Q1 2025 RESULTS

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Delphine Deshayes

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

And with that, over to Catherine.

Catherine MacGregor

All right. Thank you, Delphine, and good morning, everyone. I am pleased to report an excellent first quarter of 2025 with EBIT up versus last year despite normalization of energy markets over the last quarters and despite the uncertain geopolitical and economic environment. There's been no let-up in our renewables expansion, both organically and via acquisition. And we've had the landmark moment of the closing of the nuclear deal in Belgium, enabling the transfer off our balance sheet of €12bn of nuclear waste storage provisions. It's been really great. It's been great to see how resilient and solid ENGIE has become. Our integrated, balanced model and our geographical spread, enabling us to maintain earnings by offsetting headwinds and declines in some areas with progress elsewhere.

Now, before detailing our Q1 business performance, let's talk a little bit about how we are dealing with the situation in the US, which I would summarize as follows. Things are dynamic, but in the case of tariffs, we were already moving before the current administration's action and we were quite quick to move. So we have largely de-risked our exposure. To go into some details, our operating fleet, that is to say, around 8.5GW of onshore wind, solar and BESS is unaffected. For the 2.0GW that is under construction, of which we have 1.3GW of batteries, about 0.5GW of solar, the remainder, onshore wind. We are, to a very large extent, protected. And why is that? Because in batteries, first, we have been very proactive in sourcing, which has allowed us to reallocate batteries that were bought in 2024 to projects in 2025, thus securing safe harbor for several of our projects. And the pipeline that we assumed by acquiring BRP is on schedule for completion over this year. On the solar front, our prior efforts to increase local sourcing of PV modules and diversifying our suppliers have paid off. Indeed, we are well protected by the near-term timing of our projects and particularly including the 90-day pause. In wind, we have no impact.

Now, for projects under development that have yet to reach FID, that is where we are pausing for clarity on future tariffs going forward. Also the future of the IRA and, of course, permitting procedures. With regard to the future of the IRA when it comes to renewables and batteries, as a very starting point, the first draft of the budget reconciliation deal seems a little bit more constructive than what we might have expected. But of course, the situation is fluid and we will be carefully monitoring the evolution of the text in the coming weeks.

All that said, what is undisputable is that our customers' appetite for green energy remains strong. Indeed, we have just signed a preliminary agreement to provide up to 300MW to Cipher Mining Technologies' data center in Texas as an example. In addition, there are many markets in the US where significant load growth is expected and our conviction remains that renewable and BESS should benefit from their short time to market relative to gas and nuclear. As of now, we benefit from a big level of optionality. Remember, we have a pipeline of 115GW, 80GW of this is outside North America. So, if needed, we could allocate capital originally intended for the US into other attractive markets where we are already well established. Remember, ENGIE has been present in Brazil for 27 years, in the GCC for half a century, in Australia for 29 years, in India for over 30 years, just to give you a few examples, and we are really excited by these opportunities and the optionality that they provide us with.

Now, a few words on the recent power blackout in the Iberian Peninsula, which has been already abundantly commented upon. I think it's fair to say that it will take some time to fully understand the root causes, but it is useful sometimes to remind some basics. Electrical systems have grown more complex over time. This complexity needs to be managed. It needs to be managed with sufficient investment in the grid, in the interconnection and very importantly, and we say that over and over again, in flexible generation assets. These flexible assets, they can be CCGT, OCGT, but also batteries with the right configuration, they will play an increasingly important role to guarantee, of course, security of supply, but also to address potential frequency or local voltage issues. As for immediate consequences on the group, I am pleased to report no impact on our personnel, on our assets, on our financial results. Our teams in Spain and Portugal, having managed the situation very well. In fact, they contributed to the recovery of the system as our hydro assets in Portugal were among the first one to be reconnected.

Turning to this next slide, a few numbers. EBIT excluding nuclear was up 2% at €3.7bn and that was compared to an already high Q1 2024. The cash flow from operations stands at €4bn. Our balance sheets remain robust. Economic net debt was down 4% over the quarter to €46bn, equating to 3x EBITDA below a ceiling of 4x. With this strong start and despite the macro uncertainties ahead of us, I can confirm our guidance for the full year with net recurring income group share between €4.4bn and €5bn.

A brief run-through of our Q1 highlights. Now we added over 0.6GW of renewables capacity, mainly in LATAM and Egypt, taking a renewables and base capacity to 51.6GW. At the end of Q1, we had 8.5GW under construction with 101 on-going projects, continuing our track record of very efficient execution. Our teams are doing a fantastic job there.

In March, we announced two acquisitions in renewables, subject to approval from the relevant local authority. First, two fully contracted hydro plants in Brazil with capacity of 612MW, which consolidates our position as the country's leading private hydro generator. Second, in operating portfolio of 157MW of operating onshore and solar capacity in the UK at seven sites, at which we intend to add battery and solar, as well as raising capacity through repowering, which is obviously a very attractive option given how time-consuming new grid permitting can be.

