9M 2024 RESULTS

7 November 2024

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Delphine Deshayes

Thank you and good morning everyone. It's my pleasure to welcome you to Engie's Nine Months Conference Call. Shortly, Catherine and Pierre-Francois will present our nine months performance, following which we will open the lines to Q&A. And with my polite request of limiting your questions to one or two only please, and with that over to Catherine.

Catherine MacGregor

Thank you Delphine, and good morning to all of you. I'm very happy this morning to report that Engie has posted another strong performance in the third quarter of 2024, which means that we can be confident of achieving the upper end of our full year guidance even in the face of an uncertain environment.

During the quarter, we continued to showcase our ability to manage and complete multiple renewable projects on-time and within budget. Meanwhile, our battery business, where we've become a major player in the space of just a couple of years, brought further capacity on stream and enjoy the exciting growth momentum for the coming years. And we also delivered on our objective of raising the share of power within our network activities by being awarded the major lot in the recent transmission auction in Brazil to add to our existing network business in this core strategic country.

Few headline numbers. EBIT excluding nuclear was down 11% at EUR7.1 billion at the nine month stage, which is to be compared to a very high 9 months 2023. If I look at Q3 in isolation, EBIT was up by a very strong 18%, led by renewables and GEMS and also boosted by the start of the new network regulatory period in France. That allowed us to start recouping the revenue shortfall that was built up over the previous years.

Cash flow from operations stood at EUR11.8 billion. It's down by EUR1.1 billion year-on-year, but still at a high level. Our balance sheet remains robust with only minor changes in net debt since the start of the year. The economic net debt to EBITDA ratio is at 3.0x, well below a maximum level of 4x. Finally, we reaffirm our full year guidance for net recurring income Group share of EUR5 billion to EUR5.6 billion, but now confident of reaching the upper end of the range despite the market and political environment.

A quick word on this, on the current French political and budgetary context, as clearly it has been a subject of uncertainty for the financial markets. From where we sit today, we can be cautiously confident that we have sufficient contingencies baked into earnings guidance to be able to absorb the additional taxation on French earnings proposed by the *Projet de Loi de Finances* as it stands today.

Our renewables growth continues at pace and uninterrupted. We added another 1.3 gigawatt of new wind and solar capacity in Q3, making 2.3 gigawatts since the start of the year, so we are well on track to achieve our annual target of 4 gigawatts. At the end of September we had 67 projects under construction with capacity of over 7 gigawatts. As I've said before, execution is paramount. It couldn't be otherwise, especially if you remember that we've consistently been running at least 60 renewable projects for the last couple of years around the world and we are continuing to deliver on-time, on-budget with an average delay of just a few days and an average investment cost overrun of just over 1%. I am so proud of the model that our teams have built, a truly industrial development, construction and operating machine. On top of this we are able, through the expertise of GEMS, to better commercialize our renewable generation as it becomes larger and increasingly accompanied by our green flexible battery storage. We need to maintain this capability of more sophisticated offers because the demand, while strong, is without doubt becoming more demanding.

I'm pleased to report that we have signed 2.6 gigawatts of PPAs over the first nine months, up 27% year-on-year with 1.5 gigawatt of more than five years duration. Renewables remain our main growth engine with capital employed set to double in the three years to the end of 2024 and a target of 80 gigawatt in 2030 versus 44 gigawatt now. I am as optimistic as ever that we can continue to achieve the targeted 150 to 250 basis point spread at the least through the combination of this tight control of project cost and timing, together with this ability to sell our output at prices that reflect the sophistication of our offer and the quality of our portfolio over many years.

Quick update on batteries where we had less than 100 megawatt as recently as the end of 2022 and where the business is now going from strength to strength. You may have seen that we announced a gigawatt of new BESS capacity in our main market, the US so far in 2024. This was mainly through standalone projects from BRP that we acquired only just over a year ago with a minority via units co-located with our renewable plants. Again, we have been able to open our new units on-time and on-budget.

And it's not just the US, we announced earlier this week that our 100 megawatt project has been selected in the capacity remuneration auction in Belgium, meaning that we are now at half a gigawatt of battery capacity online, under construction or in advanced development in Europe as well. So for the whole Group we now have 2.3 gigawatt of operating capacity, in addition to which we have around 3 gigawatt under construction, meaning that we are already halfway to our 10 gigawatt battery capacity target for 2030. In other words, well ahead of schedule.

Turning to my next slide, very happy that we have taken a significant step forward in our aim to rebalance our network business more towards electricity with this win of a 30-year concession to build and operate 1,000 kilometres of power transmission lines in Brazil, which as you know is a core market for us. This means that we now operate or have been awarded over 8,000 kilometres of power lines in Latin America. The five states included in the new concession include Parana where we already operate the Gralha Azul line, also about 1,000 kilometer in length, which is enabling us synergies. We've been present in the South of Brazil since back in 1998, so we have built long-term relationships with the relevant stakeholders and it is these advantages that are enabling us to make the best bid in the auction while maintaining a strict financial discipline.

With that, I am going to turn to Pierre-Francois who is going to discuss the Q3 and nine months financial results in details.

Pierre-François Riolacci

Thank you very much Catherine, and good morning to all of you. Indeed, we are rather pleased with another strong quarter for Engie which confirms once more our ability to capture value in normalizing energy markets and the relevance of our integrated model. During this quarter we delivered 18% organic growth at EBIT level excluding Nuclear versus last year. If we include Nuclear, the organic growth is even standing at plus 32%. This is an achievement considering the lower energy prices and volatility.

