9M 2022 RESULTS

10 November 2022

Operator

Thank you

Aarti Singhal

Thank you and good morning, everyone. It's my pleasure to welcome you to ENGIE nine-month conference call shortly. Catherine, and Pierre-Francois will present the performance following which we will open the lines to Q&A. And my usual polite request. Please to limit your questions to one or only two please.

And with that over to Catherine.

Catherine MacGregor

Thank you Aarti, and good morning everyone.

ENGIE has delivered in what have been clearly unprecedented market conditions.

Our teams have continued put in relentless efforts to help tackle the energy crisis. ENGIE is playing a leading role in supporting security of supply in Europe. We are also contributing to policy measures to help address these high energy prices. Importantly, we have maintained momentum on the execution of our strategic plan. The disposal program that we announced back in May last year, is now nearly complete and we are driving forward at pace on growth, particularly in renewables.

I firmly believe that this crisis offers society an opportunity for a faster energy transition, on which our teams are working day-in, day-out, executing on our strategy. A strategy that is indeed more relevant than ever.

Now, on to our financial and strategic progress in the past nine-months. EBIT grew 79% organically to €7.3 billion, driven by a higher contribution from most of our activities with a particularly strong increase from GEMS.

Higher cash flow from operations supported our growth capex. We invested €3.7 billion in growth of which 62% in renewables.

We continue to roll out our performance plan, delivering efficiency improvements across the board, and we are on track with our plan and our three-year target.

We have maintained a strong balance sheet and high liquidity which remained very important in the current environment.

So, on the back of this strong performance that we've announced today, we are upgrading our 2022, guidance with net recurring income group share expected now to be in the range of €4.9 billion to €5.5 billion and the Board has reaffirmed our dividend policy.

I want to acknowledge the engagement of our teams as the performance that we are announcing today clearly would not have been possible without their contribution.

We have therefore decided to offer an exceptional bonus of €1,500 for each of our employees worldwide. We want to recognize their tremendous efforts in managing the crisis, the high inflation environment and of course, this measure is supported by our strong financial performance.

We have managed through significant disruptions to Russian gas flows this year with no implications on physical supply. Our infrastructure activities in gas transport, in gas distribution, LNG terminals, and storage have all been operating at high utilisation rates.

Gas volumes transported have increased and GRTgaz is now transporting gas from France to Germany.

French LNG energy terminals have operated at record levels, and storage levels at Storengy in France are nearly at 100%.

We have continued to diversify sources of gas supply with additional volumes from Norway, from the US and from Algeria. ENGIE is well prepared for this winter.

We continue to be confident that additional volumes contracted together with an expected decrease in demand will enable ENGIE to reach its required storage levels for next winter also.

And we are actively working on the future of renewable gases. And we are unlocking the potential of biomethane, in France 459 biomethane units are now connected to our grids and this represents a total production capacity of 7.7 terawatt hours per year.

We have also continued to drive forward on hydrogen. Five of our projects have been selected by your EC Public Funding Program to boost the development of hydrogen, which highlights their viability and relevance.

And as part of our R&D platform in France, we recently also inaugurated our H2 factory in order to help us to test the entire hydrogen value chain, including production, storage and usage.

Before covering our operational and strategic progress, first an update on some of the EU measures that have been at the forefront of recent policy debates to address high energy prices.

I start with the infra marginal rent cap where the EU adopted a regulation in October and now different Member States are working on its implementation.

Based on the current draft bills, we expect our nuclear assets in Belgium, our drawing rights on two EDF nuclear plants, as well as our CCGTs in France to be the main assets covered by these measures.

We are awaiting further detail on these bills, which are expected to be adopted by the end of the year but we have simulated and included our best estimate of the potential impact of these measures in the guidance provided to you today.

And just a reminder, we have already contributed nearly €900 million in the nine-months, through existing government profit sharing mechanisms in Belgium, and in France. And in addition with the benefit of our strong financial position, we continue to provide working capital support to implement the tariff shield, as well as the higher gas storage requirements in France.

We are also helping vulnerable customers, as we already announced in the summer, supporting SMEs, alongside initiatives to help customers reduce energy consumption on days of high demand.

We are also engaged in discussion on the many policy measures which are being considered in Europe, not only to address the short-term but also on the longer-term market design. Our conviction is unchanged, delivering a smooth affordable energy transition will require a balanced energy mix with a critical role for power, for gas and of course increasingly for renewable gases.

On to our strategic and operational progress.

I'm very pleased to say that alongside all the actions that we've taken to tackle the short-term, our teams have made further progress on the strategic plan.

The announced disposal program is nearly complete with the sale of EQUANS.

Our geographic footprint will be down to 31 countries upon completion of the signed or closed agreements. This is to be compared to 70 back in 2018.

ENGIE is capturing many opportunities to accelerate the energy transition, primarily through investment in renewables where our platform is growing with nearly 37 gigawatts of installed capacity and a target of 50 gigawatts by the end of 2025.

We have exited 100% of coal in Brazil with the sale of Pampa Sul which is now signed and the closure of the last Tocopilla unit in Chile.

So now coal represents 2.6% of our centralized generation capacity and it is by exiting coal and by investing in renewables that we are indeed progressing towards our net zero ambition by 2045 and this will cover three scopes.

So with the progress to date, we consider that our strategic and geographic refocus is now more or less complete.

Let me now move to the operational progress.