In power networks, we won the tender for a new substation north of Santiago in Chile in an area in need of network strengthening that has established itself as a hub for photovoltaic development. We have an excellent integrated position in Chile, including major positions in renewables, in BESS, we're provider of PPAs and we are number three ranking in power transmission.

A word on our progress, since the new business organization was put in place in February, it was put in place to seize opportunities from these very dynamic power markets to unlock synergies to simplify our structures. Please to note the performance impact of €72m in the first quarter, which already shows a step up in the run rate towards the €1bn plus EBIT boost that we are targeting over the '25-'27 period.

We are streamlining through divestment, already making progress on exiting non-strategic businesses of our former energy solutions business unit as announced. Through the sale of our gas generation, we exited Kuwait, Bahrain and Pakistan. In Morocco, we have reduced our stake in the Safi coal-fired plant from a third to what is now a pure financial investment of 18%. And our only remaining coal is now in Chile at just below 1GW, which we will exit by '27 at the latest.

Finally, a significant highlight of Q1 with the closure of the nuclear transaction in Belgium, which representing the culmination of complex and time-consuming negotiations. I want to take this opportunity to thank all of those involved for their patience, professionalism, determination, to achieve what for our group is a major milestone, as it eliminates a major source of financial uncertainty and allows us to focus fully on rolling out our core strategy. We made initial payment of €12bn on March 14. The remaining sum of around €3.6bn is to be paid when Tihange 3 and Doel 4 reactors restart in November in their new status as quasi-regulated assets owned by a JV between ourselves and the Belgian government.

With this, I will pass over to Pierre-François.

Pierre-François Riolacci

Thank you very much, Catherine, and good morning to all of you. I'm of course pretty glad to be here to present another good start of the year for ENGIE. EBITDA and EBIT excluding Nuclear stand at respectively €4.9bn and €3.7bn in line with Q1 2024, which was, as you remember, a high basis for comparison. We generated a sound level of cash with CFFO at €4bn. It is a decrease of €1.1bn year-on-year, mainly driven by margin calls versus Q1 '24, which was, you may remember, positively impacted by reversal of working cap due to the energy market normalization. Net financial debt is up €1.4bn at €34.6bn. You can see that the impact from the €12bn payment to the Belgian government, Catherine was just mentioning, with the closing of the nuclear agreement, had a limited impact on net debt, most of it being paid through dedicated financial assets. Economic net debt is down €1.8bn and credit ratios are improving well below our 4x target. Hence, we are confirming our 2025 guidance.

Let's now have a closer look to EBIT. EBIT excluding Nuclear stands at €3.7bn plus €77m organically. FX and scope are negative with the depreciation of the Brazilian Real and some scope out of generation assets in Portugal and Morocco and the sell down of a gas pipeline in Mexico. Prices and volatility have a limited impact of minus €74m, with effects in opposite directions. Negative for B2B and Energy Management and positive for Networks and B2C. I will, of course, provide more details in the next slide. Volumes are up €92m thanks to colder temperatures, more than offsetting a less good hydrology than in Q1 last year. Commissioning adds another €82m to EBIT, mostly coming from Renewable and Flex Power assets, which are coming online in North America and Latin America, as well as some investments made in gas and power networks. Performance adds an extra €72m of EBIT. Other is negative minus €95m and it does notably include some positive one-offs recorded in Q1 '24, which were not repeated, of course, this year. Nuclear EBIT stands at €406m, down €55m notably due to the shutdown of Doel 1 on February 14, '25, despite good availability of our assets during the period.

Now let's get a bit more granular with key variations per reporting segment. So you recognize the new reporting segment that we disclosed in February and this slide shows the organic variances in EBIT, not only in this reporting segment but also the subsegments.

Renewable and Flex Power EBIT amounts to €1,152m, which is a €176m organic decrease. Renewable and BESS is down €59m organically with lower prices and normalization of hydro volumes in Europe following the exceptional high hydrology of Q1'24, an impact of minus €140m. This was partly mitigated by the contribution from new assets in North America and Latin America for about plus €50m.

Gas Generation organic variance of about minus €100m is mainly coming from Europe, as in Q1 last year. Hedge positions still benefited from the very high prices of the crisis. This was partially compensated by the end of the intramarginal tax in France in 2025. The organic variance is also impacted by the non-repeat of positive one-offs recorded in Q1'24.

Infrastructures reported an EBIT of €1,453m, up €469m organically. Networks are by far the main contributor to this growth, with plus €513m. This increase is mainly driven by new tariffs for gas transportation and distribution in France, which includes clawback on previous years. We also benefited from a colder winter in Europe and from the contribution of our developments in power networks in Brazil.

