Notes to the Sibelga 2022 Half-Year Financial Results

Three questions to present the notes to the half-year results :

1. How are Sibelga's activities remunerated?
2. How is this translated into the financial accounts?
3. What are the conclusions and perspectives?

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1. How are Sibelga's activities remunerated?

Sibelga negotiated the new regulatory framework with the regulator Brugel. This regulatory framework is applicable for the tariff period 2020-2024. The tariff proposals were validated by the regulator on 18 December 2019.

1.1 Fair margin

The fair margin is determined based on the RAB (Regulatory Asset Based) representing the value of the distribution network, and on a yield formula based, among others, on the OLO interest rate[1] and the average equity :

Fair margin = RAB * [40% * (OLO + 315 bp) + (S-40%) * (OLO + 100 bp)]

RAB value 30/06/2022 = 1.252 M€.
S coefficient = ratio between Sibelga's equity and RAB ≈ 69%.
On the first 40% of equity, the remuneration = OLO rate + 3,15%.
On the next 30% of equity, the remuneration = OLO rate + 1,00%.
The OLO rate amounted to 0,26% at the end of June 2022. This interest rate is historically low and is still affecting the fair margin. However, its impact is mitigated thanks to the "OLO tunnel" [2,20%-5,20%] foreseen by the regulatory framework. Thereby, based on a 2,2% corrected OLO rate, the annual estimated fair margin amounts to 38,0M€.

1.2 Cost incentive regulation

The incentive regulation on manageable costs is a mechanism enabling to improve the revenue above the fair margin. The manageable costs amount to 128,5M€, which represent ≈1/3 of the total revenue. Up to 10% saving on manageable costs lead to an incentive remuneration, shared equally between the shareholders and the customers. The customer part is transferred to the "Tariff Regulation Fund" in order either to lower the tariffs in the next period or to finance new policies.
On the other hand, if manageable costs exceed the envelope, the incentive becomes a malus impacting the revenue following the same mechanism.

[1] OLO rate = risk-free interest rate of the 10-years bonds issued by the Belgian authorities.

It is important to mention that the tariff methodology considers the inflation as not manageable and foresees an ex post correction of the manageable costs in order to neutralize the inflation effect on the incentive regulation.

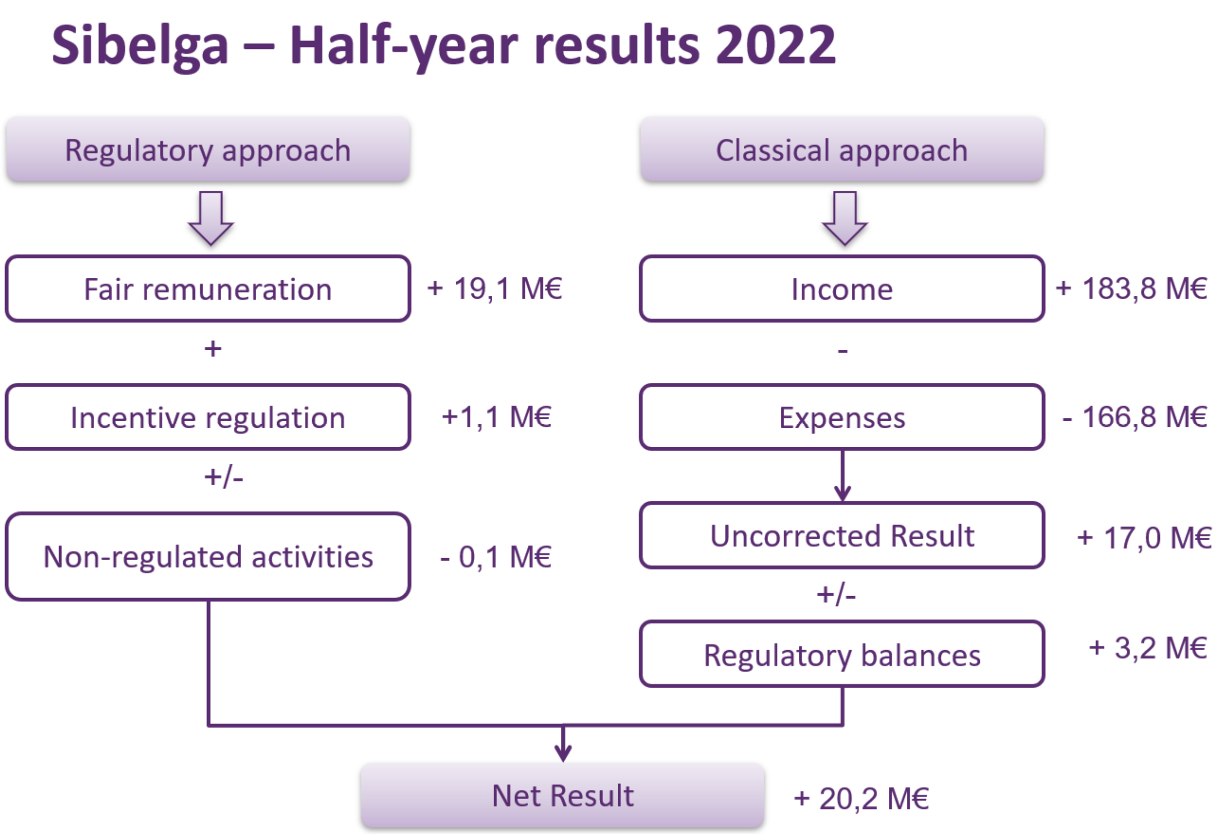
Concretely, the incentive regulation could impact the annual result up to 6,4M€,

