H1 2022 RESULTS
29 July 2022

Operator
Thank you for holding and welcome to ENGIE’s, Half Year Results Presentation. For your information, this call is being recorded. It will take place in a listen-only mode and you’ll have the opportunity to ask questions after the presentation. (Operator Instructions)
I’ll now hand you over to Aarti Singhal, Group Director, Investor Relations.

Aarti Singhal

Thank you and good morning, everyone. It's my pleasure to welcome you to our H1 conference call. Shortly, Catherine and Pierre-Francois will walk you through our first half results and following, we will open the lines to Q&A. And with my usual polite request, if you could please limit your questions to one or two only.
And with that, over to Catherine. Thank you.

Catherine MacGregor
Thank you, Aarti, and good morning, everyone. Very pleased to present another good performance for ENGIE. With a favorable price environment, we continue to benefit from the strength of our integrated business model. A business model that includes a growing renewable portfolio, large regulated network business, and our flexible generation assets fleets.

This H1 performance positions us very well for the remainder of the year. Importantly, we have significantly reduced our direct exposure to Russian gas, with new contracts for both pipeline gas and LNG, and using the flexibility within our gas portfolio. And on this financial side, the residual risk is also minimized as Pierre-Francois is going to explain later.

In Belgium, we have co-signed with the Belgium state, a non-binding Letter of Intent, that is an important first milestone as well we are working constructively to assess the feasibility of a potential extension of two nuclear units under a clear risk-reward framework. And our teams are maintaining the sharp focus on execution of the strategic plan.
My strong conviction is that the recent developments in the energy sector and the surge in extreme climatic conditions are calling for much faster energy transition. Our strategy is fully aligned to that and this is the only way forward to support energy security, affordability, and the long-term decarbonization of the sector.

Turning now to our actions on energy security, we have been diversifying and increasing sources of gas supply. Our infrastructure teams in gas transport, in gas distribution, LNG terminals, storage, are all playing a critical role with a really strong operational performance in the backdrop of higher utilization rates. For example, gas volumes that are transported by GRTgaz are up 10% versus last year, LNG is supporting a record ship and loadings up 54% from last year, and we have now completed our LNG capacity increase by adding another 11 terawatt hours and the storage levels at Storengy in France are close to 76%. And of course that is well above this time last year.

In addition to this short-term actions, we continue to be focused on the long-term to unlock the potential of renewable gases. In France, to date, 425 biomethane units are connected to our grids that represented total yearly production capacity of 7.2 terawatt hours and we continue to drive forward other projects, for example, the Jupiter, which started producing e-methane from hydrogen in the south of France, with the inauguration of the world’s largest hydrogen-powered mining truck in South Africa, or again, future production of biomethane in partnership with CMA CGM.

So managing physical volumes, I’m going to turn to our actions to support affordability where we have significantly stepped up our efforts. In France, we have nearly 70% of our B2C gas and power contracts who have benefited from some sort of protection against price increase through the tariff shield or fixed price over the lifetime of the contract.

Our customer are also supported in Belgium by social tariffs or in Romania through again, a price cap mechanism. And we are working with customers on energy efficiency to help reduce their bill, for example, we are helping them through boiler maintenance contract and installation of very high-performance equipment to reduce consumption. We are obviously involved in launching marketing campaigns on energy management and the development of software apps on consumption management which helps leverage the more than 10 million smart meters installed in France.

We are also providing support to payment facilities with working capital of more than EUR1 billion to enable price protection tools. We also contributed for EUR467 million in the first semester to well-established profit sharing mechanism such as taxes specific to nuclear units in Belgium and to the CNR Hydro concession in France. We are engaging on the recent purchasing power law in France through which we are expected to provide further working capital to support gas storage levels.

Finally, this morning we have announced that we are deploying two additional measures in France that would be implemented in the fall to help support purchasing power. We have proposed a top-up of the energy voucher to just under 1 million vulnerable B2C customers for a total of EUR90 million cost to ENGIE, and by setting up a fund to help SME in contracting energy. And this is global across our operations that our teams are working days in, days out, to better support our customers.

Quick update on Belgium, the signature of this Letter Of Intent does mark the start of negotiations under a clear framework which is designed to achieve a fair risk-reward balance. It comprises a number of inseparable conditions that includes extension for 10 years of two of our units, the setup of a legal entity to manage the two units with the participation of the Belgian State as well as our affiliate Electrabel, and a cap on future liabilities and costs for the management of nuclear waste and spent fuel related to all our seven units that would be in the form of a fixed amount that still needs to be determined.

