Q1 2023 RESULTS

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Delphine Deshayes

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

Catherine MacGregor

Thank you, Delphine and good morning everyone. Very pleased to present another very good performance for ENGIE. We have indeed made a strong start to the year with continued momentum on financial and operational delivery. The actions that we have previously taken to build a simpler, more industrial ENGIE to capitalize on our integrated model are delivering results and they are also allowing us to capture market opportunities.

We have continued to move at pace with our strategic plan, particularly with the expansion of our renewables platforms where at the end of March, 5.5 GW were under construction, allowing us to maintain a sharp focus on our target to add 4 GW on average to 2025 and to contribute to a faster energy transition in alignment with our strategy. And I will come back to Belgium later.

Turning now to our operational and strategic progress, the performance over the first quarter positions us well to indeed deliver good results in 2023. EBIT, excluding nuclear grew organically 29% year-over-year to EUR 3.8 billion and this was driven by higher contribution from GEMS but also Renewables. Cash flow generation was also up EUR 3.8 billion alongside growth in EBITDA and supported by working capital improvements. We maintain a strong balance sheet, high liquidity as well. During the quarter, we successfully issued a triple-tranche Green Bond for a total amount of EUR 2.75 billion supporting the development of sustainable finance. In light of the strong Q1 performance, we now expect Net Recurring Income group share to be in the upper end of the range of our guidance for the full year. And it is each GBU that is driving operational progress at pace. It is also our integrated model that once again demonstrated its ability to leverage on favorable market conditions.

On Renewables, I will share more details about our leading platform in the next slide but I can already tell you that we continue to grow our installed capacity adding 13 wind and 7 solar projects in various places including Peru and France.

GEMS benefited from a lower risk environment as well as a robust performance of all of these activities and we saw continuing demand from customers for risk management and also captured value through the flexibility of our portfolio.

In Networks, we keep contributing to the security of supply of Europe with gas storage levels in France at 30% at the end of March and as of May 3rd it was at 43%, which is to be compared to 33% at the same time last year. Our infrastructure played a critical role and that was indeed confirmed by the recent report published by the CRE, the French regulator, which is confirming the needs for transport and distribution gas networks by 2050.

Alongside focusing on the near term, we are also working on the future of renewable gases. We are unlocking the potential of biomethane with now more than 9 TWh per year of production capacity, which is connected to our networks in France. Internationally, in Brazil, we have commissioned 100% of Gralha Azul and Novo Estado power transmission lines and this is supporting access to electricity in the country.

Our Flex Gen business is crucial to balance the intermittency from renewables and to support the resiliency of the power system. And to this end, we have more than 1 GW of battery storage systems under construction in the US, in Chile and in Australia.

Energy Solutions is continuing its efforts to build a stronger asset based platform for long term growth. We have a large pool of opportunities, the revenue backlog increased since the beginning of the year and we saw multiple important wins such as the extension of our DHC in Barcelona, which includes the construction of a new cold production plant. Also several wins in District Heating in France, where we are market leaders including the construction and the operation for 25 years of a new network in Toulouse and 3 large contract extensions in other cities. These wins are on the back of a buoyant market, which is anticipated to grow by nearly 7% per year until 2030 and that offers great opportunities to densify, to expand, but also to develop new assets. We've also won a new concession of more than 4,000 EV charging points in France with B&B Hotels.

Quick word on Retail where,e as announced last Autumn, we have launched initiatives to help customers reduce their energy consumption, especially on days of high demand. This campaign was a success where we had 200,000 customers being rewarded a bonus for their energy savings. Finally, we are preparing for the end of gas regulated offers in France, which will be going on as planned by the end of June 2023.

So clearly an excellent start to the year with strong operational progress across the board. A testimony to the high level of commitment of our team in the execution of our strategic plan.

Quick focus now on our leading renewable platform, which operates all major technologies in key growth markets and that we keep expanding, leveraging our industrial expertise and our competency. In terms of progress we are securing our future operating asset base with 5.5 GW under construction at the end of March. That represents 71 projects that our teams are working on day in, day out. This includes flagship projects such as Gulf of Suez 2 in Egypt and Moray West in Scotland. We are industrializing execution with an average delay of less than 2 months and cost overruns of less than 4% for projects in execution, which is well within our projects' contingencies. We kept growing our pipeline with the acquisition of 3.5 GW of solar and battery storage projects at different stages of development in the US offering a unique opportunity to diversify our portfolio by securing interconnection positions in new markets.

Ocean Winds made strides in its offshore program reaching the final investment decision for two French project of 500 MW each. By leveraging our integrated model we commercialized Renewables through GEMS and signed nearly 500 MW of green corporate PPAs, the majority of which has a maturity longer than five years. This reinforces our position among the leaders in this market supporting our customers in their decarbonization efforts.

