## FINANCIAL INFORMATION AS OF SEPTEMBER 30, 2019

***November 07, 2019***

Good morning, ladies and gentlemen, and welcome to the conference call on Engie's financial information as of September 30, 2019, organised by Engie, along with Ms Isabelle Kocher, Chief Executive Officer of Engie, and Ms Judith Hartmann, Executive Vice-President and Chief Financial Officer.

**Isabelle Kocher**

Good morning. We are very happy to share with you our good 9-months results. We are here together with Judith Hartmann, our CFO, and Paulo Almirante, our COO. We will start with a short presentation and then we'll be happy to answer your questions.

So, our 9-month 19 results show, as expected, an acceleration in earnings growth. We are very proud of these results. They show that our strategic choices are bearing fruits. We confirm our full-year 19 guidance, and 19 is the first year of a new period, after three years of in-depth restructuring and strategic repositioning. And we then enter in a net-growth phase following our in-depth transformation.

As I have mentioned, the last quarters have demonstrated a sustained upturn in performance. Over the last quarter, on the Nuclear front, we have delivered the major improvement in our operational availability, as promised, and this is a key achievement.

Our momentum in Renewables – Wind, in particular – has accelerated dramatically, providing clear evidence of our execution success towards achieving our aggressive ambitions for growth in capacity and profit in the coming years.

Looking at the first nine months of 19, our impressive organic COI growth, of 14%, was driven by, first, Nuclear, of course, with much-improved availability of our seven Belgian reactors, as well, also, as better prices.

Second, Thermal, with, in particular, PPA portfolio growth in Latin America and higher volumes and margins in Australia. We also got some positive LDs.

Third, Energy Management, with successful long-term gas contract renegotiations, and continuous optimisation of the Energy positions of our other businesses. A big, strategic and synergetic set of capabilities.

These positives were partly offset by a reduction in our Networks contribution, as we anticipated, and this is mainly driven by temporary gas transmission and storage impacts. Against this, we are pleased to note the first contribution of TAG in Brazil, following the acquisition earlier this year.

And, finally, Client Solutions. These activities show, most importantly, continuous acceleration. Our commercial performance is good. We continue to take a lot of actions to increase our performance and improve our margins. And we also benefited from positive one-offs from Suez.

Let's now have a look at the numbers – which, as I have mentioned, represent the best Group performance in many years. EBITDA and COI were €7.1 billion and €3.8 billion, up, rising organically by +7% and +14% respectively. This strong acceleration was in line with our expectations.

Net Debt stands at 26.7 billion, a gross increase of 3.4 billion versus the end of 19, mostly due to the TAG acquisition, to the extraordinary dividend paid in May in lieu of 19, and also due to the impact on our CFFO of margin calls. And, indeed, while our operating cash flow increased in the first nine months, our CFFO decreased mostly due to the commodity margin call timing and movements in other financial derivatives.

And now I will hand over to Judith, to look at our financials in more detail.

**Judith Hartmann**

Thank you, Isabelle, and good morning everybody. Let's now look at our 9-month performance by business line.

First, Client Solutions. Our businesses have delivered a sustained trend improvement since Q1. Commercial development is positive, with 9-month revenue up 10%. COI increased 4% excluding the favourable 50 million settlement between Suez and the Argentine government earlier this year. This result was driven in part by higher decentralised energy tariffs and good on-site generation performance.

Certain Service segments are seeing some margin pressure and, like Isabelle just mentioned, we are working on shoring up our operational activities there, and industrialising our offerings and operations. This will create greater cost-efficiency as we scale up, driving operating leverage and higher profitability.

We are also further scrutinising the economics of each Service sector and becoming more selective in where we compete, focused on differentiation in our capabilities and solutions.

Meanwhile, we are seeing sustained growth in business volume and profit across most of Europe. Operationally, we continue to increase our installed district heating and cooling capacity to 5.6 GW and backlog continues to rise, reaching close to a year of revenues.

Looking ahead to the full-year outlook, we expect a continuation of a similar rate of COI growth as we've seen year-to-date. This is in the mid-single-digit range, towards the lower end of the range (we communicated it H1), in light of new and increased business-development costs and the competitive dynamics that I've mentioned.