Local Energy Infrastructures are down €44m organically, which was expected as merchant cogenerations in Q1'24 were still supported by high CSS margins hedged during the energy crisis. We are now back to normal price conditions on margins and a cooler climate and the improved profitability of energy performance services partly offset this negative price impact.

Supply and Energy Management EBIT reaches €1,291m in Q1'25. It's a €245m organic decrease versus last year, with various contrasting elements. First, EBIT from B2C activities grew €323m organically. This is a result of colder climate, also significant positive timing effect in the quarter and a market that still enables a full valuation of risks to customers. Variance is also flattered, impacted by negative one-offs that we had in Q1'24, including discounts granted to customers. Q1'25 is clearly not a normative quarter for B2C. You should not expect EBIT for '25 to be four times the Q1 EBIT. Indeed, Q1 is a strong quarter when it comes to volumes sold to customer, generating about 40% of our volumes, which are achieved in Q1. But this year, Q1 2025 is even stronger because it's supported by positive timing effect that will reverse in the coming quarters. As a result, we continue to expect to land B2C EBIT for '25 around €0.5bn.

B2B EBIT is down €349m organically, notably due to timing effects. You may remember that we recorded in Q1'24 a positive €0.5bn timing effect linked to winter-summer seasonality, which is embedded in summer contracts. In Q1'25, this timing effect is much lower and amounts only to about €200m. This timing effect will, of course, reverse over the next quarters, has no impact on the full year.

Energy Management EBIT is down €219m organically, resulting from lower reserve reversal in Q1'25. You remember maybe that in Q1'24, the reversal of reserve had a one-off positive impact of about €400m due to a sharp decrease in market prices and volatility versus year-end '23.

Now, taken together, we continue to expect EBIT from B2B and Energy Management in 2025 to be around €2bn at the former GEMS scope. All in all, it's a good quarter for our Supply and Energy Management segment, in line or slightly above our expectations.

Let's move to cash flows. Cash flow from operations amounted to €4bn in Q1'25, which is a €1.1bn decrease versus a very high comparison basis in '24. Operating cash flows were strong. They are up by €900m compared to the first quarter last year. But it does include reclassification elements between operating cash flows and change in working capital, in particular, to better track the variation of margin calls. Change in variations of working capital had a €2bn negative impact on CFFO versus Q1'24. During Q1'24, the variation in working capital had a €1.6bn positive impact on CFFO due to lower prices and the normalization of market conditions. You remember, we explained that we were reversing part of the cash, which was trapped in the working capital in the years where prices were very high. Over Q1'25, the variation in working cap is a negative of €400m effect on CFFO, as working capital level is now normalized and we recovered in '23-'24 everything that was injected during the crisis. Now, if we dig in the main items of change in variation of working capital, inventory had a €0.5bn positive effect on CFFO, with both higher withdrawals in '25, lower gas prices, but also less impact from giving certificates versus last year, mainly a timing point between the quarters in year. Operating net working cap is a negative €1.5bn as Q1'24 strongly decreasing energy prices translated into a significant reduction of customers, receivables as I just alluded to earlier. Lastly, margin calls have a negative €800m impact on the year-on-year CFFO variance, driven by March physical deliveries and the price effect on European gas.

Let's now have a quick look at the impact of the nuclear agreements on our end of Q1 balance sheet. We have included on that slide the evolution of our nuclear provisions during the first quarter '25. As you can see, nuclear waste management provisions amounted to €15.7bn as of December '24 and dismantling and back-end fuel provision to €8.7bn. The outstanding balance that we can collect from our partners and the Belgian government was about €800m. At the closing of the nuclear agreement in Q1, we transferred, as Catherine explained, to the Belgian government, all category B and C waste management obligations. As a result, our waste management provision decreased by €12.2bn. We made, of course, a corresponding payment, financed by the monetization of dedicated financial assets for €9.5bn and by cash for €2.6bn. This transfer had no impact on the economic net debt as the liability was already booked in and had a €2.6bn impact on our net financial debt. At end of March, nuclear waste management provisions amount to €3.6bn, corresponding to Category A waste management obligation and this obligation will be transferred to the Belgian government, as LTO restart expectation is Q4'25.

Let's move now to the net debt. The net financial debt increased from €33.2bn to €34.6bn due, as I mentioned, to the funding of nuclear obligations. Looking at the bridge, you can see that the €4bn positive cash flow from operation is well above, of course, our €1.5bn CapEx, a pattern that you've seen last year as well. This illustrates ENGIE's unique position across the value chain when it comes to cash generation.

First, like for many of our peers, the cash generated by Renewable and Flex Power is reinvested in the development of renewable power production and batteries. But second, our infrastructure business is a major source of cash flow with limited growth CapEx in our gas networks. And lastly, our sizeable Supply and Energy Management business is the low-capital activity with sound cash flows coming from our B2B and B2C energy sales and from our expertise in leveraging ENGIE's portfolio of assets and energy markets. This unique balance enables ENGIE to guarantee a strong investment grade rating with significant headroom to finance growth while offering an attractive dividend for its shareholders. Economic net debt is indeed decreasing as impact from nuclear funding obligation is insignificant given the liability fully recorded before. Leverage ratios are quite stable and remain strong with net financial debt to EBITDA 2.2x and economic net debt to EBITDA 3.0x well below our 4.0x threshold.

