H1 2024 RESULTS

2 August 2024

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Delphine Deshayes
Thank you and good morning, everyone. We are pleased to welcome you to our H1 conference call. Shortly, Catherine and Pierre-François will present our half-year results, 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.

With that, over to Catherine.

Catherine MacGregor
Thank you, Delphine, and good morning, everyone. I am delighted to report that ENGIE has achieved strong first half results, enabling us to upgrade our full year earnings guidance. We have become greener, cleaner and more flexible by adding renewables and BESS capacity and cutting our greenhouse gas emissions. Our CCGTs and storage units are playing a full role in absorbing the increasingly intermittent supply in our main power markets, in which conditions look to have settled at a new normal. All the while, our earnings are solid and resilient.

In April, the Belgian parliament voted a law adopting the final agreement relating to the 10-year extension of the Tihange 3 and Doel 4 nuclear reactors, as well as to all liabilities concerning nuclear waste. The European Union in July opened a formal inquiry procedure, fully in line with our expectations. We are satisfied with the process so far. And we still aim to complete the procedure by the end of this year.

Some headline numbers. Although we have seen weaker pricing and volatility, a soft volume environment, and the non-recurrence of factors that in particular boosted GEMS last year, we have still succeeded in delivering robust EBIT, net recurring income, and cash flow. EBIT excluding nuclear was down 16% year-on-year versus a record high. We again generated strong cash flow from operations at close to €9bn.

Our balance sheet remains robust, with only minor changes in net debt since the start of the year, and economic net debt stable at 3.1x EBITDA. Following our strong H1 performance, supportive market conditions for FlexGen and Retail, and lower than expected financial expenses, we are upgrading our guidance for the full year. We now expect net recurring income group share in a range of €5bn to €5.6bn versus a previous range of €4.2bn to €4.8bn.

I believe that we are proving that we can deliver strong and resilient results, whatever the underlying environment, by leveraging on flexible and integrated structure to make the most of market opportunities. As this year we are indeed upgrading our guidance in a far more testing environment, and I would say despite it, it's true that we benefit from abundant hydro and several elements that are exceptional or temporary in nature. But I would emphasize that you have to have the expertise to grow capacities fast whilst delivering good returns. You have to hedge well and at the right time. You have to maximize and increase the flexibility of our offer. You have to manage price fluctuations that we can exploit for ourselves and for our customers. You have to match sourcing with accurate anticipation of customer demand, and you have to act at the right time to benefit from differing trends in interest rate. If I was to pick an example, I would talk about our European CCGTs as an example of our expertise, as they have been a driver of stronger-than-anticipated FlexGen earnings. In the face of markets where intraday prices are moving substantially, we have learned to maximize the flexibility of the plants to capture high average spreads, €55/MWh in the first half, up from €36/MWh year-on-year, as we capture more value from our portfolio, on top of still benefiting from hedges booked in the past when prices were still high.

We do have the expertise required in these very different but inextricably linked fields. All of these bring challenges that foster a culture of performance and motivation at ENGIE that makes me, indeed, very proud. But none of it comes quickly or easily, there is still much work in progress. And you can be assured that we will never stand still as we work on additional ways to improve.

As you know, it's been an eventful few months on the macro and political front. In the European elections in June, parties in favor of the energy transition retained an overall majority, which is a positive outcome for the energy transition. For Europe to decarbonize in a secure and affordable way, we need a fully functional Europe-scale energy market, integrated, robust, maximizing the complementarity of the national production mixes, and boosting interconnection. In France, the political situation has not yet fully stabilized, and it's fair to say there is a level of uncertainty as a new government hasn't yet been formed, but I'm confident that the short-term financial risks are limited.

Moving to the next slide, with an update on our main ESG targets. Greenhouse gas emissions from energy production in the first half were 23 million tons, down from 26 million tons in the first half of last year. And we moved a step forward in our target of a full exit from coal by 2027, with the Chilean regulator approving the conversion to gas of one of our three Mejillones units in 2025. And you will recall as we already announced that the other two units will close in the same year.

Moving on to the operational highlights of the first half. Our renewable business continues its inexorable expansion. We've added another gigawatt of new wind and solar capacity. And at the end of June, we had 63 projects under construction with capacity of almost 7GW. We are fully focused on our target of adding 4GW per year on average to 2025, supported by a diversified pipeline of 95GW, up from 92GW over the first half.

We commercialized our renewable business through GEMS and signed 1.5GW of PPAs, the large majority of which longer than five years. And in offshore wind, our Ocean Winds joint venture achieved three major milestones with a first power output at our Moray West plant in Scotland, the inauguration of the substation for our Yeu-Noirmoutier project in France, and the award of exclusive development rights for a 1.3GW project in Australia.

Our battery business is developing very strongly, particularly in the U.S., where we made this pivotal acquisition of the Texas-based standalone battery company, BRP, that was last year. So why Texas? The Texan power system, or ERCOT, is getting increasingly stretched. Look at the chart, and you see that hourly price differences are widening considerably. On top of that, the ERCOT regulatory body estimates a 75% or 65GW increase in demand in 2030 versus 2023. And that is compared to a much lower forecast of a 25GW increase at the time when we acquired BRP. So the market is only improving.

What this means is an urgent need for new flexible generation and, crucial for us as we are an early mover, it implies that the market will stay tight for longer, which adds to the competitiveness of our batteries and delays any risk of saturation of batteries further into the distance. So what do batteries provide to that market? First, they are instrumental towards the grid stability and reliability as they provide ancillary services, such as frequency regulation and responsive reserve. And second, they obviously shift energy between the midday and evening hours, which are peak demand.

