Aarti Singhal

Thank you and good morning, everyone. It's my pleasure to welcome you to our Q1 conference call. Shortly, I will hand over to Catherine and Pierre-François, who will present our first quarter performance, following which we will open the lines to Q&A. And with my usual polite request of limiting your questions to one or two only, please. And with that, over to Catherine.

Catherine MacGregor

Thank you, Aarti, and good morning, everyone. Let me start this morning’s presentation with the actions that we are taking towards enhancing the security of supply given the current context. A context that is triggered by the war in Ukraine, that is having such a tragic impact on lives. ENGIE prides itself in being a responsible and compassionate company. We are engaged in many ways to help the humanitarian efforts directly, but also in partnership with NGOs.

The ongoing crisis reinforces the relevance of our strategy, a strategy that aims at a balanced, resilient and affordable energy mix. Our business model is built upon the strength of world-class industrial Global Business Units that position us strongly to steer through the current energy crisis and to create sustainable value in the long term.

We are indeed among the world leaders in renewables, and that is a platform that we are continuously developing. The strength in renewables is complemented by a large portfolio of flexible generation assets, which are absolutely key to addressing intermittency. And we own and operate significant critical networks and distributed energy infrastructure. All of these activities in combination with our unique global energy management expertise help us find solutions to the energy transition commitments of our customers. Our teams are more focused than ever in contributing to the transformation of the energy mix to the development of both renewable power and renewable gases.

As a major energy player in Europe, we are playing an active role in shaping the future of energy. First, we have diversified and increased sources of gas supply to address volume risks. We have entered into new contracts. We are maximizing volumes from existing ones such as with Norway. Second, our networks are delivering strong operational performance and reliability in the backdrop of such a higher utilization. For example, our three LNG terminals in France have operated close to maximum capacity with a record 64 ships unloaded in the first quarter.
And we are enhancing LNG operational capabilities. We are taking dedicated actions to debottleneck and also to expand the input capacity for the next three years.

Third, our supply teams have significantly stepped up efforts to help customers with extra support in these very difficult times for many. We are always mindful of our role as a utility and of our responsibility towards affordability. We are engaging with governments and regulators to play our part. For example, through working capital support to enable the regulated gas tariff freeze in France. And there are many other examples, such as power and gas customers in France, with fixed tariffs being protected from the price increases in the last months, and individualized cash management support by increasing the number of payment instruments in Belgium, France and Romania.

We are advising customers on how to better manage their payments, and we have also increased our resources to respond to customer calls. For example, in Belgium, we have increased the number of staff members in the call centres by about 30%. Lastly, we are helping prepare for the future. We truly see an inflection point in unlocking the potential of renewable gases. More on this later.

Before turning to the highlights of the Q1 performance, first, a few words on ENGIE’s gas positions in Europe. We have a portfolio of gas purchase and gas supply contracts. We procure gas for sales to B2B and B2C customers and for our own consumption by our CCGT power plants. And these volumes total around 400 TWh a year and that is talking about Europe.

Related to this commitment, we are structurally long gas. The delta is sold in wholesale energy markets. In the current context, obviously we have adapted our risk policy and hedging strategy to actively manage our exposures. Pierre-François will provide more in detail later.

On the topic of payment terms for Gazprom, ENGIE has taken the necessary steps to be ready to execute on our payment obligations in compliance with European sanction framework and without modifying the balance of risk for ENGIE.

Moving now to our operational and strategic progress. ENGIE has continued to perform strongly. We posted an EBIT of €3.5 billion, growing 76% year-on-year on an organic basis. GEMS delivered very strong performance in exceptional market environment, optimizing our flexibilities in long-term contracts but also responding to strong customer demand.

Again, strong operational performance enabled us to capture high prices particularly in nuclear. Renewables performed strongly as well, and European thermal also saw high contribution from higher spread as well as ancillary services. Supply contribution increased in the market conditions that we know. The group has benefited from its strong balance sheet and liquidity, supporting temporarily higher working capital requirements.

Finally, we are upgrading the guidance for 2022 in light of this very strong Q1 performance and with updated assumptions for commodity prices. We will cover that in more detail.

Importantly, we have made strong progress on the execution of our strategic plan, a plan which is designed to deal with solid foundation for long-term growth with the focus on simplification and value creation. We have advanced further on our disposal program. Last week we signed the SPA with Bouygues as a conclusion of the consultation period with relevant employee representative bodies. So we are on track for the completion of the EQUANS transaction in the second half, and this, of course, will represent a major step in the implementation of our strategy.

We have also completed the disposal of a further 9% of GTT and the sale of ENDEL, which is a subsidiary specialized in industrial maintenance and energy services. And we progressed with the sale of 17 energy services companies in Africa, further rationalizing Energy Solutions activities.
We have maintained the momentum on efficiency improvements across the group through the implementation of a performance plan that is focused on operational excellence, the improvement of support function, and fixing of loss-making entities. Renewable growth is on track, and Energy Solutions with strong commercial momentum, particularly in distributed energy infrastructure, winning contracts in local energy network and on site generation, such as the signing last week of a global contract with Faurecia where ENGIE will install, operate, and maintain solar panels across 14 countries.

In Renewables, we are continuing to work and develop a strong platform. We’re targeting 50 GW of total installed capacity by 2025 with an average of 4 GW additions per year to 2025, always with a return focused approach.

In terms of progress in the first quarter, we have secured a French hydro portfolio with the CNR concession extension granted to 2041. We have continued to strengthen our operating asset base as well as our project pipeline with the closing of the acquisition of Eolia in May, which is reinforcing our Iberian platform. And we have also acquired Photosol in the US, which will bring 17 early stage development projects.

Really pleased with Ocean Winds that is making strides in its offshore program. Ocean Winds was only created in 2020. Since then, its portfolio has doubled, reaching 11.2 GW of offshore wind projects in operation under construction or under development. For example, in the first quarter, Ocean Winds has been awarded a lease area in the New York Bight offshore wind energy auction, for a site with a capacity of up to 1.7 GW.