Renewables, Networks and GEMS, notably led that performance despite some heavy lifting in Energy Solution in the US. Over nine months EBIT excluding Nuclear stands at EUR7.1 billion, a decrease that was expected due to the market headwinds I just mentioned. I will comment separately and sorry for it to be a bit long Q3 and year-to-date to help getting a sense of what's happening in the business. Cash wise we generated a strong CFFO at EUR11.8 billion and we maintain stable credit ratios and net debt. Last but not least, we should land in the upper range of our guidance for 2024, as Catherine just explained. Let's start right away with the variation of Q3 EBIT. As the scope had a positive impact of EUR18 million coming from the acquisition of BRP in the US and from some renewable assets in South Africa, partly offset by TAG partial disposal that was completed at the beginning of the year. FX is negative EUR50 million, mostly reflecting the lower Brazilian real.

Organically Renewables is up EUR161 million, mostly thanks to the contribution from commissioned capacities plus EUR107 million, while the positive impact of volumes plus EUR137 million, due to good hydro conditions in Europe is partly offset by hydro taxes minus EUR89 million and also lower prices. For Q4 of '24 you should expect despite some negative one-offs, a strong contribution, but not at the level of Q4 '23 who benefited from very good hydro conditions.

Networks recorded a strong quarter, an increase of EUR96 million versus Q3 last year resulting from tariff increases in gas distribution and transmission networks in France, partly offset by lower volumes on GRTgaz. We expect organic growth to further increase in Q4 with higher impacts from tariff increases and full year EBIT should land above '23 level overall.

Energy Solutions was down EUR116 million organically and following the difficulties that we faced last year on two US contracts, we indeed carried out a global review of our Energy Solutions activities in the US. As a result, we booked new provisions on the construction contracts, but also on some other activities that we have decided to restructure. We are also well advanced in disposing of our asset light activities in the US.

Flex Gen organic growth stands at EUR26 million, benefiting from higher ancillary services in Europe, thanks to good market environment which was supported by weather conditions in the UK, in the Netherlands and also in Italy. For Q4, we expect a contribution significantly below Q4 last year due to lower hedge prices.

Retail decreased by EUR111 million organically with significant timing effect. In That is a general comment. You should not overemphasize quarterly results in this business. Margins were negatively impacted by lower volumes one-off and commercial discounts. Q4 contribution is expected to be strong with positive timing effect and significantly above Q4 last year that was negatively impacted by long positions that were sold at low market prices.

Others increased by EUR169 million, thanks to GEMS, with positive impacts from market reserve reversal and also positive one-offs on the restructuring of gas contracts, partly offset by the continued negative effect of energy market normalization. Others is also including the cost of the employee shareholding plan that was launched in Q3 this year. For GEMS in Q4 we expect higher provisions to be accrued at year end and also lower commercial activity in the second half of December as usual. We continue to forecast a EUR2.5 billion EBIT including market reserve reversal for 2024 with an underlying performance close to EUR2 billion.

Lastly, Nuclear is up EUR209 million with better capture prices, positive EUR125 million and higher availability of our nuclear power plants resulting in higher volumes that is plus EUR66 million. Doel 4 is expected to resume production after November 30th.

Now if we look at the nine months EBIT evolution by GBU, we see that the FX amount to minus EUR41 million, mostly due to the Brazilian real depreciation and the net effect of scope is very limited with the contribution of BRP in the US and from acquired renewable assets in South Africa and Brazil offset by the partial disposal of TAG and the sale of Pampa Sul.

Renewables recorded EUR229 million organic increase with hydro, wind and solar, all contributing to the growth. You will recognize the key drivers of H1 and Q3, namely the contribution of new capacity that is plus EUR379 million, including a scope effect of plus 88, but also excellent hydro conditions in France and Portugal for about plus EUR300 million net of the hydro tax. Lower capture prices, minus EUR200, and you may remember a positive one-off in Brazil on hydro concession extension last year that we did not repeat of course.

Networks is down EUR72 million organically due to the normalization of energy markets, which impacts Storengy in Germany and in the UK and also GRTgaz who could not repeat the premium sales of France to Germany transit of last year. The nine months EBIT stands at EUR1,564 million with increasing contribution coming from power networks.

Energy Solutions saw 11% organic increase in EBIT, excluding the US provision recorded in '23 and in '24, organic growth stands at plus 20% despite the mild climate, lower gas prices and reduced margins from cogeneration in France. This growth was driven by significant improvements in operations, notably on district heating networks in France.

EBIT from FlexGen increased by EUR258 million organically through higher capture spreads in Europe, higher margin in Chile with excellent hydrology and also some positive one-offs especially in H1. It more than offsets the impact of higher inframarginal tax in France and reduced load factors of gas fired power plants in Europe.

Retail's EBIT is down EUR293 million organically. This decline is mainly explained by lower volumes and timing effect.

GEMS EBIT is down as expected due to energy market normalization and the reduction of volatility. EBIT was driven by good momentum in the client risk management and supply business. EBIT is also supported by several non-recurring and timing items such as the releases of market reserves, albeit at a lower level than in '23, in line with the acceleration of the normalization of market conditions and also the restructuring of gas contracts in the third quarter of '24.

Last but not least, Nuclear EBIT increased by EUR740 million as a result mainly of the end of the inframarginal tax in Belgium on June 23.

Cash flow from operations is EUR11.8 billion, 98% of our EBITDA is converted into CFFO which illustrates our focus on cash generation and the positive impact of net working capital reversal triggered by the normalization of energy markets. We are now close to the end of this reversal. CFFO benefited from strong operating cash flow, also EUR1.9 billion lower than last year. It includes reclassification elements between operating cash flow and change in working cap, in particular to better track the variations of margin calls.