For the guidance, in the context of geopolitical, regulatory and market uncertainties, we keep our guidance for 2025 unchanged. We are dedicated to maintaining a strong investment-grade credit rating and aim to keep our economic net debt to EBITDA ratio at or below 4.0x in the long term. Our dividend policy remains the same, with a 65% to 75% payout ratio based on net recurring income and a floor at €1.10. We anticipate our EBIT excluding Nuclear to be between €8bn and €9bn and net recurring income between €4.4bn and €5bn. Following a robust performance in the first quarter, we are confident in achieving these targets. Bear in mind that the exceptional performance of B2C in Q1 includes some one-off events and some timing effects that are expected to reverse in the upcoming quarters. And bear in mind also that new tariffs on gas networks in France will not have a material effect on the rest of the year when compared to previous year. Indeed, gas networks have limited EBIT contribution in Q2 and Q3 and most of the new tariffs were already enforced in Q4'24.

Our nuclear and hydro volumes in Europe for '25 are 81% hedged or contracted, so it gives us protection against changes in market price. But we still have, of course, some open position on nuclear and hydro, but also on Flex Gen in Europe and for some of the wind and solar assets.

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

Catherine MacGregor

Thank you very much, Pierre-François. So to conclude, we did deliver a strong first quarter, both financially and operationally. Our results show the benefits of our strategy to become simpler and more adaptable with our integrated business model that is really well suited to the energy transition and to this very dynamic environment. And we look forward to continuing to demonstrate this resilience and strength in the remainder of 2025 and beyond.

Now, back to you, Delphine, for the Q&A.

Delphine Deshayes

Thank you, Catherine. We can now open the Q&A session. Operator, can you please remind the process for asking a question?

Q&A

Operator

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

Ajay Patel

Good morning and thank you for the presentation. And congratulations on the numbers. I just wanted to get a little bit more on the '25 guidance. If I look at consensus, it broadly sits at the midpoint on EBIT. The headline numbers for Q1 are pretty phenomenal versus last year. And over the course of the presentation, you are flagging this timing effects on the supply. I just wanted to kind of -- even if it's qualitative, understand if you look at this Q1 performance alone and just maybe put the timing effects to sight, how much ahead of plan was it to get a sense of what kind of run rate we're developing ahead of the full year guidance?

Pierre-François Riolacci

Thank you. You have only one question, Ajay. I'm just unsettled because usually it comes by two or three. So that's a good one. That's a good one. It's smart to ask from the qualitative perspective, I think that we are happy with Q1. Let's be clear. For sure, we had -- as you repeated rightfully, we had some one-offs. Also the basis of comparison was easier in some other segments, not all, as you remember. So indeed the Q1 is a good one. However, remember that this was Q1 end of March and that was before all the new events that happened in April.

For sure, you know that ENGIE is not overexposed to markets and we are not -- as we have already progressed a lot in hedging and you know that we have de-risk a lot of our assets, so we have a limited exposure to market, but still we do have some open position. That was my last comment when commenting on the guidance. So we are reasonably cautious given what we have ahead of us, but we are pleased with the start of the year.

Operator

The next question is from Harry Wyburd, BNP Paribas Exane. Please go ahead.

Harry Wyburd

Hi. Good morning, everyone. I'll go for the full two. So firstly, on -- and I'm sorry this is tedious because it was first on the calls, but on what was the old GEMS business, a lot of your peers have underperformed. I mean, RWE just missed quite substantially. Centrica warned recently and I think some of the big oils suffered a bit in trading. So, can you give us any insight into why you seem not to have been impacted by whatever it was that has been impacting your peers? And maybe if you could help us understand a little bit why trading across the market has been quite difficult in Q1.

And then the second one, sorry, more for Catherine, just to get a bigger picture. So on renewables, I wondered if you could just give us a bit of insight into what you're seeing on install costs, both cost offshore wind, onshore wind and solar, and ask that because obviously the IRA or the budget draft is a bit better than we were expecting. I think maybe that's caused people to rethink political risk in the US on renewables and maybe people might come back and look at fundamentals again. If you're one of the groups that has wide capital allocation flexibility, so perhaps you might be able to give us a slightly more unbiased view on this. But I'd just be really interested in your critical view on where you think install costs and competitiveness of renewables is going at the moment? Obviously, it'll be important if we have an upcycle in renewables that we actually see costs coming down. So we would see what you're seeing on installed costs. Thank you.

