FY 2019 RESULTS

February 27th, 2020

Jean-Pierre Clamadieu

Thank you very much. Welcome to everyone who has joined us for this morning's call and webcast. I'm Jean-Pierre Clamadieu, the Chairman of the Board of Engie, and I know it's really unusual for a non-executive chairman to be present for a full-year results presentation. But, as you know, Engie is currently in a bit of a peculiar situation due to the recent decision made by the Board not to renew the mandate of Isabelle Kocher as CEO. We are entering into a transition period and I thought it was useful for this community to have a quick introduction, by myself, to keep you abreast of the developments that will take place during the next few months.

Probably the main message I would like to share with you today is to remember that our executive management team and Board are fully mobilised and aligned to move forwards on Engie's transformation path. And we want to make the best use of the next months.

I confirm our strategic ambition, to make Engie a leader in energy and climate transitions. We have some very simple priorities: bring more innovative and high-value-adding solutions to our customers, to help them execute their energy transition, and we want to capitalise on the high-skill teams and their competencies, to reach this ambition quickly and efficiently. And I'm absolutely convinced, and so are my colleagues at the Board, that this strategy will allow us to sustain an attractive and profitable long-term growth trajectory.

As you all know, Isabelle's mandate ended last Monday, after she led Engie on a path of transformation. As from this date, the Board has decided to appoint a transition management team made of three complementary and very experienced profiles, to collectively manage the operation of the Group. I name Paulo Almirante our COO, Judith Hartmann our CFO and Claire Waysand our General Secretary, who has been nominated CEO for this period. And I would obviously like to greatly thank them and congratulate them for the role they will be taking in the next few months. We are confident in their ability to run the company and ensure the success of this transition period. I would also like to thank the members of the Executive Committee for their continued commitment and support.

Three main objectives will be pursued by the transition management.

First, reassure our team and maintain the strong engagement of all of our employees, which is absolutely indispensable for us to continue to create a strong impact on the world energy transition.

Second, very important, ensure the delivery of solid operational performance and our financial objectives that will be explained during this call. To that end, increasing simplicity and prioritisation will be key. I think we still have ways to go to bring simplicity in our organisation processes and way of working. We want to be an agile and efficient organisation. We need also to make some progress in the prioritisation of our choices, to make sure that we allocate resources – human and financial – to the right projects, provide further clarity and focus to our employees, shareholders, suppliers and customers.

And, last but not least, I would like this transition team to help us set up a roadmap to clarify Engie's strategic choices and boost our business model.

The Board and myself have a very clear vision on our growth drivers, but also our main challenges. To further focus on our strategy, we need to address the right questions. That's why I've asked the transition management team to work on a range of key topics, including the future of our nuclear generation fleet in Belgium and, more broadly, our role in the future Belgian energy mix.

Second, given our big positions in Europe and Latin America, how should we better leverage the role of gas in the energy transition and accelerate the development of green gases.

Third, what is the renewable growth model we want to build to balance impact on balance sheet and sustainable contribution to the P&L.

And, finally, on customer solutions, how can we leverage our expertise and solution range to significantly accelerate profitable growth.

That's the agenda of the executive team and I'm very confident they will be able to execute it.

The Board asked me to support the transition management team in order to ensure a smooth period. Thus I will dedicate extra time and attention to my mission as Engie Chairman in the coming months, to coordinate and ensure a close cooperation between the Board and the management team and, obviously, ensure sustainable value creation for all of our stakeholders, which is the key objective of our Board.

On a side note, the Board and myself are absolutely convinced that separation of functions between Chairman and CEO is the most appropriate way to run a listed company of this size. It's best practice in governance and we intend to keep it that way. Even in this transition period.

Well, obviously, an important task is for the Nomination Committee and myself to identify the new CEO. We are currently in the process of appointing an executive search company, which will perform a wide-ranged search for the new CEO. We expect it will take 6 to 12 months to have the right leader in place. But, again, our ambition, with Judith, Paulo and Claire, is to keep ourselves very busy during this period and make significant steps forward in our transformation.

With that, I will now give the floor to Claire Waysand to start this presentation before turning to Paulo and Judith, that you already know very well. Thank you. Claire, the floor is yours.

Claire Waysand

Thank you, thank you very much Jean-Pierre and hello to everybody. If some of you come from the sovereign-debt world, we may have interacted before. But it is in any case my pleasure to be here with you today as interim CEO of the company.

Jean-Pierre has introduced earlier the management team. Together with Judith and with Paulo, we are used to working together in a fluid and effective manner, and we have complementary profiles and areas of expertise. So I think my messages and our message to start with will be brief.

2020 will be a productive year. We will continue to build on the strengths of the company, an energy services actor that contributes to accelerating the transition towards carbon neutrality at an affordable cost, offering both integrating energy-saving solutions and greener energy.

We will also streamline further our processes, increase the selectivity of our geographical footprint, and clarify further our focus. We are fully committed to delivering the results in the guidance of 2020. Together, we're continuing to build a strong and resilient business model.

Second message, our business model is sustainable. Bringing together financial delivery, providing energy and services to accelerate our customers' transition towards carbon neutrality, and corporate social responsibility. We are and will continue to be an actor of the transition towards carbon neutrality based on three pillars: renewables, energy efficiency and gas becoming progressively greener.

First, renewables, with of course decades of growth ahead. And you will see significant investments going into this.

Second, energy efficiency, which we all know is an obvious part of the solution. It is about having a lower impact on the environment, reducing the cost for the customers and the companies. Making the transition affordable, in short. And we already have two-thirds of our employees in this field.

Thirdly, gas. Gas is a critical part of the world's clean-energy transition. It is easy to transport, easy to store over a long period and at a large scale. It is also a perfect complement to renewables, and we are working on making it greener.

Lastly, we truly believe that CSR is a key success criteria for the future of Engie, its resilience and its attractiveness. While our comprehensive CSR strategy will be presented at the General Assembly, from now on we will integrate three key objectives to our regular reporting.