Change in variation of working cap had a EUR0.3 billion positive impact on CFFO versus last year with several contrasting factors very similar to those mentioned during our H1 presentation. I mean higher decrease of gas stocks in '23 versus '24 led by the significant drop on gas prices during the first nine months of '23 resulted into a EUR2.3 billion negative impact on inventory variation. The variation of net receivables helps for EUR4.3 billion due to the lower energy prices and volumes. Supply tariff shields had a negative impact of EUR2.5 billion, mainly coming from a strong cash flow in H1 '23 in France and this was partly offset by the positive EUR1.2 billion outcome from margin calls.

Let's move to the impact on our net debt. The net financial debt amounts to EUR30.5 billion plus EUR1 billion. Our cash equation is overall balanced with CFFO funding, our growth and maintenance CapEx, nuclear obligations and dividends. This translates indeed into rather stable net financial debt and net economic debt. Main use of cash were capital expenditures for EUR6.9 billion, the dividends paid to shareholders and also to non-controlling interest for a total of EUR4.1 billion and the Belgian nuclear phase out funding and also expenses amounting to EUR2.4 billion. These factors were financed by cash flow from operation EUR11.8 billion and also other elements for a total of EUR0.4 billion, mainly related to the partial disposal of TAG earlier this year.

The economic net debt is decreasing by EUR1 billion due to positive cash generation excluding Nuclear funding, which is already accounted for in the economic net debt. The leverage ratios remain stable with an economic net debt to EBITDA at 3.0x, well below our 4.0x threshold.

With this strong Q3 we expect now to land in the upper range of our '24 guidance. We have updated assumptions for the rest of the year. Notably, energy prices are set with market forward as of September 30th. We use the former EUR0.1 billion nuclear contingency in consideration of the temporary closure of Doel 4 and the ongoing investigation on its concrete structure. The recurring net financial costs for '24 are now expected between EUR1.8 billion and EUR2.1 billion, taking into account the evolution of interest rates and our cash position.

2024 income tax rate should stand between 27% and 29%, an increase to reflect the potential tax implication of the PLF *Projet de Loi de Finances* draft budget that was presented by the French government. We expect a strong balance of year growing versus Q4 '23 on the back of the new tariffs from networks and strong contribution from Retail and also Nuclear. We have considered normal hydro volume for Renewables. While they were particularly high in Q4 '23, a strong comp base. Flex Generation contribution should be significantly below Q4 '23 due to lower hedge prices and GEMS EBIT should land as expected near EUR2.5 billion for the full year. The other parts of the guidance related to rating and dividend remain unchanged.

And with that, I hand over back to Catherine for conclusion.

Catherine MacGregor

Thank you, Pierre-Francois. So, in summary, a strong Q3 performance by Engie with consistent delivery of our strategy, with efficiently executed growth in renewables and batteries, expansion in power networks and progress in providing our customers with the energy they need to succeed in this unstoppable energy transition. We approach the final quarter with confidence both in our own strengths, as well as in our own resilience to face the challenges associated with the present and uncertain environment.

Thank you very much. And turning to Delphine.

Delphine Deshayes

Yes, we can now open the Q&A session. Operator, please.

Q&A

Operator

The first question comes from Ajay Patel of Goldman Sachs. Please go ahead.

Ajay Patel

Good morning and congratulations on the results. Mine is more just an update on capital allocation. Over the last six months, we've seen press reports of a number of potential deals that could happen in this space. We've had private equity interest in this sector. We've had an E&P company take a 10% stake in, in the likes of Orsted. And I'm just wondering, with renewable valuations in a number of areas, trading at negative values on existing assets. Is M&A a bigger prospect for you? Is it you're happy with the organic opportunities that you have ahead of you? That that's not necessary. I just wanted an update on that side, that'd be great.

Catherine MacGregor

Yes, thank you, Ajay. In fact, no changes to our view on capital allocation in general and on organic versus inorganic specifically. You've heard us say that we think we create more value in general through organic growth. You've seen that the growth, particularly in renewables, but also in batteries is quite consistent. It's actually in good delivery track. We've shown you our pipeline which back in June at 95 gigawatts and makes us look forward to our addition at the 4 gigawatts in a comfortable way.

So we continue to have the same view. Organic growth mainly, some inorganic take-ins to play the portfolio play or game if you like. So no major changes. I think what we said is that on the Networks side and we discussed that during the last call, that we are looking at rebalancing to have a bit more power exposure and we do that also organically as we've shown again in Brazil, albeit having identified a certain theme around distribution in a good regulated area where maybe we could do inorganic, but barring that, very consistent in our M&A approach.

Ajay Patel

Could I just add to that? What if -- is there any update maybe also on just across the business units? Like, for example, in the US Flexible Generation seems to be more, it’s sort of prominence has kind of increased as the US kind of starts to think about the shortage of power and how would it filter for future for data center demand, for example.

Does your portfolio sort of your capital allocation to each of the pockets that you have in the portfolio change at all with what these dynamics have been happening over the last 12 months or do you feel like your strategy and the way that you position the company as it stands now, it more than focuses on the right priorities?

Catherine MacGregor

Yeah, no change in the US either. We like our approach on being very focused on green power. As you know, we indeed trying more and more to meet very demanding requests from customers on the 24/7 on the green side, which is quite challenging. But challenging is good for us because it allows us to make the most of our portfolio which is mainly based on renewables and batteries.

We did say that having a small percentage of feedstock on potentially gas based electrons could help us to provide this very full portfolio of 24/7. But we would not do that through very large M&A or even large M&A at all. Ajay, we can do that in many different ways. So no changes on our capital allocation M&A strategy including in the US.

Ajay Patel

Great thank you. That's really clear. Thanks.