Subject to the progress we make, the goal is to sign a binding deal which would define all of the above conditions by the end of this year. And in the short-term, our priorities in Belgium are to maintain high operational availability
to prepare the upcoming shutdowns and to finalize the process of the triennial review of the nuclear provisions in H2.

Moving now to the H1 financial and strategic progress. Our EBIT grew 73% organically to EUR5.3 billion, which is leading to a significantly higher recurring net income group share of EUR3.2 billion. This was driven by a higher contribution from most of our activities with a particularly strong increased from GEMS, from Nuclear, and from Renewables. A strong operational performance indeed that has enabled us to capture this exceptional market conditions. Our balance sheet and our liquidity remain strong and well placed to support temporary higher working capital requirements.

On growth, we invested EUR2.2 billion, 60% of which was in Renewables, and overall our renewable capacity has grown now representing 36% of our centralized generation portfolio.

In the context of the current environment that continues to face uncertainty, the full year 2022 guidance is unchanged. If the prevailing market conditions and price environment continue into the second half, this would present an upside to this guidance. So as I said earlier, this H1 performance positions us very well indeed to deliver strong results in 2022.

And in addition to our day-to-day operational activities, the teams have maintained their sharp focus on the execution of the strategic plan that we presented to you in May last year. We have indeed progress on all four pillars of the plan: on the simplification, with the announced disposals of non-strategic assets, we have signed now or completed, we have signed or completed deals totalling nearly EUR10 billion and that is compared to our increased target of at least EUR11 billion. The measure of these being the sale of EQUANS where closing is expected in the second half.

Our geographic footprint upon completion of signed or closed agreements will be down to 35 countries and this compares to 70 back in 2018. On coal exit, recently we completed the closure of one additional unit of Tocopilla in Chile and coal represents now 2.7% of our centralized power generation capacity. So we are well on track for a complete coal exit by 2027 as committed. Overall, this major simplification is enabling ENGIE to allocate more capital to core activities, particularly to step-up growth in Renewables.

Moving to increasing efficiency and discipline allocation of capital, we are investing in line with our target of EUR15 billion to EUR16 billion of growth Capex over the plan period. In terms of organization and performance, our four global business units which were launched at the start of last year are well established now and we are benefiting from the first synergies of scale and scope.

We have maintained momentum on efficiency improvements with EBIT saving of EUR163 million in the first half and these arose from the implementation of our performance plan that is focused on operational excellence, on improvement of support functions and fixing of loss-making entities. And as a reminder, we are targeting EUR600 million of net EBIT savings over the plan period.

So we are doing what we said. Putting our strategy into action. We are well on track to build a solid foundation for long-term growth, a sustainable dividend and a strong balance sheet for the Group. Quick update on our renewables portfolio, we have continue to strengthen both our operating asset based and our project pipeline, we added 2.2 gigawatt of renewable capacity in the first half, a mix of offshore wind, onshore wind and solar. And we are maintaining our focused geographic approach. For example, in France, we commissioned 150 megawatt in solar and wind and this is bringing our leadership position in this market to a total installed capacity of nearly 8 gigawatts.

Ocean Winds continue to make strides in its offshore program. Commissioning 952 megawatt at the Moray East offshore wind farm and having been awarded a CFD for the delivery of nearly 300 megawatt form Moray West.
As a reminder, we are targeting 50 gigawatt of total installed capacity by 2025 with an average of 4 gigawatt addition per year to 2025 aiming to step-up to 6 gigawatts with a return focused approach that we are mentioning.

The ambition is supported by a robust pipeline of 71 gigawatt of identified projects which is an increase of 5 gigawatts over the past six months, still with a balanced mix of technology, spread across our main geographies. And I want to highlight that the project that are secured or under construction remains stable at around 7 gigawatts, meaning that the capacity entering into operations is indeed being replaced by new projects.

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

Pierre-Francois Riolacci

Thank you very much, Catherine, and good morning to all. Indeed, we are very pleased with the first half of the year and the key takeaways on that page which I would detail in the upcoming slides are pretty simple.

We posted the significantly higher earnings which are flowing consistently from EBITDA to the bottom line. The cash generation did recover from the weak Q1 with EUR6.8 billion of CFFO in H1, up EUR2.5 billion versus last year. We also invested EUR3.3 billion of capital expenditures of which EUR2.2 billion in growth, almost exclusively 95% in our key energy transition activities and about 80% organically. So fully in line with our strategy and our commitments. The net debt is slightly higher for both financial and economic, of course, after dividend of the year was paid earlier. But our credit ratios, as you can see further improved. And of course, we are not changing our 2022 guidance, including the risk associated to Gazprom full disruption.

Let's get into the numbers now. And start with EBIT first. Strong growth, almost entirely driven by EUR2.2 billion improvement, plus 73% in organic variation with main contributing activities being GEMS, Nuclear, and Renewables.