If I want to zoom for a minute on the acquisition of BRP, it is indeed a big success. The integration process has gone very well. We've been able to retain over 90% of BRP personnel. And we are already using BRP's platform to optimize our full grid-scale BESS fleet in North America. Also, it's fair to say that market conditions have turned out slightly above our initial assumptions. BRP's construction schedule has proceeded at pace, with 800MW completed so far this year, of which 775MW in Texas. And beyond construction, as we have mentioned in the past, value creation relies on a base of strong hedging. The cash flows from BRP assets have been hedged on average at 50% for the next five years, with 60% for the remainder of 2024 and 2025, and declining gently after that.

And for our non-BRP-based assets, we aim to raise our hedging to similar levels. Obviously, these hedges are important as they provide visibility, and they are executed using a wide range of products, including ancillary services and energy swaps. Very important to note that one of the key success elements in our battery business is that we are able to leverage our integrated position that we already have in Texas. We are big both in upstream, in which we already operate over 3GW of renewables, and also in downstream, where we have an extensive portfolio of large customers.

With that, turning now to Pierre-Francois, who will discuss our first half financial results in detail.

Pierre-François Riolacci
Thank you very much, Catherine, and good morning to all. We are indeed pleased with our H1 results, because they are good, but maybe even more because they comfort the strategy, and they demonstrate the quality of our portfolio of assets, and also our increasing ability to capture profit all the way through the energy value chain, even at a time energy prices are actually landing in normalizing markets.

EBIT excluding Nuclear stand at €5.6bn, which is a decrease versus last year that was expected due, of course, to the market condition I just mentioned. It is worth to notice the contribution from added capacity on Renewables and the good performance on FlexGen, but also the strong increase in Energy Solutions due to a large negative one-off in H1 '23. We have generated a strong cash flow with CFFO at €8.9bn, and we have maintained stable credit ratios and net debt.

Based on this strong start, we are indeed upgrading our '24 guidance with four main reasons. The first three are linked to our operations. First, we had a good hydrology in H1, good volumes. Second, FlexGen is enjoying supportive market conditions in Europe, under which we can capture high spreads when providing flexibility services to the grid and to customers. But also we had good conditions in Chile. And third, albeit lower than last year in H1, Retail benefits from our reviewed sourcing strategy, including options to hedge volume risks, which are proving to be a tailwind under current market conditions. Then, last but not least, we also expect lower recurring financial costs due to high cash generation in Q1 '24, and also short-term interest rates staying high longer than expected, which are, of course, helping our returns on cash.

As said earlier, EBIT excluding Nuclear stands at €5.6bn. The €1.1bn organic decrease versus last year, is mainly coming from GEMS and reflects, once again, the energy market normalization.

I will not elaborate on that one and rather move on with a more detailed review by GBU. And starting, of course, with Renewables. Renewables EBIT increased by €133m half-on-half. And let me highlight four key topics. First, we had two headwinds. Price impact was negative at minus -€265m as a result of lower capture prices, notably on hydro in France and in Portugal, to which we add up higher hydro tax in France due to high volumes. We had also other effects, penalizing EBIT for -€128m negative, including a lower one-off in Brazil on hydro concessions extension that we had last year and higher OpEx, consistent with the growth of the business, not fully compensated by performance improvement.

On the positive side, first, we continue to add capacities that translate into additional EBIT contribution for about €250m. It includes scope effect for about €65m from acquisitions, notably in South Africa in '23 and in Brazil early '24. But it also includes plus €184m of organic growth, a number, a figure which is quite compelling. On the positive side also, we benefited from excellent hydrology conditions in France and Portugal, resulting in positive volume effect of €252m. For France, hydro volumes increased from 7.9TWh in H1 '23 to 10.2TWh in H1 '24. That is a 30% increase. Overall, a good start of the year with a 6% organic growth when prices plummet. And great to see the contribution in the P&L of all the investments that we have made.

Networks EBIT is down -€168m organically. That is minus -13%. Most of the decrease relates to Q1 and the adverse climate effect we had. It is worth to mention also that volumes were impacted by customer sobriety for about 2TWh in France. If you look at the waterfall, GRDF EBIT is down -€50m versus last year, mainly due to mild weather in winter months and low volumes. GRTgaz and LNG decreased by -€106m due to the premium sales to Germany made last year, not repeated, mainly again a Q1 effect. Storengy is down -€69m due to lower market spreads in the UK and Germany, as we enjoyed high volatility in '23 due to exceptional market conditions. And internationally, we are growing EBIT, plus €20m in gas, plus €37m in power networks. This is mainly due to the increased performance of our gas assets in Latin America and to tariff increases and indexations in Chile and Brazil for power.

Energy Solutions EBIT margin stands at 5.4%, in line with our plan and improving significantly versus last year. EBIT is up €131m organically as a result of the recovery from the -€150m negative one-off we had in '23 in the U.S., partly offset by price and climate headwinds in '24. A remediation plan is progressing to deal with those contracts in the U.S., notably with strengthened project management. Excluding the '23 one-off, the local energy networks EBIT is down -€9m organically, mainly because of warm climate impacting volumes, partly offset by higher contribution of French district heating and cooling networks. On-site energy production was impacted by lower solar DBSO margins due to a business model change in the U.S. and also by lower solar production in France and Europe. Energy performance management benefited from higher contribution of decarbonation activities. It was offset by lower energy sales margin in France due to drop in gas prices. So, all in all, a strong recovery from Energy Solutions with a 5.4% EBIT margin, despite climate and price headwinds.