Pierre-François Riolacci

I will take the first one. Yes, our performance is -- in Q1 is quite okay with the former GEMS if you take together B2B and Energy Management, you have noticed that we have decided to be more granular and we isolate both and to be very open, I think we've seen in Energy Management it was a bit tougher. We've seen part of it. We have identified also some cost increase. For example, if you look across Europe, you see gas transportation tariffs are going up. I mean, our own tariffs are going up. But also clearly we see that in other countries and this is coming with the cost to a certain extent. When you are moving gas around in Europe, that kind of business can be hurt and that would come into, I guess, the same trend.

So we've seen that in Energy Management now, You know, also we have a very strong B2B business which is supported by contracts, which are multi-year contracts and that contracts are much more stable. And indeed, you have a Q1 in B2B which looks pretty negative compared to last year. But as I mentioned, this is timing and we do expect to recover actually a lot as you should expect a year to go for B2B, which will be very strong. So -- and of course, much better than last year, because this timing effect that was reversing will not happen. That's why we are pretty comfortable with B2B, which has been delivering good.

And on that part of the business, we do not see a toughening, a significant toughening of market condition. Of course, we've seen competition going higher over the last couple of years, after the crisis it started has been gently moving up. But that is very much in line with our expectations even if we see a bit more tension on energy management. And again, our profile is, I think, very strong when it comes to both Energy Management, but even more B2B. And that's probably the reason why we are maybe a bit more resilient than some of our peers.

Catherine MacGregor

Okay, Harry. So I think you were asking a bit more macro questions on the renewables market. Maybe on the supply cost, obviously, you asked a lot of questions on future supply costs and basically our best guess is what will happen with tariffs. But I think just very short term, what we were able to analyze. And frankly, the team has done an incredible job proactively managing the supply chain, because the tariffs question was there before the current administration. So, diversification and trying to localize supply chain has helped us with some protection in the United States. In the rest of the world, we've continued to work very, very closely with our suppliers and we are forming quite strategic partnerships. Some of them will allow us to indeed look at the opportunity set in Middle East, for example. Even more positively than before, Middle East is a market of very big volume. I mean, the projects are very. So it's really, really important to secure the right supply chain and make sure that we are indeed associated with very competitive suppliers, both on cost by the way, and on technology. Because there can be some very interesting technology that impact the profitability of the project.

So I see, in general, that this is going well. Obviously, solar panels are very competitive right now and again, I exclude the tariffs effect in the US. So that allows us indeed to look at the optionality we have in our pipeline in a fairly favorable light. We talked about Middle East, India, Europe as well. Even though Europe it's smaller impact by project or you have the size is different and obviously permitting is a bit longer. So that's how we are looking at on the renewable and supply chain front. And I should add that the capability of the team to execute is obviously also paramount because it does help making sure that our CapEx are under control and the team is doing a great job there.

I think on the IRA, I think what we are really up to two things. There is the tariff question, so we'll see, obviously, there is a bit of constructive development on the tariffs with China. We'll see obviously post 9th of July or whatever that date and post all the pauses and we'll see how the story unfolds. But maybe on the IRA, I did make the comment that indeed the first draft bill that we saw was a little bit more constructive because we were expecting it to be actually worse and then hopefully getting better over time. So the fact that the starting point is slightly better than expected does give us some hope.

We knew that IRA was going to fade out in the future. What is being considered today is that that date of phasing out of the IRA would come a little bit earlier. I think there is talks about 2029. Again, I'm not going to go into the details because we expect a lot of fluid developments on the different components of IRA. But I think if it can makes -- give us a visibility in the short term, obviously that's a positive for us because we have a lot of really good projects in the US. So if we can continue to develop them with the IRA benefit, that's fantastic. I think the question is, what happen if IRA completely disappears? That's really now back to the fundamentals of the market. Again, you have to assume that economic growth will continue in the United States. If that is your assumption, then load growth is going to be very important.

There are many markets where load growth projections are massive and they are actually occurring. The difference between US and Europe is Europe, we talk about demand growth. It's a little bit behind in coming -- it's late in coming. In the US, it is happening. And frankly, I don't know how Texas can do and meet the load growth without renewables. Just you know the supply chain situation in gas generation, that the suppliers are very hesitant to invest massively in new capacity. So I don't know how Texas will survive without new renewables projects coming in-line in the short term, which even makes me think, because I do believe in pragmatism, particularly in the United States, that the solutions will be found to make sure that this project get developed. And we are very well-positioned, as you know, both on the battery and on the renewables to provide the solutions to the market and to the customers. Because again, customers are still in the US very much demanding both green power, but also power and again, very competitive position on renewables.

Operator

The next question is from Bartek Kubicki at Bernstein. Please go ahead.

