H1 2023 RESULTS

28 July 2023

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Delphine Deshayes
Thank you and good morning, everyone. We are pleased to welcome you to our H1 conference call. Shortly, Catherine and Pierre-François will walk you through our first half results and then we will open the lines for Q&A. And with my usual polite request, if you could please limit your questions to one or two only.

With that, over to Catherine.

Catherine MacGregor
Thank you, Delphine, and good morning, everyone. I'm very pleased to announce a very strong set of results for the first half of 2023, with some major breakthroughs and achievements.

First, our earnings performance is up substantially on what was already a strong first half last year, which demonstrates the benefits of our integrated model and indeed that we can capture fluctuating market conditions. Second, we continued to focus on delivery of the strategic plan that we set out in February this year. Third, we achieved a fundamental de-risking of our exposure to nuclear, and consequently a de-risking of the Group as a whole. And this happened when we concluded a framework agreement with the Belgian government just a few days ago following on from the interim agreement of late June.

Moving to the next slide, we have made further headway on our main ESG targets. Greenhouse gas emissions from energy production in the first half were 26 million tonnes, below 30 million tonnes of last year. The share of renewables in our total power generation capacity was up to 39% at the end of June and we expect to accelerate in the rest of this year.

In Brazil, which is one of the four countries which we are targeting to be net zero for 2030, we sold our Pampa Sul coal plant in June and we are now a purely renewable-based electricity generator in this country. And this disposal also means that our coal capacity globally is now just 2.1 gigawatts, which is slightly above 2% of our total capacity and down by more than a quarter since the end of 2021. This means that we are well on track for a full exit by 2027.

We have made strong operational progress across our global business units in the first half. In Renewables, I will go on Renewables with a bit more details in the next slide.

In Networks, we boosted our grid activity in Brazil as we won a 30-year, 1,000 kilometres power transmission concession. This is our third such regulated project there, and it adds to the 2,700 kilometres that we have been awarded since 2017. We consider this to be a key and value accretive business within a framework of robust regulation which complements our renewables generation in the country. In France, it is worth mentioning the report from the CRE, the energy regulator, in April, confirming the need for resilient transport and distribution gas networks by 2050. And just this morning, the CRE communicated a preliminary proposal of a 2.9% to 4.2% return on RAB pre-tax real, for gas transport networks and storage in the upcoming regulatory period starting April next year. This is part of the public consultation. As you know, the remuneration of the RAB is an important criteria but is also part of a broader set of parameters such as level of investments and inflation. And we are in constructive, ongoing engagement with the CRE, expecting that the final outcome will be in line with our guidance.

Moving on to our Flex Gen and Retail business units, we recently commissioned our biggest battery facility at Hazelwood in Australia, of which more in a moment. In Retail, regulated gas tariffs in France ended in June, a smooth transition indeed as we were able to transfer around 2 million customers who have not opted out of regulated tariffs to the switchover tariff, also known as "*offre passerelle*".

Finally, in our Energy Solutions business unit, we continue to win business on very supportive markets, including multiple district heating and on-site energy production contracts, such as in Cannes, a 25-year district heating and cooling concession; in Barcelona, a biomass plant; and also contracts to support the decarbonization efforts of customers such as Arkema in France and Legrand in Italy. And in June, we launched our electric charging brand ENGIE Vianeo, already rolled that to an initial 1,000 points in France with a target of 12,000 in 2025.

Moving on to the next slide, you will already know that we met these major milestones that we announced in Belgian nuclear in June. I want to repeat the main elements, just a couple of updates. First, that we moved forward from the interim agreement which was signed in June with the government to a framework agreement that was signed last week. Things are therefore moving forward as planned towards the signing of the transaction later this year.

Second, that the aim will be a restart of output from November 2025, and with a flexible long-term arrangement that we've named Flex LTO. This arrangement is still for 10 years of additional production to be sold according to a CFD mechanism that we described to you earlier.

And third, the impact on our 2023 reported earnings and economic debt has been favourably fine-tuned since June, and Pierre-François will go into more details on this. Important to stress, there is negligible impact on our net recurring income for this year and on our medium-term guidance. And I repeat, this eliminates a, and perhaps, the, major source of long-standing uncertainty for the Group. It also substantially de-risks our company.

Turning briefly to our very positive first half financial performance. EBIT, excluding nuclear, grew 53% organically to €6.7 billion, leading to a significantly higher recurring net income group share of €4 billion. And this was driven by a higher contribution from most of our activities with particularly substantial increases from GEMS and Renewables. Robust financial performance, indeed, that demonstrates the strength of our integrated model. Cash flow from operation also very strongly up and our balance sheet remains solid. I can reaffirm our full year guidance which you'll recall we raised just a few weeks ago. And Pierre-François will obviously go through more details for these results.

In Renewables, we raised the capacity to 38.2 gigawatts over the first six months and our construction schedule guarantees a strong second semester. We accelerated our capacity under construction with about 6.6 gigawatts. It has more than doubled over the last year. It's not a surprise given the project that we won in recent years and also the construction schedule, but still it is a pretty striking increase.