FlexGen EBIT increased by €232m organically, that is plus 32%. Performance is supported by higher capture spreads in Europe at €55/MWh on average, a 53% increase versus last year. It may come a bit as a surprise, but it illustrates the efficiency of our hedging and trading strategy and our ability to capture value from new market volatility, including hourly shaped and new ancillary services. Good market environment as well in Chile had also a positive price impact with a drop in supply prices due to a very good hydrology. EBIT benefited as well from the growth of our CRM activities in Mexico and from several positive one-offs, most of them discussed during our Q1 presentation. These elements have largely offset the impact of the inframarginal tax in France and the decrease in load factors of our CCGT in Europe linked to the normalization of market conditions. You can see it's another very strong quarter and half year for FlexGen. Don't get carried away. Don't extrapolate don't extrapolate another €1bn EBIT for H2 as H1 was benefiting from one-off and also we are expecting negative price effects in Europe on our hedge position for H2.

Looking at Retail, EBIT amounted to €304m. That is a -€182m organic decrease versus a quite high comparison basis last year. Organically, the EBIT decrease was mainly driven by volumes with warm winter and client sobriety leading to long positions monetized at lower prices in 2024. It was partly offset by cross-year impacts for plus €129m related to sourcing, tariff shields and several settlements. Those cross-year impacts are expected to remain by year end. You can see that price effect is very limited in the context of drop of energy prices as you could expect given our stringent hedging policies. It's good to see that Retail is delivering a sound performance in H1. H2 '24 should land well above H2 '23 because the second half of last year was penalized by a non-recurring negative effect on the French tariff shield and by the cost associated with the strengthening of our hedging policy. This cost is now completely integrated into our supply offers. So you should expect a good H2 '24, more consistent with the H1 performance.

Let's now move to our Nuclear activity. EBIT stands at €770m. That is a €531m increase versus previous year due to the inframarginal tax in Belgium coming to an end on June '23. You can see in the slide that Belgian nuclear and inframarginal taxes had a positive impact of €622m on year-on-year EBIT variance. This was partly offset by lower volumes due to the decommissioning of Tihange 2 in February '23 and lower availability in Belgium due to planned revisions, notably on Tihange 1. Capture prices were down 7%, impacting EBIT by -€24m negative.

Let's now move to Others. EBIT decreased by €1.2bn, driven by GEMS due to an exceptional comparison basis in '23 and again normalizing energy markets leading to lower prices and more importantly to lower volatility. We have landed H1 '24 in line with expectations with an EBIT excluding timing effects, excluding market reserve reversal and one-offs, slightly above €1bn, supported by high margin contracts signed during previous years in our supply business. It compares with €1.8bn of underlying EBIT in H1 '23. It is of course a significant decrease coming from the new market conditions. Activity-wise, Customers Risk Management & Supply has recorded a solid commercial order intake and high sales margins, while Asset Management & Optimization has been impacted by the slowdown on trading activities with lower market volatility. The strong performance of GEMS, with EBIT at €1.9bn in H1, was notably underpinned by the two main non-recurring/timing items we already mentioned in Q1. First one is the normalization of energy market conditions, leading to reversal of market reserves for about €400m, although smaller than in H1 '23, of course. The second one is a positive €0.3bn timing effect related to winter-summer seasonality embedded in some of our supply contracts. This timing effect is expected to reverse in H2. To be complete, we also had some non-recurring items impacting EBIT in H1 '24 for a limited amount. For 2024 full year, we confirm the indication provided before of an EBIT for GEMS close to €2bn, excluding market reserves and reversals.

Turning now to performance. Our continuous actions to improve performance contributed to €87m in EBIT during H1. The main contributor is operational excellence, with concrete actions ranging from PPA renegotiation to asset and contract portfolio optimization and everything in the middle, strong and sustainable momentum on that stream which is of course very important for us in the long run. And then, while many loss-making entities are tracking well on their turnaround plans, especially in Energy Solutions, we have taken some one-off hits in very few, which are turning the net contribution negative. Bad news, but it is not expected to spill over in H2. All in all, we are on track to reach our objective to deliver €200m per year on average.

Let's have a look now on the net income, and mainly below EBIT items. The net financial expenses are actually down compared to last year by about €100m. We had a higher cost of gross debt. The average rate is increasing from 4.27% to 4.75%, so nearly a 50bps increase on the gross debt. But it was offset by better cash remuneration, supported by high interest rates, and strong cash generation in Q1 '24. The recurring income tax decreased by €0.2bn with an effective tax rate at 24.2%, down from 25.1% in H1 '23. As a result, the net recurring income group share stands at €3.8bn, while reported net income amounts to €1.9bn, mostly due to the minus €2.2bn non-recurring mark-to-market on energy derivatives. Please note that non-recurring items related to EVBox amount to about a negative €0.2bn, half of it representing restructuring costs, so future cash-out. The solvent liquidation process is on track. And all financial impacts, all of them, have been booked at the end of June.

Let's move on to cash flows. Cash flow from operations amounted to €8.9bn, a decrease of €0.6bn compared to previous year, which was, you remember, a record high. CFFO benefits from strong operating cash flow, again, €0.6bn lower than last year. The change in working capital is increased by €0.6bn versus last year, with a few contrasting elements to mention. Here, be mindful that we are comparing the variation of working capital, which doesn't make life easy. So, the negative €2.3bn on inventories is mainly driven by a higher decrease of gas stocks in '23 versus '24, which was led by the significant drop on gas prices during H1 '23. The net receivables decreased by €4.4bn is a result of the lower energy prices and volumes that we had in '24. And the supply tariff shields' negative impact, €2.1bn, is coming from France, where we had a very strong cash-in in H1 '23. Last, taxes on interest paid had a positive €0.6bn effect on year-on-year CFFO evolution.