Operator

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

Harry Wyburd

Good Morning everyone. Thanks very much for taking my questions. Two, if that's okay. So firstly on taxes in France, I got the initial point that they're still within your headroom, but I wanted to ask, so firstly, are we correct to understand that you now expect the CRIM tax to expire at the end of this year? And do you think the budget proposals on corporate tax are better or the same or worse than what the CRIM tax would have been? Just so we can evaluate where you are now versus where you would have been if the CRIM had been extended?

And then secondly on batteries. So I'd be interested, do you think the economics or the economic outlook for batteries in Europe is improving? Obviously we're seeing more green outs, zero priced hours, curtailments, et cetera. So has the addressable market in Europe improved? I noted that you said that you were ahead of your expectations. I'm interested to know if you think that's an area where you could actually improve your CapEx outlook in the future? Thank you.

Catherine MacGregor

We didn't like the CRIM at all. We didn't like the CRIM at all and we thought that outside the very specific time where there was huge volatility and prices were very high. The European Commission had decided to do away with CRIM and only France kept the CRIM and wanted even to look at evolution of the CRIM and I think all the players in France were very vocal and today the CRIM is off the table, which is very good news.

Obviously the budget is not voted yet, so it's not passed yet. We were watching the space carefully, but at this stage it's off the table and indeed it is expiring and this will be offset supposedly again by much simpler IS tax and you know the view at Engie is that the simpler the better. We don't like creativity and the CRIM was really far too creative and difficult to predict by the way, even for the French state. As you know, they were very disappointed by the amount that they eventually got from the CRIM scheme which is not good when you're trying to have a predictability in your tax scheme. So that's in our view rather it's a positive news, I would say, net-net we prefer the IS mechanism than the CRIM.

On the best European outlook, definitely an improvement. As you know, negative hours and curtailment by the way on solar assets is more and more frequent, which points to the fact that you're going to need to provide the right green electron profile to the market. It is not very surprising. And to be able to do that in a cost economic fashion, you are going to need to have more battery development in Europe and you're starting to see indeed CRM signals, CRM auctions that are going to entice that. And that's very good.

And the discussion we have in various countries in Europe and at European level is indeed to make sure that there is enough of those mechanisms for the flexible asset best being the key contributor to this flexibility. And so we see definitely the environment improving. And this is why we are very pleased with our four hours storage batteries that we've announced in Belgium under 100 megawatts actually four hours storage, which is great.

Harry Wyburd

Okay, thank you.

Operator

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

Bartek Kubicki

Hello and good morning. Thank you for taking my questions. Two, one on taxes, one on Renewables. With regards to French corporate taxes, do you think there is any recovery mechanism in place in the Networks business so that you can somehow recover potentially higher corporate taxes in the upcoming years?

And secondly on Renewables and your sort of strategy towards Brazil? Engie Brazil has been emphasizing the issue of very high level of curtailments in renewable generation in Brazil. Could you tell us how are you dealing with this and how could it impact your Renewables development strategy in this country? Thank you.

Pierre-Francois Riolacci

On the French tax, no, in general, corporate tax in France can never be recovered under any regulation. I mean usually you cannot push that to anyone, either customers or regulation. So there is no hope that it would be recovered in there in the tariffs.

Catherine MacGregor

A question on curtailments on Renewables. We have, as everybody, a little bit of impact, but nothing material to report about it. And obviously it's all about making sure we have the right portfolio, the right projects, also the right PPAs in the right place. There is nothing material at this point to report there.

Bartek Kubicki

Okay, thank you.

Operator

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

Wanda Serwinowska

Hi, good morning. Congratulations on the results and on the guidance upgrade. Two questions from me. The first one is would you be able to provide us a sensitivity to a 1 percentage point change in the tax rate in France and the US, because we can see the EBIT breakdown by geography but not PBT. So I do understand there are moving parts and not everything was agreed, but just the sensitivity would be very, very helpful for us. And the second question is on the Trump Presidency, I noted some comments from the CFO that ENGIE sees some risk to offshore in the EV. But that said, do you see the risk of the IRA being refuted in the US?

Catherine MacGregor

Okay. I'll take that with starting maybe with the US. Maybe just to remember that we have been developing renewable projects under different administration and well before IRA was in place. So that's maybe always good to remind that.

And the second point as well is also remember that there is a huge and significant market need for green electrons. Well, for electrons, actually, because there is strong power demand growth in the United States. So there is a need for new electrons and if possible, strong preference from the big customers. The big customers that are developing and putting pressure on this demand, they want not just electrons, they want also green electrons.

So at the end of the day in the US what we have seen over the years is that market wins, market prevails. And so from that standpoint, you know, we are encouraged by the fact that the market and the demand continues to be strong for our project. So that's really the main thing, when we look at potential decisions from the new administration that in our space, I would say that in some cases, IRA components could indeed be challenged or could be modified, certain adders that are in place.

But frankly, compared to the need for these new projects, we believe that it will be more a translation into a little bit of inflation. So just the project will cost more, and that will be translated to the PPA and to the price that customers, we believe customers are ready to pay. So that's really, for us, the main thing. I would say, in general, we remain positive on projects, on renewable projects, and including some of the market drivers that we see in the market will continue to be very strong.

One of the points that obviously we have in mind when we consider the new administration is really offshore wind. Offshore wind has been the topic of discussions with potentially, one could imagine that a moratorium could be put in place. We'll have to see. But if that was the case, obviously for us, as you know, offshore exposure, we have three projects under development, and we believe this is something that obviously Engie can live through. I think it would be a real shame for the United States because we believe that those projects have a very strategic importance to provide power to the North-East of the United States. But if that is the case and obviously we'll be mothballing those projects and we will have to wait and see. So that's a little bit th situation on the US.