These key objectives are, first, greenhouse gas emissions from production of electricity, in line with the Science Based Targets certification. We intend to reduce these emissions from 149 million tonnes in 2016 to 43 million tonnes in 2030, which is -71%.

Second, gender diversity. We commit to increase the share of women in management in the Group from 23% in 2016 to more than doubling by 2030 (50%).

Lastly, our ambition is to increase the share of renewable energy in our electric capacity mix from 20% in 2016 to already 28% today and 58% in 2030.

Finally, we are happy to share with you that Engie has recently been certified SBT, being the first multi energy company to receive this certification. This demonstrates our commitment to respect the Paris Agreement and to lead the development of the new world of energy. With these words, I hand over to Paulo.

Paulo Almirante

Thank you Claire, and thank you for the good news. Good morning, everyone.

Let me start with a review of our major developments in 2019.

In Client Solutions, we are growing organically on asset-based projects. An example is the Iowa State University contract, where we are investing $1 billion with a financial partner to provide heating, cooling and electricity through dedicated networks during a period of 50 years. Just to give you an idea, this campus has almost 200 buildings and a population of 33,000 students.

Similar projects, but with different scopes, have been awarded to Engie by the cities of Ottawa in Canada and Angers in France, just to name some of the most visible commercial successes of 2019.

On Asset-Light, our performance was not good, with organic growth significantly below last year, related mainly to underperforming contracts. However, we have also progressed with selective tuck-in acquisitions of asset-light companies to densify our operations in specific markets. Examples are Conti in the US, OTTO and Powerlines in Europe. These three acquisitions represent a total turnover of €1 billion.

We also see an increased demand from global clients to develop carbon-neutrality roadmaps. This led us to create a dedicated entity called Engie Impact, with the objective to provide clients with integrated solutions from design to execution with options for financing and supply of renewables. Amongst the first clients are GE Renewables, Verizon and Ikea.

Regarding Networks, the acquisition of TAG in Brazil is a major step in the development of international infrastructures. It is also a strong contributor to our results, partially offsetting the impact of the regulatory reviews in France. Power transmission projects, with similar secured business models, are also under development. In 2019, we added in Brazil 1,800 km of greenfield concessions, in addition to 1,000 km already under construction.

On biogas, Engie continues to invest in the development of new facilities, and we acquired the biogas activities of Vol-V, a local developer in France.

Let’s move now to Renewables.

We commissioned a record 3 GW of capacity across the US, Latin America, Europe, India and Africa. About two-thirds of that capacity is wind, and one-third is solar. Important to note that this is four times more than the capacity we commissioned in 2018. And this was organic growth. However, in Portugal, we also did some M&A. We acquired a portfolio of hydro assets, including pump-storage, which allow us to provide clients in Iberia with 24/7 renewables. These assets have an average concession life of 45 years, contributing to the long-term visibility of Engie’s portfolio.

But 2019 was not only about short-term development. We are also building solid foundations to deploy our Renewables strategy. In Mexico and India, we created local platforms with other investors to implement the DBSO model. And, finally, on our Renewables activities, we entered into a global joint venture with EDPR for offshore wind. The transaction is expected to close by mid-March, as we just received approval from the European competition authorities. And, by that time, the JV will be fully operational, with employees, offices and systems in place.

Let’s now go to conventional generation and supply. Nuclear operations have stabilised in 2019, after a very difficult 2018. Thanks to the efforts of our teams, the nuclear fleet achieved an availability of 79%, significantly above the 52% level of the previous year.

The objective to phase out coal is progressing well: in 19, we have divested or closed more than 6 GW of capacity, out of which 3.5 GW are coal, which represents now only 4% of our portfolio.

And, lastly, I also want to mention the excellent performance of our gas midstream activities. The Energy Management teams have been able to structurally optimise the entire gas value chain with a more dynamic management of market volatility and the renegotiation of long-term gas contracts.

If we now move to the next slide, in 2020 we are accelerating the execution of our key priorities. I will not go through all of them, as presented in the slide, but let me select some.

For Client Solutions, we have a strong focus on growing asset-based projects, like district heating and cooling networks, on-site generation and public lighting. We have a pipeline of opportunities similar to Ohio State and Iowa State universities, and we see an increased demand from public and private entities asking for solutions to reduce their carbon footprint.

Additionally, we are improving the performance of asset-light activities by reviewing underperforming contracts and exiting subscale positions to improve margins. Expand organically is a key priority for us. We have a backlog of over €10 billion and around 70% is secured for 2020.

For Renewables, we have 5 GW under construction. This is the highest ever in the Group. Out of this, we will commission 3 GW in 2020. A significant portion of this capacity is dedicated to final clients. In 2019, we have signed 2 GW of corporate PPAs. And we have an ambitious sell-down plan, mainly in the US and Latin America, to deploy our DBSO model.

Regarding Nuclear, in Belgium, the last major lifetime extension works – known as LTOs – of our first-generation units will be carried out in 2020. The works are complex but, so far, they are progressing in accordance with the plan.

In 2020, we also expect clarity from the Belgian authorities on the extension beyond 2025 of two nuclear units (Doel 4 and Tihange 3). A timely decision is fundamental to execute what is a long and demanding process from licencing to execution. And, with that, I hand over now to Judith.

Judith Hartmann

Thank you very much, Paulo. Good morning, everybody. It is great to be here with you today.

First, let me summarise the key points of today’s announcements.

Our 2019 results show, as expected, an acceleration in earnings growth in the second half. Our 2019 results are aligned with our guidance ranges.

I would like to take this opportunity to also thank all of our Engie employees who have helped drive these results. Not just for our success last year but, more importantly, for the steady progress that we have made in building the underlying strategic and capability momentum.

On an organic basis, Current Operating Income grew by 14%, mainly driven by Nuclear, Others (notably Energy Management), Thermal and Renewables. The strong growth in earnings seen in 2019 leads us to propose an €0.80 dividend on 2019 earnings, up 7% versus last year's ordinary dividend.

