CA SGA 15.10.2024
Note S -**xxx**

Comments on Sibelga's interim accounts at 30-06-2024

These brief comments are presented in 3 questions:

1. How is Sibelga remunerated for its activities?
2. How is this reflected in the accounts?
3. What are the conclusions and outlook?

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1. How is Sibelga remunerated for its activities?

Sibelga has negotiated the regulatory framework for the 2020-2024 tariff period with the regulator, Brugel. The tariff proposal under this framework was validated by the regulator at the end of 2019. The answer to question 1 falls within this framework and covers 3 points.

1.1 Equitable remuneration

Equitable remuneration is calculated on the basis of the RAB (the value of the network) and a return formula based, among other things, on the OLO rate and average equity capital:

RAB * [40% * (tx OLO + 315 bp) + (S-40%) * (tx OLO + 100 bp)]

The value of the RAB = €1,299.3m at 30/06/2024.

The coefficient S = the ratio between Sibelga's equity capital and the RAB ≈ 66.2%.

This means that,

- on the first tranche of equity capital corresponding to 40%, the remuneration = OLO rate + 3.15%;
- on the excess tranche of 28% over the base of 40%, the remuneration = OLO rate + 1.00%.

The rise in the OLO rate, now reaching levels within the OLO tunnel of "2.20% - 5.20%", is affecting equitable remuneration given the historically low levels of previous years. The average OLO rate from January to the end of June 2024 is 2.95%.

Equitable remuneration on an annual basis is therefore estimated at €45.1m.

1.2 The incentive regulation

The incentive regulation is an incentive that makes it possible to improve equitable remuneration through incentive regulation by making savings on controllable costs. Of the total tariff package, the controllable portion of around €143.3m represents 1/3. A maximum of 10% of the savings on this controllable tranche will give rise to an incentive regulation payment to be shared, half for the shareholder and half for customers, via the Tariff Regulation Fund, which will be used to relieve future tariffs or finance new policies.

On the other hand, in the event of additional costs on controllable expenses, the mechanism works in the opposite direction and affects equitable remuneration by the same amount. It should also be remembered that the tariff methodology rightly considers that inflation cannot be controlled by the TSO. It therefore provides for a correction mechanism for controllable costs to neutralise the effect of inflation on the incentive regulation.

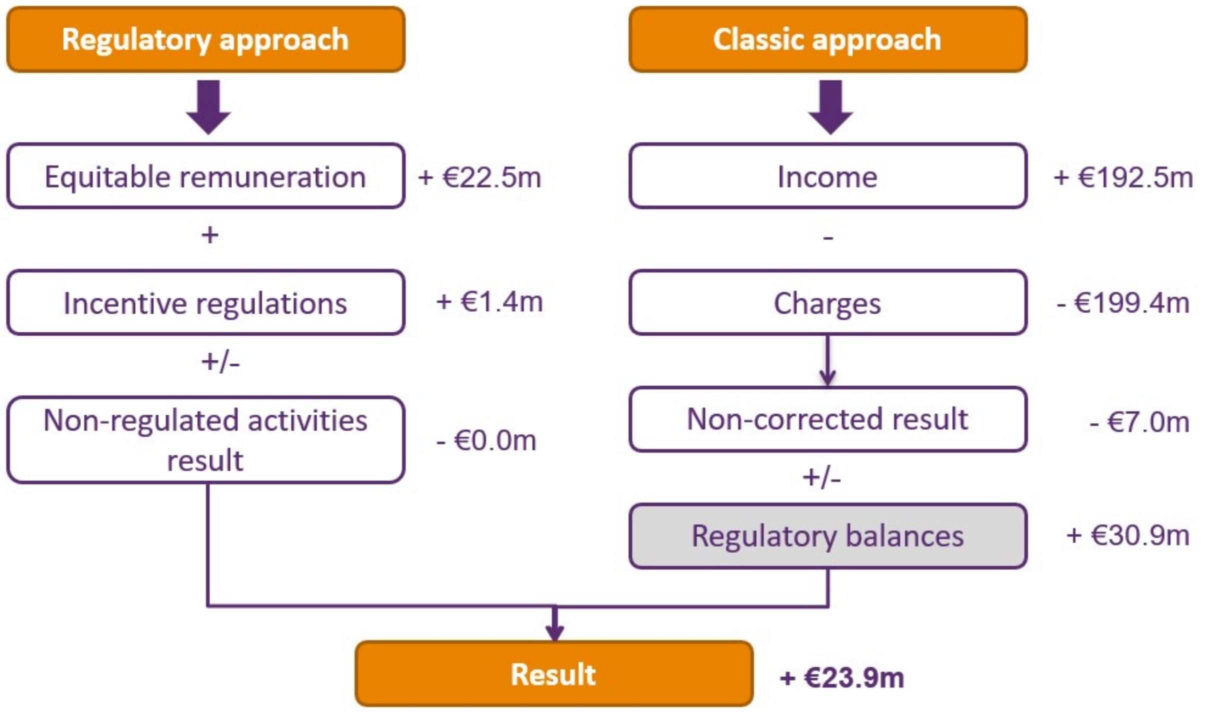
In practical terms, the incentive regulation will have an annual impact on earnings of no more than €14.3m,
upwards, in the event of savings;
downwards, in the event of additional costs.

