9M 2023 FINANCIAL INFORMATION

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Delphine Deshayes

Thank you and good morning, everyone. It's my pleasure to welcome you to ENGIE's nine months conference call. Shortly, Catherine and Pierre Francois will present our nine months 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. Welcome to our nine months results presentation.

In a context of rapidly changing energy markets, ENGIE continues to perform strongly, benefiting from both the resilience and the appeal of our integrated model which is enabling us to upgrade our earnings guidance for the full year. We have a record level of renewables capacity under construction. We've made a pivotal and timely strategic acquisition in batteries in the United States. And we continue on working towards a final Belgian nuclear agreement in the fourth quarter.

Considering the wider geopolitical environment, notably the tragic event in the Middle-East, we have to recognize that uncertainty has risen. However, I am confident that ENGIE will continue to do well with its robust and resilient business mix combining the electron and the molecule, and due to our expertise in managing market turbulence that we already demonstrated vividly last year. And we simply have some of the best people in the industry.

Summarising a few headline numbers at the nine month stage. EBIT excluding nuclear grew by a strong 28% organically to €8 billion. Cash flow from operations continues to be up sharply. Growth Capex, always selective, always adhering to our financial criteria, is up by 27% year on year with 83% in our market-facing business units, namely Renewables, Energy Solutions, and Flex Gen.

Given the strength of our performance and reduced risk as we approach the end of the year, we are raising our guidance for full year 2023 Net Recurrent Income group share to a range of €5.1bn to €5.7bn, and Pierre-François will provide you with details on this shortly.

Moving to the next slide, we continue to progress on our main ESG targets with Greenhouse Gas Emissions from energy production at 40 million tonnes, down from circa 45 million last year, benefiting from new renewables and lower thermal capacity, soft demand and mild weather conditions. The share of renewables in our total power generation capacity is now up to 40%. And we are the largest corporate issuer of green bonds at over €5 billion in the first nine months of 2023. Actually, overall to date, we've issued around €20bn of green bonds since we started in 2014.

Turning to slide 6, I'll come back in a moment on our notable expansion in renewables and the pivotal acquisition of the US battery storage company Broad Reach Power. But here I just want to focus on two major firsts: In our Networks business unit, we inaugurated HyPSTER, the first renewable hydrogen storage demonstrator in a salt cavern in France. The objective of this pilot is to test this process on an industrial scale, and to assess the potential to replicate it elsewhere in Europe. In our Energy Solutions business unit, we've installed the world's first fully hydrogen-injected gas turbine on-site for an industrial customer's paper mill. These two projects show that from a very early stage we are playing a pioneering role in the emergence of a hydrogen economy, present along the whole value chain from production to supply via storage and distribution. And they also show that while we are very focused on our short term performance, we are preparing for the long term.

Turning to the next slide, it is a time of record in Renewables. At the end of Q3 we had indeed a record 7.6 gigawatt under construction, with 4.6 gigawatt of that started over the first nine months. Construction including offshore is largely on track and in line with our expectations. So we are acting on our 2023 to 2025 target of 4 gigawatt of average annual capacity additions in Renewables. But I want to remind you, and we've said that before, this is not just growth for growth's sake. We do not compromise our financial and contractual discipline. We always include a degree of supply chain tension in our development model. Our target continues to be to synchronize Capex commitments, financing conditions, PPA signing at the time of FIDs, and we continue to pass on higher costs to our prices.

In power purchase agreements the demand is there and we continue to sign PPAs in the third quarter, reaching now 2 gigawatt in the first nine months of 2023. In fact, Bloomberg New Energy Finance not only ranked us world number one for green PPAs signed in the first half, but also number one of all time in terms of our total portfolio of PPAs at 7.3 gigawatt. A word on the repowering of our Karstadt-Waterloo Wind Park in Germany, this allowed us to reduce the number of turbines by almost two thirds, while actually quadrupling the electricity output.

And now a follow-up on the supply chain situation we continue to work very closely with Siemens Gamesa on the issues identified in two of our Latin America onshore wind projects. I just want to remind you that the 4x/5x technology represents around 4% of our total Group turbine capacity. In addition, we have conducted a full operational review of all of our wind turbine portfolio. We've identified some limited issues that we are currently addressing and this will have no impact on our guidance and our growth targets.