So overall on Renewables, I'm very proud of what the teams are achieving. We are well on track to add 4 GW on average per year to 2025, 6 GW on average from 2026 onwards to reach our target of 50 GW of installed renewable capacity by 2025 and then 80 GW by 2030.

Before handing over to Pierre-Francois let me share a quick update on our nuclear discussions in Belgium with regards to the extension of two units.

We have come much closer to an agreement around a few key points, such as the legal structure, which will be co-owned by the Belgian State and ENGIE, the business model of the extension with a balanced risk allocation, the joint development agreement, the framework for the transfer of all waste liabilities and associated security package. Despite these progresses some important parameters of the deal still need to be discussed such as a clear allocation of risks and associated risk premium.

We keep working very actively with the Belgian Government to address the remaining issues with the aim to have an agreement signed by the end of June. Should this objective not be met, given the operational and industrial complexity of this extension project, a restart in November 2026 would not be reasonably achievable anymore. And now over to Pierre-Francois.

Pierre-François Riolacci
Thank you very much Catherine and good morning to all.

Indeed, a strong start for 2023, which is supported by a seamless execution on growth and performance agendas, but also of course by the strength of our integrated model in continued favorable energy market conditions.

Our EBITDA and EBIT excluding Nuclear grew respectively by 23% and 30% to respectively EUR 4.8 billion and EUR 3.8 billion. We also generated a high level of cash flow, further reducing our financial debt and improving further our credit ratios. We are confirming our 2023 guidance, albeit, we expect our Net Recurring Income group share to be in the upper end of the range. If we get a little bit closer to the numbers, you see that EBIT is up EUR 855 million which is a 29% uplift organic growth. There is a slight positive from FX and scope, including the Eolia acquisition last year and helped by the Brazilian real and the US dollar against euro for FX.

Renewables reported more than 30% organic growth, benefiting from better hydro volumes in Portugal and in France, remember last year was tough. Also higher prices in Europe, mainly for French hydro and again the contribution of the capacity that has been commissioned over the last twelve months.

Networks decreased by EUR 59 million and three key drivers on the negative side, the biggest one being in France with lower distributed gas volumes mainly linked to energy sobriety this winter which means lower consumption, and also another mild winter. Second driver was lower transported gas volumes in Germany and finally, we had also to face higher energy cost in operating our facilities. Part of this was actually mitigated by tariff increases that we got in Germany and in Romania and on top of that, our EBIT in Latin America increased as our operations there are growing as Catherine mentioned, and also increased thanks to good indexation provisions. Lastly, our storage activities in the UK and Germany have performed well benefiting from the current favorable environment.

Energy Solutions is up EUR 21 million with good operational performance and positive contribution from growth, but it includes the negative impact of strikes in France in District Heating and the net negative effect of energy prices in Europe. It might be worth to mention that EV Box, which was previously reported in this GBU, has been reclassified into the Others segment due to a change in the management reporting line. As you know this EV Box business is not core for ENGIE and will be monetized when all conditions will be fulfilled.

Flex Gen is slightly up EUR 12 million. We have captured some higher spreads in Europe compared to Q1 '22 but ancillaries have declined from very high basis. In Chile the situation has started to improve with the recovery of energy margins thanks to the normalization of market conditions and reduction of the short position.

Retail is down by EUR 217 million compared to Q1 2022. You may remember that last year in the first quarter, the warm temperatures in Europe led us to a long gas position that we were able to monetize in a market with very good conditions. This year we are again over hedged due to mild winter, but this time, we sold our position with a loss given the lower prices of gas.

Last but not least Others is up EUR 948 million fully driven by an exceptional outperformance on all GEMS activities again, and I will of course detail this figure in the next slide.

Just a quick word on Nuclear, EBIT is down EUR 194 million to EUR 392 million. The positive effect of higher captured prices over the period was actually more than offset by the inframarginal rent cap and the specific nuclear tax. We also produced lower volumes despite higher availability of our plants as we have closed two units in the past nine months. And as you also know, depreciation increased by about EUR 100 million for the quarter, and this is a result of the 2022 triennial review of the provision that led us to recognize, at the end of last year, the dismantling asset which is depreciated over the remaining lifetime of the plants.

The last word before we move to GEMS, just to know that all businesses are delivering as planned. Sounds a bit boring maybe but it goes still with impressive growth in Renewables, successful turnaround in some parts of Energy Solutions, significant transformation in Flex Gen, market adjustments in Retail and also at the same time embedding a performance plan in a continued improvement culture. So this quarter again ENGIE's teams have done a stunning job.