We started several flagship projects such as Gulf of Suez 2 in Egypt, Lomas de Taltal in Chile in onshore wind. In offshore, we started work on Moray West in Scotland, on Ile d'Yeu, Noirmoutier and Dieppe-Le Tréport in France, these three with combined capacity of 1.9 gigawatts which are due on stream in 2025 and 2026.

Ocean Winds raised its stake in Principle Power to over 36%. PPI is the market leader in floating offshore platform technology and manufacturer, and I'm really excited about the future of that collaboration as floating turbines raise their profile within the wider growth of offshore wind.

We acquired BTE in South Africa, which more than doubles our local renewables capacity on a fast-developing market that we know very well. Also there in South Africa, we raised our stake in the Kathu solar farm, which takes us to a majority position. As I said earlier, I am very confident in our annual installed capacity target of 4 gigawatts on average to 2025 and 6 gigawatts to 2030. This ambition is fuelled by a growing pipeline which has continued to rise now to 85 gigawatts from 80 gigawatts at the end of last year.

Just a few words on wind turbines, since you're doubtless aware that there is a lot of attention on technical problems that have been experienced by Siemens Gamesa on its 4X and 5X onshore wind turbine platforms, we have two projects in Latin America that use the turbines in question. We have encountered technical issues at one of them. Remediation works are in progress, while Siemens Gamesa is obviously finalizing its root cause analysis. In our other LatAm projects, where we are using the same turbines in Santo Agostinho in Brazil, we have had an isolated event which at this stage seems to be unrelated to these current wider issues. You can be assured that we are closely monitoring developments. And more generally, we have decided to undergo a full operational review of all of our sensitive sites.

Let me now end with two slides, illustrating our strategy in battery energy storage systems, also known as BESS. We have an ambitious 10-gigawatt target for BESS capacity by 2030. So, where are we today? Well, at the end of the first half, we had nearly 200 megawatts in operation, 740 megawatt under construction. We are obviously at early stage, but we are accelerating toward some degree of scale, and you will be seeing BESS profile growing fast, with a focus right now on the US, followed by Chile and Australia.

So why do we have such an ambition, and why are we so optimistic of being successful at ENGIE on this? Several reasons. First of all, as a product, BESS offers large-scale electricity storage and is a great complement to existing flexible sources of pump storage and CCGTs. In our 2050 projection, we estimate that 600 gigawatt of additional flexible generation capacity, in other words, a quadrupling needs to be developed in Europe in order to optimize the growth of renewables. And we believe that BESS will dominate this. In fact, we estimate that we need about 150 megawatt of BESS in order to get the most out of every gigawatt of additional renewables capacity. And as for our strengths in BESS at ENGIE, we are already a leading provider of flexible generation through our fleet of CCGTs, pump storage, and BESS now, altogether around 59 gigawatt of capacity. And we will drive growth of both standalone and also co-located with our expanding renewable and Flex Gen capacity that will add optionality for solar, in particular, by cutting the risk of curtailment.

And the value creation potential of BESS is substantial and will be bolstered thanks to GEMS. GEMS will optimize BESS output, when to store, when to sell into the grid, and will be able to extract the maximum value as it expands for the benefit of the Group and for our customers. So I'm convinced that we can grow this business not just rapidly, but in such a way that we will create value for the Group. And a BESS example that makes us particularly proud at ENGIE is the transformation of Hazelwood, which was in Australia, a coal power plant, and this transformation into one of its largest battery storage facilities for ENGIE is our largest so far. We closed these Hazelwood units in 2017 and we started this program to completely rehabilitate the site and this rehabilitation has included the construction of this 150 megawatt standalone big battery that we just commissioned. Obviously, it will store electricity during off peak time, deliver it back onto the grid when demand is at its highest. The battery will also help stabilize supply by helping to control the frequency at which it is delivered. So, for us, Hazelwood is a major milestone that perfectly illustrates the transition made by our Group, and it also contributes to the goal that I mentioned to develop 10 gigawatt of batteries by 2030.

With that, turning now to Pierre-François, who will discuss our first half financial results. On to you.

Pierre-François Riolacci
Thank you very much, Catherine, and good morning to all. And indeed, a good set of results for this half year as expected, and maybe even a bit better than expected with also very high level of cash flows as working cap has started to untie.

Please note that the main impacts of the framework agreement signed with the Belgian government are booked in our H1 accounts, leading to a one-off hit in the net income and economic net debt. All this, of course, is leading us to confirm the guidance we just upgraded end of June.

Let's go a bit deeper in the numbers. And first, with EBIT which excluding nuclear is up 53% organically. In a nutshell, except for the decrease of the contribution of Networks, mainly due to low winter volumes, and of Energy Solutions, only due to a one-off expense in the US, all businesses are doing good, or even, I should say, very good, like Renewables, not mentioning GEMS.

Let's go and dig a bit deeper. Renewables first. Strong increase in EBIT contribution, plus €63 million, that is plus 43% organic growth. The key drivers behind this strong operational and financial performance are a positive price effect, mainly in France and Portugal in hydro. You'll remember that we had buybacks which cost us more than €100 million last year in H1. The positive volume effect, same geographies; the contribution of commissioning of growth for €90 million. Performance was limited due mainly to G&A, which reflect higher inflation. That's a general comment, and I will come back to it at a later stage. And then the other contribution, positive, thanks to some one-off in France and in Brazil despite the absence of DBSO margin over the period that keep coming down. This is in line, as you know, with our strategy to keep more assets on the balance sheet. Our sell down today are capped to 49%, therefore, without EBIT impact.

