FY 2022 RESULTS & MARKET UPDATE 2023

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FY 2022 RESULTS

Delphine Deshayes

Good morning, everyone. I am Delphine Deshayes, the new Investor Relations Director at ENGIE. It's a great pleasure to welcome you to ENGIE's 2022 Full Year Results and Market Update presentation. We have four speakers this morning; Catherine MacGregor, Pierre-Francois Riolacci, Paulo Almirante and Frank Lacroix. And Jean-Pierre Clamadieu, our Chairman will make a short introduction ahead of our market update presentation.

A quick view of the agenda for this morning. In the first part, Catherine and Pierre-Francois will review our results and the main events of 2022 followed by a short Q&A session. In the second part, after a 10-minute break, Catherine will lead us through our market update. She will be joined by Paulo, Senior EVP in charge of Renewables and Frank, who recently joined us as EVP in charge of Energy Solutions. Then Pierre-Francois will present the capital allocation and the 2023–2025 financial outlook before some concluding remarks from Catherine.

Finally, there will be a Q&A session at the end of this presentation. We'll take questions from the floor and online. And before starting our presentation on our full year results, we'd like to share with you a short video on ENGIE's 2022 highlights.

[Video]

Catherine MacGregor

All right. Good morning, everyone and welcome. Very pleased to host you this morning for what I hope will be an interesting event. But first, for this first section, a few comments on what has been a very strong performance for ENGIE in 2022 in what has been really unprecedented market conditions. In 2022, our teams have indeed put great efforts into execution delivering strong financial and operational performance. I want to highlight notably that we've increased our renewable capacity by 3.9 GW which is really reaching our goal to step up the pace of capacity addition. And we've maintained in general, this very sharp focus on our strategic plan with what we like to call a high-say do ratio.

We have also played a critical role in supporting the security of supply in Europe and policy measures that have helped address these high energy prices that we have experienced. We've also continued to make progress in Belgium with the signing of an agreement in principle with the Belgian government and I will come back to that. But I think more importantly, these recent crisis has actually confirmed the need to accelerate the energy transition and this is where our strategy is fully aligned. Moving now to our financial and strategic progress for last year, the results really speak for themselves, we did post strong results in line with our twice upgraded guidance. EBIT grew 43% organically to €9 billion and this was driven by a higher contribution notably from GEMS, from Thermal and from Renewables. And that led to a total net recurring income of €5.2 billion. We also generated higher cash flow from operation, and this supported our growth Capex of about €5.5 billion, of which 58% went to our Renewable activity. On shareholder returns, the board is proposing a dividend of €1.40 per share, which is up €0.50 from last year. It is in accordance with our dividend pay-out policy. It is critical for ENGIE to stick to our commitment, and to be consistent with our policy.

We also continue to roll out our performance plan which delivered more than €400 million of efficiency improvement. We had the €600 million plan over three years, so now we are at €400 million, and this is pretty much across the board, so we are ahead of our annual average implied by these three year target, which is very good. And we've maintained a strong balance sheet with high level of liquidity which has been absolutely critical in this very volatile environment. Turning to ESG, we are fully committed to achieve the Net-Zero ambition covering all three scopes by 2045 and of course we have intermediate targets. In 2022, our greenhouse gas emissions from the energy production were reduced to 60 million tons which is a reduction of 44% from our 2017 levels. Through growing investment and also consistent delivery from Paulo's team here, the share of Renewables in our portfolio increased again to 38%. So we are obviously well in line with our 2030 target here as well. On gender diversity, ENGIE had 30% women in management at the end of 2022. And we plan to reach managerial parity by 2030, managerial parity between men and women. All these efforts and progress have been externally recognized as indeed we made progress also on our CSR ratings year over year, notably from MSCI from A to AA and also Moody's ESG from 68 to 70, so very pleased with that as well.

Few comments on our operational performance, strong performance which is really also driven by the strength of our integrated business model progressed pretty much on all fronts. I've commented already the Renewables, the 3.9 GW addition over the last 12 months. We had notably projects in Scotland with Moray East, Eolia in Spain, projects in France, in Chile, as well as in the US, where we posted very strong performance in the US, especially in Q4, where we managed to commission more than 600 MW of solar and wind projects. Also Ocean Winds is continuing to make some really nice headways. We were awarded a lease area for floating offshore wind site in California of 2 GW as an example of that progress. And in general in Renewables we are driving very fast forward, we have currently 65 projects under construction.

In terms of the strengths of integrated model, it is well shown through our business GEMS, which has helped us commercialize Renewables by signing a total amount of 2 GW of green corporate PPAs. As an example, we signed a very nice deal to supply 5 TWh of green power to Google. And this confirms our position to be among the leaders on green corporate PPAs in the world, which makes us great for our customers to support their decarbonisation efforts. Of course, GEMS benefited from record high level of activity driven mainly by very high volatility that we experienced in the market and Pierre-Francois will cover this more into details. Thermal business contributed to the security of supply and the system stability, with high level of reliability, flexibility, and also the ancillary services, which are more and more in demand as renewables are developed and inject more and more energy into the grid. In Networks, of course, we had record activity and I will come back to this as I discuss the security of supply but also internationally, in Brazil, we have reached more than 99% of the build-out of our 2,800 kilometres of power transmission lines. And also TAG assets there in Brazil internalize our O&M organization of its gas pipelines, some really good progress on the integration of TAG. In Energy Solutions, we are continuing efforts to increase the efficiency and we're building this platform for long-term growth around our asset based business. And so we have installed nearly 1 GW of capacity in distributed energy infrastructure. We have also won about 250 MW of contracts in France, Spain, Italy and also in the UAE. And we have won multiple concessions to build and operate 12,000 EV charging points. Finally, in Supply, we've been very engaged with our customers to try and help them with the energy price challenges and help implement affordability initiatives. So, in general, our strong operational progress which is demonstrating the resilience of our integrated model in what has been a super volatile context.

Few words on what has happened on the security of supply. Sometimes we take it for granted that we are in such a situation with our storage level this winter, but that didn't come without efforts. Indeed, ENGIE played a critical role in Europe as a gas infrastructure owner, operator and gas supplier present in 10 European countries. We have through diversification allowed to find other sources of gas to be able to replace the Russian gas and pretty much eliminating our exposure to the Russian gas. We've used existing new suppliers, pipe gas and LNG and managed indeed to fill the storage at a very good level at the beginning of this winter. So, what that has meant is that our infrastructure activities in gas transport, distribution, LNG terminals, and storage of course, have all been operating at a very high utilization rate. We've also made further progress unlocking the potential of biomethane in France, which has a role to play here, with the connection of 492 biomethane units to our grid and now the total production in France is reaching more than 8 TWh per year, which is showing the potential of this gas component.

A few words to our actions that were taken to support the energy affordability and the security of supply, as we were able to contribute to the government measures, we've taken dedicated initiatives for customers, as well, of course, to our own employees, so just to describe a few of them. We have contributed €1.1 billion in the 12 months of 2022 through existing profit-sharing mechanisms in Belgium and France. And to that €1.1 billion you have to add another €900 million, so €0.9 billion that were spent on inframarginal rent caps, following the EU exceptional measures that were taken to address high energy price. And these inframarginal rent caps are mainly related to our nuclear asset in Belgium as well exceptional contribution in Italy. In terms of strong commitment to enhance the security of supply, we also provided €1.8 billion of working capital to support gas storage levels in France as we, in some way, over-stored last year in order to be better prepared for the winter to come. We've also supported our employees with nearly €600 million that included exceptional bonuses, a global employee share ownership program and other benefits and this was obviously in recognition of their tremendous efforts to handle the crisis and also in what has been a high inflation environment. We've also engaged on public policy measures. We provided €1 billion of working capital support to implement the tariff shield in France, price cap mechanisms in Romania and Chile as well as in Belgium with what it is called there the social tariff. And as we already announced last summer, we've also been helping vulnerable customers with dedicated measures trying to support as much as possible SMEs alongside, of course, initiatives to help clients reduce energy consumption, especially on days of high demand.

And as part of a vision that the energy market in Europe needs to remain integrated, ENGIE is also actively engaged in discussions on many policy measures, especially the new European electricity market design that the European Commission is working on. Now, before I give the floor to Pierre-Francois, just a quick update on Belgium, where we have successfully phased out Doel 3 at the end of September last year, and then very recently Tihange 2 earlier this month.

As we announced early January this year, we have continued to make progress in Belgium, where we signed an agreement in principle with the governments there. So, this agreement sets the framework for a 10-year extension of Doel 4 and Tihange 3 nuclear reactors. This agreement is really focused on ensuring a fair risk reward balance that includes a legal structure, which would be equally owned by the Belgium state and ENGIE. A cap on future nuclear waste management costs and that would include a risk premium for the transfer of those liabilities, a set of guarantees also to ensure the proper execution of our commitments. So, subject to the progress that we need to continue to make and over the next few weeks, the goal is to sign a final agreement before summer. Of course, in the shorter term, our priorities in Belgium remain to maintain the highest standard of nuclear safety, high operational availability, and also to prepare for the upcoming shutdowns for the remaining reactors.

With that in mind, we will give you shortly financial outlook with a focus on group EBIT excluding nuclear activities as a reflection that nuclear is not part of the strategic priorities of ENGIE. I'm now going to hand over the floor to Pierre-Francois. Thank you very much.

Pierre-François Riolacci

Thank you very much, Catherine, and good morning to all of you. Thanks for making it. Indeed, quite a solid set of results. I'm not going to repeat the key numbers that you can see on this table, maybe just to mention a very strong deleveraging that is achieved, despite the economic net debt being flattish compared to last year, solid 2.8 economic net debt to EBITDA that's of course a key number. And just maybe, just to make another one on the dividend, which is €1.40. That's, of course a significant increase year-on-year. It is just simply complying with our dividend policy and this is of paramount importance for both the Board and Management and we want to stick to it. Of course, not all of these €1.40 is easily repeatable in the short term, but we are very committed to a sustainable and healthy growth of dividends in the long run.

Let's go deeper in the numbers and of course, this is a sharp increase of EBIT with three main drivers, GEMS, Thermal and Renewables, €2.7 billion overall of organic growth. I would, of course, double click each of these blocks, maybe just to mention, and I'm sure you've noticed that, Q4 is actually slowing down, Q4 is even slightly behind '21. And there is some reason in there, there are timing effects that we flagged during our call on the Q3, which are actually impacting, but also the impact of inframarginal taxes that came late in the year with some retroactive effect. We have a positive effect on the FX as you can see, +€300 million, slightly negative on the scope. This is linked to 2021 disposals, but also a couple of assets that were disposed further in '22, in line with our coal exit and geographical refocus.

Now let's go to the precise numbers and start of course with Renewables. EBIT €1,627 million. It's another year of very strong organic growth in Renewables, +19%, and maybe it's worth to highlight that in that case, wind and solar EBIT are actually at par with hydro. And I think that's also a strong signal of what is happening in our asset base. I think that's a very good story. What are the key drivers of the performance? The first one is growth, I mean, we have been commissioning new capacities, and this is translating into a good EBIT, that's about a €300 million coming on the back of this commissioning. We have in market conditions, which were rather a tail wind in hydro in particular that we were able to capture in France. And then, last but not least, despite focus on growth, we have been delivering on performance, which is contributing and significantly and as the size of the portfolio is increasing, we have increasing opportunities to actually leverage further our performance, which is, of course, an encouragement.

And then you'll remember that in '21, we had this Texas extreme weather event, which was negative and of course, it's not there anymore. So, it helped us. These positive times were actually off set partly by the severe hydro condition that we have in France, which ended up with lower volumes, but also some expensive buy back around the summer. So that's a hit. And on the other hand, you remember, in '21, we had a positive one-off which the GFOM adjustment in Brazil, which was about €300 million. All-in-all, pretty obvious on the waterfall, it's a strong year for Renewables.

Networks, as you know, is a very strong contribution to our EBIT, €2,371 million in '22. It's quite stable actually year on year and with a mixed picture. In France, our distribution activities were of course impacted by the warm conditions with lower volumes compared to last year. But on the other side, transport and gasification facilities, storage activities have been delivering at a record level as Catherine was mentioning. As you know, these positive and negative, they will actually equalize over time, through the clawback mechanism, which is embedded in the regulations that will happen in the short to medium term, and overall, they are actually value neutral. The net balance, however, in '22, was slightly negative on this temporary effect. In Latin America, our operations benefited this year again of their increasing growth and also some indexation on inflation. I would mention to close that one that we have managed to monetize the market volatility through our storage assets in the UK. These are non-regulated activities, which allow for the own account trading and of course, we've been able to capture higher margins this year due to market conditions.

Energy Solutions has been also posting a strong organic growth of EBIT 17% at €412 million. It's a very good year, supported of course by higher energy prices, but also a good commercial dynamic. These positive effects have been offset to a certain extent by warmer temperature which hits the volume and of course, it is sensitive, and the reversal of some 2021 one-off s in America. I'm sure that you have noticed that the EBIT margin is under pressure. This is due to the energy selling, which is embedded in the revenues because we are selling energy, and on that one, we have very small margins. So the more, the higher is the price, the higher it will dilute the margin relative to the rest of operations. One word on our favourite which is EVBox, and on that one which is, of course, difficult, we do have positive signals in operations, the production is actually ramping up, our process enhancement is on track. We've made very good progress in fixing our issues. Now the key parameter to scrutinize is, of course, the growth of the European market, and in the long run, we are confident that is quite supportive. We had significant improvement of our financial results in H2, with reduced losses and we expect to reduce in '23 our losses further with the target being breakeven in 2024. There is no secret that this business is not core to ENGIE and the plan is to monetize this asset as soon as we'll be comfortable that we can achieve a decent valuation for an asset which is a good asset in a strong market.

Thermal has been posting a very strong year, €1,768 million of EBIT, +47% organic, very positive, of course, due to higher spreads that were captured by European gas plants and also pumped storage assets alongside with a very strong level of ancillaries. No surprise because Thermal is as you know, exposed actually with the maximum actually market exposure, due to high level of optionalities embedded in the assets. Delivering that kind of results requires a high level of operational excellence, but also very strong skills to monetize the value of the optionalities. It is quite remarkable, but in this kind of price environment, it can also trigger some issues and we had some, it's clear that an outage in the current market condition can cost a lot of money. We had some issues also in Chile and Australia that I've mentioned before with an unbalanced supply and demand market which is creating some pressure on existing positions. And I'm sure, you all remember the Italian extraordinary tax, which has been hitting Thermal significantly last year. This tax, we believe is not okay, and we are contesting as you know. Anyway, it was a very good year of performance from Thermal asset and kudos to the teams.