With respect to strategic business development, I would highlight that our launch of Engie Impact is a milestone, furthering our industry leadership in designing and enabling the zero-carbon ambitions of our clients.

Finally, I would like to draw your attention to our upcoming quarterly investor seminar next week, focused on Client Solutions. Our business-line and IR teams look forward to setting out a strong and transparent platform of insight for the investor community. They will focus on the details of our growth strategy and how the business works, operationally and financially, across several complementary business models.

Let's now move to Networks, where COI was down 8%, primarily driven by gas transmission, as in H1. This is in line with our expectations, and due to two factors for gas transmission. First, a negative volume effect in France, mainly due to the merger of the North and South gas market zones. This led to the end of North-South transfer revenues, the impact of which will be largely recouped over the next two years through a regulated expense and income clawback account. Second, as anticipated in our current regulatory mechanism, GRTgaz 2019 revenues are subject to smoothing, a delayed true-up mechanism to cover operating costs, which covers the 2017 to 2021 timeframe. The April 2019 annual revenue revision only partially covered the additional operating and D&A costs incurred by GRTgaz, primarily related to the Val de Saône project.

In Storage, the numbers continue to reflect our H1 headwinds, technical issues in France during the withdrawal period incurred client penalties. Also, certain German contracts were renewed at lower prices in a difficult market environment. All of this was mentioned already at H1.

We are pleased to note our first equity-accounted earnings coming from TAG, following the June acquisition, bringing us a 4,500-km gas transmission network in Brazil.

In French distribution, GrDF's profit was slightly up, benefiting from a tariff increase and additional smart meters. Indeed, our smart-meter rollout is well under way, with 4.3 million installed to date. Warmer temperatures resulted in a reduction of 2.9 TWh in gas distributed in France year on year.

We reiterate our full-year network outlook: a low-single-digit decrease, mainly due to French gas transmission and storage headwinds, partly offset our TAG contribution.

Let's now move to Renewables. COI was up 4% on a gross basis over the nine months. Our Wind and Solar activities are posting an impressive performance, with more than 60% organic COI growth. We benefited from higher sell-downs to date, in 2019. The earnings increase was also driven by the commissioning of new wind capacities. We have indeed commissioned 1.8 GW since January 2019, notably in Brazil. And we benefit from the contribution of these assets together with the ramp-up of the ones commissioned last year. Overall, wind and solar power production grew by 48% year on year. As of today, we have almost entirely secured our 2021 target of 9 GW additional renewable capacity, with more than 1.4 GW to be installed in Q4 2019, and 3 to 4 GW next year.

On Hydro, we're still suffering from the lower French volumes, with an unchanged impact over Q3. On the other hand, performance of hydroelectric power generation was slightly better in Brazil.

Regarding the full-year outlook for Renewables, we have reduced our expectations, mainly due to the Brazilian GFOM law with a postponement to 2020 of the compensation related to past losses and, to a lesser extent, due to a lower-than-average French hydro level in Q3.

Turning to Thermal, we delivered a 4% growth COI increase for the nine months despite the large scope effect of Glow disposal in March of this year. From an organic point of view, we benefited from the favourable impact of liquidated damages received in Latin America in 2019, the ramp-up in Latin America PPA contracts and positive market-price conditions in Chile, and strong Australian performance including higher power-production volumes and prices. These positive effects were partially offset by higher LNG sourcing costs for EcoEléctrica, a gas plant in Puerto Rico, and lower capacity prices for the Astoria gas plant in the US. Also, we were impacted by the suspension of UK capacity-market mechanism payments since October 2018. The good news here, of course, is that this mechanism has been reinstated a few days ago so this negative effect will fully reverse in Q4 with a positive retroactive impact. Operationally, European gas-fired merchant power production was up 25% and coal now represents only 6% of our total capacity.

For Thermal, we maintain our full-year 2019 outlook with an expected COI reduction of approximately 15%. This is mainly due to the Glow disposal, Q4 2018 liquidated damages in the Netherlands, and the strong prior-year performance of our gas fleet during the nuclear outages in Belgium. This is partly offset by 2019 LDs in Latin America that I've just mentioned and by the reinstatement of the UK capacity-market mechanism, as I also mentioned.