Let me now share a bit more color on how GEMS posted this plus EUR 988 million year-on-year improvement to achieve EUR 1.6 billion EBIT in one quarter. This impressive year-on-year variation is largely driven by a very different risk environment. First, in the first quarter last year, we had to take specific provisions considering the risk of physical gas disruption due to the high level of uncertainties related to Gazprom contracts. And you remember this stopped later in the year at Summer. Of course this provision did not repeat in Q1 2023 and it does explain about half of the year-on-year improvement. Second item on the risk side, a better market visibility with significant normalization of key market parameters has also allowed for improved valuation of some assets and liabilities and led to the reversal of some technical reserves.

So now if we look at the operation of the period in this first quarter of 2023, GEMS is delivering very strong performance and why is that. First, the results are supported by transactions that were contracted in 2022 at good and sometimes very good conditions, which now materialize at delivery date namely during this first quarter and our boosting our sales contribution in particular. And also you can see in the table on the right hand on the slide that market conditions remain positive for GEMS albeit less buoyant of course than last year. So energy management activities in Europe are still performing strongly both on asset optimization and client risk management although less than in peak times last year.

Compared to Q1 2023 GEMS contribution for the next quarter is of course expected to gradually decrease due to the combination of the non-replicable impacts as well as a high contribution from transactions locked in '22, which is expected to normalize in the future as these transactions are lapsing.

To remind you of what I said back in February 2023, the long-term expectation is that GEMS should deliver a hardcore EBIT of around EUR 1 billion with potential upside coming on top of this in supportive market conditions as it is obviously the case this Q1.

Moving to cash flow it is great to see that the strong EBIT results are actually turning this quarter into improved cash generation and good to see that the operating cash flow is up EUR 0.6 billion, which is broadly in line with the growth of EBITDA. On the working cap, change in working capital requirements, and you remember here, we are comparing variation of working cap to variation of working cap. The strong improvement of plus EUR 3.1 billion, thanks to the overall decrease of commodity prices. There is the first positive impact from gas storage activities, which is plus EUR 1.2 billion and this positive variation is driven by the high price of the withdrawn volumes despite lower volumes withdrawn during the same period. Energy in the meter variation is slightly negative for the quarter, we have faced to be very candid, some billing delays this quarter as we had to implement numerous and somewhat unstable schemes of governmental measures and tariff shields for which we continuously have to adapt our IT tools and we expect of course to catch up in the next months. Margin calls are also benefiting from the decrease in commodity prices and overall market volatility, as well as strong management of our liquidity risk attached to the margin calls. So it's a plus EUR 1.8 billion quarter to quarter. You remember last year it was a use of funds of EUR 0.4 billion and this year it is cash in of EUR 1.4 billion.

Lastly, we had a net positive effect on supply tariff shields for plus EUR 0.5 billion, with a significant cash in from public authorities, especially in France compared to last year and this is just that the schemes are now up and running and the cost of carry is decreasing big time compared to last year. Peering through the year, a key element when you click on cash flows is cash out that we expect on the 2022 nuclear taxes, cash out which is in Q3 for the inframarginal rent cap and in Q4 for the G2 and let me remind you that this represents an increase of more than EUR 1.1 billion.

So in addition to our strong EBITDA growth, as the cash generation is strong, the net financial debt and the net Economic debt are going down. Net financial debt is decreasing by EUR 1.4 billion as our cash flow generation was higher than Capex and nuclear phase-out costs combined. Our Economic net debt decreased by EUR 1.8 billion broadly in line with our net financial debt. On the back of these elements, our leverage ratios are further improving with an impressive 2.5x Economic net debt to EBITDA ratio on LTM at March end.

Coming to the guidance, in the context of decreasing volatility and energy prices with numerous uncertainties in the macro environment, we have decided to keep our guidance for 2023 unchanged. With a very strong performance of GEMS during this first quarter and an overall strong beginning of the year, we expect our Net Recurring Income group share to land in the upper end of the EUR 3.4 to EUR 4 billion range with an EBIT excluding Nuclear at the top end of the indicative range of EUR 6.6 to EUR 7.6 billion.

You've seen in the preview materials that we are entering this year with slightly higher outright volumes open. Our hedging ratio, for the current year is 82% versus 86% at the end of Q1 '22. It is even more the case for European CCGTs fleet for which we have much less locked position for the balance of year 2023 that we had at the end of Q1 '22 for the balance of year. So in this context of uncertain environment and falling prices and given our open position, we prefer to keep a prudent approach.

We are of course committed to a strong investment grade. Credit rating continue to target ratio below or equal to 4x Economic net debt to EBITDA over the long term. Our dividend policy remains the same notably, with a 65% to 75% payout ratio based on Net Recurring Income group share. With that I handover back to Catherine for the conclusion.

