



## CONFERENCE CALL

*20 December 2022*

### **Agathe Van den Broek d'Obrenan**

Good morning everyone and thanks for joining this call. In a moment, I will hand over to our CFO, Pierre-Francois Riolacci. As this is a short call, could you please e-mail me your questions if you have not already done so and I will read them out on your behalf. My e-mail address is in the invitation we sent this morning and with that, over to you Pierre-Francois.

### **Pierre-François Riolacci**

Thank you Agathe. Good morning to all, and thank you very much for making yourselves available at short notice. Actually there is no real big news today, but we wanted to make sure as Christmas break is also closing by that all of you have consistent information that just came in. And also grab the opportunity to give maximum clarity on 2 significant uncertainties, nuclear provisions and the so-called super profit taxes in Europe.

On nuclear provisions first, we have been informed by CPN that they have reached a conclusion on key parameters for calculation of the nuke provisions:

1. Decrease in discount rates for provisions covering fuel management from 3.25% to 3%.
2. Revision of industrial scenarios for the dismantling and increase in operational and project costs.
3. Cost assumptions with regards to waste volumes and conditioning costs based on technical solutions which are still in the making of by ONDRAF.

Based on these assumptions, the total provisions for nuclear liabilities would increase by €3.3 billion at year-end of which €2.9 billion borne by Synatom. It is substantially higher than our initial proposal which was an increase of €0.9 billion to be compared to the €2.9bn.

Therefore, Electrabel will submit an adapted proposal based on the following:

1. the decrease in discount rate is not justified in the context of increased interest rates in euros,
2. additional cost and risk as retained by CPN are already properly included in our detailed assessment, either in the cost base or in the contingencies,
3. the outcome of CPN calculation does not take into account the European benchmark,
4. the established provisions will likely exceed the total cost for dismantling and spent fuel management.

The discussions that we intend to open will fit in the frame of the Law of July 12th and should come to conclusion by the end of Q1 next year. And then, there is a 30-day period to decide on an appeal to the Court of Markets.

So if you are using CPN assumptions, what you may expect for provisions at the end of the year is the following:

1. For dismantling : plus €2.3bn going up from €6.4bn at the end of 2021 to €8.7bn end of 2022. And 25% of the increase would be funded in 2023 and the balance of it would be funded over the next seven years up to 2030.
2. For spent fuel: to be an increase of €0.7bn from €8.0bn end of 2021 to €8.7bn end of 2022 and then the amount of the increase would be fully funded in 2023,
3. Operational nuclear waste: these provisions are actually outside CPN control, but they will have to be adjusted at the same time to account for the new ONDRAF cost used by CPN for close to €0.4 bn.

Which means that the total extra funding is assessed to be around €1.3bn in 2023, on top of the already planed funding which is €1.6bn a year up to 2025, and €0.4bn thereafter.

Last point, last but not least, ENGIE has been expecting for years the implementation of solutions for nuclear waste management by Belgian authorities and as these solutions are not yet fully available, especially with regards to low-level radioactive waste, ENGIE has been and is incurring significant extra cost for €1.3bn. We are now reviewing our legal options to claim back this amount.

That's it for nuclear provision and I'm sure you will have some questions, including on how it would impact our accounts in 2022 and onwards.

But first, let's address the consequences of the new tax laws in Europe, and let's talk about the inframarginal rent caps and other super profit taxes.

You are all aware of the various legislations being passed and discussed in Europe. There are three countries where it has significant impact on the financials :

1. In Belgium, where there is an inframarginal rent cap implemented retroactively from August 1st 2022 to June 30th 2023 with a possible extension to be decided next April. The normative revenues based on the forward prices and the normative hedging policy, above 130 €/MWh will be subject to the new levy, so that, including the impact of existing nuclear taxes, all normative revenues beyond that threshold will be captured by Belgian state.
2. In France, an inframarginal rent cap is implemented retroactively from July 2022 to December 2023. The tax rate is 90% above threshold, threshold that ranges from 40 €/MWh to 175 €/MWh, depending on technology. ENGIE is mainly impacted through its drawing right on two EDF nuclear power plants, also on its gas power plants and its cogeneration plants. Other revenue streams will not be materially impacted due to pre-existing royalties or regulated prices.
3. Finally, in Italy there is not yet any approved inframarginal rent cap mechanism as such, but there was, as already reported, accounted for in our H1 financials, an extraordinary solidarity contribution based on variation of VAT taxable basis year on year with a rate of 25% and covering from October 2021 to April 2022. The draft budget law for 2023 includes a temporary solidarity contribution as referred to in the EU Regulation, but there are still significant uncertainties about the applicable tax law in 2022 and 2023 in Italy.