In battery and energy storage now, we have indeed made a decisive step by acquiring Broad Reach Power in the United States. Broad Reach Power has 350 megawatt operating, 880 megawatt under construction and expected on stream by the end of 2024, and 1.7 gigawatt of ready to build pipeline. So we have acquired a growth platform which puts us well on the way to achieving our 2030 target of 10 gigawatts of battery capacity. It's important to stress that acquiring an early mover in the US battery sector is very valuable. It gets us to the front end of the grid connection queue, which is crucial in that market, bringing new capacity at a very early stage. Broad Reach Power current presence is focused on the aircraft system in Texas, with a pipeline focusing increasingly on California. So, two grid systems that are to a large degree isolated and where renewables targets are highly ambitious. On a financial level, acquiring Broad Reach which will impact net debt by $1.6 billion and we expect the transaction to be earnings accretive in 2025 and to provide significant EBITDA growth in 2024, with yearly average increases of around $100 million of EBITDA for the subsequent few years. So we are indeed very pleased with this acquisition. It represents a perfect fit with our integrated model within battery storage, which is an industry that we very much like. As we've said before, batteries indeed is a market that is growing,

that must grow faster. As we told you back in February, the energy transition will require a remarkable deployment of flexible capacity.

Taken on a standalone basis, the batteries offer three potential revenue streams as shown on the left side of this slide with:

- Ancillary services to the grid. Example of this is frequency regulation,
- Energy arbitrage opportunities, which means we charge at low price hours and then we discharge at peak, and
- Capacity contracts, especially in California where we have contracting options up to 20 years.

Ancillary services and arbitrage are mainly merchant activities. They are exposed to merchant revenues, but they do offer hedging options up to 10 years. So all in all, our objective is to contract 50% of the total yearly revenues.

These revenue streams open up substantial value creation potential. And at ENGIE we do have the skill set to capitalize. Thanks to a great balance between onshore, solar PVs, batteries and GEMS, we will optimize battery output, when to store, when to sell into the grid, and will be able to extract maximum value for the benefit of our customers and of the Group.

So with that, here's Pierre-Francois who will discuss our nine months financial results.

Pierre-François Riolacci

Thank you very much Catherine, and good morning to all. We are indeed pleased to present another strong set of results for these nine months. EBITDA is up 19%, organically at €11.1 billion and EBIT at €8 billion is posting a 28% growth versus last year. Even better cash flow is very strong underpinned by our financial performance and also the positive variation of working cap that starts to untie as energy prices are coming down. As expected, our Q3 results are down year on year, due first and utmost to GEMS performance as third quarter in '22 was by far the record high in volatility and prices.

When it comes to our Economic Net Debt, you may remember that we booked in H1 the impact of the framework agreement signed with the Belgian government leading to a one-off hit of €4.1 billion. However, our credit ratios remain healthy at 2.8x, Economic Net Debt to EBITDA stable compared to 31 December 2022. These very good figures are leading us, as we are getting closer to year end and uncertainties are reducing, to upgrade our guidance for the full year 2023, as Catherine mentioned.

Let's dig now a little bit deeper into the numbers. EBIT excluding Nuclear is up €1.7 billion, +28%. Moving rightwards across the chart, there has been negligible impact from FX and net scope and looking more deeply at Renewables we see a €444 million organic growth. That is a +43% in line with H1 for the same reasons: positive price and volume effect, mainly from hydro in France and Portugal, including the comparison basis against last year buybacks. And that, despite the positive price effect in France, was largely offset by the higher taxes for CNR production.

Our newly commissioned units have also contributed strongly to the EBIT growth. Be mindful for Q4 that we stick to our unchanged expectation that H2 will be down year on year. The higher tax rate on CNR French hydro output will have a negative effect. Comparison basis will not be flattered anymore by last year buybacks and low volumes. Also 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 Q4. To conclude on Renewables. The full year solid growth is bang in line with our expectations and we are on track to deliver a strong EBIT growth as expected over the coming years.