We also expect an increase in Net Recurring Income in 2020, between €2.7 billion and €2.9 billion.

Let's now have a look at our key numbers for 2019.

EBITDA and COI were €10.4 billion and €5.7 billion, rising organically by 8% and 14% respectively.

Net Recurring Income on continued operations is up 9%, and 11% organically.

Financial Net Debt stands at roughly €26 billion, showing a gross increase of €2.7 billion versus the end of 2018, mostly due to growth investments.

Our CFFO improved significantly from H1 levels, finishing only slightly down year on year, as commodity margin calls and financial derivatives have slightly outweighed a significant increase in operating cash flow.

As already mentioned, these results are within our guidance ranges and we remained at or below the 2.5 times Financial Debt to EBITDA ratio target.

Beyond the solid financial performance, I'd like to come back on some value levers that I discussed with many of you during 2019.

Indeed, this past year we improved visibility on some fronts, and continued to enhance our growth profile. On the regulatory front, we received more visibility on two crucial aspects. First, after the French gas networks regulatory reviews concluded early 2020, we gained visibility over the next four years on the financial outlook for these important activities in our portfolio. Second, towards the year-end, a constructive arrangement on Belgian nuclear provisions and their funding was published, reducing uncertainty for all parties. But, obviously, we will not stop here. To further enhance the robustness of these businesses, we are committed to creating widespread stakeholder recognition of the critical role of gas in the energy transition, and we are committed to clarifying the long-term future of our nuclear activities in Belgium – and, more broadly, Engie's role in supporting the country's future energy strategy.

In addition, our growth profile has been enhanced in 2019. In Renewables – you already heard it – we commissioned a record 3 GW of new generation capacity. This is four times more than was commissioned in 2018. Moreover, we announced the acquisition of a large and promising hydro portfolio in Portugal, which will add 1.7 GW to our renewable capacities.

On top of that, we strengthened our position in Networks and Client Solutions, through key acquisitions. In Brazil, we acquired TAG, a significant gas transmission pipeline, which has already begun to generate meaningful earnings contribution in 2019. And in Client Solutions, we made important acquisitions that already added €800 million of annual revenues in 2019 and will add €1.5 billion of revenues on a full-year basis.

Now turning to our performance by business line.

First, Client Solutions. Our Client Solutions activity finished with a strong Q4 and, as you can see, this is slightly higher than we expected at our Q3 call, driven by the action plans we had put in place.

Full-year revenues were up 11% and COI increased 7% on a gross basis, while roughly level organically. The 7% COI growth excludes the net positive impact of all 2019 Suez one-offs. Growth is being driven by increased asset-based activity. I would call out the progress of our BD teams in Europe and Asia, for example. Momentum in decentralised generation and district heating and cooling was evidenced by our new contracts in Scotland, Germany, Italy, France and Singapore, and we fully expect this trend to continue. Many of these contracts have durations of 20 years or more.

The Client Solutions results also included contributions from the acquisitions that I've just mentioned, and this performance helped to fund start-up costs as we invest into the future. Indeed, e-mobility and microgrids are both examples of topics that are important but that will need more time before they contribute to earnings in the coming years.

We have also started a strategic review of certain activities following the negative one-offs experienced in 2019, and you will learn more about this later in 2020, as we reinforce our selectivity around geographies and certain businesses.

Cumulative project backlog continues to rise – Paulo has already mentioned it – and is now reaching close to a year of revenues in total. We also continue to increase our installed district heating and cooling capacity to 16 GW of thermal capacity, up 3% year on year.

Let's now move to Networks, where COI was down 3%, primarily driven by gas distribution and French gas transmission.

In gas distribution, international activities faced several headwinds: negative effects from one-offs in all geographies, mild temperatures in Romania and Germany, and negative foreign exchange effects in Argentina weighed on the financial performance. These headwinds were partially offset by French gas distribution. GrDF's profit was indeed slightly up, benefiting from a tariff increase, the commissioning cost provision reversal and additional smart meters installed.

Our smart meter rollout is well underway: over 4.9 million smart meters are installed by the end of 2019, of which 87% are operated in remote reading mode. Nevertheless, volumes distributed in France were 2.6 TWh lower year on year, mainly because of warmer temperatures. At average temperature, this volume decrease amounts to only 0.1% (in other words, very close to the previous year).

Gas transmission in France also faced headwinds we already explained in previous results presentations.

First, a negative volume effect in France, with lower capacities subscribed, mainly due to the merger of the North and South gas market zones. This led to the end of North–South connection revenues, compensated by a new price structure of the transmission network.

Second, as anticipated in our current regulatory mechanism, GRTgaz's 2019 revenues are subject to smoothing, a delayed true-up mechanism to limit the magnitude of tariff evolution while remaining neutral over the period. As a result, following two years of favourable smoothing, the April 2019 annual revenue revision only partially covered the additional operating and D&A costs incurred by GRTgaz.

Last but not least, we are pleased to note our first equity-accounted earnings coming from TAG, following the June acquisition, which was a big step forward on our Networks business.

Let's now move to Renewables, whose COI was up 5% on a gross basis. At constant foreign exchange and normalised hydro conditions, the growth would have indeed been 10%.

On Hydro, Brazilian prices for hydroelectric power generation were more favourable. In France, we still suffered from lower volumes versus last year, although we did see a partial recovery in Q4.

Our Wind and Solar activities posted a strong performance, with more than 12% gross COI growth. The earnings increase was driven by the commissioning of new renewable capacities. You can see translate the 3 GW commissioning in 2019. And we also benefited from the contribution of these assets together with the ramp-up of the ones commissioned last year.

Overall Wind and Solar production grew by 50% year on year, and we have now entirely secured our 2021 target of 9 GW additional renewable capacity over 19 to 21.

As an example of our momentum, I'm really pleased to note the progress of our North American business development teams. This year, we have seven grid-scale wind sites coming online, totalling over 1.2 GW, and four solar sites totalling 450 MW.