In others countries, there are no material impact to report as of today. We are acutely aware it is difficult for you to make a proper assessment of the financial consequences of this new regulations. But what we can help you with is that based on existing price environment and approved or anticipated regulation, we estimate the overall impact for Group EBIT €0.7-0.9bn in 2022, and for 2023 €1.2-1.5bn depending on final provisions in Italy.

On net recurring income group share, the expected impact is €0.8-1.0bn in 2022 and €1.1-1.4bn in 2023. The high conversion of EBIT impact in net recurring income group share is due to some taxes are not allowable for corporate tax or which are directly charged as corporate tax when EBIT is unchanged and to EBIT reduction,

where ENGIE is not taxpayer. Also, you should know that the whole increase year on year is due to nuclear in France and in Belgium.

Last point, but again not the least one, we are reviewing the final provisions in the different tax laws when they are not compliant with convention or legal framework and they are discriminatory. We will protect our rights and claim back the amounts paid.

Now before we move to the Q&A session, a few key comments. First, it goes without saying our guidance on results as well as on credit ratio for 2022 is confirmed. We had factored in some risks when we updated our guidance last November and we are satisfied with the current trading.

On nuke, we continue our negotiation with the Belgian authorities in a constructive way about the potential extension of two units after 2025. After a slow start, we are making progress, but we have also somehow nuts to crack. It is in the interest of both parties to conclude as soon as possible, that's obvious, but I'm not going to elaborate any further.

What happens with the triennial provision process, but also with new taxes, is a very good illustration of why there is a need for clarity and stability on regulation and waste, and why we need long-term commitment on execution from all parties. Even if at the end of the day our nuclear operations will either stop or shrink significantly from 2025.

And then on the so-called super profit taxes. You should remember that our business model is based on stable returns on long-term assets and synergies from our portfolio. We are not opposed, in unprecedented market conditions, to exceptional levies as long as they are reasonable in amount, that is not deterring future investments and they are not discriminatory. And we are even less opposed when the proceeds are used to finance energy affordability to the benefit of customers and the economies in which we operate. Actually we are even proud to be a resilient integrated operator which has contributed since the beginning of the crisis, not only to security of supply but also to affordability through well-established profit sharing schemes, through actions dedicated to vulnerable customers, through one off payments to employees and now, through the inframarginal rent cap. And I'm not mentioning the extensive use of our balance sheet for gas storage and also the various customers' tariff shields. With that, I will stop for the intro and open to questions.

### **Agathe Van den Broek d'Obrenan**

Thank you Pierre Francois. So we are just receiving some questions, the first one being on provisions. What would be the impacts on your P&L for 2022 and beyond if you were to accept the CPN request?

### **Pierre-François Riolacci**

Thank you. That's a of course a very relevant question. So, the increase in provisions for the spent fuel management and operational waste will impact the income statement in 2022 in our non-recurring items, all of it.

For the increase of provisions for decommissioning, dismantling, it will have an important impact on the income statement, mainly in 2022, in the non-recurring results. Let's say something like 1/2 or 2/3 of it will go through there. But given the higher value of our nuclear assets, including the impact of taxes, part of the increase of provisions may be offset by the recognition of a dismantling asset, and that dismantling asset will have to be amortized over the residual life of the asset, that is 3 years 2023 to 2025. So there would be a depletion charge that will come on the 2023, 2024 & 2025 and we are talking a few hundred million euros per year and this would hurt both the EBIT and the net recurring income group share. So that's a second impact and we will know when we are at the end of the year and we can draw the line between what would be non-recurring and what will be actually offset by the recognition of this dismantling asset. And then there would be a third item which is that the increase in provisions is mathematically increasing the discount charge that is plus €3bn, if you take a round number at 3%. So that gives you an idea of what would come below EBIT but that would come into a recurring net income.

### **Agathe Van den Broek d'Obrenan**

Thank you. Next question, what is the expected impact of the European energy measures and the Belgian dismantling provisions on ENGIE's economic leverage?

### **Pierre-François Riolacci**

When it comes to the taxes, it would be reflected in our EBITDA for most of it, which is as you know, the key criteria when it comes to a debt cover ratio and as you know, we have deleveraged significantly throughout the year so far and we are with a lot of headroom on that side. You would also have a second impact which is linked to the provisions because the provisions you know they account for economic net debt. So this increase of €3bn plus, would trigger all in all, probably an increase of our debt ratio of about 0.25. And you know that headroom is much larger than that. And when it comes to rating agencies, you would expect that they of course increase the liabilities in line with the provisions. You may remember that they have already a calculation which are factoring an increase of €1.5bn. So it would be, let's say, doubling the expectation on that side. And you know that we have significant headroom on all ratios. So let's say that the balance sheet is fully prepared to this increase of provisions.

### **Agathe Van den Broek d'Obrenan**

Thank you. Regarding the nuclear provision in Belgium, what is the likelihood that you will win your case? Is there a possibility that your appeal will be successful or is it quite unlikely?