In the context of rising global inflation and supply chain constraints, we are geared up to operate in what is a new normal. So, the focus is on mitigating the risk of price increase and shortage of critical supplies. Our renewables and procurement teams are working very closely, doing a fantastic job. They’re working with existing and new suppliers. They are leveraging economies of scale, even more so with the organization per Global Business Unit.

And then I’m very proud to share that ENGIE recently launched a new initiative to enhance the acceptability of renewables by society. It’s a certification that we are calling TED, which will be audited by Bureau Veritas founded on nine concrete commitments that go beyond regulatory requirements, which is demonstrating ENGIE’s strong commitment on sustainability.

From renewable power, let's now move to renewable gases. Renewable gases have a critical role to play in the energy transition. This is recognized by the REPowerEU plan as the Commission is presenting proposals to boost the biomethane production, aiming for 380 TWh by 2030 which is doubling the current ambition. This new target corresponds to around 20% of current Russian imports.

They will support the acceleration of biomethane production in France which has the largest potential in Europe, and this is driven by its strong agricultural sector. French biomethane production capacity has been growing strongly over the last years. They have reached 6 TWh in 2021, and we believe that the current 2030 target could actually potentially rise to at least 60 TWh.

We have been engaging with public authorities to accelerate the development of biomethane in France, very encouraged by the fact that the regulatory agenda has progressed with new incentives such as production certificates, large tenders, and increased level of support on grid connection cost.

Our regulated gas networks in France are already contributing to biomethane development, for example, with around €500 million, are expected to be invested for grid connections alone from 2022 to 2024. And this new momentum in renewable gas will obviously play a very important role in achieving a 2045 net zero target.

Alongside biomethane, we are at the forefront of developing hydrogen. Let me give you a few examples of the project we're working on. Reuze, a project to produce synthetic fuels from captured CO2 combined with green
hydrogen. That green hydrogen would be produced by an electrolyzer installed by ENGIE. Yuri, a partnership through which we will keep producing green ammonia from green hydrogen and that project is in Australia. And RHyno, a proof of concept in South Africa, where we just inaugurated the world’s largest hydrogen powered mining truck, aiming to reduce diesel emissions in mining operations. There are so many other examples from across the group, such as the partnership that we signed with Alstom to offer the rail freight sector a solution to replace diesel with hydrogen as a fuel. And let me remind you that ENGIE is targeting to deploy 4 GW of green hydrogen production capacity by 2030.

Lastly, a quick update on Belgium. As you know, the Belgian government decided to consider the extension of the operational lifetime of two reactors to 2035. We are obviously contributing to this rethinking, we are working with the government on studying the feasibility and also the implementation condition of such a scenario. Given the project scale and timing, the group would engage in such project with a balanced risk sharing approach. In the shorter term, our priorities in Belgium are to maintain high operational availability, which has been very strong so far, prepare the upcoming shutdown and enter into the process of the triennial review of nuclear provisions in H2.

Let me now hand over the floor to Pierre-François.

Pierre-François Riolacci

Thank you very much, Catherine, and good morning, everyone. And let's crack straight on the numbers and indeed, we are coming out this morning with a solid set of results for Q1.

On the P&L, we posted significantly higher earnings with EBITDA up by about 50% and EBIT being up by about 75%. As we have seen already in Q4 2021, the cash generation is impacted by some temporary effects, which actually is reflected in working cap variation. And this led to a negative minus €0.1 billion in CFFO for Q1. And of course, I would come back on that. The net debt is higher by about €2 billion for both financial net debt and economic net debt. However, as you can see, our credit ratios did improve and we maintained a strong liquidity with high cash levels. And last but not least, we are upgrading our 2022 guidance.

Let's go a bit closer and to the details. So, EBIT is up by €1,500 million +74% growth. We have slightly negative scope and effects impact of minus €27 million. This scope is linked to 2021 events as a partial sale of the GTT shares and also some asset disposal mainly to achieve, of course our geography core refocus and the coal exit target.

On the FX side, the positive which is linked to the appreciation of Brazilian Reals, and to a lesser extent, US dollar against euro. The organic increase is +76% and I'm pleased to see that quite a few business units are actually contributing. Renewables is up by nearly €200 million, +72%. Strong growth driven by higher prices in Europe mainly coming from the French hydro but also benefiting from the…also, of course, to flag the contribution of a new capacity commissioned and tested which is, of course, great contribution. We had some headwinds and especially some lower hydro volumes in France and in Portugal due to hydrology.

On Networks, we are down by €94 million which is minus 9%. This is on the back of negative effect in Europe due to warmer temperatures on the one hand but also lower regulated revenues from the French assets, which are actually reflecting the regulatory reviews from the last period. We are not coming to the end of this regulatory review and we see this negative impact.

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This negative impact were partly offset by tailwinds outside Europe mainly from higher contribution in Brazil with our power lines and construction progressing. Energy Solutions is plus €12 million, +9%, which is a nice positive
effect from energy prices increase, but also a commercial market dynamic. However, we still are hit by EVBox, which is posting a lower contribution in Q1 than last year. This impact should fade away through the year and we expect H2 to be in a much better position.

On Thermal, up €254 million, that is +91%. Very positive results mainly linked to the European activity as we were able to capture higher spreads, but also a good contribution from ancillaries. And this was achieved despite the Chilean operation being still under pressure.

Supply is up €94 million, that is +43%. And this was driven by a bit of unusual effect. We had warmer temperature, which is not great news. But in this case, it led to long gas position that we were able to monetize in the market, of course, in good conditions. There was a negative impact of prices in some countries, such as the price cap in Romania. But this is a Q1 only impact, which is not expected to be repeated.

On Nuclear, plus €530 million, an exceptional performance, which is indeed driven by much higher achieved prices, which are only partly offset by increasing taxes specific to our units in Belgium. We had also some somewhat lower volumes due to a slightly lower, albeit still high availability for our Belgian reactors. But that was planned, and it was on the back of planned outage.