Supply EBIT is definitely under pressure. It's minus €230 million of organic decrease this year on supply and slightly negative minus €7 million EBIT. Here we are talking about supply B2C, it's not supply B2B, it's supply B2C, so it's a retail market. The first driver of this performance is of course a reduction of 20% of the volumes. And out of this 20%, you had about 40%, which are actually correlated to climate, but you have also 60% which are more correlated to customer behaviour and demand reduction, of course, triggered by the price signals. Our activities in France have suffered even further, they are negative as you can see minus €150 million, that's minus €350 million compared to last year with two main drivers. First, there are some crossed year timing effects, which in the context of a strong price variation they are usually minute but with the price we have they can become more significant. And we will recover part of this timing effect in the next couple of years. But there is also the cost of the support measures that we have decided to vulnerable customers and small size businesses. Two last points that I need to mention, despite the pressure that we get from the environment and the customers, of course, which are struggling with these prices, our teams have been focusing on delivering seamless execution of service, which is really great and at the same time to improve performance further as you can see on the graph, which is supporting our long-term competitive position. And the last one, I want to mention is that we do have some increase of bad debt basically in every market, but actually to a very reasonable extent so far we are talking about a few tens of millions for all our main countries.

Nuclear, which is, of course, still a strong contributor to our operations: €1,026 million of EBIT this year, +7% organic growth. So actually a limited increase year on year, with a significant downturn in H2 as expected. Good to know, that volumes are down year on year. This was actually anticipated due to planned maintenance, but it's another strong year of operations, in terms of unplanned activity and availability, so quite strong. Even if we had some downtime, you remember around summer. So, still a very high contribution, driven by the prices, high captured price, but seriously mitigated by the taxes which have been increasing in Belgium very significantly. That's the case of the specific G2 tax, which is up quite significantly as you can see. You remember that the calculation mechanism is based on the notional hedging policy and using forwards. So it's pretty disconnected actually from the captured price, and this is something to bear in mind. But as you can see, quite an increased amount. And then, of course, you have the inframarginal rent cap that came the 1st of August 2022 at a threshold of €130/MWh and this is an extra €400 million that we have to pay in '22.

Let me grab this opportunity to address the impact of the nuclear provision increase, not directly impacting EBIT, but since we're on nuclear, I need to stop there one minute. Overall, it's an increase of €3.3 billion of provision, for what is going to Synatom which is a big ticket: €2.3 billion for dismantling and the €0.7 billion for waste management. You know that we are not in agreement with this amount and we are contesting, having discussions with the CPN, but it is what it is. It is, of course, fully booked at the end of 2022. Dismantling provisions, they imply that we recognized an asset on the face of it, that's IFRS, and then part of this asset can not be sustained during the residual life of the plant and therefore is impaired in 2022 and that amount to €1.2 billion. The remaining part, about €1 billion will be, a bit more, will be actually amortized over the residual life of the asset and will impact the EBIT in the future from '23 to '25. Overall, the provision increase impacts our non-recurring net income for €2.1 billion, not related to EBIT but worth to mention since we are on Nuke.

And then we go to Others. Others is €1,848 million and it's a lot about GEMS which is posting a very strong contribution, +€2.1 billion year on year. As already explained on the nine months results, GEMS' performance is outstanding basically in all activities with opportunities to maximize the value of the gas contract optionalities, high volumes with healthy margins on risk management, and of course monetization of the market volatility. Also, it is not directly visible, thanks to the strong performance of all activities. You should keep in mind that these earnings include the cost of hedging action to reduce the Gazprom exposure that was managed during H1. It is also impacted by part of the Italian extraordinary tax that I was referring to for Thermal. I will come back on GEMS a bit longer together with Paulo in the next session. In the others variation, so that the others of others, you will find the impact of the exceptional bonus that we have decided to give to each of ENGIE's employees €1,500 per employee, to support them in the current challenging environment.

One word on the performance plan that I've mentioned already a couple of times. We are ramping up with a contribution this year of €0.4 billion, which is quite significant, and coming on top of the €100 million that we had in '21. Main contributors remain operation excellence, improvement also of loss-making entities with many concrete actions, I'm not going to dwell too much. I need to mention the strong cost control on G&A in corporate in all countries that is allowing us to offset inflation and also absorb the growth of our operation while still controlling our G&A. More importantly, our GBU organization is actually gaining momentum, building benchmarking tools, digital solutions, spreading and implementing best practices, pushing innovation, and not reinventing the wheel everywhere. It has become clear that the performance culture is increasingly embedded into our day-to-day operation as you should expect. In line of discussions, we confirm of course our €0.6 billion target of '21-23, which is already achieved for a significant part.

Maybe, it's good to look how the stronger performance in EBIT is translating into net results. Good to see, probably good to spend a bit of time on financial expenses, which are up by about €300 million. The majority of this increase is linked to lower income that we have from Nord Stream 1 dividends and Nord Stream 2 interest, and also higher interest on margin calls which had been on average on a higher level than it was before and a slight increase of cost of debt. The tax charges were €0.2 billion higher and that's mainly driven by, of course, the increase in profit with an effective tax rate sharply down from 29% last year to 23% and this is linked to certain countries where we only partially recognized deferred tax assets in Europe, in the US, and in Australia. You also may remember that '21 was impacted by a one off in the UK which was posting a high rate.

The reported net income is €0.2 billion, so what is the €5 million difference between the recurring net income and the reported net income? First, it's a negative that I was mentioning a bit earlier on the provisions, north of €2 billion that was mentioned on December 20th during the call, but it is made of the €1.2 million impairment that

I was mentioning a bit earlier plus the extra provision for waste management. Then there is another negative of €1 billion which is linked to the credit loss recognized under a loan to Nord Stream 2. You remember that was a H1 event. There is a remaining negative €1.6 billion of impairment mainly on the Thermal assets in Chile and Morocco, and also a prudent review of the balance sheet. There is a negative impact of the mark-to-market on commodities, which is net of tax €2.8 billion, this is due to hedging instruments which are actually covering hedging commercial contract, commercial contracts are not mark-to-market, these ones are mark-to-market, of course, they will net over the life of the contracts. There is no further impact, but there is this negative mark-to-market. And then I need to mention the capital gain on EQUANS disposal which is €2 billion plus.

Going to cash flow now, I think the big one is of course that cash flow from operation is up €1.5 billion compared to '21. It's good to see that the operating cash flow is up €2.6 billion which is broadly in line with EBITDA. So it goes pretty straightforward to operating cash flow. Interest and taxes are up €1 billion year on year in line with increased financial charges, but also higher taxes which are triggered by improvement in profits. And then the working cap requirement variation compared to last year, that variation of variation is zero, but the actual working cap variation is minus €2.4 billion like last year. You're familiar now with this format to explain the working cap, I'm not going to dwell on it, but I would like to just draw your attention on the cumulative impact of two years which is quite significant and indeed it's close to €5 billion that we have tied in the business over the last couple of years due to prices increase.

We have discussed that at each quarter or since the beginning of '22 and the key elements are always the same. Gas storage is up, it's up because we have higher volumes, and that is on the back of security of supply, and it's up, because of prices to storage are also higher. Then, we have receivables, net of payables which accumulated '21-22 are also increasing by about €3.3 billion, driven again by the high commodity prices. Due to business mix and a strong discipline in paying our suppliers on time, we've been able to decrease our DPO, Debt Payable Outstanding by 15 days to 50 days, 50, that's good and we are proud of it. But we are also due to rigorous bidding and strong collections, we have been able to reduce our DSO by about 6 days to 38 days. So again a quite balanced strong working cap management but still this €5 billion.

Worth to mention that there is a tariff shield in many countries, which have been put in place. The overall impact is about €1.3 billion worldwide. This is net of the securitization program which have been executed, especially in France. Good to know that we have not incurred significant cost in relation to these payment deferrals. And interestingly enough, we've been able to minimize the impact of the margin calls with accumulated impact on the two years, which is only half a billion and it's clear that markets are getting more efficient to manage capital consumption. So €5 billion injected that we expect to reverse in the short to medium term, of course, along the way of price normalization.

Despite these temporary but significant working cap consumption in '22, it's still a year of turning point in our financial flexibility with very significant deleveraging measure in both ratios of debt to EBITDA. On top of strong cash generation, disposals are bringing as expected a significant resource, especially with the finalization of EQUANS sale and this allows to cover and more working cap consumption, increased growth Capex, accelerated nuclear provision funding, and higher dividends to the parent company or shareholders. Net financial debt is therefore down €1.2 billion. Economic net debt is increasing slightly impacted by the €3.3 billion upgrade of provisions in Nuke, but also supported by the evolution of discount rates lowering post-employment provisions.

As debt is controlled, ENGIE fully benefits of improved operation. Our debt ratios are sharply down now standing at 1.8 times for net financial debt to EBITDA and 2.8 times for economic net debt to EBITDA. It is worth to mention, that these figures can be considered as a low point and will increase in the coming years. But they give us ample headroom to manage operation in a prudent bandwidth of economic net debt to EBITDA, I will comeback to that one, with an unchanged maximum of 4.0, and that, of course, that I'll comment in the next section.

With that, I turn back to Catherine to conclude this first part dedicated to the full year '22.

Catherine MacGregor

Thank you very much, Pierre-Francois. Also to conclude, we just leave you with three key messages. In these unprecedented years, ENGIE truly demonstrated its resilience, we reacted, we were proactive, we attended to our customers, we provided security of supply and generally we managed the crisis really well. The second is that allowed us to post strong financial results. And third, very importantly, we also maintained the momentum on our strategic roadmap by advancing at pace, particularly with the progress on Renewables.

So thank you very much for listening. So we're now going to open the line… I'm going to pass it on to Delphine for a short Q&A.

Delphine Deshayes

Thank you, Catherine and Pierre-Francois. We will now have a short 15-minute Q&A session before continuing to the market update presentation. Please can I ask you to keep your questions just to 2022 results as there will be plenty of time later on for questions on the market update. And if you don't mind limiting your questions to one or two only. We'll start by taking questions from the room and then we'll take some questions from online. But before taking questions from the room, operator, could you please remind our online participants the process for asking a question, please?

FY 2022 Q&A

Delphine Deshayes

Thank you, operator. We have a first question on the floor.

Louis Boujard

Thank you and good morning, everyone. Congratulations for the release. Maybe the first question. So stick to 2022 and maybe a little bit in 2023. With regards to the working cap first as a balance. You mentioned €4.8 billion of total impact related to the current market environment, I was wondering if you could provide an idea of what could be the magnitude of these figures with regards to the recent drop or slight drop in power market prices in terms of impact, if we have to mark to market it? And also if the evolution and notably, the market reform which is currently under discussion could have an impact in these kind of figures going forward in your forecast?

My second question would be maybe related to remain in the short term to the Supply side, I think that you mentioned that you had a drop in volumes for a bit more than €150 million in terms of impact. Could you tell us what would be conjunctural and what would be structural in your view, regarding these elements? And also regarding the other topic of €100 million still in the Supply business, if there is any recover that could be expected in 2023 or not in these figures?

Pierre-François Riolacci

Okay. Maybe on the working cap first, yes, of course, I mentioned that the reversal of the components of this increase is coming with the normalization of prices. So you would expect that when prices start to normalize, it will come back. It takes a while, and as you can imagine, the storage part is not equally the same that receivable part. The receivable part is very much linked to the volume. So as it normalize, you should see it coming quite quickly. You need to take into account of course, the seasonality because our volumes are not the same in summer and in winter, so it can really create some phasing impact. And you know that there is nothing more complicated that to anticipate the working cap variation. So we are working on it, very close to it, but that should not be something that is lasting for a long time. Storage is a bit of a different story because it also depends when you are actually moving physically stocks around, but it's clear that it's not a reversal that should be back-ended and you should expect point price normalize to see that reversal coming. About the impact of regulation, it depends, of course, the big one is about the tariff shields because if tariff shields were lifted, that would be definitely helping. It's clear that we expect this mechanism to, of course, decrease as the price is normalizing. So same story and then it will help us to recover what has been stopped so far.

And the good thing is that today, as I mentioned, we didn't have any significant issue with these tariff shields. I mean, all of them have been recovered and have been recovered according to regulation. We cannot point to any significant issue in there. We are helping with the balance sheet, that's part of our contribution, as you know to society, we are helping at a cost which is okay for ENGIE. On supply maybe?

Catherine MacGregor

Maybe on the supply and the volume destruction or the volume drop in what we saw indeed quite a hefty demand drop. There are really two effects, one which is the temperature which obviously we'll see what happens there. And then the other parts, so it's about half and half, half temperature and the other half is really demand destruction. Demand destruction with a very strong demand destruction among some of our very heavy energy-intensive customers, so heavy industry have dropped sometimes north of 20% in terms of gas demand. So we really saw this big destruction in demand and while residential, which was more around, let's say 10%. So the hope though is that the sobriety effort continues. And so some of that demand destruction, so apart from climate. The remaining half, some of it should stay because it is sobriety, it is actually virtuous behaviours that we are going to need for next winter and the winters to come because let's face it. Even though right now, the gas situation is very positive, and that's reflected in the gas price, we continue to see some tension in the system because the volumes from Russia have not been replaced physically in the global market. So sobriety is going to be very important, but we do hope that the demand destruction which is linked to potentially production having been stalled that will recover on the basis of a lower price and there is some elasticity there that we hope to see as well. So, a bit of a mixed picture, weather difficult to forecast and demand destruction, some of it should come back, some of it should stay.

Delphine Deshayes

We have now some questions online. Operator, could you please start with the first question?

Operator

The first question is from Vincent Ayral with JPMorgan. Please go ahead.

Vincent Ayral

Yes, good morning and congratulation for these strong results and guidance to '25 it has been early so debated by the market. So what we see on ENGIE is a solid and growing guidance supporting an exceptional dividend yield. So I'd like to ask my questions on the guidance and nuclear development. Starting by the nuclear, nuclear we had discussions both contested provisions and the life extensions. Would be great if we had a bit of an update on that on the timeline where we are? And there you had flagged the negative impact of potentially higher provisions. But not so the positive impact of life extensions which lowers D&A, financial results, and provisions. And that could represent some what material upset. So could you help us quantify this, please? So that's the first question.

And the second on nuclear is the G2 Belgium nuclear tax, which seems very high and absolutely de-correlated from the achieved price, especially when we consider there is a power price cap. So I assume this is based on the forward curve, but is there a true up mechanism there, it seems almost illegal to pay the tax on prices, you're not even allowed to achieve. So that would be useful to understand what's the situation if there is a true up and what type of guidance we can get indeed on the nuclear tax for 2023. I have a last one, which is on the guidance assumption and the called price cap. What have you assumed there, is it extended beyond mid-2023? I understand that this is the third question, so if you don't want to answer it, you can leave it back to the room, and then maybe someone else will ask this one. Thank you.

Catherine MacGregor

Okay. Thank you, Vincent, for these three questions. Maybe just to start a little bit on the indeed the nuclear discussions that we're having with the Belgian government. So this discussion now has progressed well. As I've mentioned in my prepared remarks, we had LOI, which was signed in July and then we signed an agreement in principles back in January laying out quite a lot of work that still need to be carried out over the next few weeks and for the remaining of the year.

And few dates to keep in mind is indeed to have signing of the transaction, let's say before summer. And in a few weeks, hopefully, we will have an intermediate agreement that we lay out the floor, lay out the path towards this signature before the summer. So quite a lot of work to be done. Obviously a lot of streams as I think you understood from the description, or the high level description of the deal, there needs to be the definition of a structure that will be owning these two units that are the subject of this extension. There is a definition of this cap and this transfer of liability and the timing of which needs also to be defined. And of course, the LTO risk management from the remuneration standpoint, what kind of remuneration mechanism and risk sharing mechanism that also needs to be defined as part of the deal.