For H2, please note that the price effect included in the impact of the higher tax rate on CNR would turn negative. We do not expect further tailwind on volumes, and we will not get the benefit of sell down comparable to last year. Continued support from commissioning, from performance plan, are not expected to overcome these headwinds for H2. So, a very good start of the year.

On Networks, lower contribution, minus €116 million that is 8% down organically. The key driver of that decrease is, of course, the lower volumes, especially in distribution in France as a result of another mild winter and energy sobriety. We had also to cope, still in France, with increasing staff costs and higher energy costs, as well as the impact of strikes and LNG terminals. Our business abroad, including in Americas, has been performing well. In Europe, we have benefited from additional revenues from capacity subscribed for gas transit between France and Germany, as well as higher margins for storage activities in the UK and in Germany, where these non-regulated assets can monetize the market volatility.

On Energy Solutions, it's a steep decrease, minus €99 million. And as you can see on the graph, on the left side, we have two very different stories. I will start by the bad one, which is in the US where we have two different contracts for which we are facing cost overruns for a plant construction, I mean, CHP plant construction, combined heat and power production. These costs overruns that will materialize in H2 this year, but also in 2024, result first and utmost from poor performance of the EPC contractors. We are quite disappointed as we are used to handle this kind of project work successfully in the rest of our geographies.

We have taken immediate action and implemented specific strong managerial focus, first, to finalize construction works in a new budget, timeline, also with strong quality control; and second, to realize any opportunity to reduce the cost, including through contractual discussions with suppliers, partners and customers. Accordingly, we have booked the provision for onerous contract of €150 million in EBIT, and we are confident our risk is now covered.

We are also strengthening our project management capabilities in the US for Energy Solutions to make sure we have no further surprises.

Aside from this industrial step back, Energy Solutions is doing quite well across the board, in line with the plan; plus 22% EBIT organic increase, plus 78 basis points on EBIT margin excluding the US, strong operational performance, good commercial development. This lead us to be quite confident for the upcoming second half.

Flex Gen, EBIT contribution is up €102 million, that's plus 16% organic growth. To a large extent, same drivers than in Q1. In Chile, the situation keeps improving, thanks to the normalization of market condition and reduction of our short position. In Europe, our locked position from the past hedging have enabled us to capture higher spreads, offset by a lower level of ancillaries from a record high in 2022. And finally, the year-on-year variation benefits from the negative impact in 2022 of the extraordinary tax in Italy which was about €130 million. Overall, very pleased with H1. For H2, despite active hedging activity since the beginning of the year, only 60% is hedged at the end of June for the balance of the year. So, we still have significant open position while average spots clean spark spread in Europe are decreasing. Of course, unexpected events can suddenly boost or depressed prices so it's fair to say there is a fair degree of uncertainty over where we will end up.

On Retail, the EBIT amounted to €489 million, that is 17% organic growth, and this EBIT increase was mainly driven by price effects due to higher margins in France, including phasing effect, and in Romania, as well as a new profit sharing mechanism on portfolio optimization that was put in place between GEMS and Retail. This was largely offset by a negative volume effect mainly due to the mild winter and lower consumption.

Last but not least, Others, and here of course I mean mainly GEMS. GEMS has been posting a very strong contribution, plus €2.1 billion improvement, with each and every arrow pointing in the right direction. That's a long list.

Firstly, first half results of last year at GEMS were negatively impacted by substantial costs and provisions to cover the risk from suspension of Gazprom contract. This was not repeated. Second, GEMS has achieved a persistence strong performance energy management activities in Europe, taking advantage of a combination of key market drivers. These drivers, they are well down on the extreme levels we saw last year, but they are still favourable. So, volatility indicators, which are our bread and butter, are still on average around quadruple the levels of 2021. And prices are still high on an historical basis, especially year ahead when they include a significant risk premium. Third, as the market was somewhat less tight than last year, this led to continued reversal of market technical results that we had booked in 2022, which has offset the decline of some of these market drivers. Four, in the B2B segment, we see continued flight to quality. This has meant slightly less intense competitive pressures compared to pre-crisis, which have enabled full valuation of the cost of risks. Five, some contracts include winter-summer seasonality, and H1 is benefiting from some timing effect, about a couple of hundred million that will reverse in H2.

And finally, for part of the business with some contracts duration, there was a continued positive effect of deals signed in 2022 at good conditions which materialize at delivery date. So, first half EBIT for GEMS was clearly ahead of expectations. But please, don't get carried away and don't expect the second half to be anything like H1. First, prices, and in particular volatility in H2 last year, were at their peak. And there is no significant negative Gazprom effect in the second half to depress the base of comparison for 2023. Second, the potential for further release of market reserves is now far more limited as normalization of market conditions is not expected to go much further. Third, the timing effect I mentioned earlier would indeed be negative in H2. And last, there will be a steady slowdown in delivery of high margins volume negotiated last year but booked at time of physical delivery. All in all, you should expect a significant year-on-year decrease in EBIT for GEMS in H2. To remind you of what I said back in Feb and again in May, the long-term expectation is that GEMS should deliver a hardcore EBIT of around €1 billion with potential upside coming on top of these in supportive market conditions as demonstrated.

