



TAG ACQUISITION FINANCIAL IMPACTS

June 24, 2019

Isabelle Kocher

Good afternoon and thank you for joining us today as we review our exciting acquisition of TAG in Brazil and its financial impacts on Engie. I'm joined by Judith Hartmann (our CFO) and Mauricio Bahr (CEO of Engie Brazil) as well as, of course, the Engie Investor Relations team.

We have been working on this transaction for quite some time and we are very pleased with this latest addition to the Engie Group. With an attractive and stable profit stream, TAG will provide a strong, immediate financial contribution to Engie. And, further, TAG is a large network asset in a market with dynamic economic growth and one of Engie's priority countries.

So the deal provides a very attractive opportunity to deploy our strategy, in Infrastructure in particular, to optimise TAG's operations both now and on the future growth trajectory. And this is of course alongside our development of renewable energy to support the country's energy transition.

For today's short presentation, I will start with a brief review of our current strategic context for the TAG transaction, our latest Group actions to deliver our strategy, and the context of our Networks business more specifically. Mauricio Bahr will provide technical and commercial insight into TAG's operations and, finally, Judith Hartmann will cover the TAG financing structure and P&L and cash flow outlook. And we will then be very happy to take your questions.

So, first, a brief word on Engie's broader strategy delivery activity. As we have described on several occasions in the recent past, the TAG acquisition is an excellent manifestation of our strategy to diversify our Networks business with greater exposure to growing international gas markets, particularly in the developing world. But, across our business lines, we are driving intensive and widespread progress in the implementation of our strategy.

In Client Solutions, we have executed significant new contracts across our range of operations. A new 35-year DHC contract in the Ottawa region of Canada, an e-mobility partnership with Fiat Chrysler, continued momentum in African mini-grid rollouts, and the takeover of Cofely Besix in the Middle East.

In Renewables, our initial agreement with EDPR to together create a significant force in global offshore wind is a big strategic move, while another JV, with Tokyo Gas in Mexico, is also very promising. And, on an ongoing basis, our momentum in solar and wind project mandates and commissioning gives credence to our strategic ambition to co-lead the industry's renewable growth pipeline over the coming years.

In our Thermal business, the pace of our exit from coal is exactly as we have promised, with the completion of the Glow disposals and the agreement to sell further coal assets in Germany and the Netherlands.

And, on the Nuclear front, with the restart of Tihange 2, shortly all units will be running again after the 2018 unscheduled unavailabilities.

Conversely, our new issuance of green bonds has recently made Engie one of the world's largest corporate green bond issuers.

Now, moving on to Networks more specifically. As you know, networks are a strategically critical part of the Engie Group and our cash flow profile, with a regulated asset base in excess of €30 billion. These assets generated €2.3 billion of Current Operating Income in 2018 – approximately 45% of the total for the Group. As important context for the TAG transaction, with respect to our strategic capabilities, Engie has leading positions in gas networks along the value chain in Europe, from LNG regasification to gas storage, to some of the continent's largest gas transmission and distribution assets. GrDF is the largest gas distribution company in Europe, with circa 200,000 km of pipes connecting to 11 million customers, while GRTgaz is the second largest gas transmission company in Europe, with a 32,000 km network. We also manage significant network asset positions in Germany and in Romania.

Turning to Latin America, Engie is a very experienced and significant player in gas and power networks, with approximately €1.3 billion in regulated assets, principally in Mexico, Chile and Argentina.

TAG will of course increase the scale of our ownership of networks in Latin America very considerably, in line with our strategic intent of focus on scale.

From a strategic perspective, first, TAG plays a key role in Brazil's energy transition and future energy mix, as gas will take growing importance – growth of traditional gas supply as well as longer-term green gas development. As I have mentioned earlier this year, TAG will contribute to geographic diversification of our Global Networks activities. We already operate at large scale in Brazil, one of our priority countries, providing greater concentration of our energy transition relevance and building on the impact of high-performing management teams there.

At an operational level, now, some key elements before Mauricio Bahr gives you more details in a few minutes. This investment has no construction risk as the assets are already in operation. Engie will be active as an industrial partner in the consortium, with full control over operations and maintenance after a 3-year transition period. And, beyond TAG's current cash flow and embedded growth trajectory, we see significant additional O&M optimisation opportunities leveraging Engie's expertise in complex gas infrastructure and longer-term development of new uses for the network.