I think the comment that I made in my prepared remarks was also to mention that eventually we will be guiding EBIT excluding nuclear and this would be the discussion of later on. This clearly means that nuclear is not strategic for ENGIE. It also means that we're not necessarily expecting nuclear to be core of our business model. So what will we be looking from a remuneration mechanism from this deal is to really mitigate the risk and have, as low risk level as we can on this remuneration mechanism. So you want me to comment a little bit more on the remuneration deal?

Pierre-Francois Riolacci

Yes. A couple of comments. First, just to clarify, again and again our guidance is EBIT excluding Nuke, it is net recurring income including Nuke. So you have a discrepancy here in the guidance because the net recurring income of course, is also a base for the dividend and this asset are still there and contributing for the next few years. It's very important that you make a distinction between EBIT and net recurring income. Then indeed there might be some positive impact of the extension. Some of it is probably a different amortization profile of some of the assets if they are indeed extended, so that will help a bit. And then there will be as you mentioned, Catherine the remuneration of the extension itself.

Let's be careful, we have decided that Nuke is not core anymore. That means also that in terms of risk profile, we are not prepared to take a significant merchant exposure. We are not prepared to take significant Capex exposure. So we are aiming to something which is de-risked for ENGIE. And therefore you should not expect also that we have a huge return coming from this extension that would be a modest return and by the way, it would be, you remember, through a 50% stake in the joint venture. So, keep in mind when you try to model potential upside that this is something which is not the same animal that the one we are talking about.

And then you have a very good question about G2 and inframarginal tax which indeed are based on price which are forward and which can actually be significantly different from the ones we capture. This is definitely something that we are looking deep in for the inframarginal tax, which is a new one and we believe that the fact that we cannot prove that this price we have not achieved is definitely an issue and that's a part of the discussion that we have with the authorities.

Vincent Ayral

Thank you. But on the impact P&L from the life extension, I'm not talking about the P&L impact in 2026 when it's effective and it's a JV. But the day you recognize it will do a life extension, you’ve still got a couple of years, and these were basically your provisions will go down for reactors because the liability will be postponed, the depreciation same story, and your higher provisions, you said basically that we have recognized dismantling asset which is to be appreciated over three years. And as there is impact on your P&L negative, but we would expect all of these to lower. So there would be a P&L impact before the life extension becomes effective by next year by a few hundred millions, that's what I was looking for in terms of contribution. Thank you.

Pierre-Francois Riolacci

And I think it's a bit too early to quantify. So and that we have not done. So it's not part of our story. But let's secure first this extension, let's see how it works, and then we'll discuss what it means P&L wise in the next three years.

Vincent Ayral

Thank you very much.

Delphine Deshayes

Thank you. I think that shows what we have for 2022. Now we'll have a short coffee break before starting the 2023-2025 markets update presentation at 10:00 AM. So, thank you.

[BREAK]

MARKET UPDATE 2023

Delphine Deshayes

Welcome back, everyone. We'll now present our Market Update. Catherine will be taking you through our strategic overview, after that, we'll take a deeper dive into Renewables, the role of gas, distributed infrastructure, and our GEMS business. We'll be joined by Paulo Almirante on Renewables; and Frank Lacroix on Energy Solutions. Then we'll take a further short break at the end of it before Pierre-Francois presents on the financial outlook. After that, there will be a 45-minute Q&A session where you will get the opportunity to ask your questions to our speakers. Now, I'm pleased to invite on stage, our Chairman, Jean-Pierre Clamadieu who will introduce this presentation.

Jean-Pierre Clamadieu

Thank you. Thank you very much. Heavy menu on this, I'm just the appetizer and I will be very, very quick. I'm delighted to introduce this session. I would like to share three messages from the board room. The first one, and I guess it was obvious in the previous presentation is that '22 has been an incredibly challenging year. I think the team made a great job navigating through a lot of obstacles to make sure that we can weather the impact of the energy crisis, and at the same time, continue the transformation of the group. So we are now a more focused group, ready for the next stage of the transformation.

Second message is that 2022 was also a very challenging year for the world economy, especially in Europe. We've seen governments, we've seen corporations adjusting very, very quickly to a very challenging scenario to mitigate the impact of the crisis. When it comes to Europe especially, I think we don't have any other options in front of us than to accelerate the energy and climate transition. I think this is the only way to achieve at the same time strategic independence and recreate a competitive environment to help our industry develop. This makes ENGIE strategy as it was set by the Board in 2020 and implemented by Catherine and her team when she came onboard, this makes this strategy even more relevant.

And then I guess the last comment is that today we would like to update you on how we can accelerate our transformation, step up our efforts and increase our commitments to be indeed a true leader in the energy and climate transition. The Board of Directors supports completely this strategy. We think that it will drive value creation, opportunities, results for the planet, for our customers, for our employees, and obviously for our shareholders. We are convinced at the Board that we have the best possible team to implement the strategy. And with that, the floor is yours. Catherine.

Catherine MacGregor

Many thanks, Jean-Pierre. And hello, again, everyone. So indeed a bit less than two years ago, we presented our “putting our strategy into action”, which was a three-year plan. So much has happened in the energy world since then which is why we felt it was important that we give you an update on where we are on this three-year plan and also the current updated outlook because so many things have changed. It has changed and we are now more focused, we are simpler ENGIE and we are geared towards growth.

So we will cover this morning the following. First, I'll come back to our execution track record, then to give you a little bit of the perspective on the energy markets and also what we like to see as an unmatched positioning to capture value from the many opportunities that lie ahead of us. We will also deep dive in some of our businesses and I will do that together with Paulo and Frank, and finally, Pierre-Francois, after the break, will present our capital allocation and outlook.

But let me start with first taking a look at our execution track record as despite the unprecedented turbulence in the energy market, ENGIE did stay the course and has now established what we like to call a robust platform to move forward in '23-25 and even beyond. Pleased to say that indeed we have progressed on our 2023 targets. Some of them actually are already met, particularly on the refocusing of the group now nearly complete, our disposal plan has been completed actually ahead of time with the closing of EQUANS last year, our geographic footprint now down to 31 countries. If you remember in 2018, it was 70 countries. We have significantly stepped up our renewable growth in line with our ambitions.

Third, we have applied a disciplined capital allocation approach. Of course, we want to do that because we want to improve our financial performance but also to enhance our competitiveness so that we can indeed capture these many growth opportunities that we see. And finally, we have simplified our organization. If you remember, we had 25 business units, now we have four global business units, to work towards this more integrated, more industrial group, more focused on performance. These achievements, having done all these, in the environment that I've mentioned earlier are obviously a testimony of the strong capabilities of our ENGIE teams, the ability to deliver and to execute on this strategic plan in what was a dynamic and volatile backdrop.

So now we want to capitalize on this simpler, this more industrial ENGIE, it is time to ramp up our growth. On the one hand, we will keep expanding in renewables both power and gas, and also distributed infrastructure from Energy Solutions. On the other hand, our network global business unit will keep supporting the security of supply, while our Thermal and Supply global business unit will provide more and more flexibility solutions to the system and will come back to the flexibility concept. In fact to reflect this refocus of Thermal and Supply, I'm very pleased to announce that we will rename it, Sebastien Arbola is here, we will rename Thermal and Supply to Flex Gen and Retail and this is how we will refer to this new global business unit going forward.

As you know, we are strongly committed to achieving a net zero ambition covering all three scopes by 2045. This is at the heart of our purpose, it's a societal, it's a business responsibility which is why I'm very proud to announce that we are now SBTi certified well below 2°C and that to pave the way to this ambition, we are adding two intermediate targets. Four of our countries, among which Brazil, will reach net zero across the three scopes as early as 2030. And we will reduce the carbon intensity of our energy production and consumption by 66% to reach the 110 g of CO_2 per KWh by 2030.

The strong commitment to ESG translates into our long-lasting leadership position in the Green Bond market, now we are within the top three corporate Green Bond issuance globally and our latest Green Bonds that were issued in January were once again largely oversubscribed. As a responsible company, we recognize more broadly the importance of preserving nature. Today, we have visible actions on biodiversity, fresh water and ocean, and forest and biomass. As an example, last year, we launched our label TED which is certified by Bureau Veritas, which covers three main themes that are critical to renewables project development, territories, nature and climate. And these requirements go beyond the regulatory setup.

This label today is applicable in France, it will soon be in five more countries and this support is important because it helps ensure the right level of our ownership of our projects by local stakeholders. This actually de-risks the execution of our project, in fact, it strengthens the delivery of our renewable pipelines. And this is a good example of how aligned our ESG objectives are with our business ambitions.

Moving now to energy markets. It is clearly an unprecedented moment for the industry and for ENGIE. We are entering a new energy order driven by a paradigm shift of the energy markets with strong tailwinds you mentioned Jean-Pierre, for the energy transition and climate emergency. Security of supply, energy sovereignty have re-emerged on top of the energy policy agenda alongside still climate. On the energy market; we anticipate mid-term supply tension to remain. Why, because gas supply will stay structurally deficient, because of the interruption of Russian gas flows. The drop in demand has obviously helped the market's balance however until new LNG capacities are commissioned, which should happen from the end of 2026 onwards, this tension is likely to remain.

As a consequence, we expect energy prices to remain fairly volatile in the short to mid-term. In parallel, the energy transition is supported by strong headwinds. First, because the climate crisis continues to grow in intensity with its chairs unfortunately of natural disasters, it is imperative that globally we reduce the emissions. We have no choice, we have to advance. But also because the energy transition will relocalized energy production to a large extent which we enhance energy sovereignty. In fact, the IEA estimates now that Renewables share of global power generation needs to more than double from 29% in 2021 to cover 60% in 2030, that's more than double.

Many governments are obviously supporting this momentum through dedicated policies. We've talked a lot about the Inflation Reduction Act in the US, but also here in France now with the recent Law accelerating the renewable development. In this new energy order, it is more than crucial, it's more crucial than ever to develop a balanced energy mix, to enhance the sovereignty and the reliability of our energy system. We have this strong belief that no single technology can be the solution to deliver a smooth energy transition. We have this vision of a balanced energy mix, which includes the development of large-scale renewable energy capacities. They will bring affordability and of course low carbon power, but they will need to be complemented by flexible dispatchable power generation such as CCGT, our pumped storage assets or batteries. They will also be complemented with this new distributed energy infrastructures that will be required to decarbonise it, to decarbonized mobility, utilities etcetera. In this mix, gas and gas infrastructure will be key to providing this flexibility and also to minimize the cost of this energy transition. As we say at ENGIE, the best infrastructure are the ones that are already built.

As indeed, the energy transition will not succeed without gas. A few striking examples. In France alone, if we were to meet peak demand on a cold day with electrical solutions only, we will need to build 150 GW of additional power capacity. 150 GW of power, which means 90 nuclear reactors. And we will need to just double the existing transmission network. This simply cannot be done.

In Germany, more than 20 GW of additional CCGT capacity is expected to be built in the next decade to meet the power demand and ensure system resilience. And worldwide, one-third of greenhouse gas emissions are coming from heavy industries that will not be decarbonized by electrification only. Of course, by 2050 this gas will be predominantly low carbon and that will happen benefiting from the strong support scheme for example in the EU, where we have, where EU has doubled its ambition since last year and is planning to invest €25 billion for the development of decarbonised hydrogen as an example. So for this reason, gas is expected to remain at around 25% of the primary energy mix in Europe in 2050, which is the same level as it is today. So we firmly believe, we have this conviction at ENGIE that it is this alliance of molecules and electrons that will make this energy transition a success.

Now, what does this all mean for ENGIE? It simply means that we are remarkably positioned to capture value from those many opportunities, which are provided by this new energy order I have just described. Because indeed we have an unmatched positioning which is built upon the strength of this world-class industrial global business unit that are making the energy transition happen, delivering value by developing all of the components of the energy mix that I have just described. With our renewables platform that Paulo and his team are developing among the world's leading that we are continuously strengthening, we own and operate critical networks to ensure the security of supply in Europe. We have this large portfolio of flexible generation assets, which are key to address intermittency and the more volatile energy markets and then these distributed energy infrastructures that we develop and operate to support the decarbonisation of our clients. So each of these components is important, brings value in itself.

But what the market really needs is that these assets are integrated through effective and efficient energy management, to make sure that the electrons and the molecules are at the right place at the right time for our customers. And this is where it gets tricky. This is where a company like ENGIE can make a difference. I can assure you that to do this, to do this integration, the barrier to entry is very high. You have to have the right assets, you have to have the right portfolio of assets, meaning that these assets need to be sufficiently complementary in nature, but even this is not enough. You need sophisticated system including very robust IT infrastructure, you need very deep market expertise, you need asset management capabilities, you need market access, you need financial strengths. You need all these to truly provide this low carbon affordable resilient energy system, which is why we believe we have here a key source of differentiation at ENGIE.

So this integrated model is supported by this industrial culture and that we keep strengthening this is truly work in progress. It's a key driver of our performance improvement, a topic close to my heart and to many of us here in the Executive Committee. Maybe starting with safety, in 2020, we launched one safety plan to rally the entire organization and our contractors around this crucial issue. The number of serious accidents has dropped, but clearly, we are not yet there. So we have work to do and I'm determined that we will continue this critical effort.
Now turning to performance improvements, I'm really proud of the operational excellence of our now world-class industrial GBU. We have simplified the organization, the process and we have driven sharp execution with strong performance monitoring. And alongside this operational excellence, we are also increasing the efficiency of support functions, we have a key role to play, notably through the streamlining of our corporate centre and also increasing the level of shared services. Ultimately we will shift from managing performance plan in a project time mode to efficiency improvement that is really embedded in the way we work and we still aim to have a bit of a net EBIT contribution from this effort of about €200 million per year on a continuous basis.

We will also leverage digital and procurement. On the digital side just a few words to say that we have more than 3,000 experts who have a deep understanding of digital of course, but also of our industrial activities, all these being rooted in very solid IT foundations, and over the recent years what we have done is that we have crystallized our knowledge gained over hundreds of studies and project and all of our energy-related experience into what is now seven global proprietary platforms and now the focus is really to deploy at scale, which is what we still need to do. And this will then become a true competitive advantage and Biljana here is spearheading these efforts.

The other key area of focus for us is procurement. Clearly, procurement is a strategic lever of differentiation of performance. Thanks to now a leaner organization with a four global business unit, we have been able to streamline our processes to capture many, many synergies. We are now sourcing all the critical components centrally and we are working also on developing alternative sources for better risk management, capturing innovation also to develop tomorrow's solutions.

Let me now, please give me a minute to pay tribute to the commitment of the 96,000 people at ENGIE, through their professionalism, their expertise that is quite unique, their engagement, they are really making the energy transition a reality. We have a strong employer's brand, a business model that is fully aligned with a meaningful purpose which means we are attractive to talent. And last year alone, we were able to accelerate hiring by advancing 15% in 2022. We are also committed to regular learning and training, it's very important to remaining competitive and remaining at the right level of expertise, especially in this energy world where we have new segments that require new competencies, new resources, and so that need is growing fast.