ENGIE is operating in energy markets through GEMS, which offers a clear competitive advantage for us. In GEMS, we have over two decades of experience and we are linking our activities through a global portfolio approach, enabling us to achieve a number of objectives, such as commercializing renewables output, linking our flexible portfolio to our very large customer franchise, capturing value through optionality and of course responding to increasing demand from our customers for risk management services in this context of continuing volatility.

GEMS has benefited from record high level of activity in a favourable environment and Pierre-Francois will cover this in more details.

In Renewables, we've continued to grow our installed capacity, adding 2.5 GW in the nine-months to a number of projects such as in Scotland with Ocean Winds, Eolia in Spain as well as projects in the US, in Chile and in France where for example we have commissioned 27 solar and wind projects this year further strengthening our leadership in this market.

And we also grew a renewable pipelines, for example, we just announced an MoU with a consortium in Egypt capitalizing on a long-term local partnership to build, own and operate, a 3 gigawatt wind farm.

Our Thermal business contributed to the security of supply and system stability through flexibility and ancillary services. Flexibility in generation will remain absolutely key to balancing intermittency from renewables.

To this end, recently, we acquired a 6 gigawatt pipeline of projects, including solar, paired and standalone battery project in the US which will be developed jointly by our Thermal and Renewables GBUs, clearly leveraging our integrated business model.

In networks beyond the high utilization rates in France, internationally in Brazil we reached commissioning for 94% of the Gralha Azul power line. TAG also posted a strong performance and is playing an important role in the opening of the Brazilian gas market.

In Energy Solutions, we are continuing efforts to increase efficiency and build a stronger platform for long-term growth. We have such a large pool of opportunities, the revenue backlog increased in the nine months and the GBU saw multiple wins. Confirming the strong market drivers for this business, examples of that include a concession to build and operate 5,600 EV charging units in Belgium, concessions in district heating cooling such as the network of Hautepierre in France and multiple distributed solar opportunities, such as with Saint Gobain in Romania and Heineken in Spain.

Finally, in Supply we're working on affordability initiatives and our strong supplier brand is contributing to a lower customer churn across our European presence.

So, in general, strong operational progress underpinned by the strength of our integrated business model. Let me now hand over the floor to the PFR.

Pierre-François Riolacci
Thank you very much, Catherine, and good morning to all of you. We are, as you can imagine, pleased with our nine months performance, with EBITDA and EBIT continued to grow significantly. Cash generation improved with €8.4 billion of CFFO in the first nine months, up €3.1 billion versus last year. And economic net debt is slightly higher, while our credit ratios are improving further.

We are well on track on our three-year strategic plan, reaching around €10.5 billion of net financial debt impact with disposals already closed as we speak. That is to say that our at least €11 billion financial target for our disposal plan is almost achieved. And last but not least, we are upgrading, indeed, our 2022 guidance, while we are reaffirming our dividend policy.

Let's get maybe closer to the details and look at EBIT variation. EBIT is up €3.3 billion, €3.2 billion organically. We have, indeed, a positive FX impact of €236 million, with the appreciation of Brazilian real and US dollar against euro, and also an aggregate negative scope impact of €116 million. This scope effect is linked to 2021 events and also to some asset disposals, mainly to achieve our coal exit target and geographical refocus. So, on an organic basis, the 79% EBIT growth is actually across almost all GBUs, as Catherine was pointing to.

Renewables are plus €117 million, that is plus 13%, and let me highlight some key points. On the positive, we are leveraging our industrial performance. We are continuing to commission new capacity, and this is translating into higher contribution. We are also capturing some higher prices in Europe, mainly with French hydro, and we take advantage of the reversal of the 2021 one-off, the Texas extreme weather event impact. But this is offset partly by very severe hydro conditions in France and in Portugal that led to the double effect of, one, lower hydro volumes; but also, two, some buybacks. If you are looking in Q3 in isolation, you should also remember that, in Q3 2021, GFOM ruling in Brazil impacted by €150 million the comparable basis. But overall, we are very pleased with the underlying trend of Renewables business.

Networks is slightly down, minus €31 million, that is minus 2%. And it comes from France, where we had some negative effects due to warmer temperatures, but also to lower regulated revenues from our assets which are reflecting the latest regulatory review. It is, of course, important to mention that GRTgaz benefited from increased subscription of capacities related to transported volumes from France to Germany. These revenues are, of course, expected to reverse in the future. Outside France, Networks benefited from higher contributions in Latin America, mainly driven by strong performance in gas transmission in Mexico and in Brazil, as well as inflation indexation, partly offset in Europe by warmer temperatures and also some higher energy costs.

Energy Solutions is broadly flat, minus €4 million, minus 2%. We had some positive effects from energy prices, which have been going up in France mainly, but that was offset by a net aggregate negative impact of one-offs. There were positives in 2021, negatives in 2022; nothing really material but, of course, has an impact. And also, we had some headwinds from warmer temperatures in France. Overall, very confident that we can deliver a strong improvement in Q4 for Energy Solutions.

Thermal is up €259 million, that is plus 34%. Very positive results with a strong contribution of our European activities, which have been able to capture higher spreads, and also very strong level of ancillary services. But we had also a fair share of headwinds. We had some outages in France, and the cost was even more important given the current level of commodity prices. We had this extraordinary tax in Italy, which, by the way, is also impacting our GEMS activity. And we also already say that we firmly believe this tax is not properly designed. And also, as in H1, we are still facing some difficulties in a couple of countries, in Chile and Australia, with structural supply/demand imbalance, which penalize activities based on merit order and also a disturbed market context in which gas and power prices are increasing exponentially.