Let's look now how this translates on our net debt numbers. Net financial debt stands at €30.2bn, which is up €0.7bn compared to December last year. This increase is mainly driven by the capital expenditures for €5.2bn, the dividends paid to shareholders and also some non-controlling interest of €3.6bn, and the phase-out of our nuclear facilities with funding and expenses for €1.5bn. These elements were largely offset by cash flow from operations, €8.9bn, but also some other elements, €0.7bn, mainly linked to the partial disposal on TAG for €0.4bn. The economic net debt is reduced by €0.8bn, mainly due to the decrease in provisions related to nuclear funding and costs, which more than offset the higher financial net debt. The leverage ratios are quite stable, with a 3.1x economic net debt to EBITDA ratio, well below our 4x threshold.

In light of this strong H1 and the updated assumptions for the balance of the year, we are upgrading our full year '24 guidance. I've been through the main reasons of this upgrade, namely better hydrology, higher than expected H1 result for FlexGen and Retail, supportive market conditions in Europe for FlexGen, high value on our Retail was sourcing optionality under current market conditions and also lower recurring financial costs.

We now expect 2024 net recurring income group share in the range of €5bn to €5.6bn, based on indicative EBITDA excluding Nuclear, from €12.8bn to €13.8bn, and EBIT excluding Nuclear from €8.2bn to €9.2bn. This guidance is made on current regulatory and fiscal environment, but it does include some contingencies to deal with potential tax uncertainties. The other parts of the guidance related to rating and dividend remain unchanged.

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

Catherine MacGregor
Thank you, Pierre-François. So to conclude, we delivered a very strong first-half performance, both financially and operationally, using our flexibility to adapt and to benefit from fast-changing market conditions. The fact that despite lower market prices and volatility, we are able to raise our full year guidance to a level similar to that of the tailwind year of 2022 and 2023, demonstrates that our integrated and flexible business model is indeed really well-suited to the energy transition, but also that our teams are doing a formidable job. I am so proud of them.

With that, we can open the Q&A session.

Q&A

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

Ajay Patel
Good morning, and thank you very much for the presentation, and congratulations on the results. I have maybe just one question really to flesh out. So, I can see the guidance, broadly, 60% of the increase seems to come from the EBIT line and around 40% from the interest line. I'm just trying to understand what continues into future years relative to just this year's impact. It seemed that the FlexGen performance, we shouldn't extrapolate into the second half of the year, good hydrology obviously helped H1. It felt like a lot of those EBIT drivers maybe don't continue into '25. Is that a fair assessment?

And then just on the interest side, clearly, your cash is making a better return this year. What assumptions are you baking in the guidances in '25 and '26 so that we can model correctly if, say, the interest rate outcomes are different to what you did when you set these guidances originally? Thank you.

Pierre-François Riolacci
Thank you, Ajay, and nice try to get us to update '25-'26, but we are not going to do that. Just let me give you some colors, of course. I think you picked it up pretty well. First, in the rise of our guidance, there is something not to forget, is that all our businesses have been performing well. And I think that you should not lose sight that we had a big commitment on increasing capacities in renewables, and it is coming through. You know that we also expect in H2 a strong contribution from networks with the tariff increase, which is confirmed. So there are some underlying trends which are very important, and they do support '25-'26 as well.

There is no secret that the price environment has been changing quite a lot over the last few months. But all in all, on '25-'26, it is still a bit more depressed compared to what we had at the very end of December, which was the base of our guidance on '25-'26. And there are, of course, some tax uncertainties around that. However, it is fair to say that, indeed, very pleased with FlexGen development. Clearly, we have shown some capacity to capture some extra value of the new volatility in the market, which is coming through. And Catherine alluded to that with the role of renewables and this new need for flexibility. So it's good. Not always easy for us to forecast and to model, but clearly we can make our share out of it. That's very important. We are also pleased to see that Retail now is pretty stabilized with a good sourcing, backing well our offers to customers. So that's definitely pointing in the right direction. So, good news.

And then on the financial part, it's not an easy one. We have been surprised, definitely, by the pace of the cash coming in. The big reason behind it was, of course, a decrease in prices, and it's a bit surprising. But when the price comes down, we'll free up a lot of working capital that's been flowing in very quickly in the year. So a big cash pile coming through. That helps. How much of that is going to go through up to the year-end and could be a bit of a tailwind in 2025? It's fair to say, clearly, we are positive and optimistic on the way we are going to close the year in terms of cash compared to our previous expectation. That's not a big amount, so be careful with that.

And then, of course, there is a big question on the rates. I mean, are we going to see a curve which is coming back to usual contango, are we staying where we are? I mean, that's a big discussion. Now, we expect the interest rates, the short-term interest rates to come down. When they will come down, we'll have clearly a big part of the benefit that we had this year fading away. So, long story short, you know that we have clearly reduced significantly our estimates for the financial interest in 2024. And you have the numbers that we have shared with you. We revised on average financial cost in Q1. We decided to, say, for the three years, we came down from 2.5, 2.8 to 2.4, 2.7. I think that's still something that we stick to. But indeed, for '24, we expect to be lower. Now, of course, if the rates were playing in the right way, that
could help us a bit more. I hope it helps.

Ajay Patel
Yes, that helps very much. Thank you very much.

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

Wanda Serwinowska
Hi, Wanda Serwinowska, UBS. Two questions for me, and thank you very much for the presentation. Congratulations on the upgrade. The first one is on basically the British networks. The press is basically saying that ENGIE partnered with CDPQ to basically buy British power networks. Would you be able to explain the rationale behind it? Because you're not present in the electricity networks in the UK. And when we look at the value of the transaction based on the press speculation, it's pretty high.