Our sell-downs slightly decreased versus last year, as 2018 DBSO margins were exceptional, particularly in France (we had mentioned this last year). This was broadly in line with our expectation of roughly 200 million sell-down gains for 2019. We also made further progress in establishing strategic partnerships concerning renewables financing in Mexico and India, and these will allow us to deploy our DBSO model and accelerate the development of our portfolio, 2020 and onwards.

Turning to Thermal, we posted an 11% gross COI decrease for the full year, predominantly due to the large scope effect of the Glow disposal in March 2019. The expiration in April of the Baymina PPA in Turkey was also a negative factor. Partly offsetting these headwinds, we benefited from the ramp-up in Latin America PPA contracts, and positive price conditions in Chile. Indeed, a very good commercial progress in that country. The reinstated UK capacity market retroactive to Q4 2018 was a big factor, and the favourable impact of the gas spreads in Europe, with European merchant gas-fired power plants production up 31% in 2019. Finally, it is important to note that the amount of liquidated damages received in 2019 was roughly stable versus 2018.

After the sale of Glow and the coal plants in Germany and the Netherlands, coal now represents only 4% of our total installed capacity.

Moving to Nuclear, nothing surprising but really impressive figures after a very challenging 2018. The hard work of all the teams has definitely paid off. As expected, Nuclear COI was indeed up 70%, over €700 million, on the back of the successful restart of all of our nuclear reactors in Belgium, resulting in higher output volumes (up 62%) as availability rose significantly – it was mentioned by Paulo – from 52% to 79%. The second effect was better achieved prices, up €2 per MWh.

On the other hand, on a much smaller scale of course, as expected, our German drawing rights contracts from E.On terminated in April 2019, leading to a negative volume effect compared to 2018. It is worth noting that Nuclear COI remains negative. Volumes produced were sold at an average of €36 per MWh and, over the next few years, the achieved price is set to further increase with current Belgian forward power prices standing at approximately €40 to €45 per MWh.

On the next slide, in Supply, the significant COI reduction of 36% was mainly driven by continuing margin pressure in French retail, the commissioning costs accrual reversal, positive one-offs in 2018 in Benelux, and negative temperature effects in Australia. As this commissioning accrual reversal is quite material for the Supply business line, let me take a moment to provide some additional details.

In 2016, GrDF, our gas distribution company in France, booked a provision covering the cost to serve customers handled by energy suppliers during the French market opening (from 2007 to 2016). Likewise, a symmetrical accrual was booked for our B2C supply activities in France. Recent legal decisions led us to reverse these two bookings, creating a negative financial impact in Supply (as you can see) and a positive one-off in Networks, thus being globally neutral at the Group level.

In general, this was partly offset by increased power margins in French business supply. Over the last 12 months, we continued to increase our B2C retail power customer base by 0.2 million (it's up 2.4%) as well as our recurrent service customers by 0.4 million (up 15%). On the other hand, we lost 0.3 million customers in gas (so down 2.2%), mainly on regulated offers in France.

As you can see, the Supply business line has been strongly impacted in 2019 by the margin squeeze on French power, and this situation is expected to improve from H2 2020 onwards, as we start benefiting from the recent increase in French regulatory power tariffs.

Lastly, our Others activities performed very well, with a 42% increase in COI. This is mainly due to our Energy Management business, whose performance has notably benefited from the partial sale of a gas supply contract to Shell in Q3 2019.

In addition, there were positive effects of gas contract renegotiations, while we benefited from international development and from favourable market conditions characterised by volatility, especially on gas markets.

Growth is all the more impressive as 2018 was already a good year, with favourable conditions linked in particular to the cold snap at the beginning of 2018.

The underlying performance of GEM has improved over the last few years and should remain sustained. We have been able to de-risk our gas supply portfolio and we are in position now to take full advantage of market opportunities and volatility as it arises.

In addition, our latest Group efficiency programme, Lean 21, has begun to deliver cost savings at the corporate level and we benefited from a favourable comparable due to the costs of the Link 2018 employee shareholding plan. On the other hand, we had the impact of future-oriented investments for the development of digital platforms and hydrogen.

A quick word on Lean: as we implement our Lean 2021 plan, we continue to improve efficiency and operating leverage, thanks to a very extensive basket of cost-enhancement opportunities, mostly around procurement and digitisation, but also shared services centres. And we also continue to leverage revenue-enhancement opportunities, mostly around industrial asset performance improvement as well as improved service offerings (especially targeted pricing actions).

We achieved Lean 2021 with a COI improvement of approximately €330 million. This is about 30% higher than our initial target and it helps us to reinvest. Indeed, we have reinvested about a third of this amount in organic business development and into digital. So we're confident in our delivery plans on the programme in the coming years, and this will help us, in the future also, to have a meaningful contributor to our earnings momentum.

A few words now on the P&L, with the path from EBITDA to Net Recurring Income, as well as a description of the non-recurring elements.

First, from EBITDA to Net Recurring Income, starting with the small variations for D&A, financial costs and minority interests. D&A was slightly up, mainly because of investments (notably in Latin America). Interest expense was also slightly higher, due to the higher cost of debt (no surprise, mainly due to the additional debt in Brazil). And minority interests were lower, mainly due to the scope effect of Glow. Turning to taxes, with the biggest variation (of €300 million), taxes were higher, indeed, mainly due to the 2018 positive effect from the recognition of deferred tax assets and the impact of the future tax rates in France. As you can remember, 2018 was an exceptional year for taxes, with a low recurring tax rate of 24%, whereas 2019 showed a higher and more normal recurring tax rate of 28%.

Let's move to the non-recurring elements. Some mainly negative moving parts between Net Recurring Income Group share and Net Income Group share, which reached, again, €1 billion in 2019, stable year over year. The main drivers here were: the mark to market below COI was negative, mainly due to Energy Management activities; impairments and others are mainly resulting from the changes in the regulatory framework related to nuclear provisions in Belgium; and, of course, we always have some restructuring costs. These negative elements were partly compensated by €1.6 billion of capital gains, mainly linked to the Glow disposal.

