Notes to the Sibelga 2023 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 30/06/2023 = 1.262M€.
S coefficient = ratio between Sibelga's equity and RAB ≈ 68%.
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 rise in the OLO rate, now reaching levels within the OLO tunnel of "2,20% - 5,20%", strongly affects fair remuneration given the historically low levels of previous years. Indeed, the OLO rate at the end of June 2023 was 3,09%.
Thereby, the annual estimated fair margin amounts to 45,3M€.

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 129,9M€, 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.

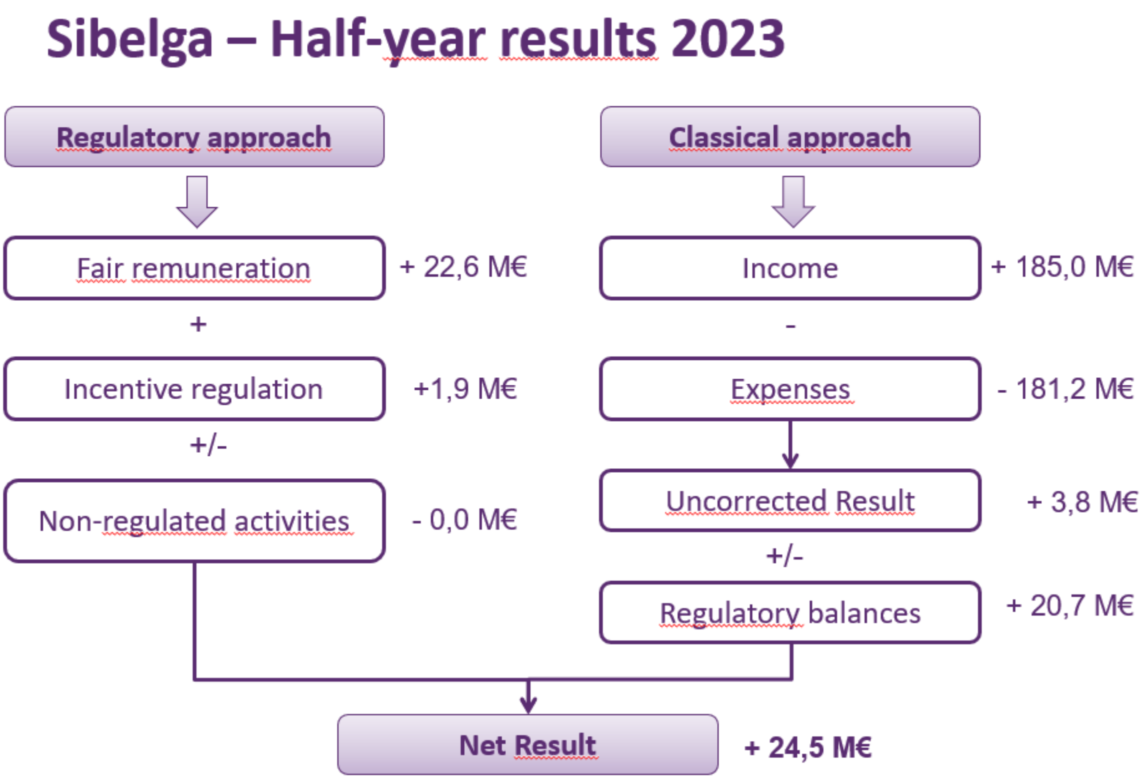
Concretely, the incentive regulation could impact the annual result up to 14,5M€,

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

For the half-year closure, the calculated incentive amounts to +1,9 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 20,7M€ has thereby been deducted from the regulatory balances.

The half-year result amounts to 24,5M€, increasing by 4,3M€ compared with the previous half-year. This rise mainly comes from the increase in the OLO rate.

- Operating income increased to 204,4 M€ (+ 17,5 M€), driven by:

  - Grid Fee (main part of the turnover) increased by + 2,2M€ for electricity and decreased by - 11,8M€ for gas.
    An improvement of the gridfee was accounted for due to the underpayment through the tariffs: + 20,7M€ recognition on the regulatory balances, compared to 3,2M€ for half-year 2022, leading to a decrease by + 17,6M€ compared to 2022.
  - Other income increased (+ 3,4M€), mainly due to higher energy sales to protected customers in the first half of 2023 compared to 2022 (+ 3,0M€).

- Operating charges increased by 11,5 M€, driven by:

  - significant increase of Raw materials and consumables; mainly for purchase of energy;
  - stability in Services and other goods (representing 2/3 of operating costs) due to a significant increase in costs transferred to investment, offsetting increases in BNO's management invoice (payroll costs) and contractor costs;
  - increase in depreciation and write-downs, mainly due to the fact that depreciation on gas meters in the first half of 2022 was still booked at 3%/year, compared with 6%/year as from 2023;
  - significant increase in write-downs on inventories and trade receivables, mainly due to higher provisions for trade receivables relating to fraud and consumption without contract.

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3. What are the conclusions and perspectives ?

➢ <u>Half-year result amounts to 24,5 M€, increasing compared to previous half-year (+ 4,3 M€)</u>

The sharp rise in half-year results is mainly due to the increase in fait remuneration permitted by the regulatory framework, following the overshooting of the OLO10-year floor rate set by the methodology at 2,20%.

➢ <u>Perspectives on the 2023 yearly are strongly higher than for 2022 :</u>

The different result components :

✓ <u>Fair margin</u> is significantly affected by increase in the 10-year OLO rate within the tunnel provided for by the current pricing methodology (i.e. between 2,20% and 5,20%).

✓ <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 3,8 M€.

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

✓ Seen the regulatory framework in force, Sibelga <u>estimated result</u> should reach 49,0 M€ at year-end.