Catherine MacGregor
Thank you very much Pierre-Francois.

So to conclude, two key messages. One, we delivered a very strong first quarter both financially and operationally and that positions us well for the rest of the year. The second point is to remind everyone that we didn't achieve these results by chance. Our strategy to build a simpler, more industrial ENGIE to accelerate the energy transition, well, this strategy is working. And we are delivering at pace notably with the expansion of our renewable platform.

Thank you very much for listening and we will now turn for the Q&A. Thank you.

Q&A

Operator
(Operator Instructions)

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

Ajay Patel
Good morning. And firstly, thank you for the presentation and congratulation on the results. I have two questions if I may. Firstly, just on the guidance. When I look at the guidance, it's 5% decline in EBIT ex- Nuclear for full year 2023 but over Q1 is at 30% right. If you look into the statement, you say that GEMS good performance in Q1, but also the subsequent quarters, we expect a gradual decrease. This all seems to imply an element of conservatism in this guidance, so I just wanted to have an understanding of the negatives or the timing effects that occur over the course of the year that may make that less conservative or just give us a more round picture.

And then the second question if I may, you gave a guidance on inframarginal tax. I think it was EUR 1.2 to EUR 1.5 billion at the end of last year, what would that range now be taking into account the commodity environment that you've moved to which is now, end of March. Thanks a lot.

Pierre-François Riolacci
Thank you. Thank you very much, Ajay. Yes, there is definitely some conservatism in the guidance for the reason that I tried to convey which is that we still have open positions when prices, as you know, have been declining compared to the initial price pattern that we had, which was based on end of December. There are indeed some timing effects with GEMS which is about EUR 100 million, which is coming as a positive in Q1, which is expected to reverse later in the year. It's not a huge amount. It's also very clear that we expect contribution from GEMS to step down over the next quarters as we have some one-offs which are helping us in terms of comp base. So, yes, there is some conservatism. It will take a lot to take the guidance at the low end, that's for sure. And we are very open that we are targeting the top-end when it comes to EBIT excluding Nuclear, so let's keep the fingers crossed that things keep on that way and that give us upside. And then you had another question on...

Ajay Patel
The guidance from the inframarginal tax. I think it was EUR 1.2 to EUR 1.5 billion. I just wondered what that would be taking into account that your assumptions on commodities have moved to by the end of March.

Pierre-François Riolacci
Given on the, based on the new price scenario, I mean, we expect the overall inframarginal taxes to come let's say just below a billion.

Ajay Patel
Can I just have one follow-up question, apologies. So just on GEMS in principle, just to help us understand, it was a great environment last year. Clearly, you have figures, local contract and assets that you can take advantage and lock-in some of those profits. Is it just fair to assume that that is largely secured in '23. It's unlikely to have more of a continuance in '24 and '25.

Pierre-François Riolacci
Not completely, because on some parts of the business, the average duration of these transactions is more a couple of years. So we would expect to see some spill over impact in 2024.

Ajay Patel
Thank you very much.

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

Arthur Sitbon
Thank you for taking my questions. The first one is on the GEMS position, as in March you were guiding EBIT to be down between EUR 300 million and EUR 900 million in 2023, I was wondering if this guidance on this particular division is still something up to date or if you would expect something a bit more positive now.

My second question is on the Belgian nuclear life extension discussions, I understand that one of the topics of discussion is the potential risk premium to be paid on the cap on waste management provisions. I was wondering if this risk premium would be in the shape of just higher provisions to be funded in the future or could that have to be funded immediately by ENGIE so moving around cash into dedicated assets already this year or next year, but pretty soon and more broadly speaking I was wondering what defines for you a good deal. Is it as simple as just having a deal that overall is not NPV negative. Thank you very much.

Pierre-Francois Riolacci
Thanks. Maybe the first part on the numbers, and I will leave to Catherine what is a good deal. So on the EBIT guidance on GEMS. Yeah, clearly the reason why we are pushing the guidance at the top end is of course the performance of GEMS that we have achieved in Q1. So I think your question is spot on. Yes, you need to adjust and we are talking about midpoint to top it, and we are talking about EUR 500 million. So I think that's only fair that you adjust, and this is indeed our overperformance that we have achieved in Q1. So, I hope it answers your question.

Then on the Nuclear, just a technical point, which is about the risk premium, I'm not sure that at the end of the day it boils down to kind of a premium might not be exactly the way everyone is thinking about it. And yes, if we were to transfer liabilities, there is a scenario where we would be funding upfront together with the liabilities, we would be transferring assets and then that would happen, not this year, but that would happen at the closing of the transaction, which is more in '24, and maybe Catherine, a couple of comments.