On Supply, up €459 million, so a very strong improvement compared to last year. As in H1, we had a positive timing effect linked to the existing ARENH mechanism, and this existing ARENH mechanism, given the current prices, becomes fairly visible. We expect actually to reverse this timing effect in Q4, and that should be somewhat significant. We had also some warmer temperature in Europe that led to a long gas position that could be monetized in exceptional market conditions during Q1. The performance also reflects the start of implementation of support measures to households mainly in France that we introduced during the summer.

Nuclear is up €583 million. That's an exceptional performance, which is driven by much higher achieved prices, which are only partly offset by increasing taxes specific to units in Belgium. And you should know that, in Q3, the specific G2 taxes increased significantly. The reason being that part of the calculation mechanism is based on forward prices, which are up strongly compared to last year. Last but not least, lower volumes were produced both in Belgium and France on the back of planned but also unplanned unavailability, particularly in Q3.

Others saw also a very strong improvement, plus €1.8 billion, and it is mainly driven by the exceptional outperformance on all GEMS activities that I'm just about to detail.

Indeed, a very strong performance from GEMS, and let me take you through what's behind that. As an integrated player, ENGIE is operating in energy markets through GEMS, sourcing energy for customers but also selling its own production, as well as hedging upstream and downstream positions. That's our core business. As we have been highlighting since the first quarter, unprecedented market conditions are offering opportunities to this business which benefits from the strong expertise of its more than 3,000 employees.

Let's discuss first the environment in which we operate. Throughout nine months 2022 and especially in Q3, we have seen consecutive new highs for prices with huge volatility and geographical spreads also widening. This is the reason why the nine months GEMS' performance was outstanding across all activities: mainly, one, gas contract optimization, especially in continental northwest European market, which was boosted by prices and spreads; and two, customer risk management services.

So, what is behind this performance? There are two key drivers that you need to take in account. The first one is volatility, and let me give you two simple examples. First one, you remember that GEMS is selling the volatility embedded in our industrial and commercial assets, and especially the various flexibilities which are embedded in some of our long-term contracts: flexibility in volume, in location, delivery point, in time. And if you take a look to the right-hand side table, you can easily see that volatility increased hugely compared to last year. It does bring, of course, a very significant upside to our business, while actually there is limited downside being only a loss of opportunity. The second example of leveraging this volatility is that part of our business is also to manage and optimize the cross-border transportation capacity. At the time, the geographical spreads have been widening significantly, also highly volatile.

Let me now move to the second driver of performance of GEMS, which is the commercial activity for waste management and trading that are the operation that we are doing on behalf of our customers. We had much higher volumes traded. 30% increase of volumes traded with clients for risk management purpose, both because customers asked for more risk management – more services to hedge their risks, but also because there is a flight to quality to operators like ENGIE which can offer both strong credit and also full access to the market. And these higher volumes were topped by higher margins as these margins are linked to the level of price, so the absolute level of price is also a driver. and also because we have been increased – we're facing this increasing risk, we have been managing increasingly credit risk, liquidity risk and, of course, this is charged to the customers. So, nice tailwinds, for sure, but these tailwinds are coming on top of a growing platform which is leveraging very strong skills, systems and processes.

On the back of these strong P&L items, cash generation has been actually also improving. CFFO increased €3.1 billion to €8.4 billion compared to the nine months in 2021. The operating cash flow is up €3.1 billion, which is broadly in line with EBITDA improvement. And as in H1, our working cap variation is positive, plus €0.3 billion.

But if this amount is small, it is made of some very big tickets that we need to look at. First, the higher stored gas volumes, primarily driven by security of supply considerations and supported by warmer temperature are, of course, pushing on our gas inventories. Second, that's very important, the higher commodity prices are impacting both the gas inventories but also the receivables net of payables. And last, some regulatory measures to support the energy affordability – for example, social tariffs in Belgium, tariff shields both in Romania and France – are a drag to our working cap.

All these negative impacts, which are driven by the price environment, the crisis environment, were more than offset by margin calls with a positive contribution of €3.2 billion. Part of this is due to active management using standby letter of credits, being smarter on the structure of transactions and the liquidity swap, but also better functioning of clearinghouses. It is expected, however, that the margin call contribution will decrease in Q4.

From cash, we can go to the balance sheet and the credit metrics. The net financial debt stood at €27.6 billion, which is up €2.2 billion compared to year-end. This reflects capital expenditures of €5.2 billion, including €3.7 billion of growth capex; dividends of €2.6 billion, including €0.4 billion of dividends to minority shareholders; the funding of our nuclear provision, which is increasing in line with both our public commitment and the new Belgian law; and finally, our new rights of use for €1.1 billion, mainly following the renewal of the CNR hydro concession - we discussed that already last time.

These elements were only partly offset by a strong CFFO of €8.4 billion and some disposal for €1.7 billion mainly related to GTT partial disposals and the SUEZ operation. It does not include, of course, the net proceed of the EQUANS disposal which was closed on October 4. The economic net debt was slightly up to €39 billion and the increase of the net financial debt was, indeed, offset to a certain extent by lower post-employment provisions and that has to do with the evolution of the discount rates and all source of funding of our nuclear provisions.

Our leverage ratios improved, mainly driven by the strong LTM EBITDA increase. And notably, the economic net debt to EBITDA ratio stood at 2.8x, which is down to 0.8x compared to 31st of December 2021. Lastly, no recent change on the rating which is in line with the strong investment grade we want to stick to.