We are also focusing on carrier management succession planning, we want to make sure that we develop the leadership team of tomorrow. And today, among our new global leaders pool of talent, 9 out of 10 are actually coming from within the group, which is very good. Finally, we are committed to diversity, in 2022 we launched Be.U@ ENGIE which is a global diversity, equity and inclusion policy. In this world where obviously talent is very scarce, positioning ENGIE as an attractive place to work, or as we say at ENGIE, we like to say ENGIE is the place to be. We are convinced that this provides us with a competitive edge over the years to come.

And it is thanks to our excellent teams, our strengthening industrial culture which I've just described, our unmatched positioning and energy management capabilities that we are pleased to confirm our targets of 80 GW of renewable capacity by 2030, 8 GW of additional distributed infrastructure by 2025 and 4 GW of hydrogen production by 2030. And in parallel, we are upgrading our target for biomethane production to 10 TWh per year and also aiming at installing 10 GW of battery storage capacity by 2030.

To reach these targets, our growth Capex will increase from the €15-16 billion level that we had in our previous plan to €22-25 billion for this new '23 to '25 plan, which is a step up indeed of 50%. This capitalizes on the success of our disposal program, our good 2022 results which contributed to our net economic debt falling below three times EBITDA.

Now, let me be very clear. We intend to maintain strong discipline in our capital allocation to ensure that this investment contribute to earnings growth. 70% of our growth Capex will be dedicated to renewable and distributed infrastructure from Energy Solutions. Strong geographical focus, 90% of our Capex will be spent in just 10 countries. Growing alignment with the EU taxonomy with minimum of 75% of our Capex, that will be aligned with the taxonomy and, of course, in preparation for the future, we will dedicate about 10% of investment to the development of these green molecule I referred to before, as well as battery storage project. This investment plan will enable us to increase earnings, deliver sustainable growth in shareholder returns.

Turning now to our financial outlook. Following a flat earnings period from 2016 to 2019 which was linked to low growth, some underperforming mature assets, and also some disposal-relating dilution, the Group has actively deployed its 2021 strategic plan to build a new growth platform. And this in the backdrop of the double crisis of COVID and the consequence of the Ukrainian war. This new growth platform will be fuelled by the investment plan that I have just described with again a selective approach to what is a very rich set of opportunities. With a strong focus on execution of our project and still continued performance improvement efforts, this growth platform does offer good visibility on future earnings. And this will translate into a progressive and sustainable net recurring income growth, which is showed nicely on the graph, especially when you look from the 2021 level, reaching between €3.4-4 billion in 2023 and rising steadily to reach between €4.1-4.7 billion in 2025.

Our dividend policy being unchanged with the 65-75% pay-out range on continuing net income group share over the period '23 to '25 with our floor unchanged and this consistent policy will provide steadily growing shareholder return to our investors based on the trajectory that we are showing here on this slide. All these maintaining a strong investment-grade credit rating with economic net debt, no higher than 4 times EBITDA. So now we're going to be zooming into a few of our businesses to share the opportunities that we see as competitive advantage, clear priority for delivery in the medium term and we will start with renewables and I will call then Paulo over to you. Thank you.

Paulo Almirante

Thank you, Catherine. Good morning, everyone. I will give you an update on the implementation of the renewable roadmap that we have presented in May 2021. And let's use the same year of reference 2020 that was used at that time to see how the business has evolved since then.

So when we look at the slide, the first graph on the left shows that we have delivered 7 GW of additional capacity. 3 GW in '21 and 4 GW in '22. This confirms the ramp-up of our growth from 3 GW to 4 GW per year on average for the period 2022 to 2025. This is a significant level of growth in the current market context. Around 70% of the additional capacity was commissioned on our priority markets, France, US, Brazil, Chile, and offshore wind. Again totally in line to what was presented by us in May 2021. We have now reached a total installed capacity at 100% level of 38 GW. So we have grown again, according to the plan that we have presented. When you look at the graph in the middle, you see that we have produced in 2022, 112 TWh of green electricity, an increase of 30%. And regarding the market exposure, in 2022, we were 80% contracted. If you look at the bottom of that graph you see the delta, which shows that the proportion of contracted production is also 80%, 2022 TWh. And we keep, as it is usual in our business, 20% to 30% of merchant exposure. This gives us the flexibility to choose the best route to market, with the best-contracted format and at the best time and that's where GEMS and our integrated model play a key role.

When you look at EBIT, Pierre-Francois already presented the figures for 2022, but here looking at it from 2020, it is a growth of 47%, EUR 500 million. Again quite significant and demonstrating -- if you look at the delta below the graph- demonstrating that EUR 400 million is coming from the additional capacities. So new assets are contributing to EBIT quite significantly. So we can say that despite the exceptional market circumstances, we are delivering on capacity addition and there is a clear and significant conversion into EBIT contribution.

So let's look now at our pipeline. In fact, the risk for renewables is not so much about adding capacity, it is about the ability that we have to develop a pipeline that can deliver projects with a competitive LCOE, a pipeline that is able to be implemented in different phases of maturity, depending on the stage of development of the project. Our global pipeline is now 80 GW, this is 40% above 2020. And when we look at the different stages, 55% is in advanced development, meaning the permitting is almost finalized and is secured or in execution. The technology mix is well-balanced and geographically, the pipeline is diversified. But with an important point, two-thirds are in the US or in Europe. And these are two regions with a strong incentive for renewables and with an attractive environment for investment on this field.

Our development is mainly in-house and organic, with a global development team of 1,000 people, which accounts for 20% of the renewables workforce, and we have also an objective to acquire target companies in specific markets that give us the critical size on that region but also reinforces our pipeline.

Just to finalize on this one, for the '25 target, that you see at the end of the graph, we need to have 12 GW of additional capacity to meet 50 GW in 2025. You can see that our pipeline of 27 GW provides a very healthy cover ratio to achieve that objective, a 2.2 times cover ratio. So we are on track to achieve the 50 GW for 2025. But growing in renewables is not only about pipeline, we need to have competitive advantages. And I want to highlight three competitive advantages, a robust platform, strong industrial competencies, and an integrated market position that supports the development of assets by transferring some of the production that is produced into the downstream positions that we have under this integrated model.

I think the first of that competitive advantage I would like to highlight our team of 5,000 people fully dedicated to renewables. They are experienced, skilled, they are now organized as Catherine mentioned in a global business unit with global systems and processes. But more importantly, they are working in the ground very close to the stakeholders. You all know that the main bottlenecks for development of renewables are acceptance and permitting, and we are working on that to accelerate the deployment of renewables. Catherine mentioned the TED label, this is a certification of our assets. It is a demonstration to the local stakeholders that we are not implementing or complying with existing legislation, we are going beyond that, we want their involvement, we want to make sure that the best available technique is deployed to minimize the impact of the assets for the local communities.

Second competitive advantage, our industrial competencies. I would like to give an example how we have been performing in terms of delivery. For the 74 projects that have entered into construction since May 2021, we have a delay of less than two months and the cost overrun of less than 4%. These are the variations that are typically accounted on our contingency margins. So we feel this is a significant achievement in the current context with war in Ukraine, COVID in China, import tariffs in the US this represents for us a significant achievement and that the delivery that was expected in May 2021 is happening within the ENGIE renewables business. I'll just finalize on this slide with again reinforcing the benefit of an integrated position, the competitive advantage that we have to be able to bring assets that can be supported directly by our customers. So all of that combined demonstrates or contributes to demonstrate the EBIT growth that I showed on the first slide.

Continue on competitiveness. You know this is crucial in our business and all better to illustrate our competitiveness, than the success achieved by offshore wind. Offshore wind is a partnership between ENGIE and EDPR created in 2019 named Ocean Winds which has already achieved today 1.5 GW of assets in operation. You can see on the slide, at the end of '22, the pipeline of 1.2 GW have already been developed. This is 1.2 times, since 2020, so quite a significant increase on the pipeline of offshore as you know quite a competitive environment. We have secured 15 GW of seabed leases in five countries, France, UK, Poland, South Korea and the US. But more relevant even on these metrics only in 2022, we were awarded 8 GW of seabed leases. So a significant increase during last year. And I also want to make a point on floating because in addition to bottom fixed development, ocean winds is a market leader on floating offshore.

It has a pipeline of 9 GW but also benefits from a shareholding in PPI, Principle Power, a company that has the most advanced floating technology that exists in the market today. So when we know that US, Europe have announced massive targets for the development of offshore wind, we feel we are very well positioned from an industrial expertise and from our pipeline to deliver and to take the opportunity that this market will present to us.

I think on the previous slides we have shown that our portfolio is diversified from a geographic point of view, it's well balanced from a technology point of view, on this slide, we want to show that the portfolio is also resilient. If you look at the first graph, you see that today almost 80% of our production is contracted. We have the means, the competencies with GEMS to choose the best route to market. You can see there that we have regulated tariffs, Feed-in, CFDs, we have different commercial contracts, mid-term, long-term and we keep a part of the portfolio merchant.

Our objective for the period to 2030 is to stay contracted above 70% providing significant visibility to our business and securing our returns. We have already sold 60% of our portfolio over that period of time, so we're well positioned. This is not only for operating assets, it's also for assets that are under construction. So we are well positioned to continue to develop our business without going to further exposure in the market beyond what we expect to be on the 20% to 30% range. The graph in the middle of the slides shows the unlevered IRR for the representative sample of projects under construction, you know that Pierre Francois already mentioned, Catherine alluded to it as well, you know that we have strict discipline on our investments both on geographic footprint, we want to stay focused on specific geographies, but also on the investment criteria.

When you look at the graph, you can see that majority of our projects are in the range of 6% to 11% IRR. Providing an attractive spread to WACC. And this excludes the sell down margins and excludes the services that we provide to our partnerships, typically, industrial services but also energy management services. And if you look at the right side of the slide, on the business model, you can see also that we are increasing the percentage of capacity that is consolidated. 50% in 2020 evolving to an objective of 60% to 70% for 2030. We are achieving this by increasing the develop-to-own model for new assets, but also by reconsolidating some assets in our priority markets. So I think with this, we can say that our portfolio is resilient and is providing an attractive level of returns.

So on this final slide, I would like to confirm our objectives of 50 GW for 2025 and 80 GW for 2030. Europe is accounting for 50% of the investment that we're going to do in renewables out of an envelope of €13 billion to EUR 14 billion that will be invested in the period '23 to '25. This is followed by Latin America with 30%. The 10% that is showing for Capex in Noram is the result of the tax equity framework that exists in the US to support development of renewables which requires less Capex for the same megawatts.

When you look at the pie chart with the technology, you can see that in 2020 we're going to increase or comparing to 2020 we are going to increase our onshore wind business by 70% and solar will increase by a factor of 4. Also important to note the share of hydro is reducing to 35%. This is an important element. In 2020, hydro accounted for 60% of our renewables portfolio. In 2025, it will account for 35%.

So to conclude, two messages. I think we have presented that we are delivering on our targets. And our execution is being performant and achieving the objectives that we established. Our portfolio is diversified, our portfolio is resilient with a 70% contracted profile and that provides a good level of earnings visibility.
And with that, I hand over back to Catherine.

Catherine MacGregor

Thank you very much, Paulo. So indeed strong execution, credibility, strong pipeline, growth, very, very nice job and nice perspective from our renewable global business unit. So, thank you. I will now cover two of our global business units, Networks and Flex Gen which are going to be very important to contribute to the energy mix that I described earlier.

First of all to remind everyone the critical role of our gas networks, so this is a picture we chose, our layout and our footprint there. In the context of what happened last year, our infrastructure have really shown that they play a major critical role to maintain the security of supply and to limit impact on cost by making sure that the molecule gets at the right place at the right time. So we unloaded record volume of LNG in our terminals, about 65% increase in volumes versus the prior year and we have now made France a major LNG entry point into Europe. So our terminal, import terminal are now strategic for the flows into Europe. Storengy has played fully its role in security of supply and by enabling storage facilities to be filled up to 100% at the start of the 2023 and now our projections show that it's also looking pretty good for the beginning of the next winter.

We doubled the volume of gas transported from France to Europe and for the first time, we exported gas directly from France into Germany. The LNG market that is expected to remain very dynamic as I briefly mentioned earlier, there is absolutely no doubt that this infrastructure will keep playing a very important role to contribute to the security of supply to the energy solidarity at European level as is often now reflected in the EU policies introduced last year for example with a policy around storage as an example.

Now, not only these assets are clearly strategic, they also translate into attractive financial profiles for the Group. They indeed benefit from what is a stable regulatory framework, they provide stability, they provide visibility on earnings, and also strong cash flows. On these assets, it's important to note that our profitability is largely immune to inflation and also to volume risk as there are existing clawback mechanisms and our networks have consistently also demonstrated strong operational performance and the highest safety standards.

So, over the '22-25 period, we expect our asset base and this is combining France and overseas to grow from €36 billion to EUR 39 billion. Our networks generate strong cash flows, about 42% of the total Group CFFO, and of course, this gives us the scope to invest to maintain safety, to maintain reliability, but also to develop renewable gases. Because it is indeed the development of this renewable gases that will ensure the long-term sustainability of this gas network and this is why we are planning to invest EUR 3.5 billion of Capex between 2023 and 2030 in grid connection and also to adapt the networks.

These investment efforts, they will allow us to connect to our grids about 50 TWh of French biomethane production capacity expected by 2030 and this rollout and this increase in biomethane is actually ahead of schedule, which really highlights that decarbonisation of the existing infrastructure is real, it is achievable, it is happening. And on the production side, given the strong biomethane growth potential, biomethane is gas produced locally, we have revised our target of projection to 10 TWh per year by 2030 covering our presence in Europe.

Looking further ahead, hydrogen will play a key role in decarbonising the heavy industries. 2022 has clearly confirmed that there is a strong market momentum for example shipping companies have placed orders for 58 methanol-fueled ships, which creates huge demand for e-methanol starting by 2025 and this e-methanol needs hydrogen to be synthetised. And with our integrated business model, ENGIE is positioned very well to seize this opportunity of hydrogen and starting with renewables because we will be providing this green energy, which becomes a feedstock to this hydrogen production. Flex Gen will produce hydrogen and other e-molecules, thanks to its expertise in managing complex industrial projects.

Infrastructure will be at the heart of the European hydrogen backbone, with projects like H2Med as an example, but also with our storage solutions and Energy Solutions and GEMS will be instrumental in commercializing and supplying this H2-based solution for our customers. So we have ambitious 2030 targets, which are underpinned now by a vast and solid project portfolio including actually five project that we have selected recently under IPCEI supporting scheme and these project which translates into around €4 billion of investments between '23 and 2030.