On the maybe one point on tariff as well, because obviously tariff has been also the topic. There was a topic under the current administration, probably will be also a topic of the future administration. Again, most of the tariffs we will work through their way through the PPAs that we see our customers continue to be willing to secure. And also the work that we have done to diversify our supply chain is now bearing fruits whereby we are able to source solar panels, for example, not from China and that's what we are using today in the United States.

Lastly, IRA has had some positive impact on jobs in the United States and a lot of the job creation as plants are being constructed happen to be in Republican states. So we see that it's going to be very maybe difficult to stop those plants being constructed, we being well in line with job creation in the US which we think is a positive outcome regardless of the administration.

Pierre-Francois Riolacci

And on taxes and sensitivity, you need to be careful because it depends of course on each calendar year. Tax has to be computed on that basis. I think that for France you have a decent proxy with what we indicated because we gave you the impact of the published draft budget on the tax rate of the Group. So you can work it out. And I leave to use the calculation.

Probably you will find something around EUR150 million as an impact. So for the rest, in a year like '24, you can work out what kind of sensitivity there would be in that year. Then of course each year is different because it depends on your tax basis and not everything is in the same bucket. In the US, it's a very low exposure for us. You know that we are actually rebuilding our US platform a lot of CapEx. So we are early days. So our tax basis in the US is not significant.

There is a repair effect that could come if there was a decrease in tax rate for companies. I mean that would have probably some impact also on the tax equity because capacity would still be there, but of course the value of the allowance would be different. So that again is part of the game that we need to look at in the new regulation.

But as Catherine was mentioning, at the end of the day it all goes to the price of PPAs because the whole benefit of IRA is going through the PPA prices. So it's really a guess on the robustness of the market. And you know the green power demand in the US is very strong.

Wanda Serwinowska

Thank you very much.

Operator

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

Arthur Sitbon

Hello. Thank you for taking my question. The first one is on net financial result. You improved the assumption or the guidance again this quarter by EUR100 million approximately. There had been already an improvement in H1, I think. So there's been quite a meaningful improvement so far this year on that line. I was wondering how much of that is driven by exceptional circumstances that are limited to 2024 or is it more broadly speaking setting a better base of net financial results for the coming years? I have in particular in mind the EUR2.4 billion to EUR2.7 billion average guidance for 2024 to 2026. And I was wondering if this is still applicable.

The second question is you mentioned the diversification of your supply chain, in particular with solar panel. I was wondering what about the situation on batteries? Because I think it's quite a meaningful part of your ambition to add 10 gigawatts of batteries by 2030. Out of that, what's the percentage of US and what's the weight of domestic content? Is equipment secured for the coming years? Any color on that would be helpful. Thank you very much.

Pierre-Francois Riolacci

Okay, thank you. Thank you very much, Arthur, for your question on financial results. So not being too sophisticated on that financial result is the outcome of two things, the amount of net debt and the cost of net debt. So what happened in '24 is, as you could see, that our cash generation has been stronger than expected, definitely, and this will go through the end of the year. So a higher level of cash actually. So gross debt is as expected, but the cash is higher. So as we have less net debt, we have of course less net financial charges. That's one dimension.

The second dimension is the shape of the curve. Because if indeed we get some good short-term interest, we are long, basically short-term. So it means that when the short term rates are high, it's actually beneficial to us and we invest our treasure, cash treasury in a good way and get remunerated for that. So it means that indeed in '24 we outperformed our guess because we are expecting a lower level of cash and a lower level of remuneration.

Now, '25-'26 was based on a certain level of debt and we are entering this period indeed with a lower level of debt that we are expecting, that's for sure. It doesn't mean of course it will stay. There are some timing effect and I'm not going to guide now for '25, '26, but we are exiting '24 with a lower level of debt. And the shape of the curve is also not bad for Engie because indeed a flattish curve is actually good because it means that we can finance long-term and we finance long-term. You've seen that we have been very active in the market this year, again at the rate which is at the end of the day not much higher than the rate we invest our cash, which is very significant. So the cost of carry today is weak and when the cost of carry is weak, it's not bad for Engie.

Catherine MacGregor

Yeah. So maybe quite a comment on battery, because you're right to say that batteries is probably more exposed to a single sourcing when you look at all the components. Much, much of the sale actually comes from China, including for some of the US suppliers like Tesla, who is one of our suppliers. So we've diversified our suppliers, but you go back to the original source and you are going to find some Chinese content.

So how this will be treated by the new administration is to be seen. I think for us, the key is that first of all we have moved very fast, so we moved at pace. And this is why I pointed to the fact that we are almost halfway in the development of our battery compared to our 10 gigawatt targets. So that's one aspect to keep in mind.

Second, what we see might happen is potentially bottleneck related to the insourcing of the production of batteries in the United States. So there could be some delays here and there. But again, because we are well ahead in delivery, that's not really a concern for us. I think size matters. As always, when you anticipate bottleneck in your supply chain, what's important is to be of a certain size. We are number two in the United States on battery development, so we matter. So we think we will be de-risking the position that way.

And then lastly is, obviously we are very flexible in the geographical portfolio. So if things were to stop competing in the US which we're not planning to, we always can rebalance. And particularly back to the comment of the need to develop batteries in Europe is also important to keep in mind.

Arthur Sitbon

Thank you very much.

Operator

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

Meike Becker

Yes, good morning everyone and congratulations on the results. Thank you for taking my questions. I've got three. For the upgrade in the '24 guidance, would you mind separating for us one-off effect timing that you wouldn't expect to continue in '25? Maybe for example like the hydro resources versus underlying structural things that are worse or better? Second question would be, would you mind explaining in more detail the restructuring that you're executing in Energy Solutions?