Bartek Kubicki

Good morning, Bonjour, and thank you for taking my questions. I would also like to ask two questions. First, if we look at the gas generation, you mentioned that in the first quarter, you were still benefiting from relatively high spreads. So I just wonder, for how long you are hedged still with those higher spreads we saw in the last couple of quarters previously. And what -- I mean, when do you think this business could kind of normalize to today's spreads we are observing on the market? That's the first one.

And second one on the nuclear JV. Just theoretically, I just wonder whether you could, from a legal perspective or you would like to, probably sell a stake in a JV of the Belgium nuclear deal? Thank you.

Catherine MacGregor

Maybe on the nuclear JV, we've just signed and closed. We just closed this agreement and we are obviously committed to it. So, I won't comment. Right now, we have a significant operation to conduct in Belgium, both on the decommissioning side as well as the LTO side. And we are committed to it. And obviously very pleased to have derisked the operations and to have this set up. So right now we are committed to it. And no additional comment on the structure of the JV.

Pierre-François.

Pierre-François Riolacci

Yeah, on cash generation spreads, maybe I was unclear, but no, we've seen a sharp decrease of the spread that we have captured in Q1 and indeed we enjoyed in Q1'24 the benefit of spreads which were high and which were locked in at the time of the crisis. But you remember that in Q4 last year, we have already seen a significant decrease of these spreads. And this is, of course, the case in Q1 year-on-year. So no, no, we cannot count on our hedging backlog anymore on the spreads. And we are making money out of cash generation out of the current market. Of course, we have still a few coming from the past, but we are making money out of the flex tool that we are using in a good way.

Operator

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

Arthur Sitbon

Hello. Thanks for taking my questions. I have two. The first one is just a follow-up question on IRA. There are two specific points that maybe you haven't commented on yet, which are on the transferability of tax credits and as well on the part of the bill on material assistance, specifically with equipment coming from China. So first, I was wondering if you use transferability a lot or not. And second, I was wondering if the part on material assistance and potentially a quicker phase out for tax credits when a significant share of equipment come from China is the risk for your battery project and if your supply chain is significantly different from competitors on batteries?

And the second question would just be on dividend policy. Your performance has been good in Q1. So I'm starting to wonder, in terms of the dividend trajectory for the coming years, is your goal to keep a payout at the bottom end of the range this year to help bring forward growth in dividends for coming years, or would you potentially increase the payout ratio towards the midpoint of the range to smooth the dividend decline? And if you have also any thought on potentially the dividend policy at the moment you pay one dividend or if you could consider moving like some other companies to an interim dividend. Thank you very much.

Catherine MacGregor

Okay. So the dividend policy, I mean, obviously, we have reaffirmed our dividend policy. We're just at Q1. Actually, I don't know that we were going to add much more color to that at this stage, but obviously very committed to the policy as it stands. Maybe a comment on IRA, the transferability is indeed a very interesting addition that IRA brought to the market. We used to do, obviously, tax equity through banks. The transferability gave us more options. We used transferability a few times. So we are indeed looking at this item as it is being indeed questioned as part of everything in that bill.

Potentially, it would be phased down a little bit earlier than the other stuff that we like in the IRA . So again, very fluid. We will see -- we can operate without transferability because we used to operate before that. But it just makes that market obviously more liquid and it gives us more options. So we will be looking at it. One point of attention for sure, let's keep a close eye on that.

On the battery and indeed the battery origin, even when you source them from the US, there continue to be a Chinese component in most of the batteries. Obviously, we're working hard to diversify. So, depending on the level of granularity the Chinese content is estimated, that would obviously affect the future supply of BESS potentially. So, something that we are looking at. Again, we're working very hard with our suppliers to diversify.

The second point is that remember that we front-loaded the execution of our battery project in the US very significantly. So a lot of the construction that is happening today is actually already materializing the value that we saw in BRP. So that's for us, very important. And we always say that it was a way for us to derisk ourselves from future evolution on battery. So this is how we will manage. And right now, we're very pleased, the execution of the project in batteries is going well. And as I mentioned in my prepared remarks, we had anticipated quite a bit on delivery with some safe harbor equipment. So, we feel at this stage fairly comfortable with our battery positioning in the US.

You want to mention something.

Pierre-François Riolacci

Yeah. Hello, Arthur. Thank you for your question on dividend. Dividend is, of course, a shareholder matter. So there will be a discussion that we'll take with the Board in due time. We are also listening to the market and I would say the dominant message from the market is that we are very impatient to see the moment where ENGIE will be on a journey of increasing dividend. And with a stable -- that kind of gentle growth of dividend that we are after and that was an important theme of our messaging in February. So I think that it gives you a hint where we would like to push. But that would be a decision that will come in the right time when we have the full year result, because we need to have the full year before we make any decision on dividend, that's very important. That's the first point.

When it comes to interim dividend, you know, that under French law and we are a French registered company, you have some restrictions. It means that first you need to go for an interim clause, which is pretty cumbersome. And we did it in the past, we could do it again, but we try to be more simple. So we have to be also consistent. Let's say that's something we can overcome.