### **Pierre-François Riolacci**

That's a good one, I think. First, before we go to appeal, there is a discussion period and I think that we should not disregard that period of discussion which will take us up to the end of Q1 and then indeed there is an appeal. It's a bit of a new process because you know this is a process which was designed by the new law. It has never been tested. I think we need to be careful and indeed not to be too over optimistic about what would be the outcome of an appeal. But today again it's a bit too early since we have not yet completed the discussion phase decision to be made some time in April if we follow the process.

I would highlight that there is a second part of this discussion, which is that we have incurred significant extra cost because we are lacking the regulation. We are lacking definitions on waste management and this has cost a lot of money to ENGIE and this is due to regulation being late against the schedule which is in the law and therefore we believe we have good grounds to claim indemnification on this extra cost, which can go up to €1.3bn as calculated today.

### **Agathe Van den Broek d'Obrenan**

Thank you. Could you provide us a split of the impacts per country, more or less? Belgium nuclear, France and Italy?

### **Pierre-François Riolacci**

Well, it depends a bit on of course, which year and what kind of assumption you would be using. I think that for 2022, we have a big impact in Italy and we have a significant impact in Belgium. So in France is actually very, very limited for 2022. So two countries, basically in 2022: Italy and Belgium. And when you look at 2023, it's more balanced and it's a bit unclear today for Italy, but we would expect Belgium and France to be close at a high level and then Italy for the remaining part. And you've seen that there is some uncertainty in our range which is reflecting what would happen on these three countries, and especially Italy.

### **Agathe Van den Broek d'Obrenan**

Thank you Pierre-François. Next question is the guidance 2022 is confirmed. Should we assume that the whole guidance is still possible or should we think of the bottom of the range?

### **Pierre-François Riolacci**

Yeah, that's a good one. It's too early to say. I mean clearly this we had made some assumptions on these taxes when we announced our guidance in November. You know that there is still a range and I would say that

if we are at the low end of the range, it would be a pretty much in line with what we expected then, and if it is at the high end, it would be a bit more. Thus being said, taxes are only one dimension. You've seen that we have still pretty wide range. This is to reflect the uncertainties in the market, that goes with volatility and that goes also with climate. And you've seen in Europe some big swings. So I think it's too early to say anything, any indication about the low end mid guidance or high end. I think that's too early.

**Agathe Van den Broek d'Obrenan**

Thank you, and then on 2023, what is your visibility for the NRIs 2023 versus the current target of €3.2-3.4bn?

**Pierre-François Riolacci**

It's true that the current targets are bit out-dated given what happened. And I recognize it's not easy for you guys to put a number for 2023-2024. I think that, where we can help you a bit with today's communication, one is on nuclear, clearly there would be a few hundreds to factor in at EBIT and net income result that was mentioned that is in line with the recognition of dismantling assets that would have to be depleted in 2023-2024-2025, and the second one is on taxes, very difficult to model and I know you're wise enough not to try given the complexity of the rules. Maybe you can get some comfort from what we say about our guidance 2022. You have the amount of taxes which is embedded in there and so you remember the €8.5-9.5bn on EBIT and the €0.7-0.9bn of impact of taxes. And then you can see that we are planning that from 2022 to 2023 there would be an increase of taxes of about €0.5bn plus, mainly due to nuclear in France and in Belgium. So that increase when you model your 2023, you need to factor in. So that's, I think, the two key takeaways of this discussion. Now you know that and it's no secret that the earnings' power of ENGIE definitely have been much better in 2022 and to a certain extent reset. So I think that of course we are comfortable with the guidance that was issued nearly a year ago, but that's not a surprise that we are higher than that.

**Agathe Van den Broek d'Obrenan**

Thank you. One question maybe beyond the two press releases that we issued this morning. So regarding extensions of the two reactors, when should we expect a decision to be made?

**Pierre-François Riolacci**

That's a tricky one. Again, I'm not going to comment on the process. You know that we are supposed to sign the head of terms at the end of September, that would be a supplementing the letter of intent that was signed in July.

We are late, we have not signed the head of terms and I don't know to be very candid whether we can assign that by the end of the year, but it's clear that it's important now that we make good progress, that's the interest of both parties because if we want to deliver that LTO in a reasonable time, we have to start working very hard on it. So difficult to say, but at some point in time, there would be no sense. So it's very important that we come to a conclusion.

I understand there is no more questions. Of course, we'll be around for the day to make sure we answer any other question. I would like to thank you very much for making yourself available again on short notice. And I think it was important for us to make sure that you have the full transparency at the same time on all this information, even if at the end of the day they do not come as a complete surprise, but still as Christmas is getting there. It's done and I think that we are happy to help you on that and in the meantime, if we don't speak further, have a nice Christmas break.

Thank you.