In Networks we see a €29 million year-on-year reduction in EBIT, better than the €116 million decline we had in H1, caused by lower volumes due to mild winter and energy sobriety, higher staff and energy costs. The improvement in Q3 is based mainly on continued good performance in our UK and Germany storage businesses. We had also a good contribution from Brazil with a further commissioning of our transmission lines and the good performance of our gas transport assets.

For Energy Solutions. There is little significance of Q3 numbers, as it is a time of seasonally a limited earnings. And you will recall that we set aside a €150 million provision in June related to the construction of two CHP plants and the related networks.

In Flex Gen, we see organic growth of €75 million, which is an 8% rise, half the 16% we reported in H1. Overall, the business has performed well, thanks to the strong recovery in Chile and the non-repeating extraordinary tax recognized in Italy last year. And this despite the context of narrower spreads and lower volatility in Europe versus a particularly favorable 2022. Ancillaries were also down for the same reasons. Q4 EBIT should be significantly lower than last year based on current market conditions. And although we have made progress in hedging, markets are less liquid than prior to the energy crisis. So there is a degree of uncertainty related to our open positions.

In Retail, it's another quarter of EBIT improvement on solid margins in our main markets. We have nearly completed the adaptation of our offers to the new norm of more volatile markets after close to two years of very hard work. Two key drivers: one, shortening fixed price offers to reflect less predictable sourcing cost ; and two, repricing in customers' contracts the value of the higher risk in sourcing, including the hedging of the market volatility and, to a certain extent, the volume risk. The result is higher margin for higher risk. Remember, from a very low base in 2022. So we are up in Retail for a good year in 2023 after a two-year challenging period. There is still a lot of uncertainty with ever changing regulation, especially various customer support mechanisms. Q4 still should remain strong compared to last year, as the latter suffered from a substantially negative timing effect you may remember. There will be some timing impact on Q4 this year again, but to a far lesser extent.

Others, essentially GEMS, was substantially up over nine months, but down in Q3 as flagged in July. And I will go through this in detail in a moment.

But before that, just a quick word on Nuke. EBIT is down €651 million to €332 million on the back of the intramarginal rent cap, which ended up on 30 June 2023, that is in Belgium. On the back of the increased appreciation resulting from the 2022 triennial review of the provisions. And on the back, even more important, of the decommissioning of two reactors that occurred this year. Better capture prices, and higher volumes in France and for the remaining reactors in Belgium, were not sufficient to offset these negative effects.

Now a bit more on GEMS with a nine month EBIT, which amounted to the record high level of €3.3 billion. GEMS has still benefited from quite favorable market conditions in H1 2023, but slowdown is now undeniable in Q3. So what does that mean for the nine months?

1. One, a substantial decrease of market and liquidity risks compared to end 2022 have led to significant provisions reversal in H1, but it is slightly the opposite in Q3.
2. Two, volatility indicators (especially gas intraday) are still twice compared to what they were in 2021, and we still experience gas transportation congestions between some European countries, which causes higher geographical spreads between the different markets. This high volatility and location/time spreads enable us to optimize the optional values (flexibility) embedded in our contract portfolio, and enable us to capture high margins for LNG deliveries in 2023.
3. Three, even if significantly lower than 2022, absolute prices are still at a high level, which drive higher commercial margins in B2B supply.
4. And four, we have secured at the top of the market some good margins in multiyear contracts, which are flowing now and for a couple of years in the P&L, albeit gently declining over time.

So throughout Q3, we saw absolute prices and geographical spreads decreasing, some being now close to 2021 levels. Indeed, comparison to Q3 '22, which was the peak of the crisis in European market, is of course a bit of a challenge. But our third quarter is also specifically low as we have booked some additional provisions given market conditions and as we have some negative timing effect, as explained in H1. This is not expected to be repeated.

We remain confident in the high value of this business. We still benefit from an increased level of customer risk management, as there is a persistent flight to quality. We have restructured some deals which will deliver results over the coming years. We have carried out intensive work since months to well map and represent the market risk for each of our clients. GEMS will exit 2023 in good shape, with the run rate earnings significantly above the mid term target we indicated in February.