I want to spend a bit of time now on flexibility. Flexibility which value is increasing and it will keep increasing as we are deploying more and more renewables into the grid. The evolution of the energy system is going to need indeed for -- is going need, different types of dispatchable capacities that will answer different flexible needs. From hourly flexibility that is typically provided by batteries to daily and weekly flexibility with assets such as pumped storage and CCGTs and then to seasonal flexibility with gas storage. and ENGIE just happened to have all of these types of flexible assets in its portfolio of course we have gas storage, I've mentioned that, we have that in France, Germany and the UK, we have 51 GW of thermal feet, which will play more and more this role of flexibility provider, we have 4 GW of pumped storage assets, and we now have a strong pipeline of battery projects in the UK, in Chile, and in the US. And we have a very rare combination of assets that positions us very well to support this system with all these flexibility solutions.

How do we extract value from these assets? We extract value from these asset from a combination of market spreads, ancillary services, balancing services for the network as well as Capacity Remuneration Mechanism.

You are basically paid to be there, as a flexible assets and our fleet is second to none in providing these services. We are always continuously working on operational excellence, of course, for these assets, because it's very important, the availability of these assets, it is very important. But we also have selective extension and upgrade of our CCGTs in the works as well as refurbishing and some times extension of our large pumped storage assets in Belgium, and in the UK.

So with all this effort, what is really nice about our story on flexibility is that our fleet's CO2 emissions will continue to drop steadily initially, of course, through the coal exit plan that we're executing, through also efficiency gains, but then with the addition of these 10 GW of batteries that I've mentioned, but also decarbonization of CCGTs with biomethane, hydrogen or its derivative or blend of hydrogen and also sometimes carbon capture when economically feasible. So to summarize, our Networks and Flex Gen Global Business Units will be fuelled by the decarbonization of gas. They will provide essential bricks for this energy mix -- this balanced energy mix that must be developed and that I described earlier, and they will provide to the Group stability on earnings and also strong free cash flow generation.

I'm going to now say a few words on Energy Solutions before passing the floor to Frank. As you know, a couple of years ago as part of the strategic review of our portfolio, ENGIE decided to refocus on its core expertise, and notably, we decided to sell our asset-light activities, multi-technical activities and this translated into the sale of ENDEL and most notably, EQUANS last year.

Post EQUANS, the remaining energy service businesses, Energy Solutions is now squarely refocusing on to distributed energy infrastructures, which benefit from extremely strong macro trends as they are simply indispensable to the decarbonisation of industry, cities and customers at large.

Now to take this business to the next level, we have recruited Frank Lacroix who joined us exactly three weeks ago. So he is fairly new, so be nice with him. He has more than 27 years of experience in the energy sector, specifically in the asset-based business with a proven track record of large-scale transformation project and also a strong focus on operational excellence and performance. And, Frank has an acute understanding of the value creation that can be realized from developing and operating these energy distributed infrastructures, and he will be tasked to industrialize this profitable growth focusing on a selected number of countries and of activities.

So a few challenges, many opportunities, absolutely no pressure on you Frank. Thank you.

Frank Lacroix

Thanks, Catherine, and good morning everyone, I'm really happy to bring my strong experience of 27 years indeed, in the energy sector where I started as a young engineer in the field and became years later, CEO of Dalkia when it was the energy branch of Veolia. And whatever the pressure, Catherine, I am very pleased to be here today and to present Energy Solutions activities.

As you know, we are focused on growing in buoyant markets driven like never before by three key factors. The climate imperative obviously but also denser, smarter, and more resilient living ecosystem and the sharp push towards more energy independence, further accelerated in Europe by the Ukrainian crisis. These three factors generate a strong demand for green and sustainable investments on new infrastructures or the renewal of the aging ones. By their side, public authorities are also increasingly supportive on distributed energy systems as part of the energy transition. Many countries, core regions for ENGIE are offering a range of considerable incentives and subsidies.

At ENGIE, we support our clients to combine greening efficiency and sobriety by creating, modernizing, expanding, and refurbishing distributed local infrastructures and bringing associated services based on guaranteed results. We are customer centric and we help them to consume less and better.

To do so, we now provide a simple, proven, and comprehensive range of offers that meet our client decarbonisation roadmap through three activities. The first is local energy networks including district heating and cooling networks and sustainable mobility mainly in cities and communities. The second is on-site energy production consisting of infrastructure dedicated to industries or properties such as distributed solar and on-site utilities. And third, is the energy performance and management including energy performance services and decarbonisation advisory. With those three activities, we intend to increase significantly our EBIT by 2025 and we aim at achieving this trajectory through two pillars, growth and performance with two business models that are fully complementary.

On the one hand, local energy networks and on-site energy production, they are our key development priorities. Here we follow an asset-based model, business model investing with strict financial criteria and operating the infrastructures while improving performance throughout the lifetime of the contract. We are combining growth acceleration with an industrial approach based on selectivity and operational excellence by prioritizing activities on geographies that show the greatest potential and there focusing on the most valuable offers, amplifying optimization through cost control measures and operation streamlining.

On the other hand, for energy performance and management activities, so called asset-light, the priority is to increase intrinsic performance, which is expected to result in higher EBIT margins to be doubled by 2025. Let me now zoom in on how energy solutions is able to create value through the example of district heating and cooling contract. We are developing the fourth generation of DHC, values technologies now enable us to optimize the network energy balance and to manage a complex mix of energy sources, based on an increasing share of diverse local and renewables source and waste energy recovery. The sophistication of this kind of assets and its management increased significantly the barriers to entry, which support high renewal rate.

Our top market position and reputation and expertise in technology and client assets together make us a unique player in this field. On average DHC contracts have a 15 year term, offering long-term revenue visibility. And moreover, during the lifetime of the contract, additional revenues can be added through densification, extension of the network, or project to greenify the production. Those changes also often lead to an extension of the duration of the contract. And to illustrate this, a good example is the 20-year contract renewal to manage the cooling network in Paris announced a little bit more than one year ago. Thanks to our proven track record and technical expertise, we secured the renewal of this concessions and we are now committed to almost triple the size of this largest cooling network in Europe over 20 years.

In France, we are the market leader in district heating with around 40% share. This market will grow in the coming years, as shown on the graph for two reasons. The first is the acceleration in densification and expansion of existing networks. They are more and more attractive due first to their 60% share of renewable on average and second to their final heat cost structuration with a very low exposure to volatile energy market price on average through roughly only 20%. And the second reason is the objective of France increased dramatically, the share of heat provided by district heating and also to enhance the level of renewable sources in their mix. Thus, the number of those facility will raise up from 900 to 2,300 in 2030. Those networks being supplied by renewables resources over 70%.

We aim to maintain our leading position to 2030 through network densification and expansion as well as through new network developments. Supporting this growth, we leverage are digital platforms to gain new customer and improve the efficiency of the network. Nemo, support the design and operation to -- of larger networks reducing energy consumption by around 3% to 5% on average, while Predity offers real time optimization of smaller networks.

Turning now to the second business case with distributed solar in the US. Distributed solar is a key component of our offering as it brings together the three main needs of our clients: green energy, competitive energy and reliable energy. This activity is part of our growth strategy, bringing us recurring cash flows with contracting revenues for a major part of their operating life. The key success factor here is industrialization, profitability of the assets relies both on Capex control for which engineering skills and procurement optimization are critical and once commissioned, on Opex control by optimizing operation and maintenance.

As a consequence, our US platform -- for this platform in the US, our main focus has been to create and develop an industrialized model that can be replicable and scalable. On the one hand, by standardizing projects, simplifying operations, and leveraging technology and digital platforms, we have the potential to grow this activity significantly. And on the other hand, we focus on regions with the highest growth and profitability potential. Northeast, South, Texas and New Mexico, and the Great Lakes region, also we target doubling our distributed solar installed capacity to reach 600 to 700 MW by 2025.

I'd like to highlight the fact that our integrated model allows us to maximize synergies first between Energy Solutions and Renewables GBUs, for example, through our shared procurement for solar PV panels with Paulo which increases our competitivity and allow us to win. And secondly, within the energy solution perimeter by leveraging our industrialized model in other geographies, for instance, in Europe. Those two examples show how we intend to capture growth opportunity in those two markets. To take a broader view of the world GBU, we reaffirm our intention to add 8 GW of distributed energy infrastructure by 2025 which represents an increase of a third. And to do this, we will accelerate investments by committing around €1 billion per year in growth Capex for '23-25 compared to €0.7 billion in '21 and '22. And of course, these investments will remain aligned with our strict investment criteria the average project IRR for DHC and distributed solar was around 7% for recent projects. Keep in mind that these project IRRs have to be compared with low WACC driven by a combination of proven activities based on mid to long-term contracts with low merchant exposure in stable countries.

In line with the Group strategy, we also may carry out selective non-transformative acquisitions to reinforce local leadership or accelerate specific developments. And once again, to conclude, we are combining this growth acceleration with an industrial approach. Selectivity, operational excellence supported by the development of digital platforms, automatizing processes, optimizing supply chains, and improving the efficiency of our operations. Here is the road.

And with that, I hand over to Paulo who will present GEMS.

Paulo Almirante

Thank you, Frank. So let me start by saying what means GEMS. Global Energy Management and Sales. And I can assure you it is not a black box. It employs 3,000 people, 1,300 dedicated to the energy management activities, and 1,700 dedicated to the B2B energy sales. GEMS operates amongst the most sophisticated systems we have in the ENGIE Group and that exist in ENGIE markets.

So, if you look at the slide, you will see that GEMS is at the centre of our business. GEMS is connecting upstream assets with downstream clients. So, GEMS is critical to keep the energy flowing. If we look at the left side of the slide, you'll see that we have a portfolio of 350 TWh of long-term gas contracts, 29 GW of flexible power plants and 21 GW of renewable assets. So, the mandate is pretty simple, add value by combining synergies, flexibility, and optionality that exists in this portfolio. When you look at the right side of the slide, you will see that on the downstream side, GEMS supplies 324 TWh of gas and 195 TWh of electricity to our B2B and B2C clients, quite significant. Important to note here that the B2C sales are under the P&L of our retail business unit.

So, in summary, GEMS sources energy from ENGIE assets and third parties, contributes to the security of supply, and integrate all the positions of the Group, upstream and downstream, optimizing the exposure of the Group to the energy markets. Let's look at the next slide. On the left, you see that beyond the upstream assets, GEMS also books capacity in various European energy infrastructure. You can see that for gas transport, we have 150 TWh, for storage 57 and for power transport 23 TWh. So a simple example, let’s say that we have gas in France priced at PEG, in this case, €97/MWh and we have transport capacity contracted between France and the Netherlands at €1/MWh, so we can arbitrate every time that TTF is above €90/MWh, it makes sense to ship gas from France to the Netherlands to our B2B supply clients in the Netherlands, priced at TTF and in this case, if the TTF is 100,we would create a value of €2/MWh, pretty simple. Of course, we have to have the flexibility, we have to have the portfolio, that's how simple it is.

But there is more on this portfolio, GEMS can arbitrate and instead of shipping the gas to the Netherlands, it can choose to supply the gas to our CCGT fleet in France and produce electricity with it, monetizing the optionality we have on the thermal generation. So, our portfolio is full of this type of flexibility, can provide GEMS -- can allow GEMS to create significant value by optimizing all the positions that we have upstream and downstream.

Let me give you a more sophisticated example. In this case, GEMS is connecting a renewable asset with the customer. The renewable assets of ENGIE that are developed for different clients, for different market structures, in this case, we have for client BASF, so this is a real case. BASF wanted to have delivery of green power to their sites across different countries in Europe, so not for a single site, but there are several more like most of the clients want baseload profile, not as produced. On this baseload profile, it is fundamental that GEMS aggregates the intermittency of different renewable assets and creates that baseload profile that can be sold to BASF. In this case, GEMS structured 25 year PPA for 21 TWh of power -- green power and aggregates that intermittency providing risk management services to BASF. So, on the left side of the slide, you see that GEMS has signed, since 2020, 68 TWh of green power. GEMS has signed 2 GW in 2022 of new corporate PPAs, not only corporate PPAs, corporate PPAs and distribution PPAs, so to the distribution companies, making according to BNEF, ENGIE the second developer in the world in two consecutive years regarding the signature of PPAs. I mean this is the business of GEMS. What are the financials?

For that. I prefer to leave the floor to Pierre-Francois, who will give you an outlook of how our GEMS will perform in the future.

Pierre-Francois Riolacci

Thank you very much, Paulo. And I will conclude this GEMS part before we go for a well-deserved break. And indeed, GEMS is not a black box, it's a strong industrial tool, it can once in a while be a money box but that's not too bad. And definitely, with the right controls, with the right discipline, it is a strong contributor to results. And on that note, of course, the '22 performance was outstanding in many ways, I will not dwell on it. And of course, we expect in 23 that we will come down compared to the very high level of '22 as the prices and volatility go on normalizing but it should remain well above the historical levels that we had in the past and as laid out in '20 and '21, and why is it?

First is because GEMS is different, B2B activities have been transferred to GEMS and they are commercial activities, which are now fully integrated in the value chain. The volumes of sales have also increased, and we are still rolling out GEMS, its expertise, its systems, its tools everywhere ENGIE is operating, so we are getting size and consistency.

The second driver is that with always high and volatile energy prices, new opportunities crop up in the asset base. This means a higher number of transactions with clients ready to pay a premium for top-notch expertise, but also we do expect volatility and prices to fall back in the coming years, but we don't believe they will revert soon to the pre-crisis levels, especially in Europe where as Catherine was mentioning supply chain in gas is changed. The outcome is that GEMS is expected to be in the future, a significant contributor to Group earnings with hardcore EBIT close to €1 billion and potential upside coming on top of it in supportive market conditions.

In the longer term, GEMS will reinforce further its strategic role for the Group internally as an integrator and a unique tool to manage our energy risks, but also externally as an essential partner to manage our customers, energy flows, and risk. And first, the asset portfolio includes new assets such as batteries, electrolysers, methanizers they are creating new business opportunities that we will develop both upstream and downstream.

And second markets and clients' needs will become more sophisticated, meaning the need for additional risk management expertise.

Now it's time for a quick break and let's make sure we meet again at 11:30 sharp.

[BREAK]

Okay, guys. So, it looks that we can start again and let's go straight into it, I need the tool. Thank you. Let's start straight into the numbers, and I'm sure some of you are familiar with that one. It was used a couple of years ago to explain the value creation with ENGIE strategy, no rocket science here, and you can recognize some three key action lines, all of which are supporting our net zero commitment in 2045. The first one is driving simplification and it's simply moving from a holding-based system with 25 business units into four Global Business Units model and also more than halving the number of countries since 2018. Second key action is improving the business mix in favour of renewables through a consistent and strict allocation of capital. And then third, it is enhancing our performance with continued improvement and operation excellence. Beyond the '22 numbers. Looking at the underlying business, and what happened this year, executing on these three elements is going to bring steady earnings, steady earning growth and to provide shareholders with an attractive and sustainable dividend whilst maintaining in the long run investment credit grade.