And the third question would be on your comment that you're quite confident on your spread over WACC in renewables. Do you mind giving us the drivers, how do you see sort of like pricing with clients developing versus cost? And would you perhaps also mind separating out what is your underlying spread over the WACC and what do you expect to get from farmdowns? Thank you.

Pierre-Francois Riolacci

On the guidance, what is one-off, what is underlying? The upgrade is not driven by one-offs. I mean, of course we have one-offs, positive and negative, and that happens every year. But I think that overall, if you take the full year from February to now, I think that the guidance that we have shared with you is not driven by one-off. There are some, of course, but I think you can say that most is underlying actually and good performance.

I would like to highlight that to deliver that kind of results, it requires seamless execution. And the reason why we are also more comfortable on the results is that when we start the year, we have of course to build some buffers against execution risk. You know, that we are transforming the company and it's good to see that the execution is actually very good.

We had this issue in the US and I'm going just to come back on it, but I think it's worth to really understand that indeed one of the reasons which is supporting the strong performance is a very good execution. And then of course we can capture some items in the market and that's coming nicely directly in execution of our strategy, especially on friction. So that's on the guidance.

On the restructuring Energy Solution. I mean, I think Catherine has been very clear, pretty clear. I mean, we had this issue last year. We, of course, when you have that kind of issue, it triggers a lot of things. There was a change in the management team then and then now, since then we have been reviewing all the assets and we have, as we discussed, indeed increased the provision on some contracts. But we have also reviewed some of our activities and we are restructuring.

So what does it mean? It means that we are going to terminate some of the contracts that we had here and there to make sure that we have this business completely under control. And the cost which is indicated is the sum of this restructuring, preparing for some termination of contracts and of course the cost of the contract that we need to deliver on the University's construction.

And the last point which is worth to note is that we have also a business of asset-light services, energy performance service that we have decided to dispose of and we have launched a process already a few months ago and we are confident that we will be able to also divest these activities in a reasonable way. So that's part of the whole thing in Energy Solutions. With that, in '25, we expect to have a stable platform there.

Catherine MacGregor

Yeah, maybe just to complement what Pierre-Francois said on the construction side. So we are really, as you know, our US construction can be sometimes challenging with scarcity of resources. So we have one specific contract that contributes to the restructuring that has just been described. Operationally, quite a challenging contract, even though technically it's just cogeneration.

So we know how to do that at Engie. But in the United States, conditions are a bit more challenging, including from a supplier management point of view. So we had a supplier last year and we had to change the supplier. And so now we're working on the new supplier who is delivering, but it's just about to cost us much more. Hence, you know, the amount that we have just reported contributing to the restructuring that Pierre-Francois has just mentioned.

And then on your last question, and you said, how do we continue to deliver those spreads on renewables and the trends that we see in the market, very much supported PPA prices in the United States and by supported, we continue to see growing PPA price in the United States and that is obviously supporting the profitability of Renewables. In Europe we have seen the PPA's price stabilizing, if not dropping a little bit in line, reflecting a little bit what's happening in general in the market.

But we have been able to make up and complement that with effort on CapEx, on supply chain, on delivery. And of course in Europe you also have CFDs. If you look at some of the prices that CFDs have been awarded, they actually continue to be quite supportive of the profitability of renewables. So all-in-all, and I'm trying to be concise, but all-in-all, this is the trend that we see in the renewables market, which enables us to be comfortable with maintaining the discipline that we have on returns and delivering the growth as well, obviously continuing to play the flexibility we have in our portfolio.

And if you look at what we've shown you on the pipeline on renewables, we were at 95 gigawatts back in June, about 20% of that was in North America. And you see the geographical spread, and you see that geographical spread evolved from one year to another. Similarly, you see the technology split is also changing and you see, for example, that solar has been growing in relative turns versus wind. And that is because we believe that we have a bit more leverage on supply chain on the solar side and that is helping us protecting the returns on our projects.

Pierre-Francois Riolacci

Maybe just to complete on farm-downs. You know that our model is not based on farm-downs. We use sell-down only as part of financing our projects, which means that we are not worried that we could not complete the sell-down because if we are going ahead with a project, it means that it is meeting a hurdle rate.

And if it meets the hurdle rate, then we are able of course to sell-down at market value at this point in time. So no issue with that. And you know, so that the sell-down, we do not trigger our capital gains. I mean, we have got rid of this addiction already a couple of years ago now, if it costs at the moment, you get rid of it. So it's not for us, it's not necessary. So farm-downs will come as we are investing according to a hurdle rate. So no concern on that side.

Meike Becker

Thank you.

Operator

The next question is from James Brand, Deutsche Bank. Please go ahead.

James Brand

Hi, good morning. Congratulations on another set of very strong results. I had two questions, both are touching on areas that you've talked about already, but hopefully asking for new nuances. So the first is on Renewables. As I say, you've answered a few questions on the kind of, the risks there.

Maybe you could just tell us though, how much onshore wind do you have or solar do you have under construction in the US at the moment? Obviously you've got a big renewable under construction. Maybe you could break down for us how much is in the US? And through the three offshore projects you mentioned, I think that generally later stage projects, but is there any more information you could give us on the kind of expected timing for those and also whether you've, whether you procured any equipment already, so if they were halted, whether that would be disruptive at all?

And the second question is on the Energy Solutions business where you've had this recovery story, which has been coming through, I think reasonably well, but with quite a few moving parts. So the question is, do you still feel that you're on track with the recovery story that you first outlined, I guess 18 months ago, you know, to get back, get up to EUR700 million of EBIT in that business, are things generally on track there? Maybe you could give some, some context for some of the things that you're doing. Thank you very much.