Let's move on to cash generation, with an increase of our CFFO plus €4.6 billion at €13 billion. Albeit expected, it is also quite impressive and a high point of the year given the seasonality of the business. The variation of our operating cash flows reflects first our strong financial performance. But very importantly, we are also seeing our working cap starting to untie.

You remember we said in February that we had injected over a couple of years €5 billion into the business that we expect it to reverse in the short to medium term along the way of price normalization. Well, for the first nine months 2023 the working cap variation is a positive €2.9 billion. There was indeed a very positive €3.4 billion effect coming from gas storage activities with a more favorable injection and withdrawal balance, but also a more favorable price environment.

Energy in the meter followed the same path, also linked to the decrease of prices. However, net receivables have deteriorated by €2 billion, as we are still observing the effects of contracts initiated in H2 last year with very high prices. You see the supply tariff shields payments from governments are now flowing in. By the way, it is expected to partly reverse by year end. And finally, there was a much lower contribution of margin calls compared to last year at the end of September. So again, we are well underway to seeing the full drag of the working cap and cash flow to smooth out over the next 18 to 24 months.

Our balance sheet remains strong. The healthy cash generation from CFFO is financing the acceleration in Capex to €6.3 billion from €3.3 billion in June, including the increase in our stake to majority in Kathu in South Africa, and consequently full consolidation as well as the dividend paid earlier this year. Economic Net Debt is up 8% since the start of the year to €41.9 billion, the sole reason being the €4.1 billion recognition of our nuclear waste commitments under the agreement with the Belgian government.

Given the rise in our LTM EBITDA, our Economic Net Debt to EBITDA is hardly changed since the end of 2022 at 2.8x, after taking in account the impact of the Belgian agreement. Of course we do not expect to keep such a low ratio in the future, but we maintain our objective of a strong investment grade credit rating. For the rest of the year, keep in mind that growth Capex are likely to be higher. We expect the closing of the Broad Reach Power acquisition that Catherine detailed, as well as a recent acquisition in Brazil and high levels of Capex on the significant renewables capacity to be added by the end of the year.

All this should put us slightly ahead of the yearly average of our 2023-2025 Capex plan, which is €22 to €25 billion. On that note, I would like to point out:

1. One, that we plan to keep our growth investments, including acquisitions, in the three-year envelope we communicated earlier this year, and
2. Two, that we have reviewed our hurdle rates for investment decision to reflect the higher interest rates. New projects are now reviewed with this impact on the valuation and they must reach revised IRR targets, otherwise they are not considered.

Due to the continued good performance in our market-exposed activities and reduced risk as we approach the end of the year, we are upgrading our guidance. We now expect 2023 Net Recurring Income group share to be in the range of €5.1 to €5.7 billion with an EBIT excluding nuke, in the indicative range of €9 to €10 billion, leading to an increase of Net Recurring Income group share and EBIT of respectively €0.4 billion and €0.5 billion.

We are committed to a strong investment grade credit rating and continue to target an Economic Net Debt to EBITDA ratio below or equal to 4x over the long term. Our dividend policy remains the same with a 65% to 75% payout ratio based on Net Recurring Income.

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

Catherine MacGregor

Thank you very much, Pierre Francois. So, just to wrap up, we are indeed making rapid progress in rolling out our integrated strategy and in providing the decarbonization offers that our customers want and need. We are early movers in markets that are fundamental to the energy transition. We are achieving strong financial results. And in the context of the rapidly evolving energy transition, I am convinced that ENGIE has the uniquely right combination of assets and expertise to deliver for our customers, for our shareholders and for the planet. So we will be entering 2024 with confidence.

Now on to the Q&A session.

Q&A

Operator
[Operator instructions]
The first question comes from James Brand of Deutsche Bank.

James Brand
Hi. Well done on the good results. Just a couple of clarifications if I may on a couple of the points around the outlook for the different business segments. So for GEMS, you said that it should end 2023 with earnings significantly above the midterm target. Just to clarify that, that means that you're heading into next year with a run rate significantly above the €1 billion that you previously talked about. And I was wondering, are you still happy with the billion medium-term guidance or are things looking a bit better than that given how well the business has been going?

And then just on the Retail business, you mentioned there would be some timing effects in Q4 but less than last year. Should we take that the business will be modestly loss making in Q4? Thank you very much.