On nuke, we have a strong decrease of the contribution, minus €0.6 billion, same drivers than in Q1. Positive effect of higher captured prices over the period, but almost fully offset by the inframarginal rent cap and the specific nuclear tax. That was their purpose. The volumes are positive with higher availability in Belgium and also drawing rights in France. But you can see on the other side the comprehensive negative impact of the closure of the two reactors, Doel 3 and Tihange 2 for a total of €621 million. And last, higher D&A as a result of the 2022 triennial review of the provisions. This D&A impact, know that we were notified of the final decision of the CPN, is slightly lower than initially planned as part of the value of this dismantling asset has been revised downwards.

This is a good transition to turn to the next slide to explain the impact on H1 of the framework agreement that was signed with Belgian government. As I described in our call on June 29, we have agreed a fixed amount of liabilities for waste of €15 billion, and this sum will be transferred to the Belgian state in two stages. I stress that the €15 billion amount is fixed, albeit indexed up to payment, so no more uncertainty going forward related to the three-year CPN reviews of future cost of waste management. And following the two-stage transfer, we will have no nuclear waste management liabilities left on our balance sheet.

The graph on the left shows the different steps that take Belgian nuclear liabilities from €19 billion to 23 billion. This view is a kind of a pro forma to help you to understand the transaction with the position at year-end 2022 and for Belgium only. In the past months, we have made with ONDRAF, a very deep and precise job to define and classify all categories of waste, to define what type of expenses would stay with ENGIE and what would be transferred. And this led us to a re-categorization of liabilities as you can see in the first two bars.

Then, to the €19 billion, the €5.1 billion increase in liabilities corresponding to a prudent scenario – could even say very prudent scenario, have been agreed with the Belgian government, minored by our partnered share in the increase, which is €0.4 billion. On a parallel track, at start of the 2022 revision process, CPN has agreed to revise downward provisions for ENGIE liabilities by €0.6 billion. The total impact is a net increase of our nuclear liabilities due to the transaction of €4.1 billion reflected in the valuation of the economic net debt. We expect the funding to come in H1 2024 and in H2 2025 at the time of the restart of LTO.

The overall non-recurring P&L impact at the end of June amounts to a negative €4.4 billion based on the exact same reasoning with two nuances. The €5.1 billion increase have now risen to €5.2 billion because of the H1 indexation, and the decrease in provision as a positive effect of only €0.4 billion as when we booked end of 2022 the provision increase, we also recognized the dismantling asset and not all of it was impaired then. Therefore, the provision decrease triggers the derecognition of €0.2 billion of dismantling assets, which we will not have, of course, to amortize in 2023-2025 as mentioned briefly when we reviewed the nuke H1 performance.

Performance plan, you will recall that by the end of last year, we reached over €500 million on our 2021-2023 target. So we're well ahead of schedule, leaving something close to €100 million to achieve the full target this year. In the first half of 2023, we are again strong in the operational side, clearly our more industrial-focused approach that we introduce in 2021 with the GBU has continued to unlock efficiency opportunities. On the other hand, we must offset the stronger inflationary pressure on G&A. We take into account, as you know, the gross variation. So, given our growth and given the inflation, it requires significant efforts of productivity to bend the curve down. You may agree it's quite ambitious, even demanding, given that we have demonstrated our ability to pass inflation to customers.

On loss-making entities, EVBox, while progressing well in delivery and operation, is still behind in its plan to grow sales in a market which is less buoyant. On the good news, I should mention that we have completed our restructuring plan in our H2 on July 1. I'm very confident that next February, we will be able to show you our 2021-2023 performance plan that is reaching the targets.

Let's have a quick look now on the net income. Depreciation is up, mainly coming from nuclear and the residual dismantling assets that I mentioned before. Net financial expenses are up year-on-year as expected, and this is due to higher cost of net debt. Income tax is sharply up on the combination of higher pre-tax earnings and the normalization of the tax rate to 25.1%, in line with the decrease of our nuclear EBIT in Belgium. Minorities are up 47%, in line with the growth of results. And taking all these, the net recurring income increased by almost 25% to €4 billion. Reported net income is actually a loss of €0.8 billion, the major factor here being the €4.4 billion negative exceptional results coming from the Belgian nuclear agreement that we flagged back in June.

Let's move to cash. Great to see that the CFFO is up €2.7 billion to €9.5 billion, and also good to see for the first half of 2023 the working cap requirement variation is a positive €1.4 billion, which is an improvement of €0.8 billion compared to last year, so variation of a variation. But there are a few key items you need to look at. As expected, there was a very positive €4 billion impact from gas storage activities with a more favourable volume trend, plus 7 terawatt hours, and also a more favourable price environment in withdrawal period, January-April, and injection period, May-June. Also, the net receivables have deteriorated by €1.1 billion as we are still observing the effects of contracts initiated in H2 with high prices, but you see the supply tariff shift payments from government is now flowing in big time.