Catherine MacGregor
Yeah. Maybe just to give a bit more color on the Belgium discussion. And while I have pointed out the fact that we made some quite good progress on the discussion around quite a few items, we are still working on what we like to call the unknowns and what that means is that we're trying to clarify and decrease the uncertainty around particularly future handling of waste and we are talking about a very long time period. So that explains why these matters are both complex and to a certain extent still quite uncertain. So the discussions are taking a little bit longer than what we expected, I think this is true for both parties, and what we're really trying to make sure we get is a proper risk allocation, which corresponds and match the transfer of liability.

And this is where we are spending a lot of time actually with the counterparty to make sure that we have a fair risk allocation and that the risk premium that ENGIE will pay is adequate and matching this risk allocation. So a bit difficult. This is what would be a good deal for us, but also for our counterparty, it's a balanced deal with amounts that match this amount of risk that would be left on both sides. Maybe the other point on Belgium and I want to really reiterate that time is of the essence because as you know the LTO project is indeed operationally and industrially complex, which is why we have pointed out the need to meet the 30th of June timeline as a very important milestone. Thank you.

Operator
The next question is from Vincent Ayral with JP Morgan. Please go ahead.

Vincent Ayral
Yes, good morning and congratulations for these results. I'd like to come back on the nuclear tax. And on the nuclear life extension negotiations. So, first the nuclear tax, I think I read that the full year, they seemed to be

based on the forward curve in the past of potentially overpaid, and you were basically double taxed on all that. Do you have an estimate of how much it could be? And is it part of the negotiation, will you be refunded for the settlement? I understand this would be basically against the rules and the commission was extremely clear on this bit and what are the other non cash elements which are part of the discussion, example, the EUR 1.3 billion extra cost on waste management which you said you would take legal action to recover. So it would be quite interesting to get some color on these.

And then when we're looking at the potential deal on the life extensions, it seems that you were too much agreed on the vast majority of the provision amount. Could we have some estimates or some sort of level where it has been looked at as it is important actually a matter of increase versus the EUR 18.5 billion total provisions at the end of December knowing that these included, to start with, some buffer from the CPN, being discount rates or things like that. And secondly, when you do a life extension, the provisions mechanically decrease. So, it would be quite interesting to know where we are standing on this, if you could give some color. Thank you.

Pierre-Francois Riolacci
Thank you Vincent. Let me maybe share a couple of comments on the interesting discussions that we had with the Belgian government on everything but the negotiation, which is indeed related to a couple of points that you are mentioning.

On the nuclear tax it's not as much a double taxation, it's more that the tax basis which is used in the inframarginal rent cap, is based on the forward and the theorical notional portfolio of hedging. And that's actually pretty different from reality and especially when you have a year which is as troubled as '22, of course, you cannot enter into the hedging transaction that you are used to, because the market is not there, and the liquidity is not there, which means that you create a difference between the notional portfolio and the actual portfolio of hedging, and therefore you create an uncertainty and potentially a significant disconnection between the captured price and the reference price for the tax calculation, which is therefore a difference in the tax basis versus your actual profit and that could turn into a few hundreds given the market conditions, we don't know yet of course, but it could turn into a few hundreds of million that could come and therefore for us, it's clearly if we are taxed and taxed at very high rate on profit that we have not actually captured, we believe that this is not okay. And what is not okay is that there is the possibility for taxpayers in Belgium to overturn this notional hedging except for nuclear and we do not believe that this exception for nuclear is acceptable under the law, so clearly we would be contesting and pushing back on this approach of the tax calculation. So a few hundreds are at stake.

Then there is another point, which is indeed that we believe that the authorities have been late in publishing the acceptance criteria on waste, which means that we have been stuck with some waste that we have to manage, there is an extra cost which is incurred on that basis that we estimate at EUR 1.3 billion and to really get these criteria up and running, we have indeed started to move on claiming compensation for this EUR 1.3 billion of extra cost that I point to and we'll keep pushing. And of course in the deal we may get the criteria defined but still discussed that has been incurred in the past. So that's something that we of course need to discuss.

And last but not least, we are indeed not completely aligned with the provisions. The estimate made by CPN at year-end and we have introduced a requirement for revision that was sent in February, of course, complying with delays with imposed dates. Now we are waiting for the feedback of the CPN which is, as we know, working on it. So that gives you some colors on the side discussions that we have of course with the government in full compliance with the law.

Vincent Ayral
But just to come back on the last point, CPN normally just would be an objective party on the provisions and it's taken the step to take a buffer ahead of negotiation with the government regarding provisions. So the way you describe it is as if it was the requirement for correction was separate from the ongoing negotiation, isn't it like part of the negotiation?