Pierre-François Riolacci
Thank you, James, very precise questions. I think that run rate is significantly above previous indication in February. What does that mean? That means you remember we had this €1 billion, which was not what we expect already in 2024 because we knew there would be some lagging effect, but for sure we expect the run rate of GEMS in 2024 to be significantly above the €250 million per quarter that would come naturally with the €1 billion. That's not a surprise because we have momentum. And as I explained, we have booked some contracts, we are in good shape and we have a market today, which is also and especially in risk management still with a flight to quality which is still there. So a good market share for us. So that's definitely a good tailwind that is taking us in 2024 in good shape. That was what I was trying to allude to.

I'm not going to give you the new numbers for GEMS and even less update the €1 billion run rate which was more a long term target. That's a discussion that will take in due time in February when we update our guidance

for 2024-2025 as usual. So let's take that from there. But indeed some confidence in the way we are entering 2024 with GEMS.

And for Retail, yes, slightly loss making or break-evenish in Q4 is probably a good proxy of our expectations.

James Brand
Great. Thank you very much.

Operator
The next question is from Ajay Patel of Goldman Sachs.

Ajay Patel
Good morning and thank you very much for the presentation. I have two questions please. One sort of high level, which is just with such changes that we've seen in market conditions in regards to interest rates, news that we've heard from Orsted for example. Clearly there's a lot of focus on legacy projects and investments where maybe market conditions have changed and the return thresholds or the returns that those projects achieve may have also changed. I just wondered if you could give us some update on to what extent these market changes have impacted your portfolio and the returns that you're currently achieving on projects that are under construction.

And then the second question is a little bit more focused on numbers and thinking about Q4. If you look at the guidance that's implied I was just thinking well, look, I think you've flagged that Flex Gen should be down, but there is some, I guess some Chile and buybacks there and supply should be up, because the €600 million negative loss shouldn't be repeated but still may have some negativity, but not to the same order of magnitude. But I think there were also €200 million of employee bonuses in Q4 as well. GEMS still has market conditions that look still favourable relative to that billion guide that we have on an annualized basis in the medium term. I just want to understand, is there anything else we're missing here, or you've just been conservative? Just want to make sure that I've got the lay of the land. Thanks.

Pierre-François Riolacci
I start maybe with your last question on Q4. I think that you picked up the key points. I mean you remember that Q4 last year was also a strong quarter with market conditions which are very favorable. I think one point that I highlighted and you need to pick up is: Renewables is expected going backward in Q4. For the reason that I mentioned, which are mainly linked to these prices in hydro, which will go in the other direction in terms of comparison compared to what we have at the end of Q3, especially in France. So that's something to take in account. And also we had some sell-down profit in Q4, which are not that high, but still a few. And that is not expected to be in 2023. So that means that Renewables will go backward in Q4. I think for the rest, you're there.

Ajay Patel
Okay, thanks.

Catherine MacGregor
Maybe Ajay, to your first question, going forward and new projects, Pierre Francois explained in his prepared remarks how we had revised the hurdle rates, and obviously this is well taken care of. For existing and legacy projects: so strong focus on the project under construction, and I think we told you back in February, and this is pretty much true, actually the execution of our project under construction is very good and we are very focusing on any Capex overrun and/or delays, and they are very much within our range of contingencies. So very focused on that. And then on the energy and the sales side, obviously, we have different types of projects. We have some that are very nicely indexed to inflation. And we've seen that, for example, for the very long range project that we have in France on the offshore side, where the Capex obviously changed over time, but then so did the conditions at which we are selling the energy.

In a few very specific situations where we found ourselves that the PPAs were not representative of the market anymore, we have been able to go back to our customers and in many cases renegotiate the condition of these PPAs. Because I think the key thing that maybe people miss when people get worried about the renewable market is that there is still very much a shortage of PPAs. Customers want to secure green electrons, green deals, and having the pre-visibility and the visibility on the price of these PPAs. So there is this shortage. So in general, we are in a good situation and the presence that we have on the commercial side allows us to do these things.

Of course. And I think you've mentioned what happened on the offshore and very specifically to the US market. It is well known that we do have one project where we decided to cancel the PPA because it didn't meet the conditions anymore. And so when you have such a situation, we obviously take the consequences. I think we've discussed that already in detail.