Let's go straight into Renewables. Here again strong increase of the EBIT contribution, plus EUR282 million, that is plus 54% organic growth. And let me highlight four key topics. On the positive, first, industrially, we kept on commissioning new capacities and this is translating in visible additional EBIT contribution at about EUR150 million. Second, the market conditions remained a tailwind, especially with higher prices captured by French hydro assets. However, we had some headwinds, and especially, in Portugal and France, we faced low hydro volumes that led to some buybacks which impacted the achieved prices. And in some market areas in the U.S., especially in SPP, Southwest Power Pool, we are experiencing some transmission congestion, leading to revenue losses. This is what we call basis risk and is disrupting some of our projects and requires further management to be mitigated. We want to be completely transparent, it is not a walk in the park to grow a business like that, but a very good start to the year and great to see that the gigawatts are converting into good P&L.

On networks, we achieve slightly lower contribution, minus EUR60 million that is minus 4% organic decrease. The main drivers actually very similar to Q1. So I would tackle two specific issues, EVBox and the decrease of our EBIT margin. On EVBox, we do have some positive signals coming from operations, the production is ramping up
and the process enhancement is on track. The second half now of the year would be very important to get revenues to pick up. H1 was impacted by some balance sheet cleanup, which mainly explain the minus EUR11 million evaluation year-on-year. We faced some EBIT margin squeeze and I would like to highlight that this is due to two items: one is the higher energy prices which are embedded in the revenue but which are attracting EBIT margin, which are lower than the average portfolio, so this is diluting margin just by mechanical effect. And the second point is that we had some positive one-off in '21. We have also in '22 a new internal reallocation of costs which is adverse to Energy Solutions and that is two different items which are driving EBIT margin down.

I would like to say that the Energy Solutions’ teams are doing a great job, both turning around parts of the business while detouring EQUANS activities.

In Thermal, the EBIT contribution is up EUR95 million that is plus 17% organic growth. Good trends of Q1, like higher spreads and strong ancillaries in Europe are still there, persisting, and of course contributing to EBIT growth. So let me focus on a couple of headwinds that we had actually already flagged in May, especially Italy, this extraordinary tax which is by the way, also impacting our GEMS activities, both for Thermal and GEMS that is about low triple-digit amount that we are talking about all booked in EBIT. We are firmly contesting this tax as we think it is ill design, the base is not being profit, but the VAT base which creates a distortion between earnings coming from financial and physical deals.

Second headwinds that I want to mention, we are facing some difficult market configuration in a couple of countries, Chile and Australia. Structural supply-demand imbalance is penalizing activities based on merit order also very disturbed market context with gas and power prices increasing exponentially. And that demonstrates that current market conditions can cause some unexpected impact. For us, this resulted in non-significant losses in H1 that are expected to persist in H2. But don't get me wrong. This is a great performance from Thermal people and assets as the numbers show.

Supply EBIT, indeed a growth of EUR220 million fully organic and a big part of this increase was actually secured in Q1 and that was on the back of warm climate. The main variation in Q2 is a positive timing effect on power margins in France and it is linked to classical ARENH mechanism. No major change in the mechanism itself, but as power prices have increased massively compared to last year, this timing effect went from non-material to visible. We expect it to partly reverse in H2.

Nuclear has been posting another exceptional performance, driven by the same items. I mean, higher prices, despite lower volumes and higher specific Belgian nuclear tax, as in Q1, same trends. Price and volumes are on the slide, I will not elaborate on it but let me share a couple of words on the higher nuclear tax. This profit-sharing agreement has been in place for several years now and is based either on fixed royalties or on valuable contributions, depending on specific margins with or without floor.

ENGIE, of course, has always respected it including in bad times, for example, despite nuclear activities were making significant losses back in 2018, we had then an additional EUR150 million impact from this major nuclear tax due to the fixed contribution and the floor. In H1, '22, the specific tax was EUR312 million, plus EUR267 million versus last year and this tax is expected to increase further in H2.

Last but not least, the Others part EBIT is, again, posting a very strong contribution, plus EUR1 billion all organic growth. GEMS saw the same trends as in Q1, that are persisting with opportunities to optimize gas contract optionalities, high volumes with healthy margins on risk management, and of course, monetization of market volatility. Although, it is not directly visible, thanks to the very strong performance of all activities, let me be crystal clear that the H1 earnings include the cost of the hedging actions, which were required to reduce the Gazprom exposure that I'm going to detail in a minute. It is of course also impacted by the Italian extraordinary tax that I mentioned for Thermal. So very robust performance of GEMS. On others, efforts on cost reduction are paying off, good to see, despite high inflation which is creeping up but also helped by some internal reclassification of costs I was mentioning earlier and some timing effect that will revert in H2.
Let's spend a bit of time on this Gazprom topic which is so important for the market and stay with me a bit long. So let's take a close look, how we have massively reduced our direct exposure to Gazprom and Russia. And it starts from a physical perspective. Our gas balance is now quite resilient. For this summer to next winter that means Q2 2022 to Q1 2023, what's going to happen in case of full disruption of Gazprom deliveries.