Moving to Nuclear, nothing surprising but really impressive figures after a very challenging 2018. As long-awaited and expected, our Nuclear COI was indeed up 56%, nearly 300 million, on the back of the successful restart of all of our Belgian reactors, resulting in higher output volumes, up 25%, plus 6.3 TWh, as availability rose significantly from 57% to 79%. And, of course, we also had a better impact on prices, where we had achieved prices up €2 per MWh. It is worth noting that Nuclear COI remains negative, in absolute numbers, volumes produced were sold at an average of €36 per MWh, and, over the next few years, the achieved price is set to increase significantly with the current Belgian forward power price standing at approximately €50 per MWh.

Following the latest availability adjustment published, we slightly adjust our 2019 full-year outlook downward compared to the end of H1, with 2018 losses now expected to be cut by 70% instead of 75%.

On the next slide, in Supply, the significant COI reduction of 33% was mainly driven by lower results in business sales in Benelux and in the United States, and continuing margin pressure in French retail. This was only partly offset by increased power margins in French business supply.

Over the last 12 months, we continued to increase our retail Power customer base in France by 0.4 million, as well as our Service customers by 0.6 million. On the other hand, we lost 0.3 million customers in Gas, mainly on regulated offers in France. Here again, mainly based on the 9-month actual figures, we had to slightly adjust our 2019 full-year outlook downward for Supply: we now expect a reduction of approximately 15%.

Lastly, our Others activities performed very well, with a 65% COI increase. This is mainly due to our Energy Management business, whose performance has notably benefited from the positive effects of gas contract renegotiations and from the agreement on the partial transfer of a gas supply contract to Shell, that was signed in Q3 this year. Energy Management performance also benefited from international development and from favourable market conditions, characterised by volatility, especially on the gas commodity, and growth is all the more impressive as 2018 already had been a good year, with favourable conditions linked in particular to the cold snap at the beginning of last year. In addition, our latest Group efficiency programme, Lean 2021, has begun to deliver cost savings at the Corporate level and we benefit from a favourable comparable due to the cost of the Link 2018 employee shareholding plan.

Based on this actual performance, coming mainly from Energy Management, we are able to improve the 2019 full-year outlook and expect now that our 2018 losses will be cut by 35% instead of 15.

Turning to cash flows with the classic waterfall on the next slide, CFFO was down by 1 billion year on year, mainly due to timing effects from commodity-related margin calls, and financial derivatives coming from our Energy Management activities. This was partly offset by a favourable evolution of operational working capital requirements coming from our Energy Management activities, due to a decrease of $CO_2$ inventories and gas inventories in France and Italy. Our operating cash flow is in line with the EBITDA and thus shows an increase. We expect CFFO to significantly increase in Q4, mostly on the back of a reversal of margin calls and financial derivatives.

With this, back to Isabelle.

**Isabelle Kocher**

Thank you, Judith.

So, in conclusion, I would simply reiterate our key takeaways for today.

First, our 9-month 19 results show, as expected, an acceleration in earnings growth. We are very proud of these results and I would like to thank all my colleagues who have driven this remarkable acceleration in performance. Not just for our notable success this year but, more importantly, for the steady progress that we have achieved in recent years in building the underlying strategic and capability platforms which are responsible for this much-improved momentum. And I have great conviction that this progress will continue to deliver sustained underlying performance momentum well into the future.

So, let's now take your questions.

## Q&A

**Société Générale**

Good morning, everyone.

My first question is on Customer Solutions: please, I would love to understand what has deteriorated in the business during the summer that drew you to reduce your guidance outlook for the full year. You did mention some problematic businesses in Canada (that was already highlighted in H1). Is the situation worse than you thought in those contracts or are there other headwinds that have materialised across the board? I would love to get more granularity there.

My second question would be a quick one on Renewables: could you help us quantify the farming-down gains booked in nine months last year or nine months this year. Or, if you can't give us an absolute number for the two periods, maybe the delta between the two years.

And, lastly, how much do you expect to book in Q4 in terms of UK capacity mechanism revenues, please? Thank you very much.