Last but not least, Others is up €536 million and it is driven by the exceptional outperformance on all GEMS activities, which I'm going to detail in the next slide. But before I move there, I just want to highlight that our performance plan, as Catherine was mentioning, is contributing in Q1, for about €68 million. It's a decent quarter in line with a full year expectation. So while we are leveraging the current market condition, clearly it is critical to keep the basics right and drive competitiveness agenda in the long run.

So moving to GEMS, I mean, you are familiar with this business that we had the opportunity to highlight already a couple of times with a strong expertise with more than 3,300 employees. And GEMS, which stands for Global Energy Management and Supply is actually integrating our energy position for our own accounts, as well as for our customers and sometimes even for partners. So they are the guys who are actually negotiating a large part of the PPA but also architecting a revenue blend, and I think that needs to be fully understood.

Of course, in the current environment, this is offering some opportunities. And here, GEMS had two key strengths. The first one is this long gas position in Europe with optionality embedded in the contract. Catherine was pointing to it. The other one is, of course, GEMS is a net seller of volatility. If you take a look on the year-on-year delta for some of these key market drivers in the table on the right hand side, it is quite spectacular for both prices and volatility. And of course, you can imagine this market has been providing strong tailwind to our GEMS activity.

And indeed, GEMS delivered this exceptional outperformance in Q1 with some key drivers. The gas optimization was, of course, boosted by the prices, but also the geographic spreads, and this was leveraged with dynamic optimization of all the contractual flexibilities which are embedded in our contracts.

We had also a higher contribution of our risk management. We had a lot of requests from our customers to asking for a cover or for hedging and support solution. So, more volumes driven by customer demand. And last but not least, our trading activities, of course, benefited from the higher volatility.

Let me be crystal clear, our business model is not based on taking open or directional positions. It is actually the opposite. We have strong risk control processes, tested hedging policies, and procedures. And to take in account the new uncertainties, of course, we had to adapt some of them. As such, we have adjusted our hedging policy to other short term exposure on our Gazprom contracts. And the risk at the end of March was just under 5 TWh for a maximum exposure of 15 TWh as it was disclosed early March.
However, this position is managed dynamically depending on price environment, or assessment of short term gas disruption risk and a few parameters. But at the end of March, again, it was just below 5 TWh versus 15 TWh which is the maximum exposure. So, great job done with GEMS, which is more than ever a critical component of our value proposition to our customers.

If the market was a strong tailwind to our P&L, it was definitely a headwind in the short term for our cash generation, and indeed, the CFFO amounted to a negative amount of minus €0.1 billion, which is down €1.7 billion compared to Q1 2021. The operating cash flow is up by €1.7 billion, broadly in line with EBITDA improvements, nothing wrong. Working cap variation is negative minus €3.3 billion. It's not a big surprise. It doesn't figure any specific worry, let me take you to the different building blocks.

The first impact minus €700 million is actually the higher stored gas volumes, which was driven primarily by security of supply but also warmer temperatures at the end of the quarter. So, higher volumes in our inventories – gas inventories. But of course the main impact was linked to the higher commodity prices, which has been impacting the gas inventory to a certain extent, the net receivables, big time, the unbilled B2C volumes, which are the energy in the meter and also the margin costs which were also impacted by higher volatility, you know, the margin costs are driven by prices but also volatility assumptions. And the last component which is coming from the – is the French supply tariff shield for about €500 million negative in Q1. By design, most of these items are not repeatable in the future as they are triggered by the price increase mainly and could actually reverse if we had another price environment.

One point, which is very important, which is linked to receivables, is that we have actually reduced slightly our DSOs to 53 days year-on-year. And this is due partly to the activity mix and this is on the back of our disposal program. We have actually sold activities which were more demanding in terms of DSO and that's good, of course, that we benefit from that impact. We have also the benefit of higher energy related content in our billing, and this energy content is calling for shorter payment terms than the other part of the service. But we had also the benefit of continued discipline in cash collection, which is very important. And I'm pleased to report that we don't see any significant deterioration of collection pattern other than agreed, of course, and also not reporting any significant increase on bad debt.

With healthy operational activities, robust earnings, these effects are temporary and are expected to be recovered over time. In this unprecedented market environment with risks of gas supply disruption, we managed...[to maintain a strong liquidity position as shown on the graph]... on the right-hand side. Our starting point, of course, was very good, but we still have taken a few further actions especially regarding liquidity. We have increased the initial margin substitution to stand by letter of credit, up by about €700 million on the quarter year-on-year in the first quarter. We are also constantly acting to limit the margin calls through the use of liquidity swaps and, as a safeguard, we open new credit line especially to cover the daily volatility notably with...[the signature of a swingline for 1.5 bn€]...coming on top of our existing facility.

On cash, we are actively managing our treasury, for example, with an increased use of commercial paper at undeteriorated, unaffected conditions, and of course, commercial papers, which are backed by a syndicate of credit lines, and this is used when needed to finance our initial margin increase. We are, as you can imagine, scrutinizing our liquidity on a daily basis both short term and long term.

Moving now to the balance sheet and some credit metrics. So, the net financial debt stood at €27.3 billion in the quarter, up €2 billion compared to the end of last year. This is, of course, including the negative Q1 2022 CFFO of minus €0.1 billion, the capital expenditure for €0.8 billion, but also the new rights of use of same amount, the €0.8 billion mainly following the renewal of the CNR hydro concession for 20 years. We had in Others a €0.6 billion impact which is related to forex.
These elements were only partly offset by the disposals for about €0.8 billion related to the earn-out of the sale of the 29.9% shares of SUEZ, the sale of the remaining 1.8% in SUEZ, and the 9% partial sale of GTT. It does not include, of course, the net proceeds of the EQUANS disposal which is progressing as planned.

The economic net debt stood at €40 billion with an increase in line with the net financial debt evolution. Our leverage ratios improved driven by the strong LTM EBITDA increase. Notably, economic net debt-to-EBITDA ratio stood at 3.3x down 0.3x compared to 31st of December 2021 and in line, of course, with our target ratio which is to be below or equal to 4.0x. Lastly, no recent change on the rating which is in line with the strong investment grade target we want to stick to.