Catherine MacGregor
Look we are not only going to comment obviously on the ins and outs of the negotiation. CPN is an independent authority. They have given their advice in December, we have comeback with some suggestions on some key parameters to establish these provisions and some proposed adjustments. Let's see what they respond, but they are independent and so let's not mix everything and Vincent, I'm sure you will understand that it's really difficult for us to comment more on the innings of the negotiation.

Vincent Ayral
No, absolutely, thank you. So I'll just do a follow-up question not on the negotiations themselves but coming back on the question, which was asked previously, the funding of any potential top-up to the current provisions and the risk premium, what type of order magnitude we'll be talking and how should we approach that as we don't have a number at the moment. But in terms of potential impact on credit metrics and how to look at it. There'll be any color if you can't fully quantify we understand would be useful. Thank you.

Pierre-Francois Riolacci
The order of magnitude is adequate to ENGIE, so we are not going to enter into any transaction that would damage our credit metrics, of course, which is something that is that we look at and that would be adequate with ENGIE capabilities.

Vincent Ayral
Thank you. I tried.

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

James Brand
Good morning. On the good results I have three questions, if that's okay. Firstly on the net debt, obviously a very good print and we saw the working capital improvement that you highlighted. I was wondering whether you had any expectations for full year net financial debt that you were willing to share and also on the net debt I think at the end of last year you highlighted that there was around a EUR 5 billion working capital increased due to higher commodity prices and maybe you could put the working capital improvement in Q1 in perspective of that how much of that has reversed and then, I'll give you just two questions because kind of a two-parter I won't ask the third.

The second question is you've got this expectation for GEMS in the medium term of EUR 1 billion of profitability. I was wondering whether you could just share like a rough split of where that's coming from between different activities, its energy management or optimization of the generation fleet. I know it's a very complex business. The answer to that question, may just be, no, that's not possible. But just trying to understand in the medium term when somebody has exceptional gains from trading kind of and what's actually driving the profitability of that business. Thank you very much.

Pierre-Francois Riolacci
Thank you. You know that we try not to multiply the different guidance KPIs. I think that's important that we stick to some consistency, but we'd be happy to help you and to work out some cash flow numbers. We're very open about the CFFO that has to be north of EUR 10 billion, you know our growth Capex, you know our maintenance Capex, you know the funding for Synatom, so I know the IR team will be very happy to take you through, and if you want to check some numbers we can help you.

You are coming with a very, very key point, which is how much of this working cap EUR 5 billion that we have locked in the business is going to come through. It's not that easy, because as I mentioned, it depends, of course, on the price. But here definitely in Q1, we had some of it. And when you see that on the gas storage, we improved to EUR 1.2 billion. It's clear that about half of the cash that was stuck in our gas storage has come out due to this price variation. So you can see now that it is coming out. There is more from customers that we expect to recover, and there is a bit of inertia in this coming through as there was at the beginning and started in '21. It took a while to pile up. Now, we expect it to come down in the next quarters. But yes, out of the EUR 5 billion we see the first significant items coming through, which is I think very good from our perspective.

And then on GEMS I really understand that you were a bit struggling with where do we stand compared to the run rate and maybe just to try to help you, we have indicated that GEMS is a business that should deliver a EUR 1 billion in normalized environment as a kind of hardcore EBIT. Today we have three main drivers of outperformance, which are coming on top of that. The first one is that we have some release of provisions. And you remember that we had hectic conditions in 2022 in terms of prices, in terms of bid/ask, in terms of volatility. So in this kind of market, you have to build technical reserves to protect your fair value and assessment. So it's part of it. So when the market normalizes then you release some of this position, and that helped in Q1 indeed through this normalization. There is definitely we are getting down and closer to a normal level that there is of course some to come that will come through when the market fully normalize. That's the first handle of overperformance. The second point is a backlog of the deals that I mentioned, the transactions which had been booked and here again, you should expect that this will steam down and, bearing in mind that indeed on part of the business, we talk about average couple of years, but of course for some other parts of the business, it is shorter than that. So it's not overall, of course two years. So that's the second key driver. And then the current trading. It's fair to say that the current trading in GEMS is good. Yeah, I'm talking about the business, not a trading operation. I'm talking about really how things are going. You remember last year we were very open that there was a flight to quality and due to the credit issues and the access to capacity, clearly a lot of customers were coming to us and a few key players. This is still true. So it means that our volumes are good, market share is good and we of course have a better position in terms of price making. So with current market parameters, which are not as good as they were last year but still good compared to '21 and these market conditions in terms of players, we are still in a good shape, which means that we are still entering in transaction which are good transactions and even transactions that will last for a while. So definitely it will take a bit of time for GEMS contribution to normalize, which is of course good news. And if you may remember that in February, we were quite adamant that the normalization will take years and it is clearly the case that we see today, a bit better than what we expected. Hope it helps.