With that, in line of this very strong nine months, including updated assumptions for the balance of the year, we are upgrading our full year 2022 guidance. We now expect 2022 net recurring income group share to be in the range of €4.9 billion to €5.5 billion based on indicative EBITDA range of €13.2 billion to €14.2 billion and EBIT range from €8.5 billion to €9.5 billion.

Some key comments on these figures. They do include risk of potential impact of proposed EU emergency measures, mainly in France and Belgium, based on current drafts and our current interpretation, as Catherine was pointing to. Let's be clear, it is estimated that to the best of our knowledge, but there are still some moving parts on this provisional draft so to be factored in. These figures are also including the reversal of favourable timing effect that we have seen in the first nine months that we expect to penalize Q4. The other part of the guidance related to rating and dividend remain unchanged.

With that, I will hand over back to Catherine.

Catherine MacGregor
Thank you very much, Pierre-Francois.
So, let me conclude with the main messages. ENGIE has delivered strong financial performance in exceptional market conditions. We have continued to play a leading role in supporting the security of supply in Europe, and we have maintained momentum on the execution of our strategic plan with major progress across all dimensions. The disposal program mostly behind us now, and we are driving forward at pace on growth, particularly in Renewables.

Before opening the lines to the Q&A, I would like to let you know that Aarti Singhal will be leaving the group to go back to London. And so, I would like to take the opportunity to wholeheartedly thank Aarti for her numerous contribution to the group, with a personal note to her as she's been a fantastic support to me personally as I transitioned to ENGIE two years ago. Aarti will be replaced by Delphine Deshayes, who will be joining the group shortly.

And now, we can open the lines to the Q&A. Thank you.

Q&A

Operator
Thank you, madam. The first question is from James Brand of Deutsche Bank.

James Brand

Oh, hi. Thank you for taking my question. I have two questions. Firstly, on GEMS, I know it's a difficult question and it's a bit of unclear this stage what normal looks like. But I was wondering, if we do get into kind of more normal market conditions, if you could give us any kind of feel for what kind of level of profitability we should be expecting from GEMS? Because it's moved around a lot over the years. Obviously, amazing we get this year, but where could this end up in the medium-term?

And then, for the regulation on the CCGTs in France, I know you don't that have much CCGT capacity in France. But I was just wondering whether you could explain a bit more about how that – the price cap on CCGTs is going to work? Thanks.

Catherine MacGregor
Okay. So, maybe just a comment on GEMS. One thing that is always good to remind everyone is that, if you remember when we introduced our road map two years ago, we clearly put GEMS in the center of our strategy and as a very important lever of competitive advantage. So, for us today, the numbers are, obviously, very good and underpinned with a high volatility. Obviously, the high prices in absolute terms as well, the volatility that is exceptional. But GEMS is a critical piece of our strategy. It is what makes our development in Renewables so exciting. It is also what makes our renewable presence, in a way, very, very differentiated. And so, will continue to remain very important to our strategy and, in fact, will grow in importance in terms of strategic importance to ENGIE. I think that's very important to underpin that.

I don't know, Pierre-François, if you want to say a few comments on the level of and what kind of level we can expect in the coming months in terms of financials. Into that, in terms of the price cap on the CCGT, maybe just a comment that, right now, we are really still in the – trying to see through the details of the draft bills. And so, very difficult to estimate the price cap impact on CCGTs. Although our current understanding is that they are being a part of the scope of the law as per our current understanding.

Pierre-François Riolacci
Yeah. I'm not sure I will share with you what is our expectation of earning for GEMS in the future. But maybe to build on Catherine's point, we are growing the platform. We are growing geographically the platform, because it is actually going to further countries within ENGIE that were not fully addressed yet. So, that's going to help. We are also growing the platform in term of added value because it's really now moving fast in terms of B2B management and sales. So, these dimensions are definitely supportive of earnings.

And then, the second key assumption is where do we see the energy market going forward? So, there is a sensitivity to price, for sure, in the absolute level because part of the remuneration is based on price. But I think that the assumption that you will make about the volatility in the market and also the appetite of customers to go for more risk management are also critical. And we can be reasonably optimistic that, in the next quarters, if not in the next few years, this volatility could stay at a higher level. For sure, it is helping GEMS to boost their earnings power.

So, very, very careful, of course, not to extrapolate that 2022 can be a push in the future. But that GEMS is building a platform which is bigger and stronger than what it was before. Yes, definitely, because there are some structural improvement and market overall condition which are definitely favourable.

James Brand
Thank you very much.

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

Arthur Sitbon
Hello. Thank you for taking my questions. I have two. The first one is on Renewables. You're saying that you're on track to add 4 gigawatt of renewable capacity this year. Well, this actually looks quite good and in line with your target, which is not necessarily the case for all companies in the sector. Some of them are mentioning they're struggling with permitting, with supply chain bottlenecks. So, I was wondering what allows you to differentiate yourselves here. Is it that you're present in different geographies? Well, so that's the first question.

The second one is on the assumptions you make in your guidance on the windfall profit tax, especially in France. I don't think you're mentioning French hydro. So, do you think the revenue cap will not impact French hydro, and why not? And also, on the other plants, on the nuclear ones in particular, do you expect the cap to go to the lower end of the range, around €100 per megawatt hour for Nuclear? Thank you.