And the second question is on the EVBox. Can you please remind us what is happening? Maybe I misunderstood it, but it seems that you are closing down the business. I remember earlier this year in May, your message around EVBox profitability was pretty negative. So, any comments and clarity would be much, much appreciated. Thank you.

Catherine MacGregor
Yes, okay. Thank you for the question. So maybe just to give a little bit of context, first of all, in general on the positioning of ENGIE with regards to networks. Networks are a key part of our business. We cherish our utility status. It gives us a certain business risk profile, which we are very attached to. Traditionally, we have been very strong in networks in France, in gas. And in 2021, we made this decision that we shared with the market that we wanted to rebalance our position in networks by developing a little bit more of our networks on the power side. So a bit less gas, more power and a little bit less France, a bit more international.

And this rebalancing movement we have started in fact as early as 2021. We made a few sell-down on our gas networks, and you have seen some of them already again in 2024. We've announced that in TAG. So that's on the dropping or lowering our gas exposure. And then we're doing the second level, which is we're developing our power networks position. We've done that quite a bit in transmission. Typically, we do that organically where we have a presence and competency. So we've done that quite successfully in Latin America. For example, in Brazil, where we have won some series of auctions, et cetera. And then we have identified also opportunities in the world of distribution. And that is more difficult to do as a greenfield strategy. So here, we are very carefully looking at potential acquisitions.

However, to do an acquisition in this field, I think you alluded to, the price can be very high. So we are very strict both on the, obviously, financial criteria, but also in terms of the quality of the assets, the quality of the country that this asset will be in. So it means quality of regulation. The performance of the asset is also very important as often the regulations tend to be quite strict in the performance criteria that these assets need to deliver. We want it to be a manageable size. We want obviously to have the controlling interest. And it has also to deliver or to give us growth opportunities because one of the idea behind is rebalancing between gas and power is that typically with the energy transition, there is more growth in power. So it helps us making sure that the regulated part of our earnings continue to be steady as we are growing the company. And obviously, there is much less growth in our gas assets.

So, we have a list of criteria. As you can see, it's a quite stringent list of criteria. Not many, many targets meet this criteria. And indeed, we have identified in the UK a target which we have been interested in. And we actually did submit an offer, an offer that has not been retained. And I think it is simply a testimony to our determination in remaining very disciplined in our financial and capital allocation.

So we will, of course, look out for similar opportunities. But as you know, as you said, there are not that many. So we are determined also to be very patient. This rebalancing, again, started in 2021. We have time, and we will be very careful and selective in delivering this rebalancing. I hope this helps.

I think you also had a question on EVBox. So maybe just to say that indeed this has been a bit of a long story. We have had several attempts to dispose full or part of the EVBox activities. There have been actually quite a few, significant losses incurred. And so we have decided to stop the financing of EVBox. We have initiated a consultation with the different work councils. So we have basically a process to initiate what we call a solvent liquidation process. So it's a bit technical. But we are going through the process. We now have the various local work councils being consulted. That was initiated at the end of June. And we are targeting end of November of this year to end the consultation process and to therefore proceed, if obviously the process is successful, with the solvent liquidation.

Wanda Serwinowska
Thank you very much. Just one very quick follow-up on EVBox. Would you be able to disclose the numbers? So how much you booked as a loss in H1? Is it included as a one-off at the EBIT level, or is it like a non-recurring item? And how much it may cost you by the end of the year? Just trying to understand the impact on 2024 numbers.

Pierre-Francois Riolacci
Yes. I mean, EVBox has been bleeding hard for a few years. So last year it was a negative about €140 m at EBIT level. And it is trading a bit below now, so it's a bit less bleeding, but not great. So what you should expect for this year, I mean, we have two non-recurring items here in H1. One is depreciation of any asset related to EVBox. And the other one is a restructuring provision that covers, of course, everything we need to do with our customers, because we have customers we need to take care of, with our employees, and with all existing contracts. So I mentioned the number. All in all, it's a bit more than €200m, half-half you could say.

And then there would be, for this year, again, some impact in EBIT, but less than we had last year at EBIT level. And then in '25, of course, we expect to be off the hook of this poor story, which is, as you know, a legacy of the past.

Wanda Serwinowska
Brilliant. Thank you very much for your answers.

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

Arthur Sitbon
Hello. Thank you for taking my question. The first one is actually on the rebalancing between gas and power networks that you were mentioning. I was wondering, if ever you can't acquire a business this year, which seems to be the case, if I understood your previous comment correctly, what would be the other way for you to conduct this rebalancing in the coming years? Is it just looking at other potential acquisitions? Can it be also reducing the exposure to gas? I don't know if that would be in France or somewhere else. But some thoughts around that would be quite helpful. The other question is, I was wondering on the inframarginal rent cap, if you could quantify the contingencies that you assumed in your guidance for that development in 2024. Thank you very much.

Catherine MacGregor
Yes, Arthur, I would just repeat some of my early comments now, which is we are patient, we have time. We have two levels to do this rebalance. We can drop a little bit our exposure in gas. And examples of that, again, is when we did a sell down on GRTgaz back in 2021. We did a sell-down in TAG. We also have announced a partnership with Macquarie in Mexico on some of our gas assets with a direction to actually be also selling part of that to get to a 50-50 shareholding structure for our gas assets in Mexico. That's the direction that we are taking. So that's one of the lever.

And then the second is, indeed, we would be looking both at continuing to develop organically in Latin America. I've talked about Brazil, but we also have Chile and Peru where we have small positions. So there we have competency, there are auctions.

