FY 2022 RESULTS

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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 market update presentation at 10:00 AM. So, thank you.