Catherine MacGregor
So, let me start – just a few comments on our global business unit Renewables, which, indeed, is delivering very, very well. So, very, very pleased with the strength of the execution of this platform that we are putting a lot of efforts in strengthening. Very happy with the development progress from the global business unit Renewables. And by the way, this includes also participation in our JV, Ocean Winds, which is also doing very well in terms of development. So, extremely pleased.

I think what is important to remember is, when we set the goal of the 3 and the 4 and the 6 gigawatts of additional capacity on average, so we are now on the 4 gigawatts pace. We've always said that we wanted to be ambitious but also realistic and credible. And so, those goals we have set underpinned by a very strong project pipeline, project that we have a good sight on. We described our pipeline back in H1, it was about 71 gigawatt. And I think you're right to say that when you look at the makeup of this pipeline, you will notice that it is very well balanced, both in terms of geography. For example, 30% of pipeline currently is in North America. So, we have about 38% in Europe, and then 30% in North America. You have some in Latin America. It's a very good balance from a geographical standpoint and, of course, from a technology standpoint. So, from that standpoint, we really like the way our pipeline is made up, and it gives us indeed an ability to mitigate the risk, which are there, the execution risk, the supply chain tension, some of the logistics a few years ago, etcetera. But the teams are working through all of these hurdles and are able indeed to deliver. So, we said 4 gigawatts on average this year, the team is doing a great job. So, both very good in development and in execution.
If you remember when we set the Renewables global business unit up, we also said that we want to move the focus from development, so development is very important, but also across the whole chain with a stronger focus on execution that may be what ENGIE used to have. So, we are also very much focusing on construction management, supplier management, the choice of the subcontractors, relationship with the technology provider, whether it's wind turbine or the solar, where we are really looking at how we can engage with our supply chain a bit differently to make sure that we can secure some of our technology. So, in a long list of things that the team is working really, really hard to make sure that we do deliver on what we promised. And this is, again, well underpinned by a very strong pipeline and balance from a geographical and technology standpoint.

You want to comment a little bit on the guidance assumption on inframarginal rent cap, Pierre-François?

Pierre-François Riolacci
Yes, a quick one. Again, you need to be very careful not to be too detailed. And if we are reasonably confident that we can give some numbers for 2022, it's also because 2022 is completed to a large extent. And of course, if you look to 2023, the uncertainty is higher depending – given the leverage of the full year versus the uncertainties of the current provision. Now, on French hydro, remember that, for our main assets, there is already a royalty, which means that beyond €80 megawatt, we have 80% tax. So, the sensitivity to any additional tax is actually quite limited, because we are bumping into there already, so please keep that in mind.

And the second point on the infra cap in Belgium, yeah, seems pretty transparent that we are betting on €130. Now, the tax is not final so, yes, it can move further. And this is part of uncertainties. And you know that, in Belgium, there is a case where it would be retroactive for a few months. So, that's part of the uncertainties we have to manage.

Arthur Sitbon
Thank you.

Operator

The next question is from Ajay Patel of Goldman Sachs.

Ajay Patel
Good morning and, firstly, congratulations on the results and the presentation. I have two areas I would like to explore in a little bit more depth. Firstly, just on the guidance. You delivered nine-month results that are about 80% up year-on-year. And I recognize the assumptions for the regulatory changes and the favourable timing effects. But the implied Q4 results of €1.3 billion to €2.3 billion of COI, which seems pretty low relative to last year's numbers, which were broadly at €2.3 billion. So, I just want to understand where the big deltas come from that can create such a guidance. Or is that just conservatism because we have a relatively uncertain world and you want to prepare for that?

Attached to that, I just wanted to go to dividend policy. Just broadly taking the midpoint of your guidance would imply just over €2 of earnings and around €1.40 of dividend. Is it purely as a mechanical of that, that I can just literally take what the earnings is, apply the midpoint of the policy guidance, and that should be the dividend we should expect for the full year, because, relative to your current share price, that's almost a 10% dividend yield?

And then, lastly, if we just take maybe a little bit more of a strategic mindset, the assumptions that we are now operating in relative to when the presentation of the Investor Day was set are materially more favourable. You have much stronger cash flows. Your balance sheet headroom is much bigger. What is your objectives in terms of reinvesting that? Are we largely expecting organic investments to be in most of that balance sheet capital utilization? Or is there – are you open to a larger acquisitions or only bolt-ons of a set size? Any clarity there would be really helpful. Thank you.

Catherine MacGregor
So, let me maybe start with the last two questions. So, dividend policy has been reaffirmed. So, there is a clear policy which will be applied. So, I think it's – not much more comments on that. I think we've been very clear.

On the last points, reinvestment in the future, I think two things. First of all, the macro trends towards accelerating the energy transition are stronger than ever. So, we have a very large opportunity set and we are very excited about this. Of course, the financial performance of ENGIE will allow us to look at these macro trends in a very optimistic way. And we feel that we have a very good alignment between our investment priorities and what the world is offering us and which – that is very positive. It was true, by the way, back two years ago. I think, it's even more true now. So, obviously, we will be looking at ways we can accelerate the transition, at the energy transition, towards a low-carbon economy. But it will continue to be very much in line with the principles that we've laid out.

So, we'll come back in February. We'll update you with our short-term outlook, or mid-term outlook, short to mid-term outlook. But the principles will not be very different. We're going to be very much focused on capital allocation discipline. We want to make sure that the growth that we are investing in are return focused. And we will continue to have the clear priorities that we've laid out, which is around the renewables and the decarbonisation solutions for our customers. So, not much change in terms of the way we will be investing those euros. Obviously, the numbers will take into account the new reality that we are in today.