And where do we stand early '23 on that note, we have executed our strategy consistently and effectively over the last two years. Simplification, I mentioned the strong GBUs are steering the wheel. Disposal plan upgraded from 9-10 to 11 and actually completed one year ahead of schedule, not increasing the scope, but just delivering on valuation. Business mix, you've seen the growth Capex gearing up with over €10 billion in two years, 50% in renewables. Performance out of the 3-year contribution plan of €600 million, €500 million already achieved with an impact on EBIT in '21 and '22.

What about earnings? Leave aside 2022, if you just look at the net recurring income CAGR on the continued business since 2021, which was not a bad year using our guidance, you will find a healthy double-digit growth, which is quite a compelling story given the size of the Company and I do need to comment once again the very strong deleveraging achieved in 2022. So, the question is how do we keep on delivering in that way ? will of course go through acceleration of capital expenditures. as it was mentioned by Catherine, but also my other two colleagues, that's critical. Total growth Capex are expected to increase 50% from €15-16 billion in three years to €22-25 billion in three years with investment in renewables doubling. Building, of course, on the strong market momentum, but also will be leveraging our infrastructure portfolio, the booming demand of our customers for distributed energy solution and the development of new flexibility solution, especially in batteries.

But there will be no deviation from capital discipline. All investments will be fully aligned with our industrial strategy. I mean, CO2 reduction, I mean business lines, but also geographic strategy. More than 80% will be organic. Of course, we'd have some bolt-on acquisitions like Eolia, which by the way, is developing quite well and there will be also some investments to fully control more mature assets and the cashflows that go with it. But again, more than 80% organic and there will be a smooth and continued ramp up, which started actually in 2021, driven by skilled business development teams and also strong controls that we plan to further strengthen. One key word selectivity to make sure that we secure returns and profits out of growth. Selectivity is key for results, and will be measured through EBIT growth. One key point is that going forward, we want to focus on EBIT, excluding Nuke, as it should be the base of the valuation of the business in the long run, not because we are not committed to our nuclear assets, but in the next three years, like in the past, there will be volatility and contribution of Nuke due to native merchant positions, which are very significant, potential LTO impact and tax changes. And also, from 2026, contribution will be significantly reduced with the stop of our Belgian assets or for what will continue with a limited contribution through a stake in a 50-50 joint venture. As you can see in the blue bars, core business EBIT CAGR from '21-'25 is quite impressive, about double digit.

Of course, 2022 is an exceptional year due to the level of prices and volatility, which is expected to normalize in the next couple of years. So, there will be a negative impact on the back of prices, of volatility of minus 2.5 billion, minus 2 billion as shown on the graph. And that is the reason why EBIT, 2023 is expected to come down year-on-year but will still be increasing substantially versus 2021. And the key point is that we still plan to make our way back to '22 numbers in '25 on pure self help. Delivering growth with a positive €1.5 billion EBIT impact coming from our investments, but also being more efficient with an ambitious continuing improvement plan of 200 per year. On top of this, we do assume with the normalization of prices that extraordinary taxes would gradually reduce along the way, which gives us some upside in others against Forex and scope.

Let me show you what is supporting our projections. Critical to the success is that our investments convert into good results and good cash flow. Growth needs to pay off . It starts with strong alignment on strategy. I'm not going to dwell further on this one, but there is incredible value to invest where you're good at and ENGIE has learnt the lesson the hard way. Then it comes to strict compliance with financial criteria. Those criteria that take into account the business model can be the market risk exposure, the contracts, the volumes. It takes into account the geographies. As you can imagine, we use many of them and can be NPV, can be return on capital employed, payback, but the key one, of course these returns versus WACC.

For the sake of simplicity, I would sum up of processing that we apply like many a premium of a project WACC. The graph on the left shows for all significant projects over '21 and '22. What are their respective IRRs and not surprisingly they are set for most of them at a premium to group WACC. And that average premium is actually for the portfolio about a couple of 100 basis points in line with our targets, but it is not enough to have good business case, you need also to deliver the business case and we are not denying that we face challenges especially coming from supply chain tension, but also the scarcity of resources for people, not mentioning the turmoil in the markets, but we take comfort from our strong track record over the last 18 months in project management., I'm sure you have all taken notes of Paulo impressive delivery on renewables and also in our capability with our integrated model to actually take advantage of market changes. And we have tangible proof points with the contribution of growth to our EBIT development year-on-year in '21 and '22.

Critical to drive earnings in the long run is also performance because growth is not enough and we will use again the learnings of the last couple of years to harvest the full potential of productivity and it is still significant in ENGIE, we are shifting from a project mode performance plan to efficiency improvement embedded in the organization. The key drivers stay the same. That's operational excellence, which is steered by GBUs through benchmarking, new digital solution. You've heard Frank, you've heard Paulo, and you could hear also all the colleagues all aligned in that direction. But it is also turning around some underperforming assets.

We've come a long way, but we still have a few hard nuts to crack, including EVBox that I mentioned earlier. And let's be honest, we will be failing during the journey. There will be more, and we'll have to fix it. And that's part of our job to react very quickly and turn around businesses which are not delivering as expected. And the last one I need to mention is cost control on G&A, which is still very important. We do face headwinds on inflation, we do face headwinds on the labour market. So, we need still to keep high control standards. So that means relentless effort to improve structurally our cost base as we are doing in H2 as we speak. We have embedded the targets in our management cycle, from plan to budget, to forecast to actuals. We have clear accountability in the P&Ls with the GBUs and also functions. We have full transparency on the levels, and we are following up the contribution relentlessly. That's what you would expect from any well-run business.

One word on portfolio management, because if we want to harvest the result of growth, we need to make sure we do not dilute growth with disposals. And here, of course, the good news is that the big ticket of the disposal plans are done and dusted. We have achieved, as you know, very, very attractive valuation. I'm not going to repeat we have reached this €11 billion mark, even if we still have a small tail of assets to dispose to be fully done not only on the numbers but also on the strategic target. You should, going forward, expect continued streaming of our portfolio, albeit at a far lower rate in the coming years, less than a billion a year with only modest scope for dilution of our earnings.

What does it mean on EBIT and the variance between '22 and '25? You can see our range guidance is €7.5-€8.5 billion stable versus 22, which was €8 billion, but almost double-digit CAGR from 2021. So quite an impressive number. On the positive side, as you could expect, renewables with a 12 GW of new additions in '23–'25 and higher captured prices. EBIT is expected to keep on increasing around 20% per year on average. Quite impressive. In energy solutions, strong progress in distributed infrastructure, but also recovery in loss making and underperforming assets that will take back returns to normal level.

In retail, margins should recover from low 22 that was impacted by warm temperatures but also exceptional market conditions. On the less positive side, on the back of the normalization of prices, GEMS EBIT would not stay at '22. But again, we don't expect GEMS to go back to the level of €300-400 million that we had before. And again, because GEMS is different. In Flex Gen, we do expect strong operational performance still offset by lower spreads capture after, of course, unprecedented '22 numbers and also the final consequences of the coal exit, which is going to be completed by '25.

Networks should remain stable with inflation, temperature normalization and investment contribution almost fully upset by regulatory review starting in '24 in France, but also some portfolio management. Although nuclear is non-core, its earnings do contribute to the net recurring income and EBIT in nuclear is expected to rise on higher realized prices, more than offsetting lower volumes on reactor closures in Belgium. For all businesses, the contribution of continued improvement will be, of course, substantial to our growth of earnings.

What is going to happen between EBIT and net income. First, financial charges will rise. They will rise because of the increase of financial debt as proceeds from disposals are being reinvested and growth Capex in '23-'25 will be significantly higher than in the previous period. It is worth to mention that also we plan to maintain a high level of liquidity and this is coming with a cost. The financial charges will rise also because of higher costs related to nuclear provisions with an increased total provision amount, so deactualisation. And then also because a higher interest rate environment, despite our net financial debt being largely fixed. Whereas the average cost of debt was below 4% in the recent years, we now expect to be in the range of 4% to 5% in the coming years. I'm talking about the cost of net debt. On the other hand, tax rate is on its way to normalization after a substantial fall in '22 to 22.6%. We expect the tax rate to settle in the 23-26% range consistent with our geographic span. Partly offset, of course, by lower EBIT for Belgian nuclear where tax is paid above the EBIT line.

Minorities should broadly align with Group EBIT growth even if GEMS contribution decrease is not mitigated by any minority partner when, on the contrary, renewables results often imply partners. All-in-all, strong EBIT growth will convert into strong growth of the net recurring income. But it is important not only to have results, but to convert this result into cash flow. And you remember in the first part, the cumulative '21-'22 impact on the working cap, which was negative by about 5 billion. As markets calm down, we expect working cap requirement to recover driven to a large degree in inverse correlation to where the energy price curve is actually going. This is expected to be a nice tailwind to our CFFO, which will rise sharply in 2023 and then achieve annual levels of over €10 billion a year.

Putting numbers together, it is fair to assume that incremental EBITDA will outpace EBIT growth, which is impacted also by higher depreciation and amortization for about a billion in '25. So when you put your number together, be mindful on that one. However, we are not completely done with volatility on CFFO. As you know, margin calls can still be significant given current prices and volatility. They equalize of course over the life of the financial instrument, but there are timing effects which are impacting our CFFO big time, as you've seen in '22. Overall, we expect cumulative CFFO for the period '22-'25 to amount to a chunky €40 billion and this is of course critical to finance our growth. Growth that you can see reflected in the step up of our capital expenditures.

We plan actually to increase the capital employed by roughly 15%, excluding nuclear between '22-'25. Just a small aside here, we have changed our definition of capital employed. We now include in the capital employed the initial margins because they are needed for the business and we also include the nuclear financial assets.

There is more details and the full reconciliation in the additional material. Of course, when you're adding assets, it doesn't flat the number, but it makes a return on capital employed measurement a very relevant indicator of the earnings power of ENGIE. It's also easier to benchmark against peers, and we thought it was good to be very transparent about our return on capital employed. So let's go back to the subject at hand. Renewables is going to be by far the main driver of capital employed goals with a high teens annual rate. And as a result, the share of renewables in capital employed will go up from below 30% to at least 35%, overtaking networks for the first time. The second driver is energy solution, where capital employed is growing at low double-digit rates as our business becomes more asset backed as explained and therefore more capital intensive.

Flex Gen, more flattish with coal exit of course, the end of some PPAs but offset by new businesses such as battery storage. I would add that the capital employed in nuclear is significantly negative and that is the reason why we prefer to communicate excluding nuke that would boost otherwise return on capital employed. It is important to understand that although earnings can be somewhat volatile, we've shown that, our capital employed split is both balanced and resilient to market conditions, and it will begin even more going forward with the growth of renewables.

Networks, the blue part are almost completely regulated or contracted with even strong inflation protection and should remain so in the future. In 2025, as Paulo explained, renewables should be about 70% contracted via long term PPAs or feed-in-tariff or CFDs.

And in Energy Solutions, the bulk of our capital employed is of course in distributed infrastructure, which is mainly contracted mid to long-term. Last but not least, as explained many times and illustrated again in '22, our exposure to inflation is neutral.

Revenues of our regulated and contracted activities are inflation adjusted and for our merchant activities, inflation is actually underpinning commodity prices. As mentioned before, we have adjusted our return on capital definition to include initial margin and financial assets on nuclear, and that is reducing our 2021 numbers from 9% previously reported to 6%, as you can see on that graph.

And then you see that in '22, we rose sharply from 6% to 9%, mostly through the impact of higher energy prices and our merchant volumes in Flex Gen and hydro in France and of course the higher contribution of GEMS. We have also improved the profitability of Energy Solutions business, which however remains low. By 2025 we are confident, we will be running a portfolio of assets yield in returns in the range of 7% to 9% with an attractive risk profile and a superior potential for further growth. Our journey is based on growth and growth is based on profits and cash flows. So let's look at how this reconciles over the 2022-2025 period. So including '22, where we have the bulk of proceeds of our disposal plan already de-risk and executed.

I mentioned before that we expect CFFO of over €40 billion on that period and that disposals from '23 onwards will fall to a portfolio management rate. So in total, we expect '22-'25 sources to be in the low to mid €50 billion range. That's the column on the left. We are expecting to maintain a strict optimization of our maintenance Capex around €9-10 billion and growth Capex, including what we spent in '22 will be in the €27-30 billion range. Then based on a reaffirmed dividend policy at Group level, dividends to shareholders and minorities in our subsidiaries, but also some various elements should land between €18-20 billion. This adds up to a mid to high €50 billion range, which is only incrementally higher than our expected source of funds. Of course, we need to add about €11 billion from nuclear funding, including the 2022 amount. That means a full funding of waste management provisions by 2025 and dismantling provision by 2030, and both of them will be impacting the net financial debt. It means also the funding of the €3.3 billion increase of nuclear provision as calculated by the commission back in December '22. But you remember for the sake of evaluation that the nuclear provisions are actually already included in our economic net debt. So please don't count them twice.

So how is this cash generation leaving our balance sheet and credit metrics? Our net debt is going to rise, as you would expect from 2022, and our EBIT guidance implies a fall in EBITDA in '23, but then of course, rising again. So we expect our economic net debt to EBITDA to rise quite strongly in 2023 before decreasing all being well within a level that we consider as comfortable going forward. Indeed, albeit, we keep our full max economic net debt to EBITDA ratio, we plan to run the business in a normalized bandwidth of 3.2-3.5, as shown on the graph. I need here to mention that we would be, of course, adapting our investment plans to our financial capabilities and we will keep flexibility in our asset base.

Time for the outlook. Last but not least. But let me remind you our EBIT projection and provide useful guidance for net recurring income each year by 2025. The usual details related to our set of assumptions are in the appendix. It is worth to mention that given the high uncertainties in market environment, but also regulatory frameworks, we have decided to keep larger ranges for our guidance as well as contingency is deemed appropriate to the context. We expect a range of €3.4-4 billion for net recurring income in '23, below '22, but well above '21, which I would say is the best basis of comparison.

We expect around 10% increases in '24 and '25 as our growth Capex and performance improvement support our numbers above the EBIT line to a greater extent than expected increase of financial cost and normalization of tax rate. We have kept our dividend policy and change with a pay-out of 65% to 75% on net recurring income with a floor of €0.65 per share. With that, I will hand over to Catherine to wrap up.

Catherine MacGregor

Thank you very much, Pierre-Francois. So, ladies and gentlemen, this concludes the presentation with just a few key messages. The fact that I hope we were able to convince you that ENGIE is indeed very strongly positioned with an unmatched strength.

We have a solid asset portfolio. We have a highly competent and engaged team and we are fully committed to make this energy transition happen. We have built an industrial platform which is very focused on execution with what is now a sound financial structure.

We are developing this balanced and resilient energy mix, which combines the electrons and the molecules and which is actually what the market and the customers need. We are accelerating our growth with a disciplined capital allocation and we are clearly offering a compelling investment profile. We are also paving the way to our net zero target with this ambition to have four of our country's net zero as early as 2030. Thank you very much and I will pass it on to Delphine to open for the Q&A session. Thank you.

Delphine Deshayes

Thank you, Catherine. So now we'll open the floor to your questions. And I remind you that we'll also be taking questions online. Again, I would be grateful if you can keep them to a maximum of two. Just before taking questions from the room please, operator, could you remind our online participants the process for asking questions?