James Brand
That's very helpful, thank you very much.

Operator
(Operator Instructions) The next question is from Peter Bisztyga with Bank of America. Please go ahead.

Peter Bisztyga
Yeah, good morning. It's Peter Bisztyga here. Thanks for taking my questions. First one, just going back to these Belgian nuclear negotiations. At full year results, you mentioned that you expected a lower risk premium than the one that we saw in Germany a few years ago. From your discussions with the Belgian authorities, can you confirm that you're still confident in that view. And also, Pierre-Francois, you mentioned the risk premium might not be how everyone is thinking about and I was just wondering whether maybe you could elaborate on what you meant by that statement.

My second question, just in your guidance. So you've updated your commodity price assumptions to reflect end March 2023 prices, did that update actually have any impact at all on your expectations for this year given hedging and price caps. And given the open position that you have, do you see any negative impact if you have some mark to market today. Thank you.

Pierre-Francois Riolacci

Maybe I will just comment on to clarify what I meant with risk premium and how do you look at it and I will leave Catherine of course for the complement. But maybe starting with the guidance. Yes, indeed, when we use the end of March assumption against the end of December, we had some negative price impact. Actually, remember not to a max extent because we were also very clear in February, that we had a kind of *amortisseur* with the inframarginal taxes and of course when the top end of the prices is coming down, we are sharing our profit but we are also sharing our inframarginal taxes, so the impact was not that high, as we explained. So that's what happened. So, yes, there has been downward effect of prices to a limited extent given what I just mentioned. And if you have to mark to market today that would not be, that's immaterial. So as I see the number put in front of me, that would be immaterial. So I think that still we have open position but we have some buffers and of course there is always a risk. You remember that if we have open position, it means that there is risk and an opportunity by design. So that's also part of our thinking. So that's the point on the guidance. So, no significant impact of mark-to-market today.

And then on nuke just to clarify what I meant. You can think, each country is different and you can think in premium. You can also think that scenarios can be different and that is a set of assumptions that you use when you are provisioning can be different from the set of scenarios that you use when you are discussing how to transfer the liability therefore you are not anymore clearly, in terms of premium but you're more in terms of risk and scenario I think. Catherine was very clear that's one of the key topic we need to agree, the unknowns, the clarification of risk and that was what I referred to. And I'm sure you will make a calculation and work out the premium, but that's another story, that's a calculation.

Catherine MacGregor
To answer and to complete the question. The work is really around completely going into the details, clarifying the risk allocation, making sure we understand in great level of details, the type of fees that will be taken on us are staying on our side, going on the other side and then making sure that the so-called premium matches this amount of risk. And so this is ongoing, very difficult to comment more Peter, but let's see how it goes.

Peter Bisztyga
Okay, thanks very much.

Operator
Next question is from Meike Becker with HSBC. Please go ahead.

Meike Becker
Good morning everyone and thank you for taking my questions. This is Meike Becker from HSBC. I have three but I'll make it quick.

On your Renewables business, could you give an update on the profitability you see, what do you see in the PPA market, how are prices developing, how is the farm down market developing and I believe you are guiding for a spread of 200 basis points over the WACC, has this expanded with major cross price elasticities, fossil fuel has been more expensive or do you feel the cost pressure from the rising Capex and inflation environment. That would be really helpful if you give us an update on I think the profitability side of the Renewables growth.

My second question is around your District Heating and Cooling comment in France, with the 7% growth in the market, could you just give us an update here on that segment? Is this in line with your expectations? Is it even going better than your expectations, and what are your plans outside of France? Are you thinking about growing outside France?

And the last question is, some of your peers are rethinking their complexity and also their risk exposure to emerging markets, namely Latin America I would say. You have also been on a long and very successful journey of redefining yourselves. Are you thinking in similar terms or are you happy with your exposure to emerging markets and complexity? Thank you.

Catherine MacGregor
Okay, thank you. So maybe I will start with Renewables. Indeed, we have not changed our IRR targets and I think we've shown you back in our market update actually how indeed in line with our IRR targets all of our renewable projects are. So very comfortable with maintaining our IRR targets, albeit in a market that is indeed quite dynamic both on the revenue side, so that's the question that you asked on the PPA side but also on the cost side, where we are obviously experiencing some inflationary movements with some of our suppliers. But on both sides we are managing them really well in such a way that we are protecting our targets.