Ajay Patel
A relatively limited impact on your legacy project and you're adjusting your thresholds for future investments for the current market condition.

Catherine MacGregor
Good summary, yeah.

Ajay Patel
I think that is the main point. Okay, thank you.

Operator
Okay, the next question is from Vincent Ayral of JP Morgan.

Vincent Ayral
Yes, good morning and congratulations for these results. Fairly quick just wanted to check on the Belgium nuclear deal. Wanted to know if it's now finally sealed and written in stone. I think there was an aim to get this final agreement and then pass into law in Belgium. So could you give us a bit of an update on this front?

And the second point would be an attempt, if it is possible indeed to get some level of guidance of a medium term on the Flex Gen type of operations, because GEMS, clearly you've increased it to a billion which are going to be plus now for the coming. But on the flexible generation, what's your view at the moment on the market regarding the tightness in the system. We've seen the German nuclear reactors being taken out already in Belgium we had a few. And basically I think the market underestimates the value of these flexible assets. So can you help us on that front? Thank you.

Catherine MacGregor
Okay. So maybe just a quick update on Belgium, where obviously we have been very busy since July negotiating the binding agreements and there is good progress there. Good progress notably on the adaptation from a pure LTO scenario to a flex LTO, which I think we explained to you that we basically will break down some of the key works associated with LTO in order to ensure a good security of supply at some critical passage of time, notably winters 2025, 2026 and onwards. At least that's the objective.

We've made good progress on the economics of the transaction, governance of the JV, mobilization of resources. Obviously, the teams are ramping up, so that's all going really well. There continue to be some few tough points, discussions on security package, notably, security package in connection to our future commitments. So I think it's fair to say that we are a little bit behind in terms of schedule, but still confidence that we will sign in Q4 as expected.

And maybe a couple of comments on Flex Gen. And I don't know if Pierre Francois you want to complement, but just to say that we share your comment about the market underestimating the value of flexible assets. We've been pushing for that message since February. I think what we're doing on the battery is clearly showing that we have taken a directional view on the importance of flexibility in the energy transition. We've showed that in the United States, but not only. We've actually participated in CRM auctions in Belgium, and we were successful. We've just won two batteries that will be newly developed, also leveraging on existing connection points and that's very important when you have, when you are lucky like we are, to have a historical position in Europe. We have connection points where obviously it makes it much easier to develop some of these flexible assets.

I don't know, Pierre Francois, if you want to complement on this Flex Gen guidance.

Pierre-François Riolacci
No, maybe just to, to indeed recall everyone that we are still depending, of course, on the clean spark spread and our capacity and capabilities to capture the optional value. The markets are not as liquid as they were before, but it is actually resuming. So we have been able to start again hedging, for now quite a few months, and we are closing the gap. So we are getting a bit more into 2024-2025, definitely. We can also now use some options. They are back in the market, so that helps.

But today it's fair to say that we are a bit less hedged than we were usually at this point in the year. So still a bit open for 2024-2025 and depending on the market. But as Catherine said, we believe that flexibility will be of high value in the years to come. And quite pleased to have this capacity standing there.

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

Michael Harleaux
Good morning. Thank you for the presentation, and thank you for taking our questions. Just one on Brazil. Some of your peers have stated that they're not doing too well and you're succeeding where others are not. If you could share with us or update us on Brazil and why you're doing well where others aren't, that would be great. Thank you.

Catherine MacGregor
Maybe I'll start by saying that we've been present in Brazil for 25 years. We have a very rich and complementary portfolio of hydro assets which benefit from a very mature regulation which gives us also protection against some of the market volatility and/or weather changes when there is water shortage or when the assets don't get dispatched. There is some sort of protection mechanism which works quite well in Brazil. So we have quite a resilient portfolio. We are also doing some interesting, very large project development on the renewable side. In fact, we're very pleased with what we have now, almost a carbon free portfolio in Brazil, which is fantastic.

I think it's fair to say that the power price have dropped quite a bit recently in Brazil and obviously we're not fully immune against that. But there is indeed the maturity and portfolio effect that we are benefiting from. And I just want to point also to an acquisition that we have just signed which complements our portfolio with nicely contracted assets, which is in a northeast state, notably.