With that, in line of this very strong Q1 2022 and with updated assumptions for the balance of the year, notably on the commodity prices now being based on average forward seen over Q4 2021 and Q1 2022. We are in a position to upgrade our full year 2022 guidance.

We indeed expect 2022 net recurring income group share to be in the range of €3.8 billion to €4.4 billion. That means the mid-range up by €0.9 billion, which is based on indicated EBITDA range of €11.7 billion to €12.7 billion, again mid-range up by €1.3 billion and an EBIT range of €7 billion to €8 billion, mid-range up €1.2 billion. You can see that we have widened the ranges and this is of course to reflect the current context of high volatility but also the increased absolute numbers that we are guiding on.

A few important comments on these figures. First, since the beginning of the crisis, we have taken action to increase and diversify our sources of gas supply, as well as optimize our hedging positions. Together with the lapse of time, our 2022 exposure to current uncertainty have therefore decreased.

Second, we have considered various scenarios. Some business as usual, just tweaking the price assumption and some operating assumption, some with a cut in Russian gas supplies with, again, different assumptions and some with a significant position in H2. In all cases, our expected performance for 2022 remained resilient and it would take actually the conjunction of various significant negative assumptions to derail our performance in 2022.

The main reason is that while Russian gas supply cut would likely have an immediate negative impact from mark to market position, the overall environment resulting from that is likely to be supportive to a significant part of our business, both in prices and volumes of ancillary services, allowing for some recovery over time.

As usual, we have some qualification in our guidance, but overall, we are confident in our ability to limit the impact of potential headwind. Thanks to strength of our integrated business model, which includes a growing renewable portfolio, large regulated network and flexible thermal generation. The other part of the guidance related to the rating and the dividend remain unchanged.

With that, I would like to hand over back to Catherine.

Catherine MacGregor
Thank you, Pierre-François. So, just to summarize some of the key messages.

We are indeed enhancing security of gas supply in the current context. We delivered a very strong first quarter financially, but also operationally in what are exceptional market conditions. Of course, this would not have been possible without the engagement, the enthusiasm, the strong commitment of our teams, who are rising to the challenges of the situation. I am really proud of them.
We are maintaining strong liquidity, robust balance sheet and, importantly, our strategy and integrated business model remain more relevant than ever to contribute to the energy transition to create sustainable value in the long term. We can now open the line for questions.

Q&A

Operator
Thank you. (Operator Instructions)
Your first question today comes from the line of James Brand from Deutsche Bank. Please go ahead. Your line is open.

Analyst: James Brand
Okay. That's good. First of all, I said, well done on the really good results. And then I had two questions. The first was on the Belgium nuclear life extensions, when you're talking about the statement. You made a comment towards the end of that where, among other things, you said you were looking for a clarified dismantling and nuclear waste framework. I was wondering whether you could give some more details on what you're looking for in that area.

And then the second question was just on the gas procurements. You've obviously been very clear on how much of your gas has come from the Gazprom contracts out of the total. I was wondering whether you could give us whatever breakdown you're able to give in terms of where the rest of the procurement is coming from. Is that mostly on wholesale markets? Are there some bilateral contracts there? Any more details on the rest of that, so we can conceptualize as what the rest of are kind of conceptualize the risks are kind of X the Gazprom contract would be really useful. Thank you very much.

Pierre-Francois Riolacci
Yeah. Maybe just on the gas supply, I think that you need to know that most of our gas supply is actually sourced for long term contracts, whether they're coming through pipe or through LNG, and they are coming from various operators, of course, Gazprom is one of them. And then it comes to many other, including Equinor and including all the names that you can think about. So, it's not that we are actually getting our supply out of the wholesale market, it's a very long term contracts, which is the bulk of our gas supply.

Catherine MacGregor
Okay. And let me take the Belgian extension, nuclear extension question. I think what is really important to understand with this potential extension is that it would come with a number of risks and uncertainties related to, first of all, the technical aspects of the project, but also the regulatory framework components need to be put in place for this extension to be both, you know, planned and then of course, executed. And so, we're looking at this project as a whole, concerning all of our nuclear activities in Belgium. The risk of this extension, and of course, you know, the risks related to the dismantling of the plants, which would happen at the same time as well as the waste management. So, we're really looking at the whole risk balance and making sure that indeed, you know, through this potential project, we remain and we continue to have a balance risk overall in Belgium for our nuclear operation.
Analyst: James Brand
Okay. Great. Thank you very much.

Operator
Thank you. Your next question comes from the line of Ajay Patel from Goldman Sachs. Please go ahead. Your line is open.

Analyst: Ajay Patel
Good morning. And firstly, thank you for the presentation, and congratulations on your numbers this morning. I have two questions. One, I wanted to focus on Russian gas exposure. So in a statement, you kind of highlight that previously you've had an exposure up to 15 TWh because you fixed that procurement contract one month in advance and that you've done a number of things in the portfolio to reduce that exposure to 5 TWh at the end of March.

I guess what I wanted to understand is, is that 5 TWh just a function of us having been now moving into the summer and, therefore, it would be naturally lower? Or have you done something specific within the portfolio to reduce the exposure? And how long would – could you detail what those are? And secondly, how long has that exposure been reduced at that level? Just to understand how much of a – how much of this risk has been mitigated and on what basis, really?

And then the second question I wanted to talk about, just clearly compared to your Investor Day that – on CMD that you have done before - the cash generation of this business has improved and that clearly does – will eventually benefit with you having a better opportunity to invest. And I just wondered if you could flag where would be your strategic priorities for that cash flow?

Catherine MacGregor
Okay. Let me start with that second question, because that's -it's actually quite exciting. Because when I look of what's happening in the world of the energy, I really feel that we are a bit of a turning point. And you know, the crisis that we are experiencing here in Europe is actually creating a momentum behind the energy transition with potentially a strong acceleration. And it's really interesting right now, you know, a lot of the discussions we are having with regulators and government is that what can you do to accelerate the development of the renewable energy today for example. And that is true for power. It is true also for gas. So, a bit of the context to your question, Ajay, is the fact that we are seeing a number of acceleration opportunities.