Again, the need for electrification supporting this organic development. And so, we will be part of that, obviously being very disciplined when we participate in auctions. And you see that sometimes we win, sometimes we lose, but sometimes we win. And then on the distribution, which are interesting also assets, here we would be looking at a set of criteria. We believe that we can be competitive, but that we will not do not reasonable price. We want to submit very, very reasonable price when we participate in this competition. And we believe that one day we might be successful, but we will not do stupid things. So, patience. And these two levers, both on the gas side and on the electric side, is giving us some flexibility for action. You want to talk about your contingencies?

Pierre-Francois Riolacci
Yes. On the contingencies, Arthur, first it's not very tactful to ask the turkey to write the menu of the Christmas dinner. So, we will not be too detailed on that. It is just normal for any company to have at this point of the year, some contingencies which are factoring in the guidance. We do have these contingencies covering all kinds of risks. And I would say on the tax risk that indeed that could fit into these contingencies, as long as it is kind of a reasonable tax risk, kind of as discussions, the ongoing discussions, which have been there before the Olympic games. I mean, this is the kind of thing we can tackle. Now, if there is something completely crazy out of the blue, that's another story, but then you can imagine that we will react to that. But if it is something that is compatible with law and regulation, I think we believe that our contingencies are adequate.

Arthur Sitbon
Thank you very much.

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

Peter Bisztyga
Yes. Good morning. Thanks for taking my question. I wanted to come back to FlexGen, please. So, if I remember correctly, your guidance at the beginning of the year was for that division to be down around €0.5bn approximately year-on year, and you're sort of tracking €200m higher as of the first half. So I was wondering if you could maybe be a bit more precise in terms of where your full-year expectation is now. Should we be expecting it to be flat year-on-year or even up year-on-year in the full year?

And could you maybe drill down a little bit more details as to what has been better than expected? And I guess I'm trying to sort of figure out how much of your original guidance was just very conservative given the rapid collapse in sort of volatility, and how much has genuinely been driven by much better than expected asset performance. So just trying to sort of get a better sense of that. And also, I'm not sure if you mentioned it, but have you said what the EBITDA contribution of your U.S. battery storage business, BRP, was so far this year, and what your expectation is for the full year there, please? Thank you very much.

Pierre-Francois Riolacci
Thank you. Thank you very much. So maybe to start with a short one on the second one on BRP, we expect an EBITDA this year of a few tens of a million. You know that we are just completing the building and the construction. So as expected, we expect it in H2, and that should come for a few tens of a million. And we indeed confirm that we plan to increase that EBITDA contribution by about €100m per year on average for the next few years as we complete the construction of the pipe. And by the way, the pipe is confirmed. So I think that we are on track on this EBITDA growth that will start in H2 and develop in the year after.

On FlexGen, yes, maybe we are a bit conservative. We have to be careful, because I know, guys, you are also looking at the plus and minus and the arrows that we are sharing, GBU by GBU, to build your forecast, and that's only fair. And sometimes it's roundings, and it can be that, indeed, a couple of hundreds are
maybe overstated. So probably we were a bit higher initially than what you could have in mind due to these roundings.

However, indeed, we are much higher than expected. That's a fair comment. I think that what is key here is that, first, we knew that H1 will be much better than H2. So it's no news to us, because this hedging that took place in '22 and '23, I mean, we knew that H1 was better. So it was not the same, the two half of the year are different, because the hedged prices are different by far due to the market prevailing at the time the hedging was contracted. So that was known, and you need to factor that, of course, very clearly when you plan your H2. So maybe you are a bit surprised by that, we are less surprised by that.

What surprised us, definitely, is our capability to grasp some further boost to this hedging, capturing some spread in the market, which is linked to the hourly shaped. And clearly, we are using today our CCGTs in another way. And even when it is hedged, it is financially settled. So we keep the flexibility of the plans. So, we can still use them in the way we want to do it, and the way it can accommodate the TSO. And definitely, we are using these facilities in quite a few countries in Europe, and that is linked to the new market conditions triggered by renewables. It's a bit new for us as well, to be very candid, and I wish we could predict more. We are working on it. But we are definitely strong in grasping this numbers. So that's definitely one.

The other one that came very favorably is the hydrology that we had in Chile. Because you know that in Chile, we have a bit of a short position, because we have PPAs, which are fixed price, indexed, but fixed prices contracted. And we are a bit short on the supply. So when the prices are pushed down by a strong hydrology, it does increase our margin. That was not easy at all to forecast. And then indeed, we got some tailwind. We do not expect this to be repeated in H2, and the big tickets will be in Q4. So we don't know yet what would be the hydrology in Chile. And we don't take into account that it would repeat.

So, you need to factor these items, which are part of it. Then we have another dimension, which is that when we have this portfolio of hedges, we can also trade on this portfolio. And that's part of the optimization, again, and there is volatility. So we have a long volatility position that we can trade. Sometimes it is worth nothing. Sometimes it is worth something. And we indeed plan usually carefully about that. And we deliver a bit more than expected on that. So that gives you some hints. So first, probably the market was a bit shy on what was expected due to these roundings. The H1, H2 maybe was not fully understood, and that here we need to improve, definitely. And then we were clearly surprised in H1 by the items that I just mentioned. I hope it helps you to also build your H2.

Peter Bisztyga
Yes. That's very helpful. Thank you very much.

Operator
The next question is from Louis Boujard of Oddo. Please go ahead.

Louis Boujard
Yes, hi. Thank you very much. Good morning, and congratulations for the results. Maybe two questions on my side. The first one would be maybe to focus on the retail business. I think that I heard you saying that you've been able to take some volume hedged in this activity during the 1H and that indeed enabled to have quite a good results for the first half and also that we could expect that it could remain quite good during the second half. My question would be to understand what kind of position did you take and shall we consider that this is going to enable a better remuneration for the retail business also going
forward in the next few years on top of 2024?