Turning to cash flows, with the classic waterfall on the next slide, as expected in our 9-month presentation, CFFO did significantly increase in Q4 and, at €7.6 billion, was almost stable year on year. The slight decrease was due to the Working Capital Requirements evolution (down €1.3 billion). This WCR evolution was mainly driven by commodity-related margin calls and financial derivatives coming from our Energy Management activities, as gas prices were down. You will remember these margin calls relate to our commodity hedges, while the underlying transactions are not marked to market, and thus there is always a temporary mismatch. On the other hand, our Operating Cash Flow increased €900 million, in line with the EBITDA evolution. And we also benefited from €200 million lower taxes and interests paid.

Let's now look at the forward-looking outlook, and I will start with our 2020 guidance. For 2020, we expect our EBITDA to be in the €10.5 billion to €10.9 billion range, our COI to be in the €5.8 billion to €6.2 billion range, and our Net Recurring Income to be at €2.7 billion to €2.9 billion.

As in 2019, the quarterly development of the financial delivery will not be linear, but rather weighted towards the second half of the year, both at the Group level and for the business lines.

The 2019 dividend to be paid in 2020 will be proposed to the AGM at €0.80, up 7% versus the 2018 ordinary dividend, evidencing our confidence in increasing earnings.

Regarding our financial policy, we remain firmly committed to a strong investment-grade credit rating and, as such, continue to target a leverage ratio of below 4 times Economic Net Debt to EBITDA. Following our recent commitment to fully fund the nuclear waste provisions, indeed the Economic Net Debt ratio becomes the most relevant leverage indicator. Note that the Financial Net Debt to EBITDA ratio will now incorporate the effects of the nuclear funding agreement, with the additional financial capex corresponding to additional financial assets on the balance sheet.

In general, we remain positive about the scale of our attractive investment opportunities and we are confident in our ability to address these while maintaining one of the strongest balance sheets in the sector.

This year, instead of providing precise CAGR ranges, we will speak qualitatively as to our expectation for each global business line. The expected COI growth by business line is broken down as follows.

Client Solutions: after facing several headwinds in 2019 that have tamed the underlying growth, we expect a rebound to more normative returns and growth beginning in 2020 as our 2019 acquisitions begin to ramp up.

Networks: as you know, the new regulatory returns will be enacted for our main French infrastructure activities in 2020, driving the COI forecast lower. However, this will be partially offset by international growth as we expand this business outside of Europe.

On Renewables: hydro volumes and prices in France should have a positive effect and we expect a positive decision in Brazil on compensation for past losses due to low hydro dispatch. Wind and solar contributions will also increase thanks to DBSO and commissioning of assets.

On Thermal, we continue to reduce and optimise our thermal generation portfolio with a disposal focus on coal plants and some merchant assets. Additionally, spreads have decreased, putting pressure on the business line.

Nuclear: we expect contribution to increase, as we have already secured better pricing for part of our future output, despite lower volumes due to the scheduled maintenance.

And our Supply outlook is improving as French margins recover and on the assumption of temperature normalisation.

Let’s now move to our indicative expectations for the three coming years. As announced last year, we decided to provide, each year, the rolling guidance for the next three years (so 2020 to 2022 for today). And, before that, a short comment on the 2019 to 2021 guidance we provided at the CMD one year ago: I’m pleased to confirm the outlook at the Group level as we believe that we are able to offset significant price headwinds through 2019, investments, and with our Lean efforts.

Starting, for the new period (2020-2022), with growth capex, we expect to invest €10 billion in growth with most of the capital to be allocated to Client Solutions, Networks and Renewables. We will also continue to seek M&A-driven growth opportunities – mostly bolt-ons as we did in the past.

As we disclosed in December, an updated provision and funding arrangement was put in place with the Belgian nuclear authorities following its triannual review. Updated discount rates and technical dismantling and waste assumptions were set, alongside an Engie commitment to fully fund waste provisions by 2025. This funding will comprise €4 billion of financial capex over 2020 to 2022, and I already mentioned no impact on our economic net debt.

Disposals are expected to amount to €4 billion over 2020 to 2022, primarily driven by further decarbonisation of our power production portfolio, and also by the simplification of our geographical footprint and structure.

Finally, the level of maintenance capex should remain broadly stable at €8 billion over the period.

So, based on organic revenue growth, efficiency gains and macro-assumptions, and returns on reinvestments, our indicative medium-term financial outlook is as follows:

- EBITDA to grow through 2022 annually between 2% and 4%;

- COI is expected to grow between 4% and 6%, and this growth along with greater capital efficiency will drive a higher return by 2022;

- Net Recurring Income Group share is expected to grow annually between 6% and 8% for the new three years, that is to say to reach a range of €3.2 billion to €3.4 billion.

And we confirm our dividend policy with a pay-out ratio of 65% to 75%. This translates our commitment to create value for our shareholders.

With that, let's now take your questions.

Q&A

J.P. Morgan

Good morning. So a couple of questions, as guided.

One is on the guidance, just to understand the impact of mark to market in 2020 and 2022… in 2021 and 2022 guidance, that would be highly interesting, so we're talking commodity, forex, and on the guidance as well: could you confirm this includes indeed the dilution from the forward looking disposals that you've been talking about. So that's regarding the guidance.

And the second thing is on the strategy: if I understand well, you seem to confirm there is no drastic change to expect there. It's more going forward, you are flagging Belgium, we see France reregulating the nuclear… Could you share a bit your thoughts there, and could you confirm that you're not contemplating large M&A? Thank you very much.

Judith Hartmann

Bonjour Vincent, thank you for your questions.

On the guidance, indeed, there is of course a mark-to-market effect, as the prices and FX included are the December 31st numbers. The impact isn't that big when I look at the three years. I would say, roughly, 25-ish for 2020, 35-ish on 2021, and on 2022 an impact of roughly 75 million, and that is helped by a slight FX. So nothing to worry about. These are the kind of amounts, obviously, that we will work to offset.

