This review is focused on one dimension of issuer preparedness for the energy transition—the audited financial statements. Current and ongoing actions to reduce emissions, whether by governments, society, or corporations themselves, can impact assets, liabilities and profitability. This work analyses the extent to which companies and their auditors are addressing the financial impacts of these items in their financial statements today.

OVERVIEW OF ASSESSMENT: In FY2021, Engie demonstrated some improvement in consideration of climate-related issues in the financials. Its discussions related to goodwill impairment and provisions for dismantling French (rate-regulated) gas infrastructure. However, it was not clear if similar consideration extended to its impairment testing for other productive assets (e.g., PPE and other intangibles). Additionally, there was no evidence that Engie considered the effects of climate when estimating provisions for dismantling non-rate-regulated or coal-related infrastructure (such as its coal-fired plants in Latin America). As with FY2020, it did not disclose all the key climate related assumptions that it used. It remains unclear whether there are inconsistencies between the timing of Engie’s emissions targets, the effects of climate risks outlined in its “other reporting” and its consideration of these issues, as appropriate, in the financial statements. As in 2020, outside of describing Engie’s own assumptions, there was no evidence that Deloitte and EY considered the impacts of relevant climate-related matters on these assumptions in their audit.

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**Climate Action 100+ ASSESSMENT METRICS AND SCORES**

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**FY2021: Overall score**

<table>
<thead>
<tr>
<th>Were sub-indicators met?</th>
<th>N</th>
<th>N</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Were metrics met?</td>
<td>No</td>
<td>No</td>
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**PRIOR YEAR SCORES (2020)**

<table>
<thead>
<tr>
<th>Overall score</th>
<th>The alignment assessment was not met</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-indicators?</td>
<td>N</td>
</tr>
<tr>
<td>Metrics met?</td>
<td>No</td>
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</tbody>
</table>

1 Property, plant and equipment
2 New provisional CA100+ Climate Accounting and Audit Alignment Assessment (CAAA). See also “Background to this Assessment” at the end of this summary.
3 We also referenced UGCC Investor Expectations for Paris-aligned Accounts when developing the assessment methodology for this.
4 Or disclosed a sensitivity to these inputs (assumptions and estimates).
5 Or the auditor performed its own sensitivity analysis on the potential implications.
Overview

Engie is a global utilities company that has “four core activities: renewable energy, energy solutions, networks, and thermal production & energy supply”\(^6\) divided into seven segments: Renewables, Networks, Energy Solutions, Thermal, Supply, Nuclear and Other.

- Engie’s main fossil fuel-related assets are in the Networks and Thermal segments. Networks include rate-regulated gas networks and related infrastructure assets\(^7\) in France, and non-regulated activities in other parts of Europe and Latin America. Thermal includes gas and coal-fired power plants in various locations.\(^8\)
- Engie’s financial results for its rate-regulated activities may not be affected by climate-related risks in the same way as its non-rate-regulated activities. For example, if Engie must retire an asset early due to the energy transition, it may be allowed to allocate the cost of doing so via a ‘regulatory asset’ by the regulator. Alternatively, the regulator may decide to disallow the cost. While the latter is less common, as Engie appears to be planning to maintain a substantial amount of French gas infrastructure as part of the energy transition, the effects on Engie will be partially determined by whether future regulators view this as prudent.

Significant relevant YOY changes:

1. In early 2021, Engie announced a commitment to exit all coal assets in Europe by 2025 and globally by 2027\(^9\).
2. In May 2021, Engie announced its goal of being Net Zero by 2045 on Scope 1, 2 and 3 emissions\(^10\). Prior to this, Engie had committed to achieving an 85% direct emissions reduction by 2050, compared to 2012, for Scopes 1 and 3.
3. In FY2021, Engie disclosed forecasted CO\(_2\) gas, and power prices for 2022-2024. These assumptions related to Engie’s short- and medium-term outlooks\(^11\).

As part of our review, we looked at whether Engie considered the impacts of these commitments, such as on assumptions used in impairment testing or on remaining asset lives, when preparing the financial statements.

Planning and Targets: Engie set out its outlook and assumptions for its 2022 budget and its 2023-2024 medium-term business plan in the Management Report (“outside” the financials). In addition to the Net Zero target noted above, it indicated emission targets to reduce Scope 1 and 3 carbon intensity from electricity production by 52% by 2030 (from 2017) and reduce Scope 3 emissions from the use of products sold by 34% by 2030 (from 2017)\(^12\). Just as it did in FY2020, it stated that its strategy is to be “a leading force in the energy and climate transition”\(^13\).