My second question would be, and sorry for that, to come back a little bit on the tax issue in France. Of course, that could be, eventually, a topic in the second half of this year with some granularity that is going to be needed. I was wondering, considering the contingencies that you took for 2024, I think it's okay, but did you take also some contingencies for '25-'26? And do you think that the current level of prices enable you to remain confident as well into the different elements and prospects in terms of discussions that you may have on this topic in the next few months? Thank you very much.

Pierre-Francois Riolacci
On '25-'26, I'm not going to elaborate much further. There are pluses and minuses. I mean, clearly, there is prices. There are also the operations and what we have seen in '24. And clearly, I mentioned also that GEMS is

doing well, that the trading today, I mean the way we interact with our customers and the margins that we are capable actually to lock in is still running at a good level. So this is encouraging. You have pluses and minuses. And we are not, again, going to update '25-'26. But if there was a good reason to believe that we would not make it, of course, we would share that with you. So, park it, and we believe that we can handle what we know today for '25-'26. That's not a big deal.

On Retail, I'm not going to elaborate too much. I think that what you need to understand is, of course, the market is more volatile, more complex than before. So it is needed when you source and when you structure the portfolio, the sourcing portfolio. You need to make sure that you de-risk, basically, your offers. So that's a key point. And for us, you remember, in '22 and '23, we had some volumes. We were long with some volumes, and we incurred significant gains and then significant losses. This is not a very comfortable place to be. So that's what we are trying to address, which is de-risk part of the sourcing which is coming with the portfolio. So, don't expect this to be increased margins or things like that. It's just usual margins, but more secured and more predictable. That's what we are trying to work on. And that's all the points of these options that we are trying to build in the sourcing portfolio.

Louis Boujard
Thank you very much.

Operator
The next question is from Harry Wyburd of Exane. Please go ahead.

Harry Wyburd
Hi. Thanks. So just one from me, and sorry to keep returning to the topic of electricity networks, but just a very high level fundamental question here. And you've alluded to being very disciplined on pricing, but ultimately electricity networks come typically at high multiples. Gas networks, obviously, very dependent on the asset, but potentially could be sold at lower multiples if you're going to use asset sales to fund acquisitions. So, are you confident that you can do this portfolio rotation effectively out of gas and into electricity without creating earnings dilution? And have you factored any dilution into your plan for that? And then maybe just a final sub question. Specifically, would you consider selling your Middle Eastern gas assets? Because I guess they would also come with a bit of a carbon intensity benefit if you disposed of those. Thank you.

Catherine MacGregor
Okay. So I think, obviously, very, very specific questions to answer. But maybe in general, we have, and we said that we would be doing this rebalancing, that we would be giving ourselves some time. What we like about electricity networks indeed is that they have a very strong growth prospects. And if we were to find the right criteria, the assets that meet the criteria that I've listed, specifically strong regulation, the strength of regulation, alignment with energy transition, the need to develop and obviously spend CapEx and do some smart development to enable the energy transition around the networks, we believe that indeed these assets would be very interesting for us and provide us with a growth profile that would be very interesting, while remaining true to the characteristic of being strong regulated assets, which are very nice constitutional makeup of the mix of ENGIE that we would like to keep as a utility company.

So, this is a bit theoretical because obviously we would be talking at a specific time if and when we have something to comment. Right now, we do not have something to comment. But obviously we would be looking at all factors and looking at earnings accretion over time based on the profile of the assets that we consider. And then obviously, we won't comment too much on the gas-fired assets, these are contracted assets, very good assets, contracted assets. We have some flexibility in our portfolio, Harry, but I won't comment more on any of these questions as well.

Harry Wyburd
Okay. Fair enough. Thank you.

Operator
The next question is from Meike Becker of HSBC. Please go ahead.

Meike Becker
Yes, thank you very much for taking my questions. And if you don't mind, maybe moving to the Renewables side of things, but also linking it back to the Networks. The focus has shifted and we're talking more about networks, we're talking more about storage. Should we read into that, that your view on renewables has changed as sort of like it has maybe in the overall sector and some peers of yours have shifted already?. So if you could just sort of like talk about your renewables outlook, how do you think about your spread, maybe also your sort of like view on sort of like your development opportunities in Asia. That's a big part of your pipeline. And if that changed in any way relative to how you're seeing networks. That would be great. Thank you.

Catherine MacGregor
Yes. I mean, renewables outlook continues to be very strong because we have a conviction at ENGIE that it is really, really, really important to be able to generate green electrons and that they are going to come in scarcity and that we will need them, that they bring a lot of value. So, we continue to be very bullish in renewables.

We are obviously always adapting a pipeline based on a series of constraints, evolution. And it can be sometimes geopolitical risk, it can be a supply chain constraint, it can be technology risk, so we have a little bit of flexibility, and you will see indeed in our portfolio a little bit of evolution over time. This gives us, by the way, good protection as we are a little bit balancing our risk based on the evolution that I've just talked about.
But in general, we continue to be very bullish on renewables. We are very focused on execution. We are very focused on returns. We are very selective. Our criteria have not changed. And I think very importantly, our renewables development hinges on the needs that our customers have. And customers and market continue to be very demanding for these green electrons.

Now what has emerged from this evolution or from this trend is indeed that renewables are very nicely paired with storage solutions. So our battery strategy comes as a support to our renewables. It's not a substitution to our renewables strategy, if I may say. So they are very complementary. And the example of the Texas, where we have this very nice matching between our renewable development and battery development is a testimony to that.