There was a much lower contribution of margin calls this first half compared to last year which was very high, but you remember also last year that it was reversed massively in H2. So, well on track to see the drag of working cap and cash flow smoothing out. Therefore, our balance sheet remains quite strong after taking in account the transaction in Belgium. Financial debt was slightly down at €23 billion. Capex set at €3.3 billion, includes €2.3 billion of growth investment. You should expect this to be much higher in H2.

The nuclear phase out outflow is up under CPN provision calculation, and dividend outlay, of course, is up as well due to the sharp rise in 2022 dividend per share. Economic net debt was up by 7% to €41.4 billion, the reason being the €4.1 billion recognition of our nuclear waste commitments under a new agreement. Given the 21% rise in our LTM EBITDA, we, in fact, managed a slight reduction in net economic net debt to EBITDA versus first half from 2.8x to 2.7x, while taking into account the Belgian transaction. Of course, we do not expect to keep such a low ratio in the future, but we maintain our objective of a strong investment credit rating.

With that, we, of course, confirm the guidance we recently upgraded, meaning that we expect our 2023 net recurring income to be in the range of €4.7 billion to €5.3 billion, with an EBIT excluding nuke in the indicative range of €8.5 billion to €9.5 billion. As explained before, some timing effects, especially with GEMS are embedded in this performance, and we also expect price tailwinds from which we benefited in H1 to decrease over second half of the year.

Please keep in mind that we are more open than usual on our outright production. Volumes are 89% hedged for the balance of year, versus 92% last year or even 96% in 2021. Also, same for CCGTs in Europe where we have on average close to a third less locked position for the rest of the year than what we had in H1 2022.

With that, I hand over back to Catherine for conclusion.

Catherine MacGregor
Thank you, Pierre-François. So just to wrap up, we are progressing rapidly at ENGIE indeed. We are achieving strong financial results. We're making our energy output cleaner and more flexible and we are de-risking.

Our focus is based on our conviction that we have the right strategic positioning for the energy transition. It fits with our 2050 vision for Europe, which concludes that gas will remain highly relevant as it decarbonizes, and that flexibility, battery storage, pump storage, CCGTs have a crucial role to play in the context of rising power demand and booming renewables.

With that, turning to the questions. Thank you.

Q&A

Operator
Thank you. [Operator instructions]
The first question comes from Ajay Patel of Goldman Sachs

Ajay Patel
Good morning, and thank you very much for the presentation. I've got one question, please. It's more about the guidance and today's performance. I start to look at the performance of the first half and I think, well, okay, second half of the year to come. Even if I was to assume zero for others, so very, very little GEMS performance, and a repeat of last year's second half, I would get a situation where the numbers on EBIT would be higher than your guidance range. And I was thinking, well, the second half also had the inframarginal rents, it had a weak performance from supply. So, it makes me wonder how conservative is the guidance on, say, the EBIT basis. Is there any – can you give me maybe a laundry list of where you would have sizeable headwinds in the second half of the year that we need to think about to help us sort of calibrate where maybe the full-year numbers could be?

Pierre-François Riolacci
Yeah. Well, it's an obviously very, very good point. So your key question is, when you look at the guidance and when you look at H1, we are in H2 which is going backward versus 2022 to a significant implicit amount. So, let me take you through the key items. There is, as you know, always seasonality in our profit so you cannot compare H1 to H2, and that's not what you are doing, obviously. Now, if we take a step back, it's clear that all GBUs, which have only residual exposure to commodity prices, are expected year-on-year in H2 to be up, and I mean Networks, I mean Energy Solutions, which is doing well in H1 except for the US, I mean Retail also, we expect them to grow.

Now, we have three GBUs that we expect to grow backwards. The first one is Renewables. I mentioned very clearly the price effect and we expect in H2 the price effect net of tax and net of the CNR tax to be storing and to be actually going negative in France. We expect also some negative prices because we had some merchant position last year that we benefitted from in Europe. So, there is definitely a drag on prices that we expect to see in H2, which is somewhat significant. We also expect to have no DBSO contribution in H2. We had about €50 million last year. It's not going to come through exactly for the same reason than H1. And then we had also – we had us some positive one-offs that we don't expect to repeat in H2 this year, and that explain why our GBU, despite good contribution of commissioning, despite positive contribution of performance, we expect Renewables to be down compared to an H2 last year, which was pretty good. So that's the first one.

Second one is Flex Gen. And indeed, of course in Flex Gen, we have opened positions. I've been very open. So the key assumption underlying our expectation in H2 is, of course, the clean spark spread that we will achieve in Europe and the use of ancillaries. Again, only 60% at the end of June as the balance of year is locked. Whereas last year, we were more – and the years before, more 75-80%. So it's definitely lower. The reason being that the market is still illiquid, so we are struggling to find the right hedging and also to fully value the time values, the optionalities which are in our CCGTs.

So, that's the key point. And indeed we are planning that we would go down compared to last year. Last year, which I remind you, was exceptional, in 2022. We saw disrupted markets with very high spreads, very strong ancillaries, and of course, not repeatable. You may remember when we discussed the guidance in February that some of you were a bit nervous about our ambition in Flex Gen, we are extremely pleased by the H1, which is very good, supported by the recovery of Chile, supported by also the good market conditions we finally were able to secure. But this is not repeatable and we do expect Flex Gen to come down in H2, that's not a big surprise.