as a bonus in case of savings
as a malus in case of excess ;

For the half-year closure, the calculated incentive amounts to +1,1 M€. This is however theoretical as one semester does not represent half of the costs.

1.3 Non-regulated activities

The result of non-regulated activities is insignificant.



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2. How is this translated into the financial accounts?

It is important to mention that the statutory auditors of Sibelga sc did not proceed to any financial audit nor limited review of the half-year accounts. The half-year closure is not a full closure and the regulatory balances (resulting from the over or underpayments from the tariffs) are only fully accounted for at year-end.

We accounted for an estimation of the regulatory balances end of June and therefore adapted the half-year result accordingly. A theoretical underpayment from the tariff for 3,2 M€ has thereby been deducted from the regulatory balances.

The half-year result amounts to 20,2M€, increasing by 2,8M€ compared with the previous half-year. This rise mainly comes from the decrease in tax (- 2,0M€), but also from an improvement in operating income (+0,8 M€).

– Operating income decreased to 186,8 M€ (- 0,2 M€), driven by:

  - Grid Fee (main part of the turnover) increased by
    + 3,6 M€ for electricity and
    + 3,0 M€ for gas.

    An improvement of the gridfee was accounted for due to the underpayment through the tariffs: 3,2 M€ recognition on the regulatory balances, compared to 6,4 M€ for half-year 2021, leading to a decrease by 3,2 M€ compared to 2021.
  - Sale of green certificates did not occur during the first semester of 2022 (-1,9 M€).
  - Exceptional energy supply was made for social housing customers in 2021 (-2,6 M€).
  - Other income increased by + 0,8 M€

– Operating charges decreased by 1,1 M€, driven by:

  - Slight increase of Raw materials and consumables
  - Decrease of Services and other goods (representing 2/3 of operating costs) due to :
    - increasing Remuneration and social security costs from the subsidiary company BNO, due to salary indexation ;
    - decreasing IT consultancy compared to 2021.
  - Slight increase in Depreciation and amounts written down
  - Slight increase in Provisions.

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3. What are the conclusions and perspectives ?

➢ <u>Half-year result amounts to 20,2 M€, increasing compared to previous half-year (+ 2,8 M€)</u>

Half-year result is mainly impacted by decreasing operating and tax expenses compared to half-year 2021. This improvement is however mainly due to a different distribution of expenses between 2022 and 2021.

➢ <u>Perspectives on the 2022 yearly result remain stable compared to 2021 :</u>

The different result components :

✓ <u>Fair margin</u> remains stable, thanks to the regulatory framework setting the OLO rate in a tunnel [2,20%-5,20%], enabling to mitigate the negative impact of low interest rates.

✓ <u>Incentive regulation</u> should probably enable to improve the result above the fair margin. At this point, we believe in a yearly bonus approximating 2,0 M€.

✓ <u>Non-regulated activities</u> have insignificant impact on the result.

- ✓ Seen the regulatory framework in force, Sibelga estimated result should reach 40,0 M€ (stable) at year-end.