In terms of opportunities in Asia, what we are right now looking at is Australia. And we've made some progress in Australia, particularly on offshore, we made an announcement on this, but not only. And we're also quite bullish on India, where we have some good developments with good prices on solar, particularly. So these are some of the developments of evolution, but really not revolution in our strategy on renewables at all.

Meike Becker
Great. Thank you.

Operator
The next question is from Juan Rodriguez of Kepler. Please go ahead.

Juan Rodriguez
Thank you. Good morning, and thank you for taking our question. I have one remaining, if I may. It's on the economic net debt and the €1.5bn down on your nuclear funding and cost that you signal. If you can give us more color, I think that would be helpful. Thanks.

Pierre-François Riolacci
Yes. Thank you. I mean, as you know, we are in the process of funding our liabilities. So basically, we are committed. And that has nothing to do with the deal that we struck last year. We are committed to fund our liabilities. So every quarter, we are actually transferring some cash to Synatom, which is the subsidiary, which is investing the money to cover these liabilities, to hedge these liabilities. So, we do that on a regular basis. And so what you see in this economic net debt move is the cash that we are sending to Synatom. And it is also the cash costs that we are incurring when we are dismantling. And now we started to dismantle two of these units. So we are also incurring some costs.

The reason why it is shown into the variation of economic net debt is that the liabilities are already included in the economic net debt. So when we are cashing, it's an increase of the financial net debt. But it doesn't have any impact on the economic net debt, it was already accounted for. I hope it's clear. It's just a move. It's a cash move to Synatom and to the cost, but does not impact the economic net debt. That's why we have to show this when we bridge with the financial net debt.

And since I have the mic, just to mention, I forgot to answer to Peter on FlexGen. I forgot the one-offs that we had, especially at the beginning of the year. So we had quite a few positive one-offs in FlexGen that helped us, and that were also unexpected, and explained the strong start of the year. Of course, they are not expected to be repeated in H2.

Operator
The next question is from Piotr Dzieciolowski of Citi. Please go ahead.

Piotr Dzieciolowski
Hi, good morning, everybody, and thank you for the presentation. I have two questions. So the first one, I wanted to ask you, how would you compare the possible returns on investments on the batteries versus the renewables? Is this that the batteries give you probably higher returns? And on this subject, when you get to €100m EBIT increase in the BRP, how much CapEx do you have to spend to achieve this target?

And the second question I have on the supply. How do you see a current competitive landscape? Do you see more of a churn? And -- yes, that's the second question.

Catherine MacGregor
Maybe just quickly, and to remind you our investment policy, we always calculate our WACC based on the specific technology, but also the type of risk that the project entails. So typically, a merchant exposed project would require a higher return on investment than contracted. So typically, on average, I would say that best return on investment would be higher than renewables because most of our renewables development tend to be contracted either through CfD or PPA. So that's really on average. And typically, batteries, they command -- therefore, they command higher return on investment, but also shorter payback, which is also a good protection against some of the market dynamics that could happen in the future. And then, what do we need to invest? Sorry, what was the second part of the question?

Pierre-François Riolacci
So I think it is how much investment CapEx do we need to achieve that kind of growth of EBITDA. It depends, of course, every year, but you are talking about a low hundreds of millions. So, let's say $200m, $300m per year, depending, of course, a year, maybe a bit more next year, and the year after a bit less. So that's the kind of numbers.
The payback on this asset is pretty quick. It's pretty fast payback, as Catherine was alluding to. It comes with strong returns because it's more merchant. So there is a good reason for that. But also the payback is good. And less capital intensive that indeed the wide renewable.

Catherine MacGregor
And then Retail, on the competitive landscape, I think it's fair to say that it has become, again, quite competitive. And the market is a little bit more complicated. So we see some of the suppliers returning to the market and proposing offers. So, a bit more competitive landscape. But obviously, we have a stronger commercial presence. And then we are taking the right actions to maintain a good positioning in this market. But it's fair to say that it's a bit more competitive than it has been in the recent past.

Piotr Dzieciolowski
Okay. Thank you very much.

Operator
The last question is from Arnaud Palliez of CIC Market Solutions. Please go ahead.

Arnaud Palliez
Yes. Good morning. Thank you for the presentation. I have two remaining questions on renewables. The first one is about the additional 1.5GW of PPA you signed in H1. I would like to know if there is any change in terms of conditions compared with previous PPA. Have you noticed any change in the market environment at this level? And the second question is about the M&A pipeline in Renewables. There were some press articles mentioning your interest for Acciona Energia assets. So I would like to know if you can comment. And more generally speaking, how do you see the pipeline in terms of potential acquisitions in Renewables?

Catherine MacGregor
So, maybe a general comment on the PPA market. We continue to see the market quite buoyant, translating into good price support, notably in the United States, a little bit less on the price side in Europe, so demand, but price obviously reflecting a little bit the market conditions. So that's one of the trends.

And then, what we are seeing, and that's very obvious among GAFAM customers, they are actually happy to sign even longer PPAs. So now we are seeing and discussing terms of up to 20 years, which is a little bit of an interesting trend as well. So that's some of the commentary I would give you on the PPAs.

And then, Acciona renewables assets interest, no comment on speculation on this. My only thing is just, obviously, we have a strong presence in Iberia, we have a really good portfolio that we continue to develop, but I won't comment on the specifics.

Delphine Deshayes
So, this is the end of the Q&A session. So thank you for joining the call today. And of course, if you have any follow-up questions, do not hesitate to reach the IR team.

And I wish you a very good day. Thank you.

Operator
Ladies and gentlemen, this concludes this conference call. ENGIE thanks you for your participation. You may now disconnect.