Assessment of financial statements (Sub-Indicator 1, Score: No)

The most relevant items for Engie that could be affected by climate change related issues were:

- **Property, plant and equipment**, net of €51bn, which is primarily comprised of €41.1bn of Plant and Equipment, €4.3bn of Assets in Progress and €2.6bn in Right of Use assets\(^14\).
- **Goodwill**, net of €12.8bn\(^15\).
- **Intangible assets**, net €6.8bn – comprised primarily of €2bn of intangible rights arising on concession contracts and €4bn of “Others”\(^16\).

Note: Engie did not provide a breakdown of the carrying values of these assets by segment or fossil fuel type (e.g., for coal vs. gas thermal assets). To gain a perspective of the size of Engie’s fossil fuel assets,

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7. Transmission rates on the GRTgaz transportation network and the gas distribution network in France, as well as rates for accessing the French LNG terminals and revenues from storage capacities, are all regulated. Ibid, p. 333.
8. In Europe, North America, Latin America, parts of Asia, Australia, and South Africa.
10. Ibid, p.72.
15. Ibid, p.279.
we used Engie’s allocation of goodwill to each segment as a proxy for amount of assets in each segment. From this we estimated network segment assets to be ~45%, and thermal segment assets to be ~9%, of total PPE, intangibles, and goodwill. Based on this, gas infrastructure may be a significant asset to Engie, although we do not know the breakdown between rate-regulated and non-rate-regulated assets.

- **Provisions** were broken down into non-current, net of €23bn and current, net of €2bn. There appeared to be only one fossil-fuel related closure provision - which was for dismantling non-nuclear plant and equipment- of €1.2bn. Of this amount, €402m related to dismantling LNG terminals and non-regulated storage sites, and €251m related to the Hazelwood Power Station (coal).

**Impairment:** In FY2021, Engie recorded a gross impairment of €1.1bn (€1.0 net) for PPE/other intangibles/goodwill, €1.0bn of which related to PPE/other intangibles. Of this, €235m (n/s) related to thermal generation assets in Brazil resulting from Engie’s commitment to a worldwide withdrawal from coal by 2027, and €234m (n/s) was for other thermal generation assets (there was no indication that this was climate-related, or if these are gas or coal-related assets). It was not clear if Engie also tested its thermal gas assets or non-regulated gas networks for impairment, and if not, why not.

**Consideration of climate-related matters (Metric 1a: No):** In FY2020, the evidence of Engie’s consideration of climate was that it used long-term projections of CO₂ prices in line with the EU’s 2050 climate neutrality objectives in its goodwill impairment tests. In FY2021, with respect to climate related- matters, Engie disclosed that it:

- considered climate commitments made by France, Europe and other countries, as well as its own climate goals (“complete withdrawal from coal by 2027...[and] net zero by 2045”) when preparing the financials, particularly for goodwill impairment testing and for assessing useful life of gas networks in France.

- considered climate in various ways in goodwill impairment testing:
  - via the use of assumptions from its 2022 budget and 2023-2024 medium-term business plan (including CO₂ prices);
  - based on its 2025-2040 reference scenario, which used “forward market prices over the liquidity period for fuel (coal, oil and gas)”, then medium to longer term prices including CO₂ prices that are “in line with the 2030 emissions reduction target of 55% and the 2050 climate neutrality objectives set by the European Commission as part of the European Green Deal presented in December 2019 and July 2021”;
  - via forecasted medium- and long-term electricity prices using models that included forecasts of fuel, CO₂ prices, trends in installed capacity and technology mix.

- Engie believes that it will be able to use its French gas-related infrastructure in the “very distant future” for ‘green gases’ as part of France’s energy transformation. As a result, its provisions for dismantling relevant gas infrastructures are nearly zero. Though not explicit, this implies that its rate-regulated French gas infrastructure is indefinite-lived. Engie also acknowledged the need to continually review the use of these assets as climate-related rules and regulations change and as its knowledge of the “compatibility of gas infrastructures with hydrogen” improves. It is not clear if there are provisions for its other non-regulated gas infrastructure (outside of the above €420m).