And, last but not least, some financial considerations, which Judith Hartmann will describe shortly. First, we will book immediate positive earnings contributions, and we expect significant medium-term growth. This is a stable, contracted and regulated profit stream and thus is not exposed to market risk. In line with the approach described at our Capital Markets Day, we put in place an optimised financing partnership scheme with CDPQ, our long-term partner, and we organised the largest non-recourse financing in Brazil.

And now with that introduction I will now hand you over to Mauricio Bahr for a description of TAG's technical, contractual and operational profile.

Mauricio Bahr

Thank you, Isabelle, and good afternoon, everyone. This is Mauricio Bahr. I'm speaking from Rio, Brazil, CEO of the Engie Group, Chairman of Engie Brasil Energia, now also Chairman of TAG. It is a pleasure to be here today with you to comment on the acquisition of TAG, which represents a major step forward for us, complementing our important position as a major renewable generation actor, with 10,000 MW (6% of Brazil's total generation capacity).

TAG's acquisition marks our entry in the network gas segment in Brazil and is fully aligned with our global strategy, as already highlighted by Isabelle. It also contributes to the diversification of our portfolio of assets here in the country and assures the sustainability of our business in the long term. We are very confident in the strength and quality of this business we have just purchased. GRTgaz and Engie Mexico conducted the technical due diligence and were very impressed with these assets and their alignment with international standards.

In Brazil, we are now present with the major business lines of the Group – Infrastructure Networks, Renewables and Customer Solutions.

TAG is the largest natural gas transportation company in Brazil in terms of length and has long-term contracted firm capacities with a total volume of around 74 million cubic metres per day. It runs for about 4,500 km, linking several Brazilian states, having 12 gas pipeline compression stations. The network has various interconnecting points, 10 gas distribution companies, 91 delivery points (such as refineries, fertiliser plants, thermoelectric plants) and 12 entry points, including what is critical to the electricity sector here in the country, which are the LNG terminals – 2 of them located in the area that TAG serves (Bahia and Ceará states). We highlight here the geographic position of the assets connecting the northeast and the southeast regions of Brazil, which account, together, for almost 70% of the population in the country, and also, alongside all the gas supply potential from different bases, long-term regulated contracts and an asset which is already operational. No construction risk, as well, as pointed by Isabelle previously.

Now, moving on to the current contractual aspects, today we have four take-or-pay agreements in force and one pending conclusion that shall be signed in the next months. As you can see from the chart, there is one agreement that matures in 2025 and the rest after 2030. So the average term of the contracts, cash flows, is about 12 years. There is no volume or price risk for these take-or-pay contracts, which currently are signed with Petrobras. Following each maturity of these contracts, there will be a tariff revision process, which is to be approved by the sector regulator, ANP. This process follows international standards, similar to the ones that are used in France, for example, and involves the analysis of the definition of the regulatory asset base, the Opex, a discussion about the Weighted Average Cost of Capital (which is the rate of return on the practice at the date of the revision), the agreed volumes for each part of the network, etc.

The Brazilian gas regulation, jointly with the EPE (the planning entity of the energy sector here) and the Ministry of Mines and Energy, are together enhancing and willing to attract more consumers and private investors as Petrobras now will concentrate its efforts on the pre-salt discoveries exploration, which will bring even more gas to the economy. So, in this sense, we are supporting ANP as well as participating in the main stakeholders' discussion groups. There is currently a public hearing on the Brazil-Bolivia gas pipeline tariff revision going on at this stage and the preliminary WACC under discussion is around 9% in real terms (just to give you an idea).

Authorisations are valid until 2039-2041. After that period, authorisations can be either renewed or the regulator may decide to indemnify the owner by paying the residual value of these assets (investments which were not amortised until such date).

So we firmly believe that now will be the cycle of the natural gas as a key player for the energy transition in Brazil. That gas will replace coal, diesel and heavy oils in the Brazilian energy mix, and will be essential to guarantee the continuous increase in renewable capacity in Brazil by assuring dispatch flexibility to cope with the intermittency of the renewable sources such as wind, solar, and run-of-the-river hydro plants that have been introduced in the system recently.

Now, from an operational perspective, Engie will take full responsibility of O&M, so operations and maintenance for TAG after the current 3-year O&M agreement that we hold with Transpetro, thus creating opportunities to reduce these costs.