Of course, you know, we continue – we are on track with our Capex plan as presented to you at the CMD. The strategic priorities are pretty much the same. You know, it's very much renewables, decentralized energy infrastructures. Renewables includes power, but also of course, gas and you know, we're very excited about the renewed objective in biomethane and even the longer term hydrogen. And so that framework has not changed. In a way, it is being validated by what's happening in the world.

So, very much continue to look forward to invest in Capex, into organic growth opportunities, mainly, not immune to potential inorganic opportunities as they come up. And that's why we mentioned the closure of – the closing of Eolia, which is a very interesting one because it's very adjacent, very complementary to our current portfolio. We feel we can add value as an industrial operationally. So, that is the type of things that you would be looking at focusing on in terms of growth. So, that's a little bit our priorities, very much unchanged. It's probably even more exciting environment actually than before.

And please, Pierre-François, you want to comment on the 5 TWh?
Pierre-Francois Riolacci

Yes, a quick one. So, you remember that this exposure is coming from us sourcing gas with a price mechanism which is actually determining the price 30 days ahead. And as a good operator, we are actually selling the same way so that we make sure we are not creating an exposure. The exposure is coming from the risk that Gazprom could suddenly stop and then we would be short of the volumes that we have that we saw.

So, there are different ways you can address this. You could actually play on the sales. You could also actually source other quantities in another ways on a rolling basis. So, there are an array of instrument that we can actually use and our teams are doing the best to make sure it's done in the most efficient way.

What I would like to highlight again that nothing to do with seasonality or winter, summer, so you should not expect that it should be moving on the back of this quarter. However, we want to retain the possibility to position the right level depending on – again, on the price environment, on the risk that we see in the market. Because, of course, when you are doing that kind of de-hedging or counter-hedging, it comes with a cost. So, that's our job to make sure that we do the best and we do that based on market conditions.

So, the 5 TWh is not carved in stone, like the 15 TWh was not carved in stone. We said the 15 TWh was a max. And then within there, we can manage the position. Nothing to do with winter/summer.

Analyst: Ajay Patel

Thank you. And just to make sure that we have the full picture there. That 5 TWh, is that reduction or the mitigation measures that you put in place? Do they last for the rest of the year? Do they last for the next few months? Do we have any idea of timeframe?

Pierre-Francois Riolacci

Again, they are short term exposures. So, you need to think indeed in terms of months. But stay with me, these 30 days is recreated every day. So, we have to roll this position and we have to manage this position, which is not going to disappear. So, you will still have these 30 days at the end of the year. Of course, if Gazprom continues to deliver, you will still have this 30-day position and in 2023 we would be still potentially managing this position. So, it's not going to disappear like that. It is embedded.

Operator

Thank you. I'm not sure if the question was finished. I will go to the next question. And the next question comes from Arthur Sitbon from Morgan Stanley. Please go ahead. Your line is open.

Analyst: Arthur Sitbon

Hello. Thank you for taking my questions. The first question is on government intervention across Europe. We've seen some measures being taken on the gas price capping in the south of Europe and a broader acknowledgement of that type of measure. We've also seen some headlines on potential wind windfall profit taxes in Belgium. I was wondering – well, first piece, if your guidance was taking into account those potential risks and, as well, if you could just comment on the likelihood of such measures being implemented in your main geographies. That's my first question.

The first one is actually regarding the fact that the ENGIE name has been associated in the press lately with two French renewable businesses regarding potential M&A. I know you don't comment rumours. But I was wondering more generally speaking, what would be your M&A policy? What kind of M&A operation you could consider? Thank you very much.
Catherine MacGregor

Yeah. Okay. Thank you, Arthur, for the questions. So just on the M&A, I think I commented briefly on this. Indeed, you know, we're not commenting rumours. In terms of growth we are indeed very focused in organic growth opportunities, at least, you know, that's the 50 and 80 GW in Renewables. Our objectives are really designed that way. Mainly organic without necessarily eliminating inorganic opportunities such as the one that I've mentioned, Eolia, we have mentioned Photosol as well earlier. So, that's some of the target that we would be considering. And so far, we've really delivered on that. So, no change there.

And just maybe on GreenYellow, just for the sake of clarity, we do have a JV with GreenYellow. It's called Reservoir Sun, which is involved in development of on-site solar. And this JV is indeed a 50/50 JV that we have with them.

On the first question, which is around government intervention, just a bit of context here, again, is that we have indeed a situation today where governments are faced with not only the urge of energy transition, but also the shared size of investments related to energy transition. So, whatever they do already, they are balancing the need for companies like us to be able to invest. And so, we are really seriously seeing that any attempt to do taxes are balanced with the fact that they need companies like ENGIE to invest in the energy transition.

That doesn't mean, of course, that there are not any government initiatives to intervene. There is one, for example, in Italy which is ongoing, which, frankly, we believe the methodology is not -- let's say, present some flaws. So, we are obviously in discussion there. Whatever we know has been taken into account in our guidance at this stage. So, that one would be taken into account in our guidance.

And in Belgium, just a comment that there is already a quite clear legal framework and contract for the production of nuclear power tax regime. And so, at this stage, we think that there is -- this is well taken care by this very clear framework and contract.

Analyst: Arthur Sitbon

Thank you very much.

Operator

Thank you. Your next question comes from the line of Sam Arie from UBS. Please go ahead, your line is open.

Analyst: Sam Arie

Thank you very much. Morning, everybody. Maybe I'll just check that you can hear me okay before I launch in.

Catherine MacGregor

All good, Sam.