We need to start from our gross exposure from an existing long-term contracts and options with Gazprom, that's the start of the exposure. Against that we have a significant length in our portfolio, the flexibility of a portfolio, which is the first step in reducing this gross exposure, because these sales to the market can obviously be reduced since they are not committed. Secondly, as previously communicated, we have been engaging with existing and new suppliers to secure extra quantities.

So finally, the potential residual physical short would be around 4% of our European gas demand, which is a level of variation either plus or minus that we deal with on an ongoing basis anyway because of changes of temperature, mainly driven by B2C, because of changes of economic activity mainly driven by B2B, or of course, driven by power balance and that's coming from CCGTs.

To make it short on this very important question physical, ENGIE is now able to almost fully compensate Russian gas volumes with a very manageable residual amount. And by the way, this is without demand reduction. When we have seen over H1 demand reduction actually incurring about mid-single-digit, when it comes to small B2B and B2C, and low double-digit, when it comes to industrial. Demand reduction is rolling as we speak.

Second point about the exposure is a financial perspective taking in account, of course, hedging, and here again, we have significantly reduced this exposure and increased our immunity. You may recall the max 15 terawatt hours of short-term price exposure that we have mentioned early March, which was down to 5 terawatt hours at the end of March. It is currently just below 4 terawatt hours. So massive reduction by about 75%, mainly through specific hedging actions.

All other risks related in particular to geographical spread are removed or hedged. All the related costs to these hedge adjustments have been expensed in the P&L in H1. What it means is that we are now comfortable that our value downside in the scenario of Russian gas cut is limited. On one hand, this is thanks to the way we manage our gas supply and demand by design, I mean a replicating indexation through the market and not linking specific supply contract to specific demand with any kind of fixed price. And on the other hand, because the opportunity loss of Gazprom contractual flexibility is not significant anymore for earnings and cash generation. This is exactly the reason why our guidance is no more qualified for downside risk on Gazprom.

In parallel to derisking of our gas portfolio, we also derisked items of our balance sheet, by reducing the exposure to Nord Stream by EUR1.3 billion to bringing down to EUR0.3 billion. On Nord Stream 1 the Group has reviewed the valuation of its 9% stake, down EUR259 million compared to last year, taken directly to equity. And on Nord Stream 2, we had recognized in the first quarter a EUR987 million credit loss for the loan and accrued interest, and these non-operating credit loss did not impact the Group recurring P&L. That's it for Gazprom and Russia.

Very pleased to see that we are picking up on performance plan and that was expected to indeed ramp up with the EUR163 million net contribution to EBIT for H1, after a contribution of EUR85 million in full year 2021, you remember this was year we launched the plan. The main contributors, as Catherine mentioned, remain operational excellence and support functions optimization with very concrete actions ranging from O&M insourcing in Brazil to streamlining of our support functions in the U.S. or following the geographical refocus.

So in spite of some challenges ahead of us, for example inflation, also EVBox which is staying a bit longer than expected, we remain confident in reaching the EUR0.6 billion target over '21, '23 of which we already achieved about 40% as of today.
Let me go to the cash generation now. Cash flow from operations is EUR6.8 billion, up EUR2.5 billion compared to last year. The operating cash flow is up EUR2.1 billion broadly in line with the EBITDA improvement upgrade. Contrary to Q1, the working capital requirement variation is actually a positive of EUR600 million. First, of course, the gas inventory and the net receivables are still heavily impacted by higher volumes and prices, mainly in France, including an incremental effort of 10 terawatt hours of gas stored compared to last year.

I would like to highlight on the receivable side that there is no deterioration of DSO, overdues, and bad debts compared to last year. The negative effect is the second part of the margin calls that we had seen over the last quarters, did actually recover with the EUR4 billion positive contribution to CFFO. Part of this reversal is actually due to active management using standby letter of credits, being smarter on the liquidity swaps also the better functioning of cleaning house, partly is timing and it's expected to reverse in H2.

Third point, last but not least, the impact of the French supply tariff shield did significantly decrease following the monetization for EUR0.7 billion, we recently executed for the five winter months, 21-22. This is a clear testimony of the value of the accruals that we are booking since last November and shows the robustness of the French tariff shield.