Catherine MacGregor

So on the US Renewables, we have in total about 1 gigawatt under construction out of the 7 gigawatts and so that we have in the United States. And you know, if you're trying to size our exposure to the US, I think you should really look at our pipeline of 95 gigawatts all included. It's public information. We have about 20% now exposed to North America, which is down by the way because the previous pipeline we showed you was above 30%. So we have last year put in service about 1.9 gigawatt in the United States and that was probably our peak year. And we have started to rebalance our portfolio for many different reasons. And so that's really the result of this rebalancing.

In terms of the offshore exposure. So we have indeed three offshore projects. We have one which is floating offshore in California and we have two in the North-East. The most advanced one is South Coast wind. And you know that we are in discussion to finalize the PPAs. So this is probably in terms of progress, that is the one that is the most advanced with very little commitment.

As you know we are really trying, we have been very careful in our offshore approach to always synchronize the key spend commitment with commitment with PPAs and with obviously financing commitment as well. So that discipline is obviously being followed. And so we have very little equipment booked. And I think we said that in total, total, total, if we were to writedown everything offshore related in the US that will be for us an exposure of less than EUR400 million. In terms of Energy Solutions recovery story, we feel that the team has done very, very strong, heavy lifting in terms of putting the discipline, the organization there has been also significant reorganization by the way in France, putting a much more industrial approach, much more also discipline, selectivity in the growth areas and they've done a very good job.

I think if you exclude the US story, which obviously is very disappointing and I'm not going to lie to you, we're not happy at all with what has happened in the United States. But barring that, we're quite pleased and you will see that the EBIT is growing 20% year-on-year, if I exclude the US loss and that's really good news. So we obviously will comeback with more precise guidance having incorporated everything we know about Energy Solutions.

But in general, the business and the team have worked very well and is showing good results, particularly in the area of what is a very important part of the energy transition, often ill understood, but super important, which is the district heating and district cooling. And when you look at what's happening in the world with the climate and global warming, you see that being able to deploy cost, economic and low carbon solution for cooling is going to be very important and Energy Solutions is a lot about that.

James Brand

Thank you very much.

Operator

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

Zach Ho

Hi. Yeah, thanks. Good morning and thanks for the presentation. Three questions from my side, just quick one on US Energy Solutions, that's the third quarter impairment that you've booked or, sorry, provision that you booked include your reassessment of the cogeneration units or do you think we could expect another provision in the fourth quarter?

Secondly, I guess more of a clarification on your US business. Can I clarify that you don't see a significant impact on your North American supply chain in both renewables and batteries, even in a scenario where additional tariffs are introduced under the Trump Presidency?

And then finally, could you share some color on your approach in handling negative power price risk? This has become a lot more topical recently and maybe specifically around how you negotiate PPAs, how your battery business complements your renewables portfolio. And if you see any gaps in your renewables that is particularly exposed to the negative price risk that you see that could have room to be addressed? Thank you.

Pierre-François Riolacci

On the US Energy Solutions, I think that we, as Catherine said, we are really, really disappointed to have to come back to it. So we have made everything to make sure that we wouldn't have to come back again. So no, I don't think that you should expect further provision in Q4. One contract is actually being completed and they are very close to completion and the other one is expected to be completed in '25 second half. So I think that we have built the contingencies we need to make sure that we are covered, so we don't expect further provisions and everything has been designed in that way.

On risk on negative power prices. I mean, this is something which is coming up now definitely in Europe with Solar, of course the Solar hours. I think that we are rather well covered overall. I mean, we have the PPA provisions which are protective, but not exposed directly to the negative power.

However, of course it means that there might be curtailment associated to that, so lower volumes. And this is something that is now well known in some markets and that's the main driver of the batteries business. So clearly we see it more as an opportunity given our position in batteries, which is very strong in the US, but also getting better now in Europe. So we see that more as an opportunity than a risk given the portfolio of PPAs and the provisions we have in there.

And I'm not sure I understood your question on US, maybe Catherine?

Catherine MacGregor

I will just repeat, rather summarize what I've said. Barring offshore renewables, we continue to think that the US renewables projects will be supported in the United States on the base of market needs. There could be some supply chain disruption bottlenecks depending on IRA/tariff decisions made by the administration as decisions on tariff were made with the current administration.

And we believe that the supply chain disruption, IRA address removal or bottlenecks would translate into inflationary pressure on PPAs that in our mind can be absorbed by the market that is today, I think, the fair summary of where we sit. And now we'll have to see obviously if there are other types of decisions made by the administration, but today it is not our main assumptions.

And then to put this into perspective of what that means for Engie, you have to always look back to how much of our renewables target activities come from the US and then here I point you to the 20%-ish of our total total renewable pipeline of 95 gigawatts that comes from North America with quite a lot of flexibility in reallocating capital as we've always done.

As you know, sometimes a country risk raises and decreases depending on the mood of the day and we believe that we have and we are able to play that flexible card if really, really pushed. But today we don't think that it will be possible. Remember when Trump was President, we actually accelerated Renewables development in the United States.

Zach Ho

Got it, very clear. Thank you.

Operator

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

Piotr Dzieciolowski

Hi, yes, good morning everybody. I wanted to ask you a question about the scenario in which the gas price in Europe could drop to kind of a low-mid EUR20 per megawatt hour level. How much of a headwind that could be for Engie earnings? Can you maybe talk through as a magnitude and you know, I think this is a possible scenario.

And second question I have is on the hydrogen investments that you were planning. Basically a couple of the companies in the European utility space said that the reality for the hydrogen investment is a little bit worse than they expected and they kind of were pushing the CapEx into the next decade from end of this decade. Can you please remind us of what is your hydrogen project related ambition in terms of CapEx and are you also thinking about pushing it to the end of 2030 decade? Thank you.