On your question on the disposals, indeed the guidance does include the impact of the earnings dilution. We will of course, as always, work to keep those as limited as possible, and there are good strategic reasons that I've mentioned – the decarbonisation – but also the simplification, continued simplification of the company that will lead to these disposals.

On the strategy, in fact, indeed we confirm we are very committed to the energy transition. It was mentioned by both Jean-Pierre and Claire, and we are not including in this guidance any major M&A.

Claire Waysand

Maybe just a complement on the strategy, totally in line with what Judith just said: indeed, no drastic change in the strategy and a strong focus on delivery and selectivity.

Bank of America

Good morning.

So you're talking about no drastic changes to strategy. So I'm just wondering what specifically do you think has been wrong with the strategy to date. And, for example, when you say you want to sort of simplify the Group going forward, what does that mean? Fewer business activities or are you just talking about simplifying your own internal processes and structure? So that's my first question.

My second question is just on the growth capex: your previous 3-year guidance for growth capex was 11 to 12 billion. That's now dropped to 10 billion. Is that because you're now netting off DBSO or have you actually reduced the pace of growth capex and, if so, why please? Thank you.

Judith Hartmann

On the strategy, I'll start and I'm sure Claire or Jean-Pierre might want to add anything.

Again, we confirm the strategy, we're very happy with what we have been able to achieve. The simplification that was mentioned will be around geography and our processes, and that should help us to speed up on the delivery, which is obviously very important to us.

On the growth capex, indeed 10 billion that we are projecting… 2019 was an excellent year in terms of investment opportunities (you've seen it). So we have… you know, I mentioned… I'll reiterate a few: about 1.5 billion on TAG, a very significant investment into Networks; about an additional billion that we did last year on Renewables; and then of course we announced also hydro, which is not yet in the 2019 numbers. But the DBSO is already included in this 10 billion. So I would say, in a way, we had a big increase in 2019 so the 10 billion is more of a normalisation for the 3-year period.

Claire Waysand

Yes, just adding on the strategy that we feel that we have the right strategy and… so that's consistent with no major shift. It's not wrong. On the contrary: it's a strong positioning, as an actor, a major actor, in transition towards carbon neutrality. The strategy, by the way, as you all know, was co-constructed between the management and the Board. So no change in the strategy.

And, in terms of simplification, indeed it's both simplifying our internal processes and also looking at different businesses, as is normal for a company.

Société Générale

Good morning, everyone.

My first question is on strategy, maybe for Jean-Pierre Clamadieu, on two points. Maybe I'm too sensitive a person but I didn't hear you mention the word "Networks" too often in your introduction speech. You did mention "gas", but it was more of a general term. So would you mind clarifying for us whether Networks are still as core to your strategy as they have been in the past few years? Do you therefore intend to retain control and ownership of the French gas assets? Which doesn't mean that you can't crystallise a bit of value as allowed by law. But I would like a clarification, please, on Networks. And, in Renewables, I think you listed the question on how… or what Renewables growth model you should have, or how to maybe make it work better, as a topic to be discussed or worked on by your transition team. It seems to me that, you know, you presented to us a pretty thorough explanation of what the strategy in Renewables was and a pretty thorough description of your business model. Is it more of the same or is it a genuine review of the way you want to do things in Renewables?

And maybe a question on guidance numbers: Judith, would you mind sharing with us your main assumptions, as you have done in the past, regarding tax rate and maybe a direction of financial expenses? And maybe quantify for us the positive contribution of the gas contract renegotiations on partial sale of a gas supply contract booked in 19. How much was that, and therefore how much will disappear from that in EBITDA contribution in 20? Thank you very much.

Jean-Pierre Clamadieu

Well, Emmanuel, thank you very much and, as you directed your question to me, I will obviously answer. Generally speaking, I try to withdraw a bit and let the management team answer but… On strategy, we recognise what has been done in the past four years and, indeed, Isabelle led the transformation of Engie to the point where we are today. Our view is that, for the next period, we really need to focus on a number of key items: delivery, shareholder value, simplification, focus. When I say simplification and focus, it means choosing, clearly, the businesses and the geographies where we want to operate and making sure that we prioritise accordingly. And maybe in some cases we are trying to do too much in too many places.

As you asked a very specific question, let me give you a very specific answer. And the question was very well crafted. So, yes, Networks are part of our strategy and, when I say that we need to leverage our position in gas to benefit from the role that gas could play in the energy transition, I probably could not have stated more clearly that, in France and now in Brazil, we have a position to benefit from the role of gas in the energy transition. Brazil, quite obvious, and kind of a blue-sky horizon as far as gas development is concerned. In France, we realise that there are still a number of things to do to make sure that all the stakeholders understand that, indeed, gas has a role to play. The gas that we know today but also the greener gases on which Engie is very much focused. So networks are part of our strategy. There could be some adjustment or optimisation of our exposure, linked to the flexibility that we have now to do so. But no question on whether gas will be… Or, if there is a question, the answer is a strong "Yes" on whether infrastructure will continue to be part of our strategy.

On Renewables, I think the key question (you probably understand that) is really the DBSO approach, and we recognise that DBSO is important in a number of situations, both to optimise the impact or to manage the impact of our development on our balance sheet. In some cases, it's also an opportunity to be more competitive in specific situations. Now, the question of how you balance these divestments and the long-term impact of these activities on our P&L is something that needs to be fine-tuned. And, as I'm talking about focus and prioritisation, we need to figure how much capital we are willing to allocate to these renewable activities.

Judith Hartmann

And, on some of the assumptions going into the guidance, on the tax rate I mentioned the 28% in 2019, you can assume it's going to go up in 2020, roughly to 31% and then come back down over the three years to, you know, by 300 basis points roughly again in line with 2019.

