by TenneT TSO.

## 7.4. Related party disclosures

Within the meaning of IAS 24, the Group defines the following entities and bodies as related parties:

#### Controlling entities:

Via Eurogrid International CVBA/SCRL, Elia System Operator NV/SA (Elia: 60% shareholding) and Global InfraCo S.à.r.l., Luxembourg, Luxembourg (40% shareholding) together held 100% of the shares in Eurogrid until April 2018. During the fiscal year Global InfraCo sold its 40% shareholding in Eurogrid International in two steps. Following the transactions, Elia owns 80% (31 December 2017: 60%) of Eurogrid International and obtained control. The Kreditanstalt für Wiederaufbau AöR acquired the remaining 20% stake in Eurogrid International.



No material business transactions were entered into with Global InfraCo S.à.r.l., Luxembourg, Luxembourg, or with the advising manager IFM Investors in fiscal year 2018. At year-end 2018, Global InfraCo is no longer a related party.

No business transactions were entered into with Kreditanstalt für Wiederaufbau in fiscal year 2018. Kreditanstalt für Wiederaufbau is involved in the consortial loan for 16.7% of the total amount.

Various service agreements have been in place between Elia and 50Hertz Transmission GmbH since 2012. Costs for consulting projects and other services are also cross-charged. In fiscal year 2018, revenue of EUR 1.4m was generated (prior year: EUR 0.7m). Expenses amounted to EUR 4.0m (prior year: EUR 2.0m). On the reporting date, there were no receivables (previous year: immaterial amount) and liabilities of EUR 0.7m (prior year: EUR 0.3m).

Service agreements on general management and service functions are in place between Eurogrid and Eurogrid International. In fiscal year 2018, this resulted in expenses for purchased services of EUR 0.6m for the Group (prior year: EUR 0.6m). Trade and other payables remained with EUR 0.1m. Furthermore, the Group distributed EUR 107.8m (prior year: EUR 99.7m) to Eurogrid International.

Co-subsidiaries of the Group:

Eurogrid International held 100% of the shares in GridLab, Schönefeld and sold them in August 2018. As of 1 September 2018 GridLab is no longer a related party.

In fiscal year 2018, GridLab rendered technical and commercial services to 50Hertz Transmission of EUR 0.5m (prior year: EUR 1.4m).

On 30 June 2011, Eurogrid granted a loan of EUR 1.4m to GridLab which is due on 30 June 2021. The loan was fully repaid in the fiscal year.

On 30 August 2018 there were receivables and payables towards 50Hertz Transmission of an immaterial amount.

Associates:

Elia Grid International NV/SA, Brussel, Belgium, is an associate company of the Group and is consolidated at equity in the Group. Assets under construction based on service agreements with EGI for consulting and engineering services in the area of grids and system services have been recognised in the amount of EUR 20.8m as of the end of the fiscal year 2018 (31

December 2017: EUR 11.2m). Furthermore various service agreements have been in place between EGI and 50Hertz.

Key management personal includes Eurogrid International board of directors, who are responsible for monitoring the activities of Eurogrid. Key management personal also includes the board of management of 50Hertz Transmission and the supervisory boards of Eurogrid and 50Hertz Transmission. Key management personnel did not receive stock options, special loans or other advances from the Group during the year. In fiscal year 2018, the general managers of 50Hertz Transmission received EUR 2,573,510.47 in consideration, which breaks down as follows:

- Fixed basic salaries EUR 1,088,601.35
- Variable salary components – short-term EUR 312,653.26
- Variable salary components – long-term EUR 758,734.00
- Pension scheme (company pension scheme and direct insurance) EUR 271,496.04
- Other benefits and allowances (including share subscription programme) EUR 142,025.82

There were transactions with entities in which the members of Eurogrid International board of directors, the board of management of 50Hertz Transmission or the supervisory boards exercise a significant influence (e.g. holding positions such as CEO, CFO or members of the management committee) in the amount of EUR 1.8m (expenses) and 0.7m (income) in the fiscal year 2018. No other material transactions took place.

## 7.5. List of shareholdings as of 31 December 2018

Name	Country of establishment	Headquarters	Commercial register number	Stake (%)	
				2018	2017
Full consolidated companies					
50Hertz Transmission GmbH	Germany	Heidestraße 2 10557 Berlin	HRB 84446	100.0	100.0
50Hertz Offshore GmbH	Germany	Heidestraße 2 10557 Berlin	HRB 108780 B	100.0	100.0
Associated companies accounted for using the equity method					
Elia Grid International NV/SA	Belgium	Boulevard de l'Empereur 20 1000 Brussels	549.780.459	49.99	49.99
Other participations					
JAO Joint Allocation Office S.A.	Luxemburg	Rue de Bitbourg 2	B0142282	4.6	5.0
CORESIO S.A.	Belgium	Avenue de Cortenberg 71 1000 Brussels	808.569.630	7.9	7.9
European Energy Exchange AG	Germany	Augustusplatz 9 04109 Leipzig	HRB 18409	5.2	5.2
TSCNET Services GmbH	Germany	Dingolfinger Strasse 3 81673 Munich	HRB 214951	7.7	7.7
Stiftung Kurt-Sanderling-Akademie des Konzerthausorchesters Berlin	Germany	Gendarmenmarkt 10117 Berlin	-	10.4	10.4

## 7.6. Subsequent events

Up to the date of preparing the consolidated financial statements, no significant events were performed that had an effect on the Group's net assets, financial position and results of operations in the reporting period.