At the end of the first half year, the estimated incentive regulation was €1.4m.

1.3 Non-regulated activities

To date, the results of these activities have been negligible.

Sibelga – half-year accounts 2024



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2. How is this reflected in the accounts?

As a preliminary remark, it is important to note that the Statutory Auditor in charge of Sibelga sc's accounts did not carry out a financial audit or a limited review of Sibelga's interim accounts closed on 30 June 2024, that the half-yearly closure is not a complete closure and that the regulatory balances, corresponding to the over- or under-collection of the non-controllable part of the tariff envelope, are only processed in a complete/analytical manner at the end of the financial year. At the end of June, we took into account a global estimate of the regulatory balances and adjusted the half-year results accordingly. An “overpayment” of €30.9m was deducted from the regulatory balances.

The result for the first half of 2024 is therefore €23.9m, a decrease of €0.6m compared with the first half of 2023. This decrease is due to the reduction in the level of equitable remuneration following the slight fall in the OLO rate and the reduction in the incentive regulation in 2024 compared with 2023.

- Operating income rose to €222.4m (+€18.0m).

  - The Grid Fee (an essential component of sales) increased by €13.1m for electricity and fell by €3.2m for gas.
    It is also enhanced by the processing of regulatory balances for an amount of +€30.9m (underpayment) compared with an enhancement of +€20.7m during the first half of 2023; i.e. an increase of €10.2m compared with 2023.
  - Other income was down (-€4.3m), mainly due to lower compensation (fraud) in the first half of 2024 compared with the first half of 2023 (-€3.8m).

- Operating expenses were up by €17.1m, with the following effects:

  - Significant increase in supplies and merchandise (↗ €12.1m), mainly energy purchases.
  - Increase in Services and miscellaneous goods (↗ €7.2m) (2/3 of operating expenses, including the payroll housed in the BNO subsidiary) due to a general rise in the various cost categories. However, this was mainly affected by the rise in third-party services, particularly IT consultancy.
  - A decrease in provisions for liabilities and charges (↘ €3.8m), due to the fact that there was no allocation to the rest term provision in the first half of 2024 compared with the first half of 2023.

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3. What are the conclusions and outlook?

➢ <u>The result for the first half of €23.9m was down on the previous year (-€0.6m)</u>

The slight fall in the half-year result is mainly due to the reduction in the level of equitable remuneration following the slight fall in the OLO rate and the reduction in the incentive regulation in 2024 compared with 2023.

➢ <u>The earnings outlook for 2024 is slightly lower than for 2023:</u>

Let’s look at the components of the result:

✓ <u>The equitable remuneration</u> on invested capital is affected by changes in the 10-year OLO rate within the tunnel provided for in the current pricing methodology (i.e. between 2.20% and 5.20%).

✓ <u>The incentive regulation</u>, which should make it possible to further enhance equitable remuneration: at this stage, we are expecting a forecast of around €2.8m at the end of the financial year.

- ✓ Non-regulated activities have only a marginal impact on earnings.
- ✓ Given the regulatory framework in force, Sibelga's likely result at the end of the financial year will be around €47.8m.