Regarding the future evolution of CFFO, looking forward is not easy. In the current environment with margin calls still exposed to price levels and volatility, also possibly new regulation, for example, on gas storage filling in France, it is definitely challenging to commit on precise numbers. However, this potential volatility is clearly not an issue in terms of value because as you have seen all the schemes have been protective in terms of value for ENGIE, but also not an issue with a balance sheet which is enabling us to cope with potential adverse evolutions.

And indeed, the balance sheet is quite strong as shown on this slide and despite a slightly increasing debt levels we maintain liquidity well above EUR20 billion and the cash at around EUR15 billion and this has been done improving also our leverage ratios, which are now standing at 2x for net financial debt to EBITDA and 3x for Economic Net Debt to EBITDA.

The evolution of the financial net debt is, of course, supported by the strong CFFO and some disposals like the finalization of SUEZ and the 9% additional partial sale of GTT. It is on the opposite, impacted by our investments, the accelerated nuclear provision funding, as expected, ENGIE dividend that was paid in April and some new leases many following the renewal of the CNR hydro concession. FX were also adverse especially coming from Brazil.

The Economic Net Debt is broadly flat and it is supported by one, the evolution of our discount rates which are lowering the post-employment provisions, and two, the nuclear provision funding. Again, it is worth mentioning that these figures do not include the impact on both financial and Economic Net Debt from the EQUANS disposal, which is on track for completion in H2.

With that, we can come to our 2022 guidance and given the current environment that continues to face uncertainties, we do not change our 2022 guidance. Net recurring income group share is expected to be in the range of EUR 3.8bn to EUR 4.4bn and this is based on indicative EBITDA range of EUR 11.7bn to EUR 12.7bn, and EBIT range of EUR 7bn to EUR 8bn.

Let me share with you some colors on these unchanged ranges. First, these ranges take into account H1 actuals which benefited from some positive timing effects that are expected to reverse in H2. Second, unlike in May, the guidance is now largely immune to direct impact of total Russian gas deliveries disruption. Our guidance is not qualified for Gazprom disruption. Third, due to the increasing interest rates as well as the Brazilian real appreciation, we factor at net income, EUR0.3 billion higher recurring net financial cost from EUR 1.5-1.7 billion, to EUR 1.8-2.0 billion. Four, in H1, we managed to monetize a great part of the unprecedented market conditions, whether it is prices, spreads, volatility, that's never 100% sure for the future as current market conditions can
cause some unexpected impact. And five, as announced yesterday night, these guidance is, of course, consistent with a proactive support actions for the purchasing power of some of our customers in France.

A very important point is that on top of this confirmed guidance, should the prevailing market conditions and price environment as at June-end 2022, continuing to the second half, this would present a normative upside to this guidance of about EUR 700 million of net income. Of course, ENGIE remains committed to a strong investment grade, credit rating and continues to target a ratio bellow or equal to 4 economic net debt to EBITDA over the long-term. The Group is also a reaffirming its dividend policy with a 65% to 75% payout ratio based on net recurring income and a floor of EUR 0.65 per share for ‘21 to ‘23.

Catherine, back to you for the conclusion.

Catherine MacGregor

Thank you very much, Pierre-Francois. So let me now conclude with the key messages.

A performance in H1 that indeed positions us very well to deliver strong results for the remaining of the year and this is despite the uncertainties that the energy market currently faces. We have significantly de-risked our exposure to Russian gas.

In Belgium, we've been working constructively with the state under these clear risk-reward framework to operate the nuclear units in the future. And then the recent development in energy markets as well as the surge in extreme climate conditions are only confirming the need that we have to accelerate the energy transition to which our strategy is fully aligned.

Our teams have been doing an incredible job. They've been working relentlessly to execute our strategic plan, while managing at the same time the crisis with these unprecedented volatility of the energy prices and attending to our customers.

Thank you very much for listening, and we are going to open now the lines for the Q&A.

Q&A

Operator

(Operator Instructions)

The first question is from Ajay Patel of Goldman Sachs. Please go ahead.

Analyst: Ajay Patel

Good morning, and thank you for the presentation. I have two questions, please. Firstly, on the reduction of exposure to Russian gas. Could you give us a little bit more detail here from how you've reduced the exposure from 15 terawatt hours to 4 terawatt hours? To what extent does that carry on to next year? Are these mitigations more shorter term and for this year only, just so that we can have a better idea of how the risk involves, if at all?