Michael Harleaux
Thank you, that was very helpful.

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

Arthur Sitbon
Hello. Thank you for taking my questions. The first one is on the Belgian nuclear agreement. There was a press article in the Belgian press recently saying that, potentially the transfer of provisions and the settlement would take place towards the end of 2024 rather than by the end of the first half. I was wondering if you have any thought on that, and I was wondering, if that's the case, how could that impact your net income for 2024? Thinking mainly in terms of unwind of effect of the nuclear provisions on financial resource, but as well the impact of holding cash on your balance sheet for longer. So that's the first question.

The second one is on your battery strategy. I think at the last business plan update you had talked about between €2 and €2.5 billion of growth Capex for 2023-2025 on batteries. I was wondering if you stick to that budget, if that includes the impact from the recent acquisition or not. And so if the €2 to €2.5 billion is enough to get to the additional $100 million of EBITDA contribution you were talking about annually. Thank you very much.

Pierre-François Riolacci
Thank you very much, Arthur. On your first question, yes, there is a case where the closing of the transaction could actually be after summer. The main point here is really to get the clearance from the EU. That's the one that is potentially the long lasting and that could indeed trigger that the closing is not fully completed until we get this clearance, so after summer. The impact on the financial will be negligible because at the end of the day, either we have the provision and we have the discounting effect or we have the cash out and then we have the interest. So at the end of the day, it is really a minor difference. So no impact on 2024, I would say, whatever the closing date.

Catherine MacGregor
And on the growth Capex: overall envelope of €22 to €25 billion over the three years is unchanged. Obviously, we'll allocate, in terms of growth business, we had identified a few: hydrogen, batteries, biomethane, notably. Battery is probably the one that is doing the best, I would say and is most mature and we are probably the most excited about. So I would not be surprised that at the end of the period, we allocate a bit more to batteries and probably a little bit less to hydrogen, not because we don't like hydrogen, but hydrogen is taking a bit more time as a market to mature, so probably will be a little bit delayed in terms of hydrogen development and Capex spend versus battery.

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

Peter Bisztyga
Yeah, good morning. Two questions from me, please. First one, I was hoping you could put a few more data points around your Broad Reach Power acquisition. So interested to understand what sort of absolute IRRs you think you can achieve on battery storage in California and Texas, what sort of dollars per megawatt Capex we're talking about these days for that technology, what sort of duration batteries you're targeting and whether you're planning to do co-located solar and battery, for example, and whether the economics of that look different. So just a bit more color on that rather interesting acquisition.

And then also on GEMS, I think you mentioned in Q3, you'd taken some more provisions. I was wondering if you could just elaborate a little bit what the reason for that was. Perhaps if you could quantify the size of those provisions. And I'm wondering whether your comments about GEMS being above a run rate in 2024, assume any release of those provisions or could release of those provisions actually drive further upside next year as well. Thank you.

Pierre-François Riolacci
I'll start on BRP and just to give you some insight on how we look at the economics. Catherine, you can elaborate maybe a bit further. On the business itself clearly with that kind of business, we expect a strong double digit IRR. I mean, that's what you would expect with an activity which is partly merchant. We also been very clear that the

plan is to get about half of the revenues which are actually secured, whether through the capacity contract or through hedging and then another half which is more open in time.

Clearly, given the business, we need to go beyond the IRR. We also need to look at the payback: how we can actually secure, and with the secured revenues how much can we achieve in terms of payback. And that's very much in the mindset of BRP and that business, which is to make sure that we can, when we start a project, secure part of the revenues that will support a good payback which is much shorter than what you would see in other investment cases. And then on top of that, the merchant will give you the cream, which gives you the profit and the top-up that will bring you to the right IRR. So you're right, it's a bit of a different way of looking in the economics. And we are working day-in, day-out with the teams. And especially with our newly acquired US team, who have a strong maturity to discuss how we can actually fine-tune and make sure that we grab the value, but also do not build excessive risks on the back of this merchant position. So that gives you some colors on the way we think about it.