And then you have GEMS, indeed, which we plan to go down, maybe not to zero, but you should expect a significant decrease. And I'm not going to elaborate much further, but we have definitely the spillover effect of the 2022 contracts which start fading away. We can see also the first signs of competition being more intense in June and we were expecting it. Actually, we were expecting it a bit earlier, but it's coming. And also, we have now a limited anticipation of further market reserves release that's going to explain these GEMS indeed going backwards.

So that's the key points for H2. And I hope it gives you some sense why we are a bit cautious about H2. And you can see for the three that I mentioned, it's very, very much price and market driven.

Ajay Patel
Thank you. And I just want to follow up, it's just to make sure, right? Offsets to those points, though, are that there isn't – there should not be inframarginal costs in the second half of the year. And also that supply was weak in the second half of the year which you're not expecting to be as weak. Is that fair or should we be expecting those headwinds?

Pierre-François Riolacci
No. No. Both assumptions are fair.

Ajay Patel
Okay. Thank you very much, very clear.

Operator
The next question is from Michael Harleaux of Société Générale.

Michael Harleaux
Hello. Good morning. Thank you for the presentation and thank you for taking questions. Just one. We've seen some news flow in France about plans of the government to tax toll roads operators. And the next date of this plan was announced, we had declarations by Bruno Le Maire saying that in order to be compatible with EU law, we will need to tax hydroelectric concessions as well. And then we've seen very little news from that point. So, if you could tell us what you think about that budget law of 2024 and what it might look like for ENGIE, that would be very helpful. Thank you.

Catherine MacGregor
Just not much new news here. There is a very good well working agile tax existing, so we don't expect major changes on those existing scheme which have worked very, very effectively. So no comment on this, Michael.

Michael Harleaux
Thank you. That's very useful. Thank you.

Operator
Are you ready for the next question, madam? The next question is from James Brand of Deutsche Bank.

James Brand
Good morning. Well done for the good results. Just had two questions. Firstly, at the Q1 results for GEMS, you said you expect the business to normalize over time to the €1 billion or so in the medium-term guidance that you have. But the impression I believe you gave, obviously one that I took, was that, that could take quite a while to happen. It wasn't necessarily something that's going to be happening in a few courses. Maybe it was more like a few years. Just wanted to ask, is that still your kind of broad view? Obviously, markets have normalized a little bit more since the Q1's, so wondering whether that's changed at all.

And then secondly, on batteries. So, you kind of highlighted what you're doing at Hazelwood. Do you think – are we at the point for Europe where batteries are becoming economic without capacity payments? Or do you think that capacity markets and capacity payments are needed still to justify the economics of investing in new standalone batteries? Thank you.

Pierre-François Riolacci
Yeah. Thank you very much. Let me pick up the first one, and I'm sure Catherine with elaborate on the batteries business model. So, on the first one, yes, of course, we do expect normalization of the earnings of GEMS, but as you can see, it's taking a bit more time than expected. And definitely, we have some speed that has been embedded. Where is it coming from? We have these 2022 deals which are not exhausted. I mentioned that in the B2B business, 2023 is still coming nicely in terms of margins. So, it means that we are still signing deals which are, let's say, above average margin and that will help us, of course, in the future.

Second key item is, of course, to keep an eye on the prices and keep an eye on volatility. And here, I mean, especially intraday volatility, which is the key one. And clearly, even if the markets have normalized, we are still at a level which is higher than what it was a couple of years ago. So, is it going to go further? Is it going to smooth out? Difficult to say. But there is some way to think that it can stay at a good level for still a bit. And then, clearly, we expect to be higher than the €1 billion hardcore for the quarters to come. That's for sure, including 2024. That was already the case in February. It's even more the case today.

Catherine MacGregor
Maybe on the battery, a few comments because you – it's fair to say that in Europe, there is quite a bit of expectation that the CRM, so the capacity remuneration mechanism, is going to be needed for a widespread development of batteries. I think this remains true, although what we are seeing is punctually some very interesting cases, particularly co-located with renewables. When you start to see in Europe some very negative price from solar and, obviously, battery has an immediate application and value can be extracted even though you don't have a CRM. But I would say, wide deployment of batteries is to support that, you would need a bit of a CRM scheme to be integrated into the new market design, which is what we have been calling for quite a bit.

James Brand
Thank you very much.

Operator
The next question is from Vincent Ayral of JP Morgan.

Vincent Ayral
Yes. Good morning. Vincent here. I'll come back on the first question. Clearly, I mean, on your net income level guidance, you're already at 80% at H1. So I can understand that year-on-year H2 will be lower in the Flex Gen, it will be lower in Renewables and potentially lower in GEMS. Absolutely. But I don't see any of these being loss-making or anything like that. So, how do you plan to print on the 20% of additional net income to the end of the year to reach your guidance midpoint at net income level? Is there anything we don't know below the EBIT line? Or, actually, do you have quite some margin to deliver, if I may rephrase it this way?

And the second question is regarding the Belgium nuclear deal. So, congratulations again. That was a very important step for ENGIE. I saw on the Belgian press last Friday they were talking about the comment which would ultimately sign the agreement finally. I haven't seen any update on that. So, has it been done? Is this really fully settled or are there still any potential materially moving parts we should be aware of on that front? So, it's a very good deal but it's important to be sure that it's all been cast in stone. Thank you very much.