Catherine MacGregor

So I'll start. On the hydrogen, we've been quite vocal to say that in general, while we continue to believe that hydrogen is going to be critical to the energy transition, because we cannot electrify everything. So you're going to have to keep the molecule in the system and you need to find way to decarbonize the molecule.

You can do that to a certain extent with biomethane, which is fairly easy because it's the same molecule. hydrogen will be a very important part of the energy transition after that. It's just taking more time to establish and to mature as a market and so what we have seen and at Engie, we are not different, that we have delayed some of our targets. We had a target on production to 2030, we've pushed it to 2035.

Now on the positive side, what is really interesting is that there is a realization that for hydrogen to emerge, you are going to need to have the right infrastructure. Infrastructure is very important because it will enable the hydrogen to play its full strength, which is bringing seasonal flexibility. Because hydrogen obviously being a molecule, you can store it. And as you know, flexibility is going to be a massive challenge on the energy transition. Battery energy storage, battery for energy storage is fantastic, but it's only a few hours. What you need to have, it's a solution for the seasonal flexibility. Hydrogen is going to be of that. And for that you need not just to have the molecule, but you need to have the storage and you need to have the transport.

Which is why, you know, we have today projects, some of them have taken FID, some of them are more pilot and demos to transport or to store hydrogen. So we have a couple of projects in France where we're using as storage saline cavities for storage for natural gas today. And we are testing the capacity of injecting and then withdrawing hydrogen in this capacity. So that's happening today.

In terms of CapEx, frankly at this stage it's not significant CapEx, because we're obviously pacing our investment with the maturity of the market. And here it's really all down to making sure we can have the right offtakes to be able to, i.e., enough customers to commit to the offtake for these green molecules.

I think there was a question on gas price.

Pierre-François Riolacci

Yeah, on gas prices, you know that we are not a producer, we buy gas to sell gas. And there is a very clear direction in Engie that we hedge at inception so we are not there to play and take a directional position on gas. So with that in mind, of course there would still be some consequences the main one is that it's easier to have higher margin when overall, the underlying commodity is higher. So you could see probably a bit more pressure on the margins. But what is more important than prices? And if you look especially at GEMS, what is more important than prices is volatility. So for us what is important is that we still have some geographic spread, some volatility in the intraday and that's where there is more value in the optionalities of our portfolio. So that one is not directly linked the price. So not over worried by that part.

And then there is another dimension. If gas prices are coming down, what is the impact on power? Because you know also that part of activity is to, with CCGTs in Europe and clearly a lower gas price. What does that mean for the CSS, for the clean spark spread? That would be another discussion and that could be also interesting. So long story short, we are not over worried about a decline in gas prices. Our business model is not based on harvesting money on high prices of energy. We are a mid-streamer and that's our job. On the opposite I would say we are de-risking to a large extent and not on gas, but on power. Exiting Nuclear is definitely reducing also a merchant exposure going forward. So clearly our view is that we can definitely live with an environment of lower gas prices in Europe.

Piotr Dzieciolowski

Okay. Thank you very much.

Operator

The final question is from Juan Rodriguez, Kepler. Please go ahead.

Juan Rodriguez

Good morning. Thank you for taking my questions. I have two on my side, if I may, are mainly related to nuclear. The first one is that the deal is still expected before the year-end. And taking into account the first waste liability transfer that will be expected and the strong post of three times economic net debt at the nine month mark, the below four times that you guiding seems conservative. So more clarity on this could be helpful.

And the second one is on nuclear again. The Belgian network operator Elia has signaled that Belgium under current conditions will be short electricity in the medium term and that new reactors or further extensions might be needed. Are there any conditions on your side that you will need to come back on this activity or revive some reactors as we are currently seeing in the US? Thanks.

Pierre-François Riolacci

The first one maybe just on the ratio. So yes, we still target to complete that transaction by year end. We are now really in the money time and the discussion with the EU. So I think that we need to be patient and see whether we can close that one in that year. Whether it is closed or not, it doesn't change whatever on the economic net debt, because we are already fully provided for the impact of the premium and the transfer. Yes, you're right. We will land the year at a debt cover ratio which is much lower than the 4.0. I mean we are 3.0 at the end of September. So you should not expect to be very different at year-end.

We are not guiding on four. 4.0x is a cap and we have been pretty open during our market update a couple of years ago that our target was to steer the Group somewhere around 3.5x, maybe a bit higher or so when we have are the investment phase. So what we want to do is to be still away from the four. So that's a max, not a guidance. We are steering the Group a bit lower. Today we are under gear compared to our target. We are under gear, but that's also due to the very strong cash generation. But we have plans to invest in the future and that's part of our story.

Catherine MacGregor

Yeah, so regarding nuclear, so you know, '25 is tomorrow. So we are on course to close what we are set to close and to work on the extension of our two plants under this new vehicle JV with the Belgium government are on track, as Pierre Francois said. And that's really the scope for these two plants. And at this stage, we have no intention to do more.

I think the 10-year extension is going to give some indeed flexibility or some room in terms of power generation in Belgium and that's already very good. And then we'll see if at the end of these 10 years there is the need to extend further and technical capability and safety conditions, et cetera, et cetera. And then we'll have to see at this stage, but today it's not on the agenda. We are very focused to close the deal as we've laid it out to you and to everyone. And that's really the key focus.

And I will add by the way, that Belgium, as you know, is very active to also develop low carbon generation, doing some good work with things like the batteries and with CRM, potentially even more offshore, et cetera, et cetera.

Juan Rodriguez

Okay, quite clear, thanks.

Delphine Deshayes

So thank you. This is the end of the Q&A session. So thank you again and as usual, if you have any follow-up question, do not hesitate to contact the IR team. Thank you, have a good day.

Operator

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