The integration of TAG has already started and is progressing very well. Engie and CDPQ have nominated new executives to run the company and an integration team has been working at TAG since the conclusion of the acquisition last June 14th.

TAG has a staff of around 90 people running smoothly, with the benefit of a transitional service agreement with Petrobras. We are now bringing the full, leading industrial expertise of the Engie Group, which already operates more than 35,000 km of gas pipelines globally, as a gas transport network owner and operator in open markets. This experience is very valuable in a country like Brazil, allowing us to well position, to realise several upsides from technical and commercial points of view.

Finally, we have experienced the evolution of the electric sector in the last 20 years in Brazil, with the acquisition of former Gerasul, now renamed Engie Brasil Energia. We were able to grow this company by multiplying its installed capacity by 3, transforming it into the largest private IPP in Brazil. This was done during a period of opening the markets, the creation of the existing electricity sector regulatory framework. By entering the gas segment, in a moment of opening of the Brazilian gas market, with the end of the Petrobras monopoly, we can

use all of our experience and relationships with key stakeholders to develop this market and contribute for the long term in the sustainable development of the infrastructure in the country.

With that, I will hand over to Judith, to cover the financial impacts of the TAG deal.

Judith Hartmann

Thank you, Mauricio, and good afternoon, everyone.

I'm very pleased to have this opportunity to take you through the TAG transaction structure and the financial impacts we anticipate, which are the product of significant work by our corporate and Brazilian teams, both internally and together with our excellent partner, CDPQ.

With respect to the deal's financing structure, we have again leveraged Engie's leading financing syndication capabilities to form a consortium with CDPQ to acquire a 90% share in TAG from Petrobras. In this consortium, Engie holds a majority stake, structured by both Engie SA and Engie Brasil Energia.

We have put in place a project capital structure with a debt-equity ratio of approximately 70-30, following a lengthy process to secure excellent, very competitive debt financing with a strong banking consortium. This optimised financing structure both enhanced our competitiveness and limited the Net Debt impact at Group level to €1.6 billion.

On the next page, you can see that this transaction will be immediately accretive for Engie. Given the deal's structure, TAG will be accounted for as an associate both at Engie SA and EBE levels, with 49.3% of TAG's Net Income attributable to Engie SA and flowing into our Net Recurring Income, Group share, in respect of the aggregate of our direct and indirect holdings in TAG. At the COI level, Engie will incorporate 58.5% of TAG's Net Income, with 29.25% derived from our direct TAG stake and another 29.25% derived indirectly via our EBE stake, and a portion of this will then be allocated to minority interests in respect of the portion of EBE's interest which is not attributable to Engie SA. Given this accounting treatment, TAG's capital expenditures will not be consolidated into the Capex of Engie.

Regarding earnings accretion, we expect, in 2021, a total contribution to Engie's Group of around €0.13 billion in COI and €0.1 billion in Net Recurring Income, Group share.

Regarding cash generation, TAG will aim to maximise cash flow distribution to its shareholders following satisfaction of Working Capital, Capex and Debt service requirements, distributing all excess cash. In 2021, TAG will pay out approximately 65% of its Net Income in dividends.

On the next page, you can see that this deal is financially attractive, with a contribution of approximately 100 million by 2021 and significant medium-term growth expectations. More precisely, at Engie COI level, we expect a partial contribution of €60 million in 2019 and a full-year contribution of approximately €130 million in 2021 with a CAGR above 10% from 2021 to 2024.

At the Engie Net Recurring Income level, we expect a partial contribution of 40 million in 2019 and a full-year contribution of roughly 100 million in 2021 with a CAGR of over 15% through 2024.

Our expectations of this very attractive medium-term growth trajectory are predicated upon a TAG Revenue growth 4% to 4.5% per annum, in accordance with its contracts' indexation terms, our expectation of significant savings from operating cost reduction opportunities and, naturally, TAG's net results will improve over time as the acquisition debt is amortised and interest expense reduces accordingly.

Needless to say, TAG constitutes a material investment beyond the scope of the 3-year Capex plan that we announced in February and will, accordingly, generate significant incremental profits. And, indeed, our excitement around the TAG deal is driven in large part by our positive outlook for its financial returns. ROCE will start in the low double digits and is anticipated to grow well into the teens thereafter.

With that, Isabelle, Mauricio and I are happy to answer your questions that you may have regarding the TAG transaction and the business itself.