Second point, it's also French rule is introducing some restrictions where to the dividend capacity, which are stringent and in the case of ENGIE, doesn't make interim dividends that easy in the long run if we want to be stable again and predictable. So -- but we'd be looking at it because it's a question that we had more over the last quarters and we are very open to the discussion with the Market. So we take due note of this request which is ramping up.

Operator

The next question is from Wanda Serwinowska, UBS. Please go ahead.

Wanda Serwinowska

Hi, good morning. Two questions from me. The first one is on the timing effects in Q1'25. Can you quantify them, the ones that will reverse? And if you can give us some timing, do you expect all the timings to be reversed by the end of the year? And the second question is on your guidance.

I noted that you slightly improved both the tax rate and the interest cost guidance for '25-'27. Could you please comment about the reasons behind that? Thank you.

Pierre-François Riolacci

Thank you. So on timing, I think that what we have a positive timing coming in B2C, which is about €100m and that we do expect to see reverse fully at the end of the year. We have a negative timing coming in B2B that I mentioned for about €200m that we also expect to see reversing fully throughout the year. So, most of these timing effects, you can take the reasonable assumption that they are going to be reversed in year. And I gave you the big numbers.

Now, our tax rate and financial cost for '25, this is fine-tuning. I think, on the financial cost, what is fair to say that we were expecting to see a decrease in the short-term rates to happen. It did happen, but it happened a bit later than expected. And that was at the time we were very long cash before the payment of dividends. So, it give us a bit of breath there in the financial cost. And that's the reason why you see this very slight improvement. And that's basically the key point I wanted to flag.

Operator

The next question is from Zach Ho, Jefferies. Please go ahead.

Zach Ho

Hi, good morning. Yeah, just two questions from my side. First one is on batteries. Just dialing into the US batteries point, I just want to check if you don't do any more projects in the US other than what you've taken FID on. Just wondering how that impact €400m EBIT target for 2027. And then my second question is on electricity grids and specifically, I guess, on the M&A portion. It's obviously a key part of your 2024 to 2027 EBIT bridge and it's not so clear that ENGIE will be able to execute on this M&A driven growth. I guess maybe some color on what your thought process is around that. And if there are any alternatives to electricity grid M&A in your plan, would you consider having that target of 15% of networks' EBIT from electricity or potentially allocate that capital elsewhere? Thank you.

Catherine MacGregor

Maybe on the battery and just to complement what I said, we don't see much risk to 2027 on this target because much of the €400m we mentioned actually came from batteries that were going to be put in line in 2025. And again, I mentioned that we are broadly on track, so we don't see a risk on the target in 2027.
Then the second question.

Pierre-François Riolacci

If I get you right on the second question, that if we could not complete our targets on acquisition in networks, power networks, would we be at risk of the contribution missing in '27? I think it's -today, we are working on it. I mean, we have some leads that we expect, of course, to bring home. If we cannot, of course, we can always also look at some other prospects. We are working on it. As you can imagine, in ENGIE we do have a lot of leads, both in internal organic growth, but also in acquisitions. And we are, of course, pretty agile.

At the end of the day, what does matter is value. And we are working in power networks. Now for to be also very candid in the renewables, you know that the market has been hit in some places and there may be some operating assets that we can buy at a good price. If it is value accretive, it's also a way we can redeploy some capital. We would be really driven by value creation as long, of course, as these needs are all fitting well in the strategy.

Catherine MacGregor

I think that is really key. We don't put ourselves in a syringe on M&A. So, we have indeed ambition on power networks. By the way, power networks development, we do quite a bit organically as well. Remember, I mentioned Chile, sometimes it's forgotten. We're also doing Peru, obviously Brazil. And we have options in our capital allocation. So, we will not put ourselves into a corner for sure.

Operator

The next question is from Alex Roncier, Bank of America. Please go ahead.

Alex Roncier

Good morning. Thanks for taking my question. I've got two, please. The first one is just to come back a little bit on GEMS and on Energy Management. And I know you already made some comments regarding phasing, but just wanted to clarify if some of the Q1 drop was due out of the market reserve reversals, so if you could maybe extract that from the performance. Because I'm just looking at the 200-ish million drop. You would annualize -- you would basically go to the bottom end of the €500m to €900m range you had guided at the Capital Market Day.

And then just to follow up on that, I mean, I know we've commented already about some pressure from your peers on trading, including like a relevant German peer this morning and I'm conscious again that perimeter is never the same between all the utilities. But just wondering specifically if you could expand on some of the strategy within Energy Management and the risk appetite within GEMS. I know some of your peers have set up some more traditional, perhaps trading capabilities, functioning almost like a commodity hedge fund to some degree. So wanting to clarify again that the risk appetite at ENGIE was a lot lower, as you've already commented, that would be great to have some color on that.