Analyst: Sam Arie

All good. Very good. Excellent. And thank you for the presentation and congratulations on the results. I've got a question on, if you like, old gas and one on new gas. And so, on the old fossil gas side, I think my question is, if you can help us understand, when you buy gas from Gazprom on the long-term contracts, where you actually take delivery of it? And the reason to ask is, I suppose we're looking at this German process to amend the energy security law, which looks like it's going to mean gas midstreamers can renegotiate prices in the event of a curtailment or a sort of a loss of Russian supply. And I'm just wondering if that has any benefit for you or indeed, if you expect any sort of similar arrangements to be in place in France? So, any comment on that general topic would be -- would be super helpful.
And then on the clean green – green gas idea. You’re obviously talking a bit more on biomethane. I mean, talked about biomethane in the past but it seems like it’s becoming bigger and more serious. And I’m just wondering if you could take a minute to talk to us about the economics of biomethane at the moment and maybe just something very basic like, you know, what does it cost you today to supply in MWh of green biomethane and how far are we from biomethane being competitive without subsidies just given where natural gas prices have gone? Again, any comment around that topic in general would just be super helpful. Thank you.

Catherine MacGregor

So let me start to talk a little bit about biomethane. Until fairly recently, it remain quite expensive to produce biomethane in relation to the natural gas. Of course, with the current market price now around €80 to €100 MWh in terms of biomethane production cost mix, it’s actually not so ridiculous in comparison to natural gas, right? So, of course, there is still a lot of work to do and particularly development economies of scale are looking at the size, looking at the feedstock, looking at what can be industrialized. And, of course, grid connection cost is also a big factor.

So that's some of the levers that can still be the actions. And always, the balancing between the size of the installation of investors, of course, the acceptability is something that we are acutely aware of in France. And we think, you know, different countries in Europe could take a little bit of a different approach on that aspect of the industrialization process so because the size can make a big difference in cost as well. So that's some of the elements of answer on the biomethane.

On the first question, to be honest, I was not sure – I'm not sure I completely got it, but I'm going to ask, Pierre-François is going to comment on the delivery point and the Gazprom contract features.

Pierre-François Riolacci

Thank you. And your question is actually directed to, of course, the gas that we procure through pipes in Europe and especially Gazprom because, indeed, most of our contracts, they do not actually provide for many options. But in the case of the Gazprom contract, indeed they are different delivery points that can be picked up. I was mentioning that some of the contracts offer some optionality. So, you can have one of those which is traded there. So, of course, today, this is a very important point. So, yes, there is this option to get gas in different places. Of course, this is framed in the contract. But we do have some flexibility there. And it means also that when we are contemplating the future, we need also to prepare ourselves for a potential scenario where it would not flow as the same way. So, that's part of the complexity and opportunities that we are managing.

Analyst: Sam Arie

Thank you. Very helpful on both points. Do you mind if I just have a quick follow-up on that second point now in the contracts? Because I suppose what I'm trying to get to is if there was a disruption to the volumes that you do still have on the Gazprom contracts, do you anticipate that you might be able to sort of get out of any obligations that you've made to sell that gas on to somebody else? And that seems to be the implication of the German legal amendment that's going through at the moment that midstream gas traders could reprice their contracts if there was a curtailment scenario. Do you think that you would be able to do that as well or is there any discussion of similar legal changes in front?

Pierre-François Riolacci

Your point...
Analyst: Sam Arie
That's what I'm trying to get to.

Pierre-François Riolacci
I'm not going to enter into each and every position because I think that that's definitely not something we are prepared to do, but I can tell you that we are – of course, when we are managing our overall position, we take everything in account and we are entering the macro hedging which is necessary to make sure that we indeed protect the group to the maximum extent of any change in assumption. So, still trying to run our business and get the best of our business as it is today, but also preparing for a worst scenario and make sure that we would, of course, limit our exposure. This is definitely handled proactively.

Analyst: Sam Arie
Okay. Very clear. Thank you. And, of course, this is more – much more [inaudible], obviously, for you than for some of the German companies, so understood.

Operator
Thank you. Your next question comes from the line of Lueder Schumacher from Société Générale. Please go ahead. Your line is open.

Analyst: Lueder Schumacher
Hi. Good morning. Just a quick question. Coming back to the Russian contracts. The counter hedging, as you refer to it, of Russian gas, I'm not quite sure how you can manage to reduce your exposure to Russian gas, given that, as you pointed out, most of your gas procurement comes from long term contracts. Now, I get the price hedging sourcing volumes from different sources and all of this. But all this doesn't get you out of your initial Russian long term contract or am I missing something here. That would be the first question.

The second one is related to this. You also mentioned that this counter hedging comes at a cost. Can you maybe give us a rough ballpark here? What we should be looking at.

Catherine MacGregor
Look, the key weapon we have to reduce our exposure to Russian contract is diversification and flexibility. Both levers we're actioning to a maximum through a number of measures, some of them I've described which is a lot around LNG, which is a lot around contracting additional gas from other counterparties. And through this flexibility, we will be able to reduce our Russian exposure should Russian gas delivery be disrupted.

Anything you want to add on counter-hedging, Pierre-François?

Pierre-François Riolacci
Yeah. I think – of course, it does create a further complexity when you have to actually drive your position and manage your position, taking in account two different scenarios that increase complexity. And therefore, it requires, indeed, that you work with different instruments and current instrument. This comes with a cost, of course. And I'm certainly not going to mention that cost, because that cost is, of course, moving and – but as you can see, we feel confident enough that while managing these costs, we can deliver strong results in 2022. That's our job. That's our core skills. And that's what ENGIE has been doing for many, many years. And we are just doing the same but, of course, with a different set of assumptions. So, I don't think there is anything to be
really concerned about. This is something that we do. We are managing our risks and should not be worried about the cost of risk management.

**Analyst: Lueder Schumacher**

Okay. Thank you. I wasn't really concerned about it. More curious, I think, would be the right word. Then, can I just add on variation margins? What is the net impact of variation margin as it stands at the moment? And should we maybe make adjustments to net debt as a result?

**Pierre-François Riolacci**

So, we had a further deterioration of margin calls in Q1 of €600 million. I don't know if this is the number that you are after.

**Analyst: Lueder Schumacher**

On the total, what is in the net total you have in variation? Not just the movement in Q1. If you have not... I will just follow-up with IR.

**Pierre-François Riolacci**

Yeah, you need to accumulate with the last year numbers, if it is your point. So, we are talking billions. I think that the overall level of margins, initial margins was something running and I wasn't there. But it was about €500 million or something like that. And now, we are talking about more, something like €6 billion. So, it is significant, what is actually invested in margins. And I can come back to you with a more precise number in a minute.