Louis Boujard

Thank you, Louis Boujard from ODDO. So, two questions, of course, maybe the first one. I apologize for that, but on the nuclear and in the sensitivity of the guidelines by 2025. I think that you mentioned that you have some contingencies, elements of €500 million per year in '23-'24 in your guidance and €200 million in '25. Could you elaborate a little bit more on what specificities in terms of contingencies is included in these figures and eventually as well, if you could provide us with the sensitivity and the mark-to-market with regards to the pure market price. More specifically, on the 2025 guidance net income if possible, considering that the pure market prices have had a huge variation since the 31st of December '22. So, the second question would be maybe on the financing part of the future growth. Indeed, there is missing part of a close to €11 billion, according to the slide show, a bit of disposals which is expected, I guess, that it takes EQUANS disposal already in the figures that are mentioned in the slide show. But eventually there is a bit more room for that. What is your expectation when you think about eventually speeding up in terms of farm-down, or is there any healthy alternatives disposals that you have in mind by 2025?

Pierre-Francois Riolacci

Thank you. I think the contingency that you are referring to are the forced outages in nuke. So you know that there is a consistent policy in there, which is that: we have to plan for potential stops. By the way, in '22, we had to use a chunky part of the floor. So, this is usual and there is nothing new compared to the way we have been guiding on nuke with that regard. You are mentioning also, there are other contingencies, but they have nothing to do with floor, and there is no number on that. So that's another story. Then on the exposure to market price. You know that nuke is globally quite open merchant. We have a hedging policy that we are complying with even if we are slightly at the low end, but complying of course with the hedging policy, there is always something there is always a silver lining in everything. And the good thing within marginal tax is that they capture the high part of it. So, we have some sensitivity, but reduced to a certain extent to the highest prices that you can get. Now, of course, price will be in 23 as it is very usually one of the big tickets that can move our numbers. No surprise with that, but nothing more than what you would expect. And again, sensitivity a bit reduced by the marginal taxes which are actually topping off our numbers. And then on financing, yes, I mean, if you take the two bars on the left and the right side, there is a before funding of nuke, there is indeed some in balance. The plan is to close that gap with debt. And we are very transparent on that. Now, do we have flexibility in the asset portfolio for more sell down funding in? And I think that we are done with our disposal plan, strategic disposal plan, so that we are not going to, we don't want to reopen, but that we can be agile and do sometimes, for example, for when we are growing, we can definitely have minority partners joining us and that can ease the burden. So that's the kind of flexibility we can use.

Delphine Deshayes

We have a question from Juan at Kepler.

Juan Camilo Rodriguez

Yes. Thank you. Good morning. Juan from Kepler here. I have two on my side. The first one is coming back on Belgium, especially on the security of supply situation for 2025.What is your assumption on what is your view about the recent news flow that we saw other possible extension of three reactors over the one, two-year period to cover the gap between the restart of the November 2026, one. So that will be the first on this side. And what is the expected timeline because you have some gas assets that are covered with CRM mechanism in the country. What is the timeline that you expect to commission those assets in the country? So, this is the first one, and the second one is on regulated tariffs on gas in France. As we know, during the summer period of this year, they're going to end. So, what is your assumption going forward for this part of the supply business? Is this part of the rebound that we expect both in earnings and working capital? Thank you.

Catherine MacGregor

Okay, Thanks for the question. So, I'll say a few words on the security of supply for 2025. Indeed, it has been quite an intensely discussed matters with all the stakeholders in Belgium, with a view that 2025 is going to be a little bit of a tensed path where some of our reactors will obviously be stopped as per the current law and some of them would be under the LTO if indeed the agreement comes into force, which is why, by the way, Belgium has organised CRM auctions to which we contributed and you write to say through, for example, one of our gas power, CCGTs, which is currently under construction.

So, I'm bringing to your second question or second part of the question here. In terms of the short-term extension for what we call the non-LTO units, which are the oldest units in our portfolio. So, there will be three remaining and Doel 1, 2 and Tihange 1. And these ones are not under the scope of an extension at this stage, and we don't plan for them to be simply because right now there is no safety framework, nuclear safety framework as such that exists that would provide for such a short-term extension. So, when we look at extension of currently Doel-4 and Tihange-3, we look at a very well friend existing framework, which is a 10-year extension, which has a name, it's called LTO and this is what is currently under discussion with the Belgium government. So, we are focusing all of our efforts to the extension on the extension of these two units and are obviously working with all the stakeholders in Belgium to see if there are other solutions that can help the '25-'26 pack of ways where indeed there will be a little bit of tension in the energy system of Belgium. And then to the point of the CRM and the gas CRM to which we contributed, we have indeed one project, we have currently one under construction.
The second one didn't get a permit at this stage, so one is progressing and the date for being it ready is 2025. So should be just in time to contribute to the security of supply questions that you have quite that you have mentioned. I think there was also the second question which was on regulated tariffs, right? And you're right to say that the gas-regulated tariff is due to stop by end of June and this is really our working assumption. I think one has to make the difference between the regulated tariff and the tariff shield and people are often confused, right?

That doesn't mean that it's not because the regulated tariff for the gas will stop that the government will not continue with the tariff shield to protect the consumers. So for us regulated tariff normally would stop by June that's at least our understanding and at current discussions we're having with our stakeholders. However, there will be likely tariff shield to protect the consumers still in place for a while with the current scheme. No change here in terms of, the working capital advance that we are doing to help to contribute to the government to the existing government schemes.

Arnaud Palliez

Thank you, Arnaud Palliez CIC Market Solutions. I have two questions, the first one is on GEMS. You mentioned the evolution in the nature of the business and I would like to know if there is a change in the level of capital employed as a consequence of this evolution and if therefore you can be a bit more specific about the return on capital employed for this business. That is the first question. And the second one is about the debt. When we look at the debt trajectory until 2025, it seems that you have room for maybe more M&A.
So I would like to know if you are considering a larger deal than the bolt-on you mentioned for the existing businesses. And if also you mentioned it, the fact that you want to increase your stake in some projects if it is included or not in the growth Capex?

Catherine MacGregor

Maybe I will start by commenting on the growth Capex. And then, Pierre Francois, you complement and also address the GEMS question. And just to say that at €22-25 billion of growth Capex is all encompassing, so this is really the envelope that we are working within. And indeed, mainly organic, because we do believe that it is the best way for ENGIE with the expertise, with the system, with our integrated business model, with our people to add value, so this is really the mainstream development priorities for us. But, of course, we are not necessarily forbidding ourselves to look at these type of bolt-on transactions that can help us accelerate, that can help or so bring synergies to existing assets. I think, you've heard from us how important it is to have the right portfolio of assets. And so sometimes an asset can bring you lot of value by the sheer fact that it is very complementary to our existing portfolio, and I think we've done that really nicely with Eolia in Spain, and which is doing very well.

We've also done that to help accelerate on the battery side in the US where we've purchased the company, which has solar assets and battery assets and will help us accelerate and get to a 10 GW. So, these are quite typical of the type of M&A that we would get engaged in. But the key point is that we're really, really trying to change a little bit of the ENGIE culture on M&A, which means that we are very, very focused in demonstrating that we can make these assets that we would at buy better by applying our operational and industrial levers, and we're really, really trying to force ourselves to show this value that we're adding by doing that. That's very, very important.

Pierre-Francois Riolacci

Yes. GEMS return on capital employed, I'm not going to share that one and there is a good reason for that is that the capital employed in GEMS is of course reflective of what itis and it's from a working cap perspective, it's basically two very different things. One, it's a commercial business. It's a B2B business, which means that we have receivables, we have customers and then we embark working cap, which is of course directly linked to that one. It is volatile because it depends on prices as for of the rest. So, it's exactly the same story that for the rest of the group. So you do have this is part of capital employed, then you have another part, which is more linked to the market activity have key component, which is margin calls. And of course the margin calls, they are in the capital employed, initial margins and that's of course again another source of volatility. Now, that's why we believe it's not relevant to look at the return on capital employed of GEMS, because of the volatility of the capital employed. It's no secret that in '22, it was slightly accretive to our numbers, but still not going to commit on that.

Chris Moore

Good morning. It's Chris Moore from Carbon Tracker. Thank you for the presentations. I have two questions. In the growth Capex figure, you gave us, €22-25 billion, I think you said that 75% would be eligible for EU taxonomy. Can you maybe give us a feel at Group level of what the big-ticket items are for the non-eligible portion, the 25%. That's the first question.

Second question is, you gave some targets some new targets for net zero this morning, including lower carbon intensity from energy production. Would it be fair to say that just reflects the increase in renewables build out you've talked about or are there other things going on here? And maybe you could also talk a little bit about Scope 3 emissions, which I think more than 75% of Group total and where you haven't really said very much this morning. Any colour would be appreciated. Thank you.

Catherine MacGregor

Okay. So let me start maybe by the second question, which is around the lower carbon intensity. So, you're right to say that our production portfolio is being reshaped through heavy investment in the renewables. I think you see it very clearly in Pierre-Francois slide where he showed the distribution of our capital employed and you see how Renewables is actually overtaking networks, right? It's a nice slide. So clearly, we have an effect from that. But then, remember, with our flexible assets our CCGTs will be more and more used as flexible assets as opposed to base load. So, the usage of our CCGTs will also be different and we will decarbonize them by using first of all, making sure that they are the most efficient as efficient as possible.

So here you have a benefit as well. And then, starting to blend the feedstock gas that we used to power it, to produce the power so blend potentially eventually hydrogen, although this is a little bit more far-fetched, but blended of gas, decarbonizing the gas, using biomethane or low carbon gas is also something that is part of the of the mix. And, of course, the batteries are which are the ultimate low-carbon projection assets. So, this is really having a portfolio which is structurally less carbon- intensive and mixing and transitioning this portfolio towards that we have a big impact.

I think the other question, which was on the EU taxonomy. So, for example, the gas plant that we are developing in Belgium is not taxonomy aligned and this is not because it's a gas asset. It is because it's gas asset that is above the thresholds that are considered by the EU taxonomy aligned.

So, as you know us, not all of the gas-powered assets will be aligned for an asset to be aligned, you need to be very, very low CO2 emission. This one is efficient. It's a good asset, but it doesn't fall into this criteria, so it will not be aligned with the taxonomy and this is just an example. It doesn't, by the way, put in question its business model and because it was the response to an auction, so the business model is guaranteed. But this is an example of one of the big ticket items that falls under this 25%.

And, Scope 3, so Scope 3 gas sales and so here it's really about decarbonization of the gas. So, I'll go back to my spin on biomethane, hydrogen and derivative. That's going to be a massive contribution to Scope 3. And then everything we do, of course, with our suppliers, which is going back to making sure that we also accompany our suppliers towards their decarbonization efforts, which poses very exciting challenges in terms of partnership in terms of making sure they are indeed doing the right thing and we are helping them, sometimes even in order to decarbonize themselves. Otherwise, we have a risk of not being inclusive enough particularly on local suppliers that will have to pass these barriers to entry or this extra cost that decarbonization can represent for suppliers. So that's the two key buckets on Scope 3 that I can mention.

Delphine Deshayes

We'll now take some questions online. Operator, could you please start with the first question?

Operator

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

Ajay Patel

Good morning and thank you very much for the presentation. I got two questions please. The first one is to look at slide 56 in the last presentation, I was just trying to understand that you had flexible generation at broadly the same level as '22 and I think we've also talked about GEMS being above the normalized level of '21. I'm just wondering, how much of that is already locked in via like physical contracts that you may have. And also, why do you believe that flexible generation stays at that level? Are you basically anticipating closures of capacity leading to higher spreads for thermal or keeping spreads higher for longer or is there some other assumption there?

And then the second question please, is in the press release where you talk about the key assumptions. You write inframarginal rent caps based on current legal tax, but then you add these few words, after which is and additional contingencies. I'm just wondering, what do you mean by the additional contingencies. Is that to say that you have some contingency in the guidance for extensions of these rent caps or is it something else? Further details will be really helpful. Thanks.

Pierre-Francois Riolacci

Yeah. On that one, additional contingencies. You know there is a bit of intimacy about the additional contingencies that corporate maintain and I think that you know that we are facing quite a lot of uncertainties. It's about the market, but it's also about the regulatory framework. You probably all remember how these taxes were implemented. Now the markets are cooling down, sounds like things are normalizing, but you never know what can happen.

So we know what is law, and we know that there may be risk associated still with potential extension and that kind of thing. So we had to take management call about what is it that we need to prepare. Of course, being also consistent with our price assumption. So on that note, we have what we believe adequate contingencies to face '23, '24 '25 at this point in time. Of course, we still have significant exposure on market prices, which go together with inframarginal taxes. So there is clearly a kind of a natural hedge that help us to be a bit more assertive. All-in-all, we believe that we have a balanced guidance with the right level of contingencies as it can be. So, that's on the second one.

On the first one, I mean you need to remember that '22 was not at the top in terms of availability, so we can do still better, and I think that's also will help us and the availability in the fleet will help us. But of course, we expect the spreads to normalize. So there would be some significant headwinds, at least that's what we can say.

You need also to remember that during last year, it was very difficult to hedge clean spark spreads. Clearly, there was lack of liquidity in the market, but also there was a risk about the gas being available, so it was definitely not the best time to maximize hedging. So, we have open positions, and we need to recognize that Flex Gen, we have still significant volatility more than usual, due to these less hedged positions that of course now that the market is normalizing, we are actually fixing, but it will take a while. So be open that there is here more volatility than usual.

Ajay Patel

So, just to be clear there, I think it's €500 million step up from '21. That €500 million in thermal, a portion of that is just improvement of availability of the plant and then some of it is the expectation that we see some normalization of thermal spreads, but maybe not fully. Is that right?

Pierre-Francois Riolacci

I think that's correct. That's correct. Price assumption is not what it was in '21.

Operator

The next question is from Arthur Sitbon with Morgan Stanley. Please go ahead.

Arthur Sitbon

Hello, thank you for taking my question. The first one is on the potential nuclear life extension on the two reactors. I was wondering if you take into account the impact of this life extension on your, well, on your financial targets for 2023 to 2025. So, it's typically on Capex on any potential further increase in provisions and so on net economic debt to EBITDA and on D&A. So, that's the first question.

The second one on gas networks. I think you were talking about €3.5 billion of growth Capex there. I was wondering and I think it was related to biomethane and hydrogen. I was wondering how that Capex will be remunerated and if you intend to have it as part of your regulated asset base or is it Capex that is already approved by the regulator or you have or at least you have an ongoing discussion or you're confident that this will be approved. Thank you very much.

Catherine MacGregor

Okay. I'll start by the second question, just to say that on the gas networks clearly the biomethane Capex, which tends to benefit GRDF and GRTgaz is already part indeed of the remunerated assets. So, that's already taken into account, where the market is a little bit less mature in terms of regulation is on hydrogen and so the discussion with the regulators indeed is ongoing, but it is not yet decided that hydrogen related Capex will be part of the existing route, so work in progress on this one.