In terms of M&A versus organic, again, you know, we are very focused in creating value from our own capability. So, mostly organic, mostly through the hard work that the ENGIE teams are doing and building this expertise and industrial
value that we are creating day-in, day-out. Of course, that doesn't prevent us from looking at some opportunities but we will be looking at mainly the kind that you describe, which is maybe tuck-in, adding value to our existing portfolio. Remember, we really value a lot the fact that we have portfolios in certain markets, and so the incremental value of a target will always be evaluated in relation to an existing portfolio in addition to the value that we can create by applying our expertise, whatever competitive advantage we can have, etcetera, etcetera.

So, not much change there in terms of principles hopefully, with the numbers that will be revised as we talk to you back, in February.

On the guidance, you want to comment a little bit the Q4 numbers?

Pierre-François Riolacci
Yeah, a couple of comments on Q4. You remember that, last year Q4, excluding EQUANS, the COI was €2.1 billion. And it was already a strong quarter and with some tailwinds on the price environment, also good climate. So, that's a stronger comp compared to what we have seen so far. And then, you're right to mention that we will have, in Q4, the timing effect. It is mentioned about €400 million in the guidance page. And also, we have the taxes because the taxes, they will kick in Q4, part of them being retroactive. So, you see that there is also a claw-back on some earlier profit, and that's what we are factoring in the guidance.

Ajay Patel
Are you able to give us just what the number is, the assumption you're putting in there, so that we can then compare any release and our own calculations against what you're assuming in the guidance? Or is this something that you want to hold back on at the moment?

Pierre-François Riolacci
Usually, you don't have the turkey to give the recipe for the Christmas dinner. But let's say, it's a few hundreds.

Ajay Patel
Okay. Okay. Thank you very much. Very kind and great answers.

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

Peter Bisztyga
Yeah. Good morning. Thanks for taking my questions. So, for the first one, just wanted to focus on one potential risk for next year, which is the cash burden of the French retail gas tariff freeze. I'm thinking that could be several billion euros actually. And if that's correct, do you have any concerns about your ongoing ability to securitize that or get working capital financing for that if credit conditions continue to tighten? And also related to that, could the cost of that working capital financing become a drag on net income for next year? So, that's my first question.

And then, the second one actually just relates to climate effects. Clearly, selling surplus gas back to the market was a positive for you in Q1. E.ON was saying yesterday actually, overall, the warm weather was a bit of a negative thus far in Q4. Spot gas prices came under some pressure. I'm just wondering what your experience has been thus far in October and November from the warmer climate?

Pierre-François Riolacci
Thank you. On the cash side and the French tariff, it's, of course, a fair question. But pleased to report that, so far, we see no reason why we should not be able to extend the securitization process and it was completed, as you know, at the end of June. And we are in good discussion with authorities to make sure that we can actually replicate, of course, with some tweaks because, as you know, the heating season is at a peak in December. So, it triggers a bit of complexity. But same good spirit in terms of trying to find solutions and avoid to transfer huge burden to operators. So, no reason to believe that we should not be able to replicate something similar in 2023. Of course, there is no assurance but, again, good signals.

And on the climate, I think it's a fair point. It's clear that the markets today are different. Now, of course, it depends on the mix of your sourcing and the hedges that you have entered into, which are being a potentially unwound. But that's a fair point. Now, if you remember that also given the current market and especially in power, because this is very true for gas but for power, the last thing that you want is to be short. So, I think that if there is a mild climate, it's also rather a good story on that side. But fair point that what happened in Q1 could not necessarily happen again in Q4, when it comes to long gas position due to mild weather.

Catherine MacGregor
Additional comment on climate, Peter, is to remember that in terms of security of supply, obviously, I think it's important to welcome warmer climate these days because this will put us in a better situation collectively with storage levels at the end of this winter, therefore, for next winter, just to keep that in mind as well.

Peter Bisztyga
Perfect. Thank you very much for your answers.

Operator
The next question is from Vincent Ayral of JPMorgan.

Vincent Ayral
Good morning, and thank you for the presentation. So, sticking to two questions, I'll first touch upon the negotiation on the nuclear life extensions and the cap on nuclear liabilities. There's been a few press reports here and there. But it seems that an MoU is expected for September, there's still nothing on there. So, could you give us a bit of colour? I see that your nuclear provisional are down, though, due to be updated this year. So, as rates went up, did you slightly increase your gross cost estimates in order to prepare for that? So, that would be the question, basically, regarding nuclear liability cap and extension. So, that's the first one.

And the second is a bit more generic. It's actually bouncing on your comment, Catherine. Looking at European gas supply and demand, could you give us a bit of colour on what you see on the ground in terms of gas and then that weather corrected because, obviously, the weather had been super warm. But if you have any pointers in terms of weather-corrected type of demand trends and what do you expect for the coming winter. Thank you.

Catherine MacGregor
Okay. So, maybe starting with an update on where we stand on Belgium. So, as you remember, Vincent, we signed an LOI at the end of July to lay out the framework under which we would conduct an LTO project to extend two of our plants in Belgium beyond 2025. And you're right to say that the LOI highlighted a couple of deadlines – or not deadlines – dates, one was the end of September, one was end of December. And as we said in our press release today, it's fair to say that the process is taking a little bit more time. So, I think it's fair to say that it's a bit delayed. Discussions are ongoing and they are constructive. Obviously, a bit difficult to give you more specific, given that, obviously, it's something that we are discussing with the Belgium government, again, very constructively. However, the 31st of December date that we had given, today is less likely to happen as such than more likely. And that would be my comments on Belgium. And in terms of the revision on the provisions, the process is ongoing, as usual. It's a triennial process. So, we'll be giving more colour on this when we have, which would be typically by year end.