**Analyst: Lueder Schumacher**

That's great. Thank you very much.

**Operator**

Thank you. Your next question comes from the line of Juan Rodriguez from Kepler. Please go ahead, your line is open.

**Analyst: Juan Rodriguez**

Question – Juan Rodriguez: Hi. Good morning and thank you for taking our questions. Two on my side, if I may. The first one is on guidance. I want to better understand the numbers between your full year and Q1 results. Is this mainly an adjustment as well as your commodity price assumptions? And if that is the case, what can we say about you 2023 and 2024 guidance that I see no information yet on? And within guidance, can you give us a little bit more color for what can we expect in the top and the bottom part of the range? Because you have a big range here for 2022. This will be the first one.

The second one is around Belgian nuclear. It's mainly on your – you signal a balanced risk approach with the Belgian government for it to go through. But what are the difficult points in these discussions? And what is the horizon that you and the government has set for this Belgium nuclear extension? Thank you.
Catherine MacGregor

Yeah. So, let me start again with the Belgian nuclear question. A number of points that are under discussion include regulation elements that are going to be structuring for the extension program. And that some of the examples, obviously, I'm not going to go into great level of details, but, there are so many dependencies between what one has to do and regulation, environmental assessment, permitting, even sometimes things that depend on other countries for that matter, so a very, very complex project. Again, you know, we're looking at making sure that we take a balanced approach to reach for ENGIE because a number of these things are indeed outside our control.

In terms of timing, it's a bit difficult too, to be honest, to give you a clear calendar. My understanding is that the Belgium government would like to give a direction by June, but whatever that communication will be, it's a little bit difficult to anticipate at this stage. And Pierre-François will comment a bit more on the guidance.

Pierre-François Riolacci

Yeah. We are not prepared to give indications for 2023-2024. We usually don't do that at this point in time in the year. And given circumstances, I don't think that it is advisable. So we'll not comment on 2023-2024. On 2022, what could actually help us, well, there is room compared to our assumption. There is some room for a potential price tailwind. We can also deliver our nuke availability in a better way that what we have embedded in the guidance. We do have some risk cover which may not materialize. And, of course, there is a potential for GEMS to further create value in the year, a bit more than what we are factoring. So there is potential on the upside.

On the downside, there are, of course, some big topics. I mean, gas curtailment in Russia would be not devastating. It could be a negative, of course, in some scenarios. So that's there. We have some turnarounds that we need to complete in our business. And, of course, there is this question mark that was raised a bit earlier about windfall profit taxes. And, of course, we can cope with let's say, immaterial amounts, but if it was significant, then that, of course, that would drive the guidance at the bottom end.

Operator

Thank you. Are you finished, sir?

Analyst: Juan Rodriguez

No, no, no. I just want to come back on this. So, just to be clear, on the bottom part of your range, you're implying some possibility of curtailment gas of a profit with windfall taxes in some of your key regions. That is that? Thank you.

Pierre-François Riolacci

[Inaudible] scenarios. So, based – depending on how these scenarios come through, definitely you can be at the low end of the range. There are also scenarios that can take us out, but as I mentioned, that will require a conjunction of very significant negatives. Today, again, on the low side, we see more these executional risks and turnaround, potential disruption on gas, and profit – windfall profit taxes.

Analyst: Juan Rodriguez

Excellent. Thank you.
Operator
Thank you. Your next question comes from the line of Peter Bisztyga from Bank of America. Please go ahead. Your line is open.

Analyst: Peter Bisztyga
Yeah. Good morning. Peter Bisztyga here. So, two questions for me, please. Firstly, I'm a bit confused still by this whole rouble payment issue. The European Commission, I think, has issued guidance that it's okay to open a Gazprom bank account, but to avoid breaching sanctions. Your contractual obligation has to be met when you've made the payment in the contract currency, which, I think in your case, is euros. Maybe you can correct me. Meanwhile, Russia has been saying that the contractual obligation would be met when the ruble tax conversion has been made. So, I'm wondering, have you actually resolved that issue for certain or is there sort of potential problem here? And how comfortable are you that the next payments due this month can be made without any problems? So, sorry if that's a bit long-winded question, but that's my first one.

And then, the second one, I'm just wondering if gas supply did get interrupted to France, do you think you could avoid rationing of gas this coming winter? Or do you feel confident that you can – you can – you can manage that with the flexibility and diversification, as you discussed?

Catherine MacGregor
Okay. So, let me maybe start with the gas supply situation in France. At this stage, the storage level in France is very good for this season. As you know, LNG has come to Europe in quite impressive quantities, helped of course by the fact there is strong demand, but also what's happening in Asia, which has created really this quite massive arrival of LNG, which is really good. It helped us with our storage.

And so, providing we can go through this summer filling of the storage, we do have a scenario where beginning of the winter, the storage will be very, very full. And assuming, obviously, medium climate conditions like average climate conditions, we would be able to go through the winter with very little impact. Obviously, no need for curtailment for France.

So, there is a scenario where no curtailment is envisaged. Of course, if there was a disruption before the summer, then that would be a bit of a different story and then we would be – need to be a bit careful on consumption for the winter. The issue then becomes a little bit for next winter because you would indeed start the next filling season with very low storage levels, but then that would be another story.

And in terms of global, just to – we have today line of sight for a solution that will allow us to pay using the currency for the contracts which seems to be acceptable for Gazprom and which is in compliance with the EU sanctions at least to our understanding. So, that's where we are.

Payments, no, I'm not going to give you any timing but it's imminent. We've said that there would be a next payment before end of May, so imminent. And that's where we are on this story, which indeed has treated quite a bit of airtime.

Analyst: Peter Bisztyga
And just – sorry, just to clarify on that, the contract’s currency is euro still?

Catherine MacGregor
Yeah, we are paying in euros and so we're not getting exposed to FX risk.
Analyst: Peter Bisztyga

Okay. Okay. Okay. Thank you very much for that.