And then secondly, I may have missed a justification, but could you explain why financial costs are up EUR300 million on the guidance?
Pierre-Francois Riolacci

Yes, on the exposure -- on the gas exposure, I think that what is key in the size of the exposure, you remember that we gave you the reason of the 15-terawatt hours, that was a 30 days' notice and it's clear that we are definitely supported by the lower volumes, so given the volume that we have today, which are actually very low, the exposure is actually very low. And of course, if volumes were going to start again, that's another story, but with current volumes, we are very comfortable that this 4 terawatt hours are a max and we are in full control of these 4 terawatt hours because it is our decision to hedge or not and given the current volumes, very comfortable that we can keep that including for next year unless, of course, there was a massive gas delivery that was coming from Gazprom ahead of us, that would be changing the game. But for current volumes, we are partly structural and this is not going to go up again.

On the financial cost, the main item on the EUR300 million is definitely the increase of interest rates in Brazil and the conversion. So, we have more financial costs that we incur in Brazil are actually with the new rates impacting us. As you can imagine, we have a positive effect in EBIT as well, so the hedge is working pretty well. The main item is a couple of fair value adjustments.

Ajay Patel
Thank you very much.

Operator
The next question is from Vincent Ayral of JPMorgan.

Vincent Ayral

Yes, good morning and thank you for this presentation. So, coming back on the Russian gas, apologies for that, but that will be a key topic today I suspect. 30 days' notice is if you have for Russian curtailment, but we've seen at Uniper that you can end up in a medium type of situation where basically you have lower pain, but that last longer? And how can we be sure that if we have further gas supply demand tightness in the winter that within 30 days, you do not have any more commitment and you're not forced to deliver to end users. I clearly see you have less exposure than Uniper by a mile. But is it really true that within one month your exposure and your commitments to supply are fully disappeared? So, that would be the question number one, because we need to stop at two. I think that's absolutely fair.

The number two will be on the Belgium. No, it won't be on the Belgium Nuke, congratulate you on that one, I think it seems to be going well. It will be on the gas tariff freeze. So, you managed to basically monetize the tariff deficit. Now, we have had an extension of the tariff freeze, could you reassure us on the fact that legally speaking, it's exactly as robust and you should be able to keep monetizing it, that basically you got full government backing and if for some reason this tariff deficit keeps swelling up with gas prices basically you're off-risk. Thank you.

Catherine Macgregor
Okay. So, I think what is important, Vincent, is that we don't mix up our financial exposure, short-term exposure which is the 4 terawatt hours, as Pierre-Francois has described, and physical exposure that we face to serve our customers. What we have said all along and which was re-explained today by Pierre-Francois is that we are
long gas, that it's a certain amount of gas that naturally we serve to the market, which is not committed. The commitments we have to our customers, which are B2C, B2B and also our own CCGTs are much lower. And today, we have, to a very, very, very large extent, secured the volume corresponding to these customers, both physically, but also financially, because remember we hedge at inception. So, we do not have any risk exposure on those volumes.

The remaining flexibility that we continue to have which is the 4% on the physical volume is something that we know how to manage, we have a wide enough portfolio and we don't have any -- we don't anticipate any issues whatsoever to fulfil this flexibility, especially given the fact as Pierre-Francois reminded us, that we're starting to see demand inflexion both because of what has happened in the market, but also -- and we can expect some of the measures that governments are taking, the messages, the campaign that we have to be much better at saving energy ahead of what's happening, and therefore the demand is going to support the fact that we have what we need to fulfil the requirements of our customers.

Pierre-Francois Riolacci
Thank you, Catherine. On the gas tariff freeze is exactly the same law provisions, no change, there is absolutely no reason to believe that we could not do the same when needed in H2.

Vincent Ayral
Okay. Thank you very much. On the Russian gas question, I'd just like to verify. It can be easily changed by basically -- we've seen that Germany and France have agreed for a molecule for electron type of swap. We give you gas, you give us electricity potentially. It does not change anything for ENGIE here, because ultimately your gas balance is pretty much the French gas balance, if I simplify. So, giving away gas to Germany when they need it, how would that work versus your self-commitment? And how would you remain immune in a situation like that? Just to understand how that would be structured. Thank you.

Catherine Macgregor
No, it doesn't change anything for ENGIE, we have a view of our customers' needs, and of course, we deliver - - remember across Europe and we actually deliver quite a lot of gas in Germany as well, so no change for ENGIE at this stage.

Vincent Ayral
Fantastic, thank you.

Operator
The next question is from James Brand of Deutsche Bank.