As noted, overall, Engie made some progress in comparison to the previous year’s disclosures by providing more evidence of consideration of climate. However, it remains unclear whether it:

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17 Of €12.8bn in goodwill, €5.8 bn (45%) related to the infrastructure segment and €1.1bn (9%) to the thermal segment. Engie 2021 URD, p. 279.
18 Ibid, p. 325.
19 We note that this is not significant (n/s) to the financial results or balance sheet amounts.
20 2021 URD, p.270, 286
23 The detail of which was in its management report. Ibid, p.280.
24 Ibid, pp. 280,281.
26 Ibid.
27 Ibid.
• used the same impairment assumptions for PPE and intangible assets as it did for goodwill testing;
• considered the effects of climate-related matters on the recoverable amounts of non-rate-regulated gas assets, and gas thermal power plants;
• considered whether continued use of French gas networks (pre-transition) will affect its ability to achieve its interim 2030 and final 2045 emission reduction targets, and if it will be able to recover any future costs -either to update these assets for the transition or for post-transition use such assets28;
• considered the effects of climate for the LNG/storage provisions, and/or
• changed forecast CO\textsubscript{2} prices, estimated lives, and/or margin assumptions for non-regulated gas assets because of climate targets and outlook.

Accordingly, Engie did not meet the requirements of this metric.

Disclosure of quantitative assumptions and estimates used (Metric 1b: No): Like 2020, Engie disclosed the estimated useful lives of PPE and intangible assets, and the discount rate used in estimating the dismantling and restoration provisions for the Hazelwood Power Station & Mine. It disclosed the growth rates used for impairment testing by reportable segment (instead of by CGU as Engie reorganised how it assessed businesses in 2021). However, this was only for two out of the seven reportable segments (Energy Solutions and Supply)29. Engie implied that its French gas infrastructure assets have indefinite lives, and that the coal assets extend to 2027 at the latest. Engie also provided the forecasted CO\textsubscript{2}, gas, and power prices that it used for 2022-2024. Although Engie disclosed the latter information outside the financials, this still provides investors with some of the quantitative inputs that Engie used.

However, Engie did not disclose the forecasted quantitative assumptions that it used for its 2025-2040 reference scenario (and so its impairment tests). It did not provide estimated remaining useful lives for non-French gas infrastructure assets, the estimated remaining useful lives for its thermal gas assets or the undiscounted amounts and average estimated timing for fossil fuel-related provisions. Without a complete set of this information, investors cannot assess the extent to which Engie has considered climate-matters in its financial statements or make their own adjustments. Accordingly, Engie did not meet this metric.

Consistency with other reporting (Metric 1c: No): This metric score is contingent on Metric 1a, which was scored as “No”. Accordingly, this metric was scored as “No”. Additionally, there appeared to be inconsistencies between Engie’s climate-related emissions targets (which it detailed in its other reporting), and whether it considered the impacts of such targets, such as on forecasted cash flows or the remaining lives of relevant assets, in the financial statements. While Engie discussed energy transition risks such as changes to relevant regulations (in particular, French and European decarbonisation policies), and risk of climate change to demand outside its financial statements, it was not clear whether and how it comprehensively considered the financial impacts of these risks in its financial statements. It also discussed that physical risks such as extreme weather events or higher temperatures\textsuperscript{30} could potentially impact its generation activities but it was not clear if this had any impact on the current financials (such as increased costs to insure).

Assessment of audit report (Sub-Indicator 2, Score: No)

In 2021 the auditors identified the following KAMs: 1. Measurement of the recoverable amount of goodwill, intangible assets and property, plant & equipment, 2. Measurement of provisions relating to the back end of the nuclear fuel cycle and the dismantling of nuclear facilities in Belgium and 3. Main estimates and judgments relating to revenue.\textsuperscript{31,32} We noted that KAMs 1 and 3 could be impacted by climate-related matters, and most notably KAM 1. For example, the energy transition/Engie’s emission reduction targets could affect

\textsuperscript{28} The only explicit reference that Engie has made to the effect of energy transition on rate-regulated assets appears to be outside the financials where Engie noted that through a gas transmission tariff introduced in April 2021, the French regulator CRE maintained the resources granted to its GRTgaz subsidiary to meet the challenges of the energy transition. Engie 2021 URD p.24.
\textsuperscript{29} Ibid, pp. 280-1.
\textsuperscript{30} Ibid, pp. 48-9, 71.
\textsuperscript{31} Ibid, p. 342.
estimates of demand, CO₂ prices, margins and asset lives that can affect forecasted cash flows used in impairment testing.