Catherine MacGregor
Yes, Vincent. So, in terms of where we are on the Belgium deal, obviously we have been clear all along that we were signing a number of agreements in anticipation to signing transaction documents, and we said Q4 2023.

So, we are completely on track for that. We signed the intermediate agreement in June which allowed us, by the way, to recognize the financial impact of the deal onto our results, including balance sheet, as you know. So, in our mind, it is indeed an agreement that is very, very solid. However, we've always said that transaction documents will be signed in Q4 and then the transaction itself would be closed sometime next year.

Remember, there is also legislative work that needs to happen because the law needs to be changed and that is obviously going to be taking some time. Since the agreement, at the end of June, we signed a framework agreement, which precises the number of items in line with what was signed in June, just to show you that indeed we are progressing. We've ordered the fuel. So, the project is well underway, but the transaction will be signed only in Q4.

Pierre-François, you want to...?

Pierre-François Riolacci
Yeah. And, Vincent, thanks for pushing a bit. But, yes, I can only repeat what I said. I mean, you should expect in Renewables a decrease. So nobody's loss making, that I can confirm. So, it's going down, and you can bet something, which is double digit. So, that's somewhat significant. Flex Gen is of course a key one, where we expect a significant decrease compared to last year. That explains I think a lot of the story. And then GEMS, indeed sharply down and that's the other dimension.

When you look at the net income, you need to factor in also that the tax rate is higher this year, 25%, that would stay. And you need also to factor in that the financial results is also higher – the financial charge is also higher, in line with our guidance, than last year. So, you do have some dilution of the EBIT contribution at the bottom line as expected. So, I think if you factor everything in, you should come to something close to what we mentioned. And it's fair to say also that our nuke, which is not contributing to EBIT but contributing to net income, we have stayed with a prudent assumption on the availability for H2.

Vincent Ayral
Okay. Thank you very much.

Operator
The next question is from Arthur Sitbon of Morgan Stanley.

Arthur Sitbon
Hello. Thank you for taking my question. So, the first one would be on the agreement on Belgian nuclear. So, the preliminary agreement you were talking about the framework potentially removing some restrictions on your Electrabel assets. And I couldn't see any mention of that in today's announcement. So, I was wondering if that was still contemplated, is that what's still the case? And if so, could it lead to – could the removal of these restrictions lead to a change in your disposal targets? We know you guided for quiet limited disposal post-EQUANS. And in particular, could it accelerate your strategy to reduce exposure to gas-fired power plants? (Inaudible)

Delphine Deshayes
Sorry, Arthur, we cannot hear you well, in fact. So, I don't know if you have a telephone issue, but we can't hear you.

Arthur Sitbon
Is it better now?

Delphine Deshayes
Yes. Much better. Thank you.

Arthur Sitbon
Yeah. Sorry. No, I was wondering there was no mention in today's announcement on the potential removal of restrictions on the Electrabel assets. I was wondering if that was still contemplated. And if so, if it could lead to a change in your disposal target? In particular, could it accelerate your strategy to reduce exposure to gas-fired power plants? You have this target from your CMD to go to 50 gigawatts of flexible capacity in 2030 versus 60 gigawatts in 2022, which I thought is difficult without selling some of your gas plants. I was wondering if that could accelerate that.

The second question is, you were talking about the regulatory review on your French gas network. If I heard well, I think you were talking about the real WACC of between 2.9% and 4.2% considered by the regulator. Could you just confirm those numbers? And I was wondering if it is a very different from your assumptions in the medium-term guidance? And the last point on GEMS. You talked about the hardcore EBIT of €1 billion on the year. So, should we assume that at least really the minimum for the second half of 2023 would be an EBIT in GEMS of €500 million? Thank you very much.

Catherine MacGregor
Okay. I'll start with the first two. So on the Belgium agreement, indeed what we signed in July is fully in line with what we had announced in June, so that we'd be at least on the restriction on Electrabel assets in line with what we said. No impact on our disposal target to be honest. We don’t make the link, but obviously this is an important step in the de-risking of the Group. So it's a very, very positive aspect of the deal as a whole.

Then, on the regulatory review on Networks. So, this is a process that we are quite used to follow. It takes a bit of time. There are different steps. So, now, there is this consultation. And indeed, the range has been externalized, the 2.9% to 4.2%. There is also a number of aspects to this regulation discussion, as you know, that's a mix of a group of parameters. And as a whole, as we see that today, we do not see any impact on our guidance, so this is fairly in line with what we expected and all is going as per plan. And again, this numbers relate to transport and storage assets since they are the earlier in the line for regulatory tariff review. GEMS, you want to comment, Pierre-François?

Pierre-François Riolacci
Yes. And the simple answer to your question is, yes, you can count that there will be a contribution of a minimum of which is €1 billion divided by 2, that's €500 million. Taking in account also the timing effect that I mentioned H1, H2, €200 million, €300 million that we had positive in H1 that would reverse in H2. And the – but even so, I mean, we expect to deliver some positive in GEMS. Even taking in account that we may decide to restructure a few transaction at the request of our customers to help them to reduce the energy cost in 2023, and restructuring a bit of over 2023 and 2024, that's part of our commercial behaviour and we have factored in that some kind of these deals could, indeed, also impact H2. That's embedded in our numbers.