You have asked a question on the financial expenses. So those were roughly 1.3 billion in 2019 (1.28 to be precise) and they're going to go up by… and we're assuming they're going up, not quite by 100 million but something slightly below that.

And, on your question on the gas contract, which was indeed one of the big successes of 2019 (the partial sale of one of the gas supply contracts), it was just below 100 million in 2019.

UBS

Good morning everyone, and thanks for the taking my questions, and congrats on the results.

My question is on Renewables: you added 3 GW last year, 100% of capacity by 21 is now secured. Looking forward, what kind of addition should we expect. Enel and Iberdrola are talking about 4 to 5 GW. And, looking at your balance sheet, do you think this is something you could achieve? Thank you.

Judith Hartmann

So, indeed we have added 3 GW, which is a great success, in 2019. It's four times as much as the year before. This is a good run rate for now, for the next couple of years, which is why we're very confident on the 9 GW. I would add, though, that obviously the teams continue to work, so stay tuned on this one, we're going to do a quarterly series again with an Investor Day later this year on this and I'm sure by then we will have a better view on what the pipeline could be. I also want to mention the hydro assets that we're buying in Portugal. So these were not part of the 9 GW, so it comes on top. And that is also something that we think is going to be a really good step forward with close to 2 GW that we're going to add on top of the 9 that we've mentioned for the period. So those are… you know, I really feel, when I look at the underlying growth for 2019, this is one of the successes and I see it continue over the next few years.

Bernstein

Good morning, and thank you very much for taking my questions. I have two. One goes to the strategy and one on the returns for renewables.

On the strategy, you've mentioned the role of gas in transition and making it cleaner. How do you think about the role of gas after the transition, so to speak: what is the role of gas in France in 2050? And how do you think about the potential replacement of it with electricity or hydrogen if we're really pulling towards a net-zero world?

What are the discussions you're having with the regulator? What is your view on how bullish France, particularly, is on gas in 2050 – or possibly leaning more towards electricity? And what are your thoughts around hydrogen and maybe developing hydrogen as a replacement for gas? That would be very useful to understand.

And then, on the Renewables business, have your returns changed over the last year, or have your expectations changed on the returns you're making in your Renewables investments? Ideally, if you could comment on it, the returns you're making or bidding, the project returns you were getting before the DBSO, that would be great. Thank you.

Claire Waysand

OK, thank you. On the role of gas during the transition and beyond, my first point would be that gas, natural gas, is on the critical path in a number of geographies on their way towards carbon neutrality. If you think about a country like Germany, obviously, it will not go from a situation where it relies very heavily on coal to a situation where it's only renewables. So gas is on the critical path and we indeed have activities of building a CCGT in Germany. Gas is also useful in a country like France. I mean, obviously, as much as nuclear is the energy providing the base throughout the year, in peak periods the production very much relies on added capacities and gas plants play a major role. So gas… during these years… gas is clearly cheap, easy to transport and a very useful complement to other energies, in particular as a source of production of electricity. Going ahead, we feel that gas is going indeed to become greener and greener, and that's the condition for the long-term success of gas as an energy. You have to keep in mind that we are, in the energy sector, in a sector where the relative prices of energy have very much varied over time. If you look at the price of PV or the price of nuclear, obviously they have moved in different directions. So it's very difficult to know, today – if you think about 2050, which was your question – it's very difficult to know what will be the relative costs of the different energies. So our sense is that we have to make sure that we don't put all the eggs in the same basked and that we… there is support to different streams, different sources of energy, to show, by 2050, which are the ones which will be the most competitive. And that's, by the way, important for the company, it's also very important for the economies at a larger scale – because that's about competitiveness of the economies at the end of the day. And purchasing power of customers. So, indeed, we feel that gas becoming greener should be given its chance to be at the final line. We are very happy about the support we receive from the government in terms of green hydrogen. And, by the way, we have started to scale up our projects in terms of green hydrogen in a country like France, in the south of France, with other major actors. And also… I mean, green hydrogen is one of the green gases looking ahead. Another one, obviously, is biomethane, which we are also very much working on, which also has the advantage of being an energy that can be sourced within territories. So it's also interesting from this perspective.

Judith Hartmann

Indeed, thank you Claire, and we are the biomethane leader in France, which is awesome. You had a question on renewables returns. So we look at each of the projects the same… As you know, we've mentioned this many times, we always expect a WACC plus 200 basis points or a cost of equity plus 4. We will flex, you know, the DBSO depending on the situation in the market, and go higher or lower. The ROCE typically is in the high single digits and we are expecting indeed, if anything, a slight increase between 2019 and 2022, but still staying in the high-single-digit range. It's also important to note that our DBSO margin… Obviously because they are depending on some of the sell-downs, they might fluctuate a little bit during the years, in the various years, but roughly 200 million is something that we are comfortable with and that you can expect also for the other years.

Bernstein

If you don't mind just for me to be clear and understand, when you say you expect WACC plus 200 basis points, this is including the DBSO transaction?

Judith Hartmann

It is including the DBSO transaction. If there is DBSO, sometimes we keep it on balance sheet as you know.

Goldman Sachs

I have two questions, please.

Firstly, could you give us guidance or a rough idea of the DBpSO for 19, 20 and 22 that you're assuming within the guidance? So just to have a relative idea of how that changes.

And then, just on the working capital, do you expect that to sizeably swing next year as the forward hedges roll off, or at least a decent amount of the forward hedges begin to roll off? Or would it be over a 3-year period we'd start to see that working capital come back?

Judith Hartmann

On the DBpSO, like I mentioned earlier, you know, the run rate has roughly been 200 million, depending on the timing of the sell-downs. It could be higher, like it was in 2018, in 2019 it was 200, in 2020 it's going to go up because we have some big platforms that are coming online. We've mentioned it, some of them are already signed with India and Mexico and we're also working on the United States. So we're assuming about 250 million there in 2020. And then slightly normalising back to 200-ish in 2022.