But and maybe, just to complement and a bigger picture that obviously you have seen what is happening now between Spain, France and Germany, you've seen what's happened in some of the import terminal. You have seen what is happening also on the storage assets, where we have currently discussion to actually extend the capacity of our storage assets, while a few years ago, the regulator was asking us, do you need all these storage assets. So, the dynamic is changing fast and furious, and we see that. And that's obviously a very positive for us and the way we look at our networks' assets, you want to say few words on…

Pierre-Francois Riolacci

Yeah, on nuclear extension on our financials the short answer is no. It's not taking account in any shape or form. When we have a deal, we will come back to you and explain what it is. It's clear that our guidance is an EBIT excluding nuke. And that's also part of the reason we want to move there. It's because this uncertainty doesn't help to understand what's happening in ENGIE. Of course, the impact on net income will be disclosing in due time when we have clarity about the terms and condition of the potential extension, which is now too early.

Delphine Deshayes

Are there questions, operator online?

Operator

The next question is from James Brand with Deutsche Bank. Please go ahead.

James Brand

Hi, good morning, good afternoon depending on where you're located and thanks a lot for the presentation and congrats on the good results. Two questions from me. Firstly, for Catherine. You mentioned in the first presentation on the results that the cap on the nuclear liabilities would involve a risk premium and you used the language a couple of times for the transfer of the liabilities, so I just wanted to clarify, you expect them to do a little bit like how the German utilities or do you expect them to actually when the cap gets announced to transfer the liabilities over to the Belgian State terms and pay the premium to get them off your balance sheet, that 's kind of how I interpreted that language, just to check that. And if so, why? Why pay the premium if you can negotiate cap, why not just leave them on the balance sheet and kind of see how things have progressed and what the costs actually are.

And the second question is for, Pierre-Francois. On the ROACE targets, obviously the biggest improvement there is targeted for Energy Solutions. I'm sure some of that is kind of normalization of losses and EVbox but I was wondering whether you could just kind of go through what the key things you need to do in that business over the next kind of two years or so to drive that improvement and what they may refer? Thank you very much.

Catherine MacGregor

Yeah. So just very briefly on the first question. So, clearly the deal is including the discussion with the Belgium government on the waste management part of the liabilities to define once for all an amount which would be a combination of category of waste category management tariffs and volumes. So, you have a tariff, you have volumes per category that gives you an amount. And the whole discussion that we're having with the Belgium government is to make sure that this amount is set once for all and once, it's set once for all, the liability corresponding to this activity is indeed transferred to the Belgium government.
Now the analogy with the German solution is a little bit different. While we accept the fact that there could be a risk premium associated with this transfer of liability, one has to understand that the provisions that we have already on the balance sheets on ENGIE balance sheet to handle the waste management does include today a fair amount of contingencies. And if you see we had a €3.3 billion increase at the end of December. There were also some contingencies put as part of these figures. So important to note to keep in mind that it is a different situation from the German situation, because a risk premium and some of you might have an amount in mind

was apply to very little if not zero contingency amounts, which is different from the situation that we have today. So just to keep in mind, that it is a little bit different, which is why we are refraining from saying solution German like solution.

Maybe Pierre-Francois, proceed.

Pierre-Francois Riolacci

Yes. On the return on capital employed for ES, of course, still some way to go in fixing some of the underperforming assets, that would be helping us, but there is also profitable growth which still is expected to bring some accretion to earnings. And last but at least you see that we have a key target in improving our margins in energy performance management which is not going to come with any additional capital employed. So, it's clearly a margin improvement, which is going to be significantly accretive and return on capital employed, of the ES GBU. So, these three topics, which are of course underpinned by a stronger performance drivers and growth that are going to uplift returns on capital employed in ES.

Delphine Deshayes

Operator, do we have any further questions online?

Operator

Yes. The next question is from Michael HARLEAUX, Societe Generale. Please go ahead.

Michael Harleaux

Hi. Good morning. Thank you for taking my question and thank you for the presentation. Just one question from on my end on the renewable growth and pipelines. So, we've seen quite a few companies expanding their pipelines, but keeping the targets unchanged, which implies that everyone is getting a bit more selective and the switching returns is only getting harder. And then on the integrated utilities side, we've also seen some fairly big acquisitions notably in the US. And based on your presentation and your target towards 80% of the growth to be organic, it seems that you're not exactly experiencing the same problem as everybody else when it comes to growth. So, if you could help us to think about that and how should we be seeing ENGIE compared to peers. I'm thinking obviously about the comments made by Orsted on pipeline or the acquisition of RWE in the US. Thank you.

Catherine MacGregor

So, Paulo. This is what we call the red-carpet questions. So maybe I'll pass it on to you to describe how good you have been at executing indeed and establishing a good track record. Therefore, making sure that our pipeline will be delivered in a credible manner.

Paulo Almirante

Well, I think it all starts with setting realistic and credible targets. And when you set that, I think then delivering on that target is possible and that is what is happening with ENGIE. In 2021 we defined this path, we presented the roadmap, and we are executing it and we have the results transferred into the P&L that we have shown.

Now pipeline is a very tricky subject. People can present all sorts of pipeline; we do not include prospects on our pipeline. We tend to be very selective with our development to reduce development costs, because they go into the LCOE of the projects and make the projects potentially uncompetitive.

So that's the way we are approaching development of renewables and that will continue in the near future. Certainly, competition is strong. It will continue. But on the other side, we have a huge demand for green power. I can tell you today that we have more demand for our green power than assets that we can build in the short-term. So, this will continue for the foreseeable future, and we expect to achieve the targets that we have announced in '21 and we are in good track to achieve them.

Michael Harleaux

That was very helpful. Thank you so much.

Operator

The next question is from Peter Bisztyga with Bank of America. Please go ahead.

Peter Bisztyga

Yeah. Hi, thank you for taking my questions and for the presentation today. My first one was on EU power market reform. I'd be very interested to hear what you think will happen on that front, which direction you think Europe Commission will take and what the key risks or the benefits for your strategic plan could be.

And then my second question was just really clarifying a couple of things around 2025 guidance. One just on this issue of contingencies and price caps. Could you maybe clarify that if current inframarginal price caps were to be extended through to the end of 2025, would that have any impact on your current guidance?

And then the second question, I was wondering if you could give a second clarification, I should say is, could you give us any indication of what your NRIgs ex nuclear would look like in 2025. So you've given us EBIT ex nuclear. I'm just wondering what the underlying net income would look like. Thank you.

Catherine MacGregor

Yeah. So let me start with the EU market reform and the benefit to our strategic plan. And maybe just taking a step back to talk a little bit by the regulation risk because this is something that is much, much talked about and I think it's always good to take a little bit of a perspective on the topic to say that when you think about prior Ukrainian war, all the policy discussions on the energy world was about decarbonisation. It was all about fit for 55 and making sure that all the energy transition gets accelerated and across all sectors actually.

Then the war started and there was obviously a moment of panic and the policy shifted completely into first what has always struck us very much, which is a very, very volatile behaviours with a lot of policy measures interventions being taken with a view of addressing several things. First of all, a very importantly the situation of supply. And then, volatility of the markets and you've heard the number of times price cap applied to Iberia Peninsula, the power price cap, gas gets there was a lot of measures that we trying to say, okay, how do we do to moderate the market. And, of course, the protection of the consumers and here we were in the word of the tariff shields etcetera. How to protect the consumers.

Now, obviously, the prices have dropped a little bit. The volatility is still there, but the absolute level of prices has dropped quite a bit and you can see that the policy is shifting a little bit to a bit more strategic thinking, okay the Russia crisis has put energy sovereignty in the really at the forefront of what we need to address, decarbonisation is still imperative. We need to address, and we need to have also the affordability, because we see what happens when of course energy prices increases, and we need to protect the consumers. So, and then another aspect of that issues is, competitivity for the industry. So, what you see what have happened in the IRA, you can see that EU now is not just looking at decarbonisation, decarbonisation is very important, but also how do we make sure we keep the affordability for the competitiveness of the industry. So, a bit of a long introduction. Sorry. I arrived to the market design. What that means for the market design, we believe, is that the market design has to be well thought. First of all, it cannot be a short-term measure and I'm very pleased that last year there was not reforms made to the market design, because the energy market is very, very, very complicated. So, taking short-term measures without understanding all the unintended consequence could have been a bad thing. I think it's very important, one, that the market remains European. We all know that there is a bigger strength to have an integrated energy market, where you can import and export our electricity from one country to another. So those features are very precious to the security of supply and the affordability of the energy in Europe and have to be kept full, kept whole as part of the evolution of the market design.

Our understanding today is that the market design discussions are going to be indeed respecting the fact that the European market will continue to exist, which is very, very important and will be complemented with investment framework for the flexible assets that I have described. So CRM type of devices to make sure, for example, that batteries get developed at the right place in the network also CfDs or very largely PPAs to help provide contracts with set price with green electrons for customers for industries. So, this is the way we understand the market design discussion goal, but I would say even more step back to that is that no matter what market design, we believe ENGIE will thrive. Because whatever market design is decided, there will be the need for additional renewable capacity. There will be the need for these very flexible assets.

So whatever market design is decided upon, we will be there. We will deliver good project. We will contribute to decarbonize the energy system of tomorrow. And let me repeat what was presented several times that yes, 2022 there was high energy prices in some of our merchant exposed assets benefited from those higher prices, but a lot of our assets, vast majority of assets are actually contracted or regulated and therefore don't need to have very high energy prices to thrive and that is really the core of our business model is the ability to generate a good business from contracted from regulated and sometimes indeed depending on quantity of merchant exposed assets this combination will thrive I would say, no matter on what market price. You want to say a few words on guidance?

Pierre-Francois Riolacci

Yes. Of course, guidance and contingencies and inframarginal tax. I think, we should, we should be very careful that we don't boil down the story of ENGIE the next few years inframarginal tax. The inframarginal tax, they are there. We have of course taken a set of assumptions around it. But look at what happened in ‘22. They came very late. They came retroactive and still we have delivered on our numbers. Why is it? There is a logic. If inframarginal taxes are extended, be assured, it means that the price environment is more buoyant. And if it is there, it's not bad news for ENGIE. So there is a kind of a natural hedge that I tried to highlight. You know that we have wider range in our guidance. It means also that we want to cope with that kind of uncertainty. That's the reason why we feel that our guidance is balanced, and it is factoring in this kind of assumption. So, is it changing '25 number significantly ? the answer is that we've made risk appraisal and we believe there is this natural hedge which is giving us some decent protection against whatever would happen. Even if it was a bit chaotic in '22 I think everybody's wiser now no better and I think that we should be able to manage and when it comes to give a guidance on net recurring income excluding nuke, I think, we are very transparent.

We are giving guidance on EBIT, excluding nuke. We are giving also, where it is a bit blurry, we are giving some indication of EBIT for nuclear in the next few years to come. You are very familiar, Peter, with nuke mechanics,

I'm sure you can work out the bottom line if you want and you will make your guess, you know, there is no minority interest. Good luck with the tax assumption and that's it. And I think that that's the kind of uncertainty, you're going to have to live with, but it is embedded in our full net recurring income guidance very important nuke is in there.

Peter Bisztyga

Excellent. All right, thank you so much.

Delphine Deshayes

Operator, we have time for one last equation.

Operator

Okay. So, the last question is from Sam Arie with UBS. Please go ahead.

Sam Arie

Oh, great. I just managed to sneak my question in. Thank you and thanks for an excellent presentation today. We've learned a lot from it, it's been really very helpful. I have just couple of questions I want to ask. One is maybe for Paulo one and for Pierre-Francois. Paulo, amongst all the good new things you've told us today. I think one of the most interesting is this slide with your renewable returns on it. I think it was Page 27 or thereabouts. And I remember that a few years ago in a similar ENGIE renewables update in Gwenaelle time there was some guidance of generally at 20% to 25% NPV to Capex for renewable projects. And it seems to me from the numbers you are showing today that could be much higher now, maybe more in the sort of 30% to 40% or even higher type range and that makes a lot of sense to me because market has been very bearish on renewable returns in the last year or two, but maybe overly focused on US offshore wind and it seems to me things must be getting better in Europe and in onshore. So I just wonder if you can comment -- is my interpretation right, that you're seeing returns and renewables getting better. And can you give us any sort of flavour of what's going on the ground with PPA levels and are you seeing willingness to corporates to pay for a bit more margin as well as for a bit more cost in new renewable projects. That's my first one, maybe I'll pause there and perhaps Pierre-Francois will come back in a moment with the second question for you.

Pierre-Francois Riolacci

You can ask your second question, so that we get prepared. Paulo is thinking, and I would be thinking in the same time, so let's be very pragmatic. Go ahead

Sam Arie

Very good. All right. I didn't want to go on long, but sure. My question for you is just on the hydro side and I think it's probably not a big issue. But in my conversations with the Street that sometimes comes up, the people are bit worried about hydro conditions obviously after the very dry summer in Europe last year and it's a bit hard from the outside to really think about how this could affect you in the future given that you might have less hydro you might have more thermal you might have trading benefits. So, I'm wondering if you could just talk to us about what would the sensitivity be on your planned guidance if we end up with a few summers again similar to last year in terms of the hydro resource?

Paulo Almirante

I start, so I think your assessment is pretty right. I think, we have seen the demand increase for Renewables. It's not anymore companies that want to show CSR targets achieved. We have a real demand for renewable power. Because in fact, it's the most economic power that you can buy today. And so any company that wants to decarbonize, but also wants to have a good economic return, want to use renewable power. That has driven the demand and the balanced means that PPAs are going up, prices are higher, both in Europe and the US, quite significantly. I would say mid double-digits in both regions and that's one of the drivers for Renewables.

In addition, its selectivity. We now are focused on delivering returns and EBIT that's a feature of the ENGIE business today. So, we are selective. We have established the realistic targets that we feel not targets that are not achievable in terms of capacity and then we have a nice pipeline from which we are selecting the projects in the markets, where we see the demand and in the markets where we can deliver the projects on time on budget with the right level of returns that I think the sample that is shown on this slide is quite telling and quite representative.

Pierre-Francois Riolacci

Thank you, Paulo. And just a couple of comments. Yes. Drought risk is definitely something that we are scrutinizing and we are talking about climate. This is also part of it. First, it's good to be bit split between two continents with exposure in hydro in South America and in Europe and the likelihood that would be hit at the same time is of course a low.

Two, usually when there is an idle pressure there is a consequence on prices, which means that if there is a drought prices tend to go up and again it's a kind of a natural hedge which has been actually in few countries quite well, but there is a very practical consequence is that you need to be very, very careful is your hedging policy on hydro, it's clear that we see today that the rain level is not necessarily in line with a long historical data points. So it means that we need to be careful when we build our scenarios for hedging that we factor in that there may be significant discrepancies. We have adapted a hedging policy to make sure that we reflect on that, it costed us a bit of money in'22 and, but we are fast learners.

Delphine Deshayes

This is the end of our Q&A session, before entering a well-deserved cocktail, I hand over to Catherine for the concluding remarks.

Catherine MacGregor

Just thank you very much for participating, for your questions. I hope you can feel that the ENGIE team is fully, fully mobilized. Thank you very much.