**Consideration of climate in the audit report (metric 2a: No):** In testing the impairment KAM (KAM 1), the auditors evaluated Engie’s “long-term reference scenario (trends in electricity and gas prices and demand, price of CO₂, coal and oil, inflation)”33. They assessed the assumptions that Engie used to calculate cash flow projections and discount rates. However, the auditors did not indicate how they considered the appropriateness of assumptions that Engie used in the face of climate-matters (or if they considered the impacts of climate-related risks and Engie’s targets on these assumptions). Additionally, it was not clear whether/how they tested Engie’s claims that it planned to indefinitely use its gas infrastructure assets (and so not record impairment or a decommissioning liability) in the context of future energy mix/energy transition. Additionally, there was no explicit mention as to how the auditors assessed the recoverability of coal-related assets following Engie’s commitment to exit coal by 2027. For the revenue KAM (KAM 3), it was unclear if the auditors considered whether Engie’s ability to continue to recover compensation on its rate-regulated gas infrastructure assets could change in the face of the energy transition. As in the prior year, there was no clear evidence that Deloitte and EY fully considered the impacts of relevant climate-related matters in its audit. Accordingly, Engie did not meet this metric.

**Identification of inconsistencies between financial statements and ‘other information’ (metric 2b: No):** This metric is partially contingent on Metric 1c, which we assessed as “No”. As noted in metric 1c, Engie’s accounts did not appear to provide sufficient evidence of the consideration of the climate-related issues that it discussed in its narrative reporting. For example, it was unclear whether Engie considered the effects of achieving its Net Zero by 2045 target when estimating forecast CO₂ prices, remaining asset lives or closure provisions in the financial statements. Engie disclosed its net zero target in the front of the annual report, which was subject to the auditor’s consistency check. However, the auditor did not draw attention to the discrepancy. Accordingly, Engie did not meet this metric.

**Audit Committee:** Similar to the prior year, no audit committee report was noted for FY2021.

**Assessment of alignment with net zero by 2050 (or sooner) (Sub-Indicator 3, Score: No)**

**Financial statements use (or provide a sensitivity to) inputs aligned with this (metric 3a: No):** Engie considered CO₂ prices that are “in line with...2050 climate neutrality objectives set by the European Commission...” 34 when testing goodwill for impairment. However, it did not disclose the explicit quantitative prices (or other estimates, such as of future demand), that we needed to determine if the inputs that Engie used were aligned with this metric. Engie also provided sensitivity analyses for the Renewables and Thermal reportable segments for the impact of changes in electricity prices and discount rates on the recoverable amount of goodwill35. However, there was no evidence that the assumptions that Engie used in the sensitivity analyses, especially for the Thermal segment, were aligned with achieving net zero by 2050. Without the relevant climate-related quantitative information, we cannot determine if Engie met this metric.

**Other information:** Engie’s overall targets (net zero by 2045) are not in line with the IEA NZE2050 scenario, which provides for electricity to be carbon neutral by 204036. Only Engie’s target to exit coal-fired power globally by 2027 seems to be aligned with the IEA’s NZE2050 scenario, which states that, to achieve net zero by 2050, electricity generated by unabated coal-fired plants needs to be phased out by 204037.

**The audit report identifies that company’s inputs were aligned with net zero by 2050 (or sooner) or provides a sensitivity analysis (metric 3b: No):** The auditors did not comment on whether the assumptions and estimates used by management were aligned with this, what appropriate inputs might be, nor did they conduct a sensitivity to such inputs.

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32 URD 2021 p. 342.
33 URD 2021, pp. 280, 281.
34 Ibid.
35 Ibid.
37 Ibid.
BACKGROUND TO THE ASSESSMENT: In 2022, the Climate Action100+ added a provisional Climate Accounting and Audit Alignment Assessment (CAAA) to its Net Zero Benchmark. Engie’s FY2020 and FY2021 financial statements and auditor’s report were assessed under the CAAA. The 2020 assessment results were translated from a prior analysis to assessment results under the new CA100+ methodology.

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38 Further information can be found in the CAAA methodology. The financial statement and audit report assessments are grounded in the existing requirements of the relevant accounting and audit standard setters, with Paris-alignment being requested by investor groups. The CAAA uses a binary Yes/No scoring system at the metric level assessment. Metric scores are combined at the Sub-indicator and overall level, with a ‘Partial’ score indicated where there is at least one ‘Yes’ assessment.

39 Scores are based on the new March 2022 CA100+ CAAA. The company’s prior year reporting was initially assessed based on a four-level rating system (significant concerns, some concerns, few concerns and good practice), which in part used the IIGCC Investor Expectations for Paris-aligned Accounting as a framework. The results were published as part of the “Flying Blind” report. We did not attempt to aggregate the seven scores for those assessments. For the 2021 AGM four level scores, please reference prior company summary.