And then my second question is regarding your investment. We've talked about renewables, we've talked about batteries, but I wanted to come back on hydro and you've made some demonstration of your appetite there. Wondering if there's anything interesting for you in France regarding some of the changes in regulation for concession for EDF or even perhaps in Germany with some of the uniper assets that could come into play. And if not, if you could again in your flexibility regarding capital allocation and investment organically and organically perhaps actually look to upgrade a little bit more your current hydro portfolio with more pumping capacity. Thank you.

Catherine MacGregor

Yeah, maybe I'll start with the hydro question because you're right to say that there is a lot of discussion on regulation changes in France and potentially opening to the competition. I think to be honest, it's a long-awaited reform. So, honestly, it's very difficult to bet on timing on these things. But I mean, we have an ideal position in France through CNR, which is quite large, and then, the SHEM, which is quite small, 750-odd megawatts. And we really like these assets. But of course, if there was an opportunity to do more hydro in France where we would be interested in looking at it. But again, I wouldn't get overly excited about the timing, if any, if it comes of this opportunity because, yeah, it's quite complicated.

And then, yes, I mean, as much as we can, you will see us engaged sometimes in acquisition, like we just did in Brazil, but also sometimes in modernization and then trying to get a bit more power capability from our existing assets when we can. We have, by the way, in France, one asset in SHEM which has potential. Again here, we need regulation clarity, but we could do a little bit of upgrade of the assets and then increase the capacity of the asset, then it's great because obviously you gain more megawatts on existing assets without having to go through construction permits, et cetera.

And we also have our first hydro in the UK. The big step assets that we have, providing a lot of great flexibility power, which is also undergoing modernization. So we value a lot of these assets and when we can invest, when we can increase the capacity, we will do so.

Pierre-François Riolacci

For your GEMS questions. First, we don't see Energy Management trending to the low end of the guidance for the full year. I think you remember that last year -- and, of course, there are always this reserve. So this reserve I was particularly about was €500m reversal in Q1 last year. It's. It's €200m this year. So it's indeed a significant decrease. However, if you look at the run rate, it's a bit tricky to annualize. Last year, Q1 was about 40% of the total year. It's not a bad start, it's not a bad place to be. And if you want to get something for the full year, I mean, there is no reason that the pattern will be significantly different. Now, of course, it would be on a rebased number because it's -- we expect to be much lower than last year in Energy Management for the reason that you know about the normalization, but also the reserve reversal. But I think that we expect the year to be definitely well above Q1. So I think that we are comfortable to land in a good place in the guidance in a range in Energy Management.

For the risk appetite, in ENGIE, it is limited. The key principle in ENGIE is that we hedge at inception. That's what we do. We do have still, of course, risk in the market because a lot of this hedging cannot be done straight fully. And you have proxy hedging, you need to manage time, you need to manage some underlying product. That's our job of transformation. And we do manage it through all kind of compliance and risk control framework, especially with value at risk targets. So we do check on that and I can tell you that indeed we are not at all a commodity hedge funder. We do not host that kind of thing. And this is not what we want to be. We are supporting the business, supporting our customers and we bring that into portfolios where we do manage, indeed hedging. And in that hedging, some proxy hedging, which explains why we do have exposure. But again, it's limited and always anchored into the business, either our own industrial asset or with customers.

Delphine Deshayes

Operator, can you please take one last question, please?

Operator

The last question is from Piotr Dzieciolowski, Citi. Please go ahead.

Piotr Dzieciolowski

Yes, good morning, everybody, and thank you for squeezing me in. I have two questions on your supply operations. Firstly, on the B2B segment, I wanted to ask you what -- how different is the customer approach now after April volatility versus beginning of the year? What do they tell you about the second half of the year? Do you see a meaningful kind of a lower risk -- lower appetite for risk and for volumes? And we could see a demand decline in the industrial space.

And second on B2C. It seems to me that across the number of European suppliers we see a relatively healthy supply margins and slow start of a competition. What is your expectations toward the competition? Is it going to start and do you see -- what's your approach towards the acquiring new customers and volumes? Thank you very much.

Catherine MacGregor

I think it's fair to say that customers, and particularly industrial customers, are quite erring on the cautious side these days. Obviously, macro trade, a lot of uncertainty. So we do see that. Obviously, we mentioned that, remember, on the B2B customer side, we have locked about 80% of the margin for 2025. And so it's more going forward. But right now, we do see cautiousness in the market and from our customers very clearly. And in B2C, competition is coming back. We are seeing both in our key markets, Belgium and France. So it's really for us obviously important that we want to keep our customers. And here we are obviously making sure that we remain competitive. At the same time, making sure that we price in the right manner. All the risk bricks that were some key learnings from the energy crisis. But yes, the markets became a bit more competitive, but we have a good positioning and the team are doing good job to tackle that. I think that's it.

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, do not hesitate to call the IR team. Have a very good day. Thank you.