In terms of gas supply demand, obviously, we have modelled in trying to correct for weather. I would say in terms of European customer, what we're seeing is that the very big giant type of customers of ENGIE have shown a demand [destruction] which is quite high, between 20% and 30%. This demand destruction, by the way, is not just, you know, production stopping or suspending, this also includes conversion from gas to fuel, fuel which is not great for climate, but that's the 30% that we're seeing in the very, very big customers. Of course, for smaller customers, it's much less. And here, it's between 10% and 15% for the smaller companies B2B. I hope that answers your question.

Vincent Ayral
Yeah. Thank you very much. And I'd just like to have one...

Catherine MacGregor

Sorry, and, of course, this is also important. When we project the security of supply to next winter, this is a big factor to help us anticipate the balancing of physical gas supply for next winter.

Vincent Ayral
Thank you. And just wanted to ask a last question, apologies for that. E.ON talked about the cap in Romania on electricity having potentially some impact on the supply activities there in power. Do you see anything on your side what type of exposure do you have on that? Could this be big? And do you expect a resolution soon on this topic? Thank you.

Pierre-François Riolacci
Yeah. We have the same the same kind of regulation. However, we – again, it goes in Romania with – this cap is also coming with access to gas in good conditions, which helps, to a certain extent, to mitigate this impact. And overall, we are, of course, struggling in Romanian operations. It's a difficult environment, also a big of a drag on the cash because we have some indemnification which are a bit behind, but they are coming. So to make a long story short, nothing material at group level.

Vincent Ayral
Thank you.

Operator
The next question is from Piotr Dzieciolowski of Citi. I apologize.

Piotr Dzieciolowski
No worries. Good morning, everybody. Piotr Dzieciolowski from Citi. Two questions from my side, please. So, firstly, I wanted to ask you about the GEMS' good performance. Can you tell us what are the spread exposures in this business and how are you able to lock in these positive spreads going forward? So, I mean, this number is really much better than last year aside from you benefiting from kind of buying a gas cheap and selling it in Europe. So, what are the main things we should look out for to see the direction of which way this result will go?

And, second, on the supply, can you maybe talk us through a possible bridge of the COI development between 2022 and 2023, which, you know, is how much of sellbacks you are benefiting from versus the potential price cuts you can get on the retail side or any other effects you expect? Thank you.

Pierre-François Riolacci
Maybe I take GEMS first. I think I tried to highlight what are the key drivers of performance. So you should definitely keep a close eye to it. Volatility in the market is clearly one driver. Your views about how big would be the appetite of customers to ask for transactions and, of course, higher is the price, the higher is volatility, the more you can figure out that they will come to us and deal. I think you need to keep also an eye on the geographical spreads in energies because that's also part of the optimization, when you are a global player, you can actually, of course, optimize your ALM. So, I think that's the kind of driver that can help you to figure out in 2023/2024 how much of that could still be around.

Now, I'm not sure about your point on supply. But if you are referring to the tariff shield and what's happening in France, you know that we are rather immune in terms of P&L. It's a cash impact, but which is, as we discussed, managed for securitisation. So, in terms of EBIT impact, it's not seen as a key driver.

Piotr Dzieciolowski
Okay. Thanks very much

Operator
The next question is from Louis Boujard of Oddo. I apologize, he has withdrawn his question. We have a next question from Thibault Dujardin of Société Générale.

Thibault Dujardin
Hello. Thank you very much. I have a question concerning the Russian gas exposure and to know if you could you give a little bit more colour concerning the residual exposure both from a physical and financial exposure point of view for this year and potentially in mid-term 2023/2024?

Pierre-François Riolacci
It's completely insignificant. I mean, we are – sorry, there is some noise, but we are still taking delivery of minute volumes going through Ukraine, but it's completely insignificant, both physically and financially.

Thibault Dujardin
Thank you very much.

Operator
The next question is from Louis Boujard of Oddo.

Louis Boujard
Yes, hi. Can you hear me?

Pierre-François Riolacci
Yes.

Louis Boujard
Okay. Thank you. Hi. Good morning, everyone. Thank you for taking my question. I have two. The first one would be related to the investment plan. In fact, we see here definitely that there is maybe a multisector framework in the US with IRA. At the same time, we have a bit feeling that in Europe, it's a bit lagging behind. What is pointed here is mostly the administrative burden. But is there also eventually other topics to unlock more investments in Europe, more particular in the energy transition? And if yes could you elaborate when do you think that we could have this kind of framework that could be more attractive and that could eventually trigger an upside revision into the potential investment that could be made. Considering the balance sheet leeway that you have, of course, you would be part of this. And it could be interesting to see when eventually the timing and when it could trigger some additional return on additional investment potential and options here.

My second question would be regarding the Networks division. We know that the Networks division was supposed to be a bit difficult, considering the regulatory framework that we have more specifically in France. It's clear that it has been well offset by your South America performance and also by the storage business since the beginning of the year. At the same time, there is lower volume than anticipated. So, my question would be, how do you see this evolving in the future, considering the catch-up in terms of volumes that could be eventually taken consideration in next year and the year after? And also considering the inflation environment that, of course, is going to have some impact into the top line, could you give us an update on how it should evolve going forward? In the current environment more likely it's different than what you expected 12 months ago. Thank you very much.