And then you have asked a question on the working capital. And I think you're referring to the margin calls because the other operational working capital was up significantly, in line with the EBITDA, so, yes, it will be… It should swing back – obviously it's hard to predict exactly what the prices are doing, but it has already started to improve in 2020.

Deutsche Bank

Good morning.

My first question is on the… you mentioned hoping to come to some kind of agreement on the way forward in Belgium this year: if you do get agreement to extend some of the lives of the nuclear plants there, could you give us a bit of an idea as to what that might cost you in terms of maintenance capex… sort of general capex on the plants?

And then, secondly, I was just hoping to get a couple of clarifications on questions earlier around the guidance. The first is on… I think you seemed to answer one of the questions earlier about disposals saying that the dilution from disposals had of course been factored into the guidance, but there's a footnote on the slides and in the release saying that no significant impacts from disposals that had not already been announced, were incorporated, so I just wanted to clarify whether these disposals had been included in the guidance or not – or maybe you think they might be offset with some other factors. And then, secondly, on the power prices side, are you able to tell us what power prices you're assuming in Belgium and France for 2022? That would be useful so that we could work our sensitivity ourselves going forward.

Judith Hartmann

OK, wonderful, so thank you for the questions. In Belgium, indeed, we are… There will be a discussion. As you know, the government is being… there's no government in place yet. Before I hand over to Paulo to talk about the processes we're expecting, again, just to reiterate, like we said before, we will make sure we get the right financials. We're really a big partner to the government in Belgium, we're about 50% of production today, we'd like it to be that way in the future, and, as Paulo will explain, we have several opportunities to get there.

Paulo Almirante

So, as you know, the current law in Belgium requires that all the nuclear units will be stopped by 2025. If the Belgian authorities decide to extend some of them, we can extend Doel 4 and Tihange 3, and that would be requiring an investment of the order of €900 million to €1 billion. And it's a programme that needs to start during this year, with the licencing and engineering works, to be able to be executing and procuring the necessary services and spares by 2023, and executing until 2025.

Judith Hartmann

And, on the guidance, on the disposals, yes I do confirm again that there is the dilution that we have assumed in the guidance and so that should be hopefully clear by now.

And then, on the power prices your question was on what are we assuming. It is also in the additional materials. It's between €42 per MWh for Belgium in 2020, going to 47 in 2022. And so that should drive… obviously will drive an increase in the results.

Morgan Stanley

Thanks for taking my questions. So I have two questions.

The first one is if you could please provide the assumption you make on the contribution of Suez equity income to your COI in 2020 because there are important restructuring costs at Suez and so I was wondering if these were taken into account in your COI or if they were booked below the line.

And my second question is what is your assumption in terms of contribution of the compensation for past losses for hydro dispatch in Brazil and what's the timing expected on an outcome on this decision.

Judith Hartmann

I'll quickly answer on Suez and then Paulo will talk about Brazil.

So, you obviously saw the presentation of Suez yesterday and we are very much, obviously, in lockstep on their financials and what we're including on 2020, and so those are the same assumptions that we're taking.

Paulo Almirante

So, on GFOM in Brazil, our assumption is on the order of €75 million, based on the documentation that has been put forward to the Brazilian Congress for approval. This has not yet been approved but we expect it to be approved between now and the end of the year.

Credit Suisse

Good morning. Just two quick questions for me.

One clarification on your previous answer to the mark to market when you said 25 million in 2020 to 75 million in 2022: does that include also mark to market of commodities or was it only for FX?

And the second question is on your Net Debt target, if you can provide it for the end of 2020.

Judith Hartmann

Yes, I confirm that the mark to market does include of course the commodity prices.

And, on the net debt for 2022, there will be an increase but, again, like I confirmed, we'll be in the 4-times leverage. In fact, we should be below that in 2022. So the teams will look up the precise number.

UBS

Good morning. Two questions from me, based on some industry topics we've heard about recently from other companies too.

The first is, thinking about what we've heard from EDF, there's obviously some quite interesting developments in where French nuclear policy might be going, and we may be heading towards effectively a regulated nuclear price. I know your situation in Belgium is different but I'm just wondering if you think developments in France help you at all with your discussions in Belgium. And do you think ultimately you could get to some kind of regulated return model for the life extensions that we spoke about earlier? That's the first one.

And then my second question is just a quick follow up on renewables returns. I know we're all sort of struggling with this as an industry issue because I think most companies don't want to talk about their actual hurdle rates or IRR assumptions, but I notice that EDP has found a very good and simple way to talk about this, by speaking about value creation in terms of an NPV to capex ratio, where they target 25% value creation. So, you know, you put a billion euros and you make 250 million. I think that's a very helpful way of speaking about it and I wondered if you could comment in the same language: is the 25% NPV to capex ratio a good assumption for your renewables business going forward, or what kind of number could we think about in those terms?

Claire Waysand

Thank you. So, on the regulation, indeed there are discussions in France, which we are following very closely, about the future of ARENH. I mean, the reform of the current mechanism is clearly necessary and is asked for by all energy suppliers. It's very important that we are all put on the same footing. It's also very important that there is a right balance that is struck between a sufficient return for EDF and an attractive price for the consumers. So we will be very attentive to the conditions. We will be very attentive also to the methodology that's used to calculate the proper price, which has to be transparent.

Turning to Belgium, as Paulo and Judith said, the first step is really depending on the Belgian government. It's up to the Belgian government to determine whether they want us to continue to operate our nuclear plants after 2025 (the two ones we mentioned). On this basis, of course, and if the Belgian government wants us to continue to operate our nuclear plants, we will have discussions on what would be the proper financial framework for us to continue to operate. But it's too early at this stage to enter into this subject.

Judith Hartmann

And then, on your question on the renewables returns, in fact that is one way of looking at it and are roughly in that ballpark – definitely above 20% and somewhere between 20 and 25 depending on the project.

OK, with that, thank you very much for calling in. We're looking forward to interacting with you in person over the next few months and we are going into 2020 with a lot of confidence. Thank you and have a great day.