## 7.7. Auditor's fees in accordance with Sec. 314 (1) No. 9 HGB

The auditor of Eurogrid's consolidated financial statements, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Berlin, received fees for audit services of EUR 404k in the fiscal year. Fees for audit services mainly comprise fees for the statutory audit of the consolidated financial statements and the separate financial statements of the group entities of Eurogrid. In addition, the auditor received EUR 81k for other services.

## 7.8. Exemption options pursuant to Sec. 264 (3)/Sec. 264b HGB

The German subsidiaries with the legal form of a corporation do not make use of the exemption regulations in accordance with Sec. 264 (3) and Sec. 264b HGB.

## 7.9. Supervisory Board

During the fiscal year the supervisory board contained the following members:

**Catherine Vandenborre**, Chairman, Chief Financial Officer, Elia System Operator, Rixensart, Belgium

**Jaime Siles**, Vice Chairman, Vice President, IFM Investors, London, UK [until 22 August 2018]

**Gregory Pattou**, Vice Chairman, General Counsel, Elia System Operator, Destelbergen, Belgium [since 22 August 2018]

**Bert Maes**, Chief Executive Officer, Eurogrid International, Beveren-Waas, Belgium

According to the articles of association of Eurogrid no remuneration is paid to members of the supervisory board.

## 7.10. Management

Management comprised the following members during the fiscal year:

**Yannick Dekoninck**, Managing Director, Sint-Genesius-Rode, Belgium

**Lieselot Mariën**, Managing Director, Brussels, Belgium [since 22 August 2018]

**Louise Stevenson**, Chairman, Managing Director, London, UK [until 22 August 2018]

The managing directors were not employed at the Company. No remuneration was paid.

Berlin, 13 February 2019

The management of  
Eurogrid GmbH

Lieselot Mariën

Yannick Dekoninck

## **Engagement Terms, Liability and Conditions of Use**

We, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, conducted our audit of these financial statements on behalf of the Company. Besides satisfying the legal disclosure requirement (Sec. 325 HGB ["Handelsgesetzbuch": German Commercial Code]) for statutory audits, the audit opinion is addressed exclusively to the Company and was issued for internal purposes only. It is not intended for any other purpose or to serve as a decision-making basis for third parties. The result of voluntary audits summarized in the audit opinion is thus not intended to serve as a decision-making basis for third parties and must not be used for purposes other than those intended.

Our work is based on our engagement letter for the audit of these financial statements including the General Engagement Terms for "Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften" [German Public Auditors and Public Audit Firms] as issued by the Institute of Public Auditors in Germany ["Institut der Wirtschaftsprüfer": IDW] on 1 January 2017.

To clarify, we point out that we assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we will not update the audit opinion to reflect events or circumstances arising after it was issued, unless required to do so by law.

It is the sole responsibility of anyone taking note of the summarized result of our work contained in the audit opinion to decide whether and in what way this information is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

# General Engagement Terms

## for

### Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften

#### [German Public Auditors and Public Audit Firms]

#### as of January 1, 2017

#### 1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

#### 2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

#### 3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

#### 4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

#### 5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

#### 6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

#### 7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [Translators Note: The German term "Textform" means in written form, but without requiring a signature] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

#### 8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of Wirtschaftsprüfer: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

#### 9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

## 10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

## 11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

- a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party
- b) examination of tax assessments in relation to the taxes referred to in (a)
- c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)
- d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)
- e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

- a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax;
- b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;
- c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and
- d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

## 12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

## 13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

(2) If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

## 14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

## 15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.



**THE COMPANY**

**Elia System Operator SA/NV**

Boulevard de l'Empereur 20  
1000 Brussels  
Belgium

**JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS**

**J.P. Morgan Securities plc**

25 Bank Street, Canary Wharf  
London, E14 5JP  
United Kingdom

**KBC Securities NV**

Havenlaan 2  
1080 Brussels  
Belgium

**JOINT BOOKRUNNERS**

**Belfius Bank NV**

Karel Rogierplein 11  
1210 Sint-Joost-Ten-Node  
Belgium

**ING België NV**

Marnixlaan 24  
1000 Brussels  
Belgium

**LEGAL ADVISERS TO THE COMPANY**

**Linklaters LLP**

rue Brederodestraat 13  
1000 Brussels  
Belgium

One Silk Street  
London, EC2Y 8 HQ  
United Kingdom

**LEGAL ADVISER TO THE UNDERWRITERS**

**Allen & Overy (Belgium) LLP**

Tervurenlaan 268A  
1150 Brussels  
Belgium

One Bishops Square  
London, E1 6AD  
United Kingdom