Few words on the PPA markets. What has happened last year has actually force customers to look as not just as a decarbonisation solution, but also as a solution to their security of supply concerns that obviously became very accurate last year. So we see the PPA market in general being buoyant, also diversification in terms of the type of customers that are looking for PPAs. It used to be a very high tier-1 type of companies, very specific, it was very much driven by tech notably and now what we are seeing is that PPA demand is expanding to a lot of different sectors, different industries, different company sizes. So, we are also seeing a diversification in terms of PPA length, for example, the duration of PPA is also changing. And that is honestly playing to ENGIE's strength, because it really favors companies that are managing portfolios of power and this is what ENGIE does particularly with GEMS. So this is all really playing in our background and helping us for sure. So this is really one of the key driver of the protection of the profitability of our renewable developments.

The second key pillar is obviously execution. We're very pleased with the way the company has been managing and focusing on execution, which frankly when we used to be more in the flipping asset mode, the execution was maybe not as central to our strategy. Now it is and the teams are doing a great job. So really managing construction with controlling costs as much as we can, as well as we can. And so there is good execution there and then obviously working with our suppliers on the cost pressure because we are also obviously now of a different size. We are organized to manage procurement in a very different way. We are able also to secure and to make volume deals with our suppliers, etc. So, sorry, it's a bit of a long answer, but I would say these are really key levers for us to protect the Renewables profitability and I would further add the selectivity angle. Selectivity is a bit of a common thread, when you think about our capital allocation. So, we are also very happy to lose auctions or to lose deals when we feel that we are not going to be delivering our returns. So we are selective, and of course also on the geographical side. So just probably enough on the first question.

The second question, which was on the district heating. Indeed there is a huge momentum, there is what, something which is called the *Fonds Chaleur* it's like heating fund dedicated to the development of low-carbon heating solution in France. And so the opportunity is massive. We are very strong. We are number one in terms of volume generated. And so obviously we are right now focusing not just on capturing those opportunities, but also in making sure that we are industrializing our offer. So our new EVP here is really working hard on that to make sure that we can cope with a number of opportunities in a way that is good for customers, but also really good for ENGIE.

The only thing I would say on those opportunities. You have to keep in mind that they tend to be quite long cycle, so the development time is quite long. And so what's really important is we make sure that we are able to make, to turn those commercial opportunities into concrete projects and to shorten the time to realization. Outside of France, we are obviously present in quite a few countries, but we are not looking at going in countries where we're not present. The country selectivity is also a very important part of ENGIE’s framework right now, but there are countries like for example Spain where we have interesting projects, obviously Germany is another place, and we also have a stronghold presence in Singapore, where we are actually developing ongoing projects as we speak.

Maybe last point, complexity exposure to Latin America. To be honest we've been, ENGIE in Latin America, particularly in Brazil for 25 years, we are Brazilian in Brazil and we really like our exposure to this market. We have incredible renewable exposure. We've announced Brazil as our first Net Zero country by 2030, and we feel we can manage this exposure very well and that is a very nice balance to obviously our European exposure as well. So I'll stop here.

Meike Becker
Thank you very much.

Operator
The next question is from Louis Boujard with ODDO. Please go ahead.

Louis Boujard
Good morning. Thank you for taking my question. Maybe two quick on my side.

The first one with regards to 2023 and with the Flexible Generation business I appreciate that you mentioned that with the outright power current market price does not hit that much your expectation. But at the same time I think that you mentioned during the conversation say that CCGT that much hedged for this year and that you are still quite open. So my question would be, you expected EUR 200 million, more or less of negative deviation in the Flex Generation business in 2023 compared to 2022, is it still the case now or don't you think that eventually evolution of the spark spreads could put some pressure on this expectation on this business line.

My second question is just regarding the DBSO and the farm down strategy with the rising interest rate environment. What do you see here. I think that you posted very limited DBSO for this quarter, what do you see here in terms of forecast? Do you think that it remains a fair strategy to finance the future growth at this stage with the rising development or is that changed at all. Thank you very much.

Pierre-Francois Riolacci
On the first one. No, we have not changed significantly our expectation for Flex Gen because indeed, there is some pressure on the price side compared to beginning of the year, but we have also some good news, especially you mentioned the recovery in Chile, which is a bit quicker than expected. So we have some positive in there. So overall, yes, there is an exposure on price, which is precisely the reason we don't want to rush changing anything but for Flex Gen very close to our initial expectation, with again slight negative on prices, but some positive in operation.

And DBSO it's not part of our financial strategy as you know, it's not a significant contribution this quarter, it was nothing. So there was no DBSO profit in the EBIT contribution this quarter on Renewables. So it is limited however it is of course part of our strategy to come with partners when it comes to invest and that has not changed. So strategic wise, no change but in terms of EBIT contribution, It would be modest in 2023, there will be some capital gains based on that, but to a limited extent.

Louis Boujard
Okay, thank you very much.

Delphine Deshayes
So this is the end of the Q&A session. Thank you very much for attending this call. If you have any further questions do not hesitate please to contact the Investor Relations department.