

RATING ACTION COMMENTARY

Fitch Affirms Engie S.A. at 'BBB+' on UK Power Networks Acquisition Announcement; Outlook Stable

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Fitch Ratings - Barcelona - 26 Feb 2026: Fitch Ratings has affirmed Engie S.A.'s Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook following its agreement to acquire 100% of UK Power Networks (UKPN), one of the UK's largest electricity distribution operators (DNO), for about EUR12 billion. Fitch has upgraded the senior unsecured and the hybrid debt to 'A-' and 'BBB' from 'BBB+' and 'BBB-', respectively.

The acquisition will strengthen Engie's business profile, supported by increased predictable regulated and long-term contracted earnings and a more balanced mix between power and gas, historically a key weakness versus power-focused utilities. We also incorporate a temporary increase in leverage over 2026-2028 versus previous expectations and moderate execution risks around the planned equity issue and asset rotation as part of the acquisition funding.

The upgrade of instrument ratings reflects Engie's sustained shift toward regulated activities, which brings the company to the 40% trigger for a one-notch uplift due to above average recovery prospects.

KEY RATING DRIVERS

Strengthened Business Profile: The acquisition will enhance Engie's business risk profile through a sharp increase in predictable, regulated power earnings. This is partly offset by a temporary re-leveraging outside our relaxed sensitivities in 2026 and relative to Fitch's previous expectations over this period. The sustained shift toward regulated activities underpins the introduction of a one-notch uplift to instrument ratings, reflecting above average recovery prospects and a 0.2x relaxation of the negative leverage sensitivity that narrows Engie's debt capacity gap with large integrated peers in EMEA.

The acquisition will lift the regulated EBITDA share to 43% in 2028, from 33% in 2025. Long-term contracted activities, chiefly regulated/contracted renewables, will represent a further 27%, largely unchanged from 2025. Merchant exposure should decline to 30% in 2028 from 42% in 2025, reflecting the deconsolidation of Belgian nuclear activity and forecast lower power and gas prices. Engie retains upside from its flexible gas fleet amid rising price volatility and power demand, while the enlarged electricity networks will strengthen long-term growth prospects and mitigate risks over a gas-sector overweight.

Temporarily Higher Leverage: The transaction will increase Engie's nuclear-adjusted funds from operations (FFO) net leverage to a peak at 5.5x in 2026 (around 5.1x pro forma for 12-month UKPN contribution), above the 4.9x negative sensitivity. However, it should return comfortably within its relaxed 'BBB+' negative sensitivity from 2027, supported by gradual gross debt reduction through a capital increase, hybrid issuance and planned disposals. Deleveraging from its 2026 peak is underpinned by management's target of economic net debt/EBITDA below 4x over the long term.

Moderate Funding Execution Risk: Engie's EUR12 billion bridge loan fully covers funding needs at closing. The planned funding mix - a EUR3 billion capital increase, EUR3 billion hybrids, EUR4 billion in disposals with the remaining in senior debt - should ease leverage pressure through 2026-2028. Execution risks remain around the

equity raise and phased disposals, although they are mitigated by a strong record of disposals and already identified assets. The equity issue and increase in the hybrid debt stock underline Engie's conservative funding strategy and its long-term commitment to keeping economic net debt/EBITDA below 4x.

Strong Strategic Fit: The acquisition will strengthen Engie's UK footprint, which we expect to become its second largest market. It consolidates Engie's integrated value chain presence across generation, storage, supply and now electricity networks, although we assume no material synergies with existing businesses. The transaction aligns fully with Engie's decarbonisation and portfolio-rotation strategy and supports its 2045 net zero ambition.

Stable UK Regulatory Framework: UKPN's three DNOs, each rated by Fitch at 'BBB+' with Stable Outlook, operate under a mature UK regulatory framework, which we assess at the highest level of 'a' for frameworks in Europe, offering inflation-linked returns, volume risk protection and performance incentives. Regulatory outperformance has been strong, with returns on regulated equity of 11%-11.5% through regulatory periods of ED1 and early ED2. We expect the regulatory asset base to grow to GBP10.5 billion in 2028, from GBP9.2 billion in 2025, supporting long-term earnings visibility and cash flow resilience.

Limited Residual Exposure to Nuclear: Engie agreed with the Belgium state to cease Belgian nuclear production at end-2025, except for two joint-venture units extended to 2035. The agreement approved by the European Commission limits operational risks, and output will be sold under a contract-for-differences scheme, reducing earnings volatility. Reported nuclear EBITDA in 2025 was EUR1.3 billion, a 39% decline year-on-year.

Good 2025 Performance: ENGIE reported solid 2025 performance, with reported EBITDA of EUR14.7 billion (-5.4%) and reported EBITDA ex-nuclear of EUR13.4 billion (+0.2%; +2.8% like for like). Results were supported by strong networks growth (+12%) and record renewable and BESS additions (6.2GW). Performance was partly offset by materially lower nuclear earnings and weaker energy management results amid market normalisation. Cash flow generation remained robust, reinforcing a stable net economic debt/EBITDA of 3.1x relative to 2024.

Subsidiaries Ratings Affirmed: Engie Invest International S.A. (BBB+/Stable) remains aligned with the parent due to parental guarantees. Electrabel S.A. is rated at the same level, reflecting strong strategic and operational ties, including its 20% EBITDA contribution, despite the lack of guarantees and a less predictable mix. We expect UKPN to be fully integrated and consolidated from June 2026.

PEER ANALYSIS

Engie's business mix (pro forma for the acquisition) of about 70% regulated, quasi-regulated or contracted EBITDA by 2028 has narrowed the gap with those of SSE plc (BBB+/Stable), Enel S.p.A. (BBB+/Stable), and Iberdrola, S.A. (BBB+/Stable), its closest peers. The latter two benefit from a higher share of regulated electricity EBITDA and larger operations in renewables, improving earnings predictability. Similarly, SSE's portfolio comprises a large share of high-quality UK regulated networks and contracted earnings. Engie is more exposed to the gas industry, which is a weakness in light of its higher long-term climate risks than for electricity.

Engie's growth plan in renewables and the acquisition of UKPN will bring its business mix closer to those of SSE, Enel and Iberdrola. Engie's geographic mix is stronger than Enel's, due to a lower exposure to higher-risk countries, including those in Latin America. Engie's debt capacity will be slightly higher than the