Pierre-François Riolacci

Quicker add-on – I mean, you need to recognize that we are working with a high level of uncertainties in many ways. And, for example, on his gas curtailment, I mean, you know that the government will be stepping in and if the government is instructing our customers not to off-take the gas, of course, we are freed from our responsibilities. And I see that opportunity to be very clear that on the guidance, we know what we know, we don't know what we don't know. Okay. And so the guidance is based on what we know. We have widened the range to indeed cope with all kinds of assumption, trying to really be realistic about what can be achieved but of course, there will always be things that we cannot plan for and that can impact. But please stay with us that we are – with the winding of the range, we are trying to accommodate for reasonable risk environment, which is, as you know, very high.

Analyst: Peter Bisztyga

Thank you very much.

Operator

Thank you. Your next question comes from the line of Louis Boujard from ODDO. Please go ahead, your line is open.

Analyst: Louis Boujard

Thank you very much, and good morning, everyone. Congratulations again for the results today. Maybe two questions on my side. Sorry to come back on it, but maybe to have a more detailed look on the lifespan extension on the nuclear fleets. I have the feeling that for one year, it was really no go and that now we are maybe going to watch some securities and more like starting discussion phase with a lot of stakeholders at stake? And at the same time, I think that you still don't seem necessarily amazingly happy with a large position in the market with these assets. So, does that mean that you can eventually have doors open for discussions regulatory returns on these lifespan extension at this stage it's something that you started to discuss about going forward with the stakeholders on the situation and of course with the Belgian Government?

The second question would be regarding the administrative burden in the development of renewables. Of course, we know that this is at the moment maybe something that needs to be tackled in order to speed up the development in renewables. You come with an initiative called TED, Transition Énergétique Durable. Could you just provide some elements regarding the actual consequences that it would have in terms of geographies? And if and when you expect this to eventually have any implications in your capacity to speed up your actual development. You have more than enough balance sheet headroom to do it, so maybe it's the only bottleneck that prevents you for being a bit more aggressive in your development in Renewables so, could you please enlighten us on this topic? Thank you very much.

Catherine MacGregor

Okay, Louis. Thanks for the question. So on Belgium and the extension, what we have been always very clear on is that it will take five years to conduct such a project. And so what we had said is that as time went on, we didn't see any way we could do this extension to be ready for 2025. And that has not changed. The discussion now that we are having with the government is to do such an extension, but that would obviously not resolve the issue of 2025 security of supply but rather put those units online a little bit later. It's basically 2022 plus 5 years,
roughly, plus or minus. So that's the discussion that is at hand. Again, really difficult to comment on the specifics of the decisions – of the discussion. But, you know, all the options are in the open and on the table, including potentially, you know, indeed, the type of contract that we would derive from the generation of these two units. Everything is on the table, but very, very difficult to comment any further on this.

And on the second point is on the TED label. So the scope of this label is really France, onshore wind, and solar, so quite specific but really important because as I'm sure you know, there has been a lot of debates around acceptability of wind onshore, particularly in France, sometimes to the point that it has become politicized.

And given what is happening in the context and in the world of the energy, we think it's really, really important to foster what we have been able to witness which is a citizen appropriation of energy issues. And we think renewables have fantastic response to that, but we want to make sure that the method that we used to develop the projects of renewables indeed fulfill a number of criteria. There are three categories. One, which is around territories. The other one which is around climate. And the other one, the third one, which is around nature, nature meaning obviously very important and key biodiversity issues. And we want to make sure that when people or clients, stakeholders, see ENGIE develop renewable projects, they know that that methodology has been followed.

So, we think it's really, really important indeed to have acceptability whether, you know, there's going to be an immediate acceleration of renewables. I don't know, we just humbly – in a humble manner, bringing [inaudible] to a debate that we feel is really important, that it is pacified, and that the reality of the need to have a mixed energy transition, a balanced mix, diversified technology is really, really, really important. And the world reminds us of that every single day.

So right now, the scope is France. And we'll been looking at whether we want to extend that to other countries. But, you know, we want to walk before we run. And so, this is something that we've introduced in France again, you know, with a certification body, Bureau Veritas, involved in the launch of this label.

**Analyst: Louis Boujard**

Thank you very much.

**Operator**

Thank you. Your last question today comes from the line of Tancrede Fulop from Morningstar. Please go ahead. Your line is open.

**Analyst: Tancrede Fulop**

Hi. Good morning. Thank you for taking my questions. I have two. The first is on renewables. If you could maybe tell us what is the share of renewables construction costs, which are locked in the foreseeable future, let's say, to – for the next couple of years? And if – and also, if you have some projects for which you already signed the PPA, but with costs are not locked? This would be the first question. And the second question, if you could confirm that in your French gas networks you have the indexation to inflation. Thank you.

**Catherine MacGregor**

So, yes, to the second question. And to the first question, so typically, we are matching the signature of PPAs with the securing of the Capex. So generally, there is a good synchronization of these two events. In terms of the share of the project that have Capex locked, we have a number of projects that are, obviously, under construction, and that Capex is locked and we'll give you the numbers quickly.
The key point regarding inflation, and obviously we're not immune to what's happening in the market, but what is really, really important is that there is also such a high demand for PPAs. So today, when we are looking at developing assets, we sometimes – believe it or not, we have competition between customers for the PPAs that we are able to sell associated with these assets. So, it gives you a little bit of an illustration of the tension we see in the PPA market, which, of course, helps us on the other side to absorb some of the inflation effect that we are seeing, which we are then locking with the Capex with our suppliers.

**Analyst: Tancrede Fulop**

Very interesting. Thanks.

**Catherine MacGregor**

And we have about 4 GW of renewable currently under construction, so then that's about the number of GW that we have with secured Capex.

**Analyst: Tancrede Fulop**

Okay.

**Catherine MacGregor**

And I think this was the last question. Aarti, a few comments?

Thank you very much for attending the call. Sorry for the technical glitches. And thank you, again, for the questions to us today. Have a great day. Thank you.

**Operator**

Ladies and gentlemen, this concludes the conference call. ENGIE thanks you for your participation. You may now disconnect.