Arthur Sitbon
Thank you very much.

Pierre-François Riolacci
We're very comfortable with the €1 billion run rate.

Arthur Sitbon
Thank you.

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

Peter Bisztyga
Yeah. Good morning. Thanks for taking my questions. Two more on GEMS, if I may. First of all, can you clarify how much of the €2 billion increase in EBIT from GEMS came from the release of reserves that you mentioned? And can you confirm whether that's a cash effective or not?

And then also, could you just remind me, do you book profits from commercial assets optimization on your gas fleet, your gas-fired generation fleet? Do you book that in GEMS or do you book that in Flex Gen? And if you book it in GEMS, could you again just quantify how much that contributed in the first half? Thank you.

Pierre-François Riolacci
Very good one. So, on reserves and provision. What I can share with you is that the Gazprom impact in H1 was close to €1 billion, below €1 billion, but close to. So let's say the high single-digits, hundred of millions on Gazprom. Then indeed you had market reserves with a significant difference between the market reserves that were actually a charge in H1 last year and which is, of course, a reversal in H1 this year. So, the difference is significant. However, you cannot look at this change in market reserves without looking at the business. Because, of course, these technical reserves, they are actually linked, coupled to the value of the instruments. So, when we reverse the reserve, it's also because we have moves in the business. I did not mention in the bridge H1 the variation of the market. But as you can imagine, in H1 last year, we had volatility which was already much higher so we were benefiting from tailwinds that are actually gone but offset by the release of these reserves. So the net impact is actually not that strong, but this has been helping us to absorb the decrease in some of the market drivers. So, significant release of reserves, but also to be faced with the decrease in some of our market drivers. Gazprom was a big ticket. And then I can confirm you that the value of the valuation – the market valuation of the CCGTs, the assets of Flex Gen, is booked in Flex Gen, not in GEMS.

Catherine MacGregor:
Operator, we'll take one last question, please.

Operator
Yes. Madam, the final question is from Meike Becker of HSBC.

Meike Becker
Thank you so much for taking my question. I have a bigger picture one and one technical one, if I may. Regarding the European hydrogen backbone and France's plan for hydrogen, could you elaborate a little bit how you see ENGIE's role in this sort of transmission network laid out for hydrogen and how you see sort of, like, France's role in this?

And the second question, which is technical, you mentioned on slide 19 the profit sharing agreement between GEMS and Supply. Can you just explain a little bit more? Should we think about that as some profits that's structurally been moved from GEMS to Supply? If that's the case, what order of magnitude are we talking or how should we think of that agreement? Thank you.

Catherine MacGregor
Yeah. Okay. Sure. So, obviously very excited at ENGIE about the emergence of this European hydrogen backbone. We believe that the hydrogen economy will need both local production, probably from industrial hubs, and also imports and transportation of hydrogen, to make sure that this green molecule is distributed at the lowest cost possible to the right consumer, whether it's an industry or port or hub whatsoever. So, for this, we will need infrastructure. It is absolutely crucial to limit the cost of the energy transition that we reuse as much as possible existing infrastructure. And we have made obviously some tests and came to the conclusion that reusing existing pipelines, even though they will need some investments, will cost much less than building a brand new infrastructure network dedicated to hydrogen. So big picture, very excited about it. We obviously have a significant gas network in France, but we also have a few facilities elsewhere in Europe and we're looking forward to being a part of that. We have a well-publicized example between Spain going to France and potentially

up to Germany, that this one actually might be a new pipeline, but in general, yes, we will be part of this European hydrogen backbone.

The regulation scheme of such in infrastructure is still in the making. So obviously, we are in discussion and consultation with the EU but also France and CRE on to how and when this regulation will be ready to allow us to reuse – first of all invest, and then reuse this transport network dedicated to hydrogen. Profit sharing.

Pierre-François Riolacci
Yeah. Thank you. And you know that we in ENGIE are getting even closer to the value chain of energy. And for us it's very important that we allocate as a profit, but also the risk to the right business unit. And we did some last year with Renewables, and we had it done for our CCGTs. That was a question before that was already there. And then, of course, we moved with Retail with the same view. So basically what it is, Retail is setting with commercial campaigns to Retail customers. And then we need, of course, to source and builds the hedging at inception of this and this is done by GEMS.

When it comes to gas, it's pretty simple because we have a portfolio of long-term gas contracts, so we are pretty much in control and we can definitely provide the customers which come with a very fixed profile. We can provide with the right engine and the right optionalities which are in our portfolio. When it comes to power, we need also to go back to the market and find it. And that's where GEMS is critical to really manage this risk.

So, that hedging would generate by itself when it goes through the months and quarters will generate some results, because you cannot find the perfect replication of the risk that you are selling to customers. And that's why you have this profit that could turn into a loss but that's a profit indeed that we are managing very, very carefully. So, it's not supposed to be a huge amount even if in current markets you can still make some money, and here we are talking a few tens, let's say close to €100 million on a full year basis.

Delphine Deshayes
So, this is the end of the Q&A session. Thank you for joining the call today. Of course, if you have any follow-up questions, please do not hesitate to call the IR team. And we wish you a very good day. Thank you.