James Brand
Hi. You've touched upon -- Vincent has already asked a little bit already, so maybe just a couple of clarifications and that sounds very positive -- firstly, that sounds very positive on the secured transactions you've achieved for the French tariff shield. Maybe you could tell us how much you haven't securitized at the end of the half? So, I guess just applies to Q4.
And then secondly, just wanted to clarify on the 4-terawatt hours, the comment that you're naturally kind of long gas and the exposure there. So, you say you're naturally long gas. Should we therefore think about you having a long position of -- I'm not sure of what? Maybe you could clarify what your long position currently is and then that drops down to minus 4 terawatt hours, the lot of those deliveries you get from Russia. And if that's the case, where are you at now? Because obviously you're not getting your full deliveries from Russia.

And then also just probably a third question, but just clarification in terms of the pricing exposure for that 4-terawatt hours. Is that kind of a 3-month lag or 12-month lag? Just if we're trying to work out, what implicit gas price you may have in that 4-terawatt hours? Thank you.

Pierre-François Riolacci
I'll start with the easy one. So, the H1 at the end, we monetized, as I mentioned, the five winter months at the end of June. So, north of EUR700 million, we are left with a couple of months, which is about EUR150 million. And then, of course, this position will rebuild through the second half and when it comes to the right time in December, we would go for another "cession Dailly" for all those who know, but the way we securitized this asset. So now, we are definitely in control of the flow which is great news.

I mean, this long position that we are mentioning, it's pretty simple, is that we have a very robust and historically, we had a very robust long-term contract portfolio and that has been allowing us to be long in the market. So, this is creating a flexibility for us. And of course, if we lose Gazprom quantities and we have lost Gazprom quantities for most of it actually already, then we can cut on this -- this long position is reduced and we reduce our sales to the market. That is as simple as that.

And then on the 4-terawatt hours, I think that the bulk of it is the 30 days' notice that I mentioned. There are a couple of contacts which are a bit longer. But just guys, I mean keep things very simple. I mean, we are guiding with the Gazprom risk, we are guiding with the 4-terawatt hours, also we have made a simulation, whatever happens, this is we talking about a few hundred millions, and these few hundred millions, we'll manage that, we handled that in the guidance. So, don't try to build scenarios and try to monetize. We've done that. And you're going to have to believe us that this is something we can manage in the range of the guidance.

James Brand
Thank you, and good job on the de-risking.

Operator
The next question is from Peter Bisztyga of Bank of America.

Peter Bisztyga
Yes. Thank you and two questions for me, please. So, I get that you've got very limited exposure to Russian gas, but I was just wondering what the earnings effects could be from domestic demand destruction and curtailment of gas power generation in the event of an emergency situation when there is no surplus gas available. So, for example, can you quantify what the underlying loss of gross margin has been from the lower B2B, B2C gas supply you mentioned, if you exclude the revenue from surplus gas sales? And could your CCGTs, for example, be exposed to power by that risk if those were forced to stop operating in an emergency?
And then my second question is in a different topic. So, top prices and spreads are today well above where they were at the end of June, so you could really see much higher profits than you're guiding to. And I'm wondering could you consider doing a share buyback in this scenario? Some of the big oil companies have done. Or do you plan to religiously stick to your dividend pay-out ratio commitment even if the resulting dividend per share could be unsustainable beyond the next year or two? Thank you.

Catherine Macgregor
Okay. So just on the dividend, as you know, we've reaffirmed and the Board has affirmed that dividend policy, so no much more to comment on that. In terms of share buyback, we have as you know capital allocation policy, which is quite well-defined, returning to shareholders through our dividend policy and investing obviously in our business, in our growth avenues, which are many, which are actually growing, energy transition needs to accelerate as you see everywhere. So, a lot of really good investment opportunities for us and we're going to be very focused on that. And then of course, maintaining a sound balance sheet, which is really, really important in the context and the market of super high volatility prices, etcetera. So, at this stage, no change in that balance in terms of capital allocation principles given the policy reaffirms and that I will leave it to that.

You want to comment a little bit on the earnings effects on demand destruction, Pierre-Francois?

Pierre-Francois Riolacci
Yes. It means and of course it is a work in progress. As you know, you've noticed, I was very clear that demand destruction has happened already in H1 but you've seen that earnings so far have been rather resilience. I think you have some proof point there.

On the retail part, I mean, you know that curtailment is unlikely to hit a lot the retail part for all kinds of reasons. I'm not going to elaborate. B2B, there is indeed less volumes coming in. You have noticed that there is also a request from our customers, B2B customers, for more service in the contract, risk management, stability and that's something that we are good at, and as you have seen with GEMS performance, it is something that we managed pretty well.

And when it comes to the specific question of CCGTs, you may have read that there is indeed a decree that was passed, which is a putting CCGT, of course, in the merit order, and they should get curtailed unless they are needed for power supply. And given where we are in the market, power market in France today, we are not too worried that CCGTs would be called off. So, all-in-all, we believe that we have a reasonable setup to face this demand reduction.