On GEMS, yes, you know that under these market activities, and because we have deals with the market, we have technical reserves that we are supposed to book. We comply of course with the rules. We are fine-tuning the rules on a regular basis based on the input that we get from the market, but also making sure that we cover risk properly. And that's why you will see some moves indeed in the reserves. These moves are linked to the market conditions. So I think you need to bear in mind that if we were to release more of the provision in the next years, it would mean probably that the market conditions are normalizing further and that would come nicely to offset.

So our plan is really to work on the business and not to play around with provisions going forward. That's not at all the way we look at it. These technical reserves are linked to the market conditions which are quite complex, I have to say. But we will be of course transparent at year-end at the level of this provision and help you to make sure you understand that it is linked to the business, not some gimmicks, that's very important. For us the run rate is of course excluding this release of provisions which are coming to smooth the impact that we observe in the market.

Peter Bisztyga
Okay, thank you. And maybe sorry, just one clarification on the battery storage. Are you able to give a sort of rough indication of where millions of dollars cost per megawatt is for BESS in the US these days?

Pierre-François Riolacci
It depends on each and every case and especially the size of the operation. So I cannot give you one single number that would kill everything. So I would prefer that we do not enter into this.

Peter Bisztyga
Fair enough, thank you very much.

Catherine MacGregor
And maybe just to add the additional color, remember that the IRA provides healthy incentive also for BESS development in the United States. So it helps obviously quite a bit on the whole return on those projects. And you asked the question about standalone versus co-located. BRP is a standalone battery storage company but of course if opportunities arise we will be looking at co-location as well for some of our renewable projects, on a project by project basis.

Peter Bisztyga
Right, thank you.

Operator
The next question is from Meike Becker of HSBC.

Meike Becker
Thank you so much for taking my questions and congratulations for these strong results. I have two if you don't mind. The first one is just to sort of help us calibrate your view of the future and it is basically on gas demand. Very simple: where do you see gas demand in 2024 and 2025? Do you see the bounce back or are you more on the cautious side and say where the gas demand has fallen in Europe we don't expect it to come back. That would be a good piece in the puzzle to sort of understand how you see the future. That would be helpful. Thank you.

The second question is quite straightforward. What is your spread over the WACC for your renewables projects, new business in onshore please. And if you can, it would be really helpful if you break it down a little bit by region, specifically what you're achieving in the US and Asia for example. Thank you.

Catherine MacGregor
Maybe I'll start on the gas demand. And here I'm talking about gas demand that we see in Europe from our main industrial customers. Depending on the size of these customers today, we have not seen the demand recovery from what happened last year. So in other words, we have a range of 10% to 20% demand destruction depending again on the type of activities of our customers.

And we think that this is here to stay to a large extent. Obviously this winter, because the volumes of gas demand are not hugely significant right now, so it's a little bit difficult to tell you with certainty, but we anticipate that these are the type of demand reduction that we have seen post Ukraine war that will stay with us. We don't think that it will worsen, but we think it's quite structural.

And of course, given our business, our results and of course the critical role of our gas infrastructure, it has little impact. But of course a little bit more tariff spread for our customers on the infrastructure side, but it is not for us critical to our business model. Maybe you want to take the question on the spread of the WACC.

Pierre-François Riolacci
Yeah. So, the way we look at it is that we look at the project WACC based on the merits of each and every project. Geography of course, will be taken into account as a kind of a country risk. But there would be also differentiated WACC based on technology: hydro, offshore, onshore and solar. There would be also differentiation in the WACC based on the contractual framework, whether it is a CfD or whether there is contracted revenue, the share of merchant revenues, the duration of the PPAs. So all that is embedded into the cost of capital that we need to cover in the project.

And then on that cost of capital, there will be a multiplier. That multiplier is huge. I'm not going to tell you what the multiplier itself because that's a competitive point. And we have two multipliers depending on high priority activities and all the other activities which guarantee that we indeed have significant premium over the cost of capital. And then, the portfolio effect will mean that based on that premium, we will deliver a global group WACC +200 bps, so +150 bps and +250 bps. That's exactly the way it is done. So we check that the multiplier will allow us with a portfolio effect to deliver the +200 bps, which is a reference point that we discussed during the market update. So project per project.

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.