Q&A

J. P. Morgan

Hi, good afternoon. Thank you for this call on the TAG acquisition. A couple of questions.

I see we have the guidance for 2021, thank you very much, and 2019, which is very helpful, but I don't see anything on 2020. There is one thing I can see: in slide 4, you explain that your P/E for 2020 would be less than 14x so, depending on the type of gearing we put on it, that could mean a net income which would be above the 100. If I assume 80% gearing on TAG that would be 110, if I assume 75 that would be 120 or plus. Could you give us a bit of colour on that? That would be very useful.

Second question here: the Brazilian government wants Petrobras to sell its shares, directly and indirectly, in basically up to 19 distribution and transmission assets. Do you see TAG as basically as a foot in a market from which you can potentially have a preferential position, synergies, in order to grow further? And, if so, would you do it on an asset-light model like you've done here? That would be the second question.

And, after, two very small questions, which are unrelated.

So, on Tihange 2 we seem to be out of the woods, according to your presentation. I just want to know what could go wrong and how comfortable are you there? How can we be reassured that basically the nuclear issues are past?

And the second one is on EDPR, the joint venture. It would be interesting to get a bit more colour here on the strategic rationale, scale, diversification, the fact that you have potentially a similar asset-light approach, and can it be seen as a preliminary positioning if such an asset would come to the market one day?

Thank you very much.

Judith Hartmann

Okay, I'll start with the 2020 contribution number that you have asked about, Vincent. So it is... You know, 2019 you can see on the page is obviously only a partial contribution over the year, so 2020 is going to be closer to the 100 million, slightly below, and a little bit of growth between the two years, between 2020 and 2021.

I will also... I will continue on the Tihange 2 question, on the restart. So we feel... We're confident on this. It's imminent as we speak and so we're... You know, the teams are working on the last-minute... the last-minute work is ongoing. So this will be in line, of course, with what we had expected, and is very good news. Isabelle?

Isabelle Kocher

So I will let Mauricio first to answer the second question, Mauricio, regarding synergies and, more generally, the situation with Petrobras.

Mauricio Bahr

Okay, thanks for the question, Vincent. I think the Brazilian government is now in the middle of the plan with the decision to sell a lot of assets, especially from Petrobras. They have sold already NTS, the southeast gas pipeline, a couple of years ago, now the TAG deal, now they will start selling potential participation in distribution... in gas distribution companies, and even refineries and other assets. They will go further now to concentrate on their core business, which will be the exploration and production of offshore deep-sea oil that they have found. So this will be good news (to inject even more gas into the system). And this will allow to have more players, to have more participants in the market, to develop its base.

In terms of the 10% that Petrobras still holds in TAG, whenever they have a decision to sell, it's important to mention that we have preferential rights. So this is also pre-decided that, whatever comes up, we can have a look at and we have a right to match (let's say). So we are looking further to the development of the gas market and we'll take a closer look to enhance this as we did in the electric sector in the past 20 years.

Isabelle Kocher

Thank you, Mauricio. And effectively it will be our choice at the moment when it happens either to buy this 10% additional stake or not.

And regarding EDPR, finally – and thank you for giving us the opportunity to go back to this important transaction we signed recently – you know, offshore is a huge market. There is no doubt. A huge market in Europe, a huge market in the US, a huge market in some Asian countries. And this is a technology that is complex, and this is a technology where we don't fear commoditisation effects, I would say. So it really makes sense to become a key player in that domain. As you all know, we have decided to focus on complex renewables, to go to blue oceans (if I can say that this way). So offshore wind is a good field for us. And we are convinced that this is a field where it typically makes sense to gather forces: huge projects, a long time of predevelopment and development, so big investments to do to predevelop and develop these projects. And the fact is that, with EDPR, we already know very well each other, we have in common several key projects in the offshore sector. So, putting our forces together, we can become, and we will become, a key player in Europe. And we expect that we can probably become number-two, progressively. And that means that, by definition, it would lead us to an additional growth pace in the renewable field. It doesn't change, probably, the pace of development for the guidance period, because the projects we have – each of us, EDPR and us – we are already together to develop them. So they are already in our perspective. But we will have an additional ability to grow further, after 2021, because, working together, we can increase – that's very simple – we can increase the size of the pipe, the development pipe, we are working on. So that's a key alliance. And I really believe it will give us even more growth drivers for the future.

Bloomberg Intelligence

Hi there. I have two questions, please.