Catherine MacGregor
Yeah. Maybe just to say a few words on our geographical focus. So, you're right to point out that the US was actually quite favourable before. It's becoming, obviously, very attractive for renewable projects on the basis of the IRA. In terms of EU, administrative and permitting has always been a theme. On the other hand, you can see governments, first of all, at the EU level upping their ambition to 2030 in terms of the renewable mix in the final – in terms of the renewable portion in the final mix. So, that's one thing which is very encouraging. And then, each country is trying to give itself the means for this ambition. I want, for example, to point out the accelerated renewables law in France that is going through a legislation process and also increased ambition in France in terms of wind power and solar power to 2030 and then to 2050. So, there is a lot of ambition, a lot of

wanting to debottlenecking the permitting processes. Of course, acceptability on the ground continues to be a bit of an issue. But as you know, we are really working through that as well through our label in France here, where we have actually a label to characterize the methodology that we use to develop projects to make sure that they are getting through the right appropriation process, which is so important for acceptability purposes, which is why you can see that even in France, we are able to develop projects. It is a bit more complicated sometimes, but we are able to COD these projects in a big quantity. So every one of those legislative measures are seen as positive today to our investment plans, but always keeping a balanced approach. As I said earlier, we're not putting all our eggs in the European basket. And today, our pipeline has about 30% of projects targeting the US and North America presence, which is also very positive because of the good dynamics that we have there.

On Networks, I think the question was really around evolution in France. I think I would just summarize the situation on Networks to say that it is a favourable regulation in the sense that there is good protection on the inflation standpoint. And so, we actually quite like the contribution of Networks. The framework is positive and favourable to inflation and volume, of course, as well. So, it's a good regulation, and we are quite positive about the Networks contribution to our results.

Louis Boujard
Thank you very much.

Operator
The final question is from Sam Arie of UBS.

Sam Arie
Hi. Good morning, everybody. I'm way down the end of the queue today. But if you forgive me, I was hoping I could just make a short comment and then ask just one question. The comment that I wanted to make is just – I mean, I think we are all in the habit of saying thank you for the presentation and congratulations on the results. I think we often say that out of politeness as much as anything. But I want to just step back and think, you guys are still a relatively new management team. You've taken over quite a complicated, large organization in a very, very difficult market environment. And every time we hear from you, you beat expectations. And I think you are doing an amazing job. And the only thing that mystifies me here is how reluctant the market seems to be to price that in and how conservatively the market is trading the shares. So, I'm not sure what else you can do than what you're already doing, but I say congratulations. Thank you for the presentation. And I just want to underline that I think, really, it is very impressive what you guys are delivering. So, if you forgive me, that was just my – squeezing in my comment.

And my question that I wanted to ask is just moving on from the kind of questions about earnings and so on. I think most of the key points have been covered at this point. But I did want to take the opportunity to ask you about Russian gas. And probably the question I'm going to ask will make everybody groan, because it seems to me consensus is that we'll never get any more Russian gas into Europe ever. And in any case, it's prudent for Western Europe to plan on the assumption that there's no Russian gas anymore. But when I'm talking to traders and people in the industry, I mean, I'm not seeing 150 bcm of contracts being signed with the US or with the Middle East, so we're not rushing to replace the Russian gas with another long-term contract. And when I'm talking to traders, I'm hearing a lot of questions about, actually, will the Russian gas come back at some point?

So, I suppose my question that I wanted to ask here is if you look not two, three months forward, but two, three years forward, do you think it's still right to assume that there will be effectively no or negligible Russian gas volumes coming into Europe and what's your best guess there? And, secondly, if there was, for some reason, an unexpected resumption of gas flows, at least initially through Ukraine, and then in the long term if any of the Nord Stream pipelines came back into play, what kind of effect would that have on you? Are your positions kind of neutral to that, or would that be a negative surprise? So, sorry, it's a bit of an anti-conservative question, but I'd love to hear your thoughts on that. Thank you.

Catherine MacGregor
Okay. Thank you, Sam, for the kind words. We were a bit speechless out here, but thank you very much. And we do think that ENGIE has upside and has a lot of jewels that need to be fully recognized.

You're asking us to forecast the geopolitical situation in a few years, which obviously is very, very difficult. In my mind, there are some lessons that will be drawn forever from what has happened, in Europe, which is the need to avoid any over-dependency on any given counterparty. I think that is the key one lesson learned that will have to be integrated by every player with their company, with their States. So what that means is that there will be diversification, and there will be a better use of LNG because LNG, when it is supported, of course, with the right network and particularly with the right infrastructure, gives you the flexibility that you need to not be over-dependent on any one actor. And I think for me, that is going to be really the key lesson, not to say whether or not there will be Russian gas coming to Europe, I think it's no over dependency and a big reliance on LNG with the consequences in terms, of course, of infrastructure.

And I think your last question, I think it's fair to say that, we are also working through a diversification of suppliers, and that is something that we are actively working on. And if at some point there was to be some Russian gas available to us, we'll have to look. But right now, we are really diversifying. And I think the key point is that we've managed very nicely our exposure to Russian gas, which to remind everybody was about 20% at group level. And now, of course, it has become insignificant. Thank you.

Sam Arie
Okay. Very helpful. Thank you.

Aarti Singhal
Thank you very much, everyone, for dialling in. And that concludes our call today. Many thanks.