**Judith Hartmann**

Hello, Emmanuel. Thank you for your questions.

On the first question, which is around Client Solutions, quite frankly, if you look at the actual numbers, the decrease is relatively limited (of the outlook). You know, we're talking about 10, 20 million. And so the difference really is mostly coming from some of the restructuring that was mentioned. Canada, no news. But there is a couple of other contracts that we're working on. But, also, never forget that we are investing into this activity, and you saw our launch of Engie impact, and that is obviously creating some short-term costs. But, quite frankly, not worried about this because, like I said, it is relatively small in terms of numbers of what the change is from what we said in H1.

Then you had a question on the DBSO sell-downs for Renewables, nine months year to date, and in fact it is an interesting question because there's a timing difference this year versus last year. This year, it's roughly… you know, for 50 million I would say in the first three quarters, there was almost nothing last year, but then of course last year we had a very significant Q4, and so we will see that tamper out over the total year.

And then lastly your question on the UK capacity market reinstallation: it is going to be roughly 60 million. So quite significant and very positive for us.

**Bank of America**

Good morning. Three questions, if I may.

Firstly, I was wondering if you could just quantify the amount that you expect to be clawed back in the Networks business over the next two years from these North-South revenue transfers. Similarly, for Brazil, if you could sort of quantify what compensation has been deferred into 2020.

Just following up on Emmanuel's question on Renewables, has your DBSO outlook for Q4 changed over the last three months? Are you expecting less than you were before and, if so, does that mean that there's going to be more phased in in early 2020?

And then, just finally, on Networks: that business is down 8% in the nine months. You're targeting a low-single-digit decline in the full year. I sort of struggle to see TAG making up all of that improvement, so I'm wondering what else you're expecting to improve in Q4 in Networks. Thank you.

**Paulo Almirante**

So, on the clawback in Transmission in France, these questions are taking place with the compensations chamber, so it is too early at this stage to give a figure for that.

On the GFOM . So GFOM is a process, a legislative process in Brazil, which is established to compensate the dispatch of dams, which are out of the merit order, but to manage the reservoirs for water use. We expect this legislation to be put in place during 2020, but it depends on several chambers in the Brazilian legislative process, and so we don't know yet when it's going to happen. We are talking here of figures of the order of €100 million.

**Judith Hartmann**

A very important question [on DBSOs], thank you. No, there's no change to our outlook in Q4. We had mentioned in the past roughly 100 million and that's what we're expecting. Obviously, the team's very much aligned in driving for this.

Then you had a question on what is driving the difference between the Networks' 9-month growth rate versus the total-year growth rate, which is improving. Some of this, quite frankly, is a normalisation because you will remember, as I mentioned, we had in H1 some pressure, mostly on Storengy, on additional cost and price adjustments, and then of course, like you mentioned, there will be a positive impact on TAG that is coming in inQ4.

**Morgan Stanley**

Hello. Thank you for taking my questions. I have two.

The first one is could you quantify and walk us through the one-offs that you benefited from in Q4 2018? I know there were abnormal gains in asset rotation in Renewables, but I was wondering if there were any other positive one-offs last year.

And the second question is whether you could please comment on where consensus stands, basically at €9.9 billion EBITDA for 2019 and €2.5 billion Net Income for 2019. Thanks a lot.

**Judith Hartmann**

I will take the second question first. On the total-year outlook, basically, is your question. You know, we're confirming guidance today very happily. What I would say is you can expect that EBITDA indication also to be in line. There is, as always, certain risks and opportunities that, you know, could come in. The typical ones: foreign exchange, price, Nuclear. But what I would say is the teams are working… Those could be, by the way, upsides or downsides. And the teams are really working to make sure that we secure this outlook. And so, very comfortably, we are confirming our outlook for the total year.

Then you had a question on Q4 unusuals of last year. Quite frankly, I would mention mostly… You mentioned yourself already the DBSOs and, in addition to this, I would mention the LDs that we had in Thermal in the Netherlands at the end of last year, which were close to 90 million.

**UBS**

Good morning, everyone. Thank you for taking my question.