The first one is on forex risk. I mean, how are you managing that? I mean, we've seen a massive devaluation not long ago in Brazil. God forbid it happens again. What is the impact?

And the second question is about the contract that is coming up for expiry in 2025. It's quite a few years from now but I just wanted to see, is there any possibility that Petrobras wouldn't sign a new contract or will sign a contract not for the full volume? Or they have to sign a contract (it's just a matter of the price)?

Thank you.

Judith Hartmann

So, on foreign exchange, there is, I would say, two topics that help us with a natural hedge on this and one is indexation clauses on the contracts, on some of the baskets, and this is quite frankly similar to what we have on our hydro concessions. At any given time, it gives us a partial hedge there, naturally. And then the other point is that some of the revenues are actually structured in USD. And so we have also structured, by the way, our debt that way, that we can serve that part with our USD-denominated debt. So it's quite a good offset there. And then, on the contracts, I will let Mauricio answer.

Mauricio Bahr

Okay, thank you for the question. On the contract expiring in 2025, it's a contract which is not material for the size of the transaction. But, of course, I already anticipate that there is no time for building a new pipeline in parallel to this one. I mean, it's a natural way to see the pipeline being used, and the market in Brazil being able to, let's say, to grow in a certain way, let's say... our expectations in the next 10 years is that we will more than double the gas market in Brazil. We should reach 200 million cubic metres per day from, today, 80, 90, 100 depending on the day. So we see a lot of good perspectives for this contract to be renewed – either by Petrobras or by other potential clients. So we don't see, let's say, a risk, a significant risk, on this one. And contracts are also indexed by inflation, which is a very good protection in terms of what you mentioned, in terms of foreign exchange.

Bloomberg Intelligence

Thank you.

Morgan Stanley

Hello, thank you for taking my questions. I have two.

The first one is I would like to know how you think about Engie's presence in Latin America. LatAm now represents a sizeable share of the Group's profits, so could you keep increasing this share or... and could you conduct more acquisitions? Or do you have a limit, a cap, on that?

And the second question: you were highlighting the diversification into higher-growth areas for Networks but, coming back to the lower-growth part, to France, is there any progress on the potential disposal of a stake in the French grids and in terms of the regulatory review for gas grids as well? Thank you.

Isabelle Kocher

You know, regarding France, we will update you of course on the renegotiation of the regulation rates, and it will happen after the summer. And that's true that we still contemplate a future consolidation of networks in Europe. For sure it will come. So we're happy that the PACTE law gives us more flexibility on that domain. And, if you look at a map, you see... This is obvious the interest of having a GRT, in particular a GRTgaz transmission entity that could be more connected to other European players. So this is something we continue to be active on. It could take time. It doesn't depend only on us. I suggest you really look at that this way: it's more that than a disposal, in fact. It's more to reinforce the positioning of GRT on the European market than to dispose it.

And, regarding LatAm, so Mauricio could add some elements to what I will say. Latin America is, for a very long period of time, a key region for Engie. It accounts for more or less 25% of our different levels of contributions. So that's very material. We know very well this region, we have a lot of businesses, business lines now in this region. We managed to develop over the last years no longer only CenGen activities, Thermal activities, but also Renewables, with a great success in Chile and Mexico, and also in Client Solutions. So it means that, starting from an initial CenGen, thermal generation activity, we progressively leveraged that historical basis to develop Renewables and Client Solutions and Networks, and to have a second wave of growth, if you want. And we will of course continue. And we see a lot of opportunities in this region of the world and the TAG operation is a very good illustration of that. So a lot of confidence in our ability to grow further in that part of the world.

Morgan Stanley

Thank you.

J. P. Morgan

Hi. Sorry to come back but I must have missed the comment regarding Tihange 2. I wanted to know if you could repeat, like, the situation there and how comfortable you are that this is indeed coming back on time and the nuclear issues are part of the past. Thank you very much for that.

Judith Hartmann

So, I thought I was clear earlier, Vincent. We are confident it's coming back. Like I said, we are in the final preparations here. So there is no doubt in my mind that we're going to have the restart shortly. And so that's going to be good news.

Isabelle Kocher

Thank you very much. We are happy to have this opportunity to share with you what is probably one of the most important operations in the energy world during this last quarter. So congratulations to our teams, and in particular in Brazil. And happy to update you on the progress of this new entity. Thank you very much. Have a good day.