Peter Bisztyga
Thank you. Just, but your last comments on the CCGT, does that apply to the ones in Benelux as well?

Pierre-Francois Riolacci
Yes, sure. And again, this for us is in the range of what we can manage. And you know that the gas supply in Belgium is rather well organized. It's not a market, which is extremely tense. So, we see that as a limited risk.
Peter Bisztyga
Right. Very clear. Thank you.

Operator
The next question is from Robert Pulleyn of Morgan Stanley.

Robert Pulleyn
Hey. Thank you. So, the first question is I’m going to ask around the structure that you’ve mentioned on the Belgian nuclear extension. Very simple question. Would this strict structure mean that those provisions would then be off balance sheet, giving you have a 50% stake in presumably something that’s equity accounted? That’s the first question.

The second one, which is a bit bigger. There’s a comment in the release about the 2023-2024 winter, which I appreciated a little bit further ahead. And could you add a little bit of colour as to how this is possible in terms of having adequate supply for that period without Russian flows? Given once we exit this winter that’s coming, presumably storage is going to be quite empty and that’s what the European commission has guided to. And I suppose in particular, could you talk to the magnitude of demand destruction that this might require and of course the impacts on ENGIE particularly thorough your long gas position but also your networks. Second one’s a bit big one, but thank you very much.

Catherine Macgregor
Yes, so I will start to talk a little bit about our view on the winter 2023 and 2024. Obviously, what we're talking about in our press release is the ENGIE position vis-a-vis our own customers, for whom based on anticipated volumes for those customers we have secured, we have a view on where and how we are going to be securing these volumes and this is through our usual long-term contracts, this is through of course, LNG and obviously implied assumption is that energy continues to fly and to come to Europe, so we have a good view that we will be able to fulfill the needs of our customers.

Now, of course, it doesn't mean that the energy system in Europe, in France is not under tension, and therefore, the overall message that we need to continue to save energy and to watch the demand etcetera continues to be the case. Now, for ENGIE and for our customers, the work that the teams have done is enabling us to say indeed confirming, that we are going to be able to meet the demand on a B2B, B2C and CCGT based on the normal climate and volume, etcetera, with the usual qualification, of course.

On the provisions, it would continue to be on balance sheet. I think what is really important here is the view that potential cap on the provision for waste and fuel management would be agreed as part of the deal and this is really something obviously that would be important. You can think of, if you were to think of an analogy German solution type of deal, it doesn't mean that that would be the deal, but this is to give you an example of what it would look like.

Robert Pulley
Okay. Thank you very much.
Operator
The next question is from Louis Boujard of Oddo.

Louis Boujard
Thank you. Good morning, everyone. So, two questions as well on my side. Maybe the first one regarding the B2C market to have a focus on next year when the regulated tariff in France is going to stop, how do you see the framework to evolve on this topic? Did you start discussions with the politics, how do you think the proactive measures that you have implemented might be enough at this stage and there is nothing to expect on this topic next year.

My second question would be on the Italian windfall tax, where you booked I see in total EUR308 million of flows in the first half. I was wondering if it was for the full year or only for the first half. And most specifically what argument are you bringing to contest the decision at this stage? Thank you very much.

Catherine Macgregor
Well, on the first question Louis we actually don't have a super good visibility on what will happen to the regulated tariff post 2023. As you know, they are due to elapse and to disappear. What is important, I think for 2023 is indeed the extension of tariff shield in some shape or form and how that would co-live with the exit of the regulated tariff. And to be honest, this is not completely finalized yet, so discussion is still ongoing there. On the windfall tax, Pierre-Francois?

Pierre-Francois Riolacci
Yes, I could go on for an hour to explain the counter argument, because there are so many, but just bear in mind that today, the actual tax rate is 100% swiping up all the profits, because the base it's actually not right. It is distorting competition in a big way, because depending on your structure and depending on the structuring of the hedges, because that's a key issue, you can be penalized or not. And last but not least, it's a double tax, because it's not allowable against the corporate tax. So, there are many good ways to contest this law cost in Italy and in the EU. And we are not going to step down in our rights. So, rest assured that we'll do everything we can to shut it off. So, that's where we are. It is EUR 308 million, that's for half year, but the tax is not supposed to go on. When the tax is there, the temptation to extend is always something. So, we need to be careful.

Louis Boujard
Okay, thank you very much.

Operator
At this time, there are no questions registered on the conference call. (Operator Instructions).

Aarti Singhal
Okay, well then, thank you very much everyone for your participation and do reach out to the team if you need anything. Thank you. Bye-bye.