I have one question on the French hydro: is there any update regarding the renewal of the CNR (Compagnie Nationale du Rhône) concession, and also including a change in the French Hydro tax. Thank you.

**Isabelle Kocher**

On the CNR situation, no news. That is to say good news. Since we had very positive discussions with the EU Commission, then we expect to get a positive answer from the Commission and then effectively to get the renewal of this. Or, more precisely, the extension of this concession for 18 years. On the Hydro tax, Judith?

**Judith Hartmann**

No changes that I'm aware of. Thank you.

**J.P. Morgan**

Good morning.

I noticed that there is a fair amount of focus this morning on the slight changes of the COI at division level, something we didn't really see at H1 when you increase it. So I just wanted to check one thing, mathematically speaking: we have here a slight deterioration of the COI indication versus H1 but, actually, if I do some maths, I still see a tad better overall COI indication than it was done at Q1, whilst you've lost… I mean, you've lost…, you expect now the Brazilian compensation for 2020. So, net-net, you would say, everything else being equal… does that mean that you are slightly better, still, than at the beginning of the year, in terms of outlook? Thank you.

**Judith Hartmann**

Yes, that is a fair statement. It's slightly better at the Group level. Yes. And, like you said, you know, there is some changes in-between, of course, some puts and takes, but it is setting out to be a very strong year.

**Isabelle Kocher**

I would like to insist on that: we gave some explanation on each of our businesses and what you can take from what we said is that, in each of our businesses, we have good intrinsic performance and dynamic. This is very true for Renewables, because we… what we see this year, if we retreat the hydro conditions and the French hydro conditions, is that the intrinsic performance of this business line is extremely dynamic. And it will be the case also for the end of the year. Even if we have some sell-down profits that will be more for the beginning of 20, the intrinsic dynamic is extremely strong. And for Client Solutions the same, I would say. We started with a Q1 that was atypical, as we said, and everything we see in this business is extremely good. And our commercial performance is strong. We had a 10% increase in our revenues, which is of course extremely impressive. So we are extremely confident in the ability of these businesses to be extremely strong in the years to come.

**Citi**

Good morning, everybody. I have two questions.

Can you quantify maybe the amount of the effects on the collaterals you expect in Q4, how much that could improve. And also on the Net Debt, do you see any other potential effects such as revision of the provisions? Do you see any pressure of the Nuclear provisions to go higher for the full year?

And the second question I wanted to ask is about the cost of the TAG debt acquisition: how much is that? That seems to push the overall contribution lower to your figures.

**Judith Hartmann**

So, the line unfortunately was not very good so I'm not sure I understood your first question. I will… Let me start with the Net Debt. Like we said, you know, the increase is to some extent temporary because there's about a billion swing between what we would have done Q3 year to date and this year because we paid the interim dividend last year in October. Then of course there is an increase of debt because of what we invested into TAG, 1.6 billion as you know, and plus we are doing, I would say, about a billion of investments into Renewables. And that obviously is translating. You saw it in the big increase that we're seeing in our installed capacity for Renewables.

The Nuclear provisions: there's the triannual revision that is ongoing. It's too early to talk about it. We will… You know, if three years ago is any guidance on calendar, we should know at the end of November or at the beginning of December. All I can say is there is constructive exchanges at this stage and we will obviously keep you posted on this when we have more news.

You had a question on the cost of TAG. It's about 5%. And then, if you want to maybe repeat what your first question was? Like I said, the line was breaking up while you were speaking.

**Citi**

I wanted to ask you… You said there would be a reversal of the collaterals on your trading positions for the Net Debt that can shrink in Q4. Can you quantify how much would you be assuming, you know, market… I know there's a huge amount of volatility but assuming we are where we are on the different assets and commodity prices.

**Judith Hartmann**

Okay, I got your question. Okay, so, you know, indeed the CFFO is, like I mentioned, negatively impacted by the margin calls. Those are related to the economic hedges linked to our Generation and Supply activities. And they will recover over time, when the related transactions will be settled. So we are expecting a favourable impact on Q4. Thank you.

**Isabelle Kocher**

OK, so I would like to thank you for having attended this call, and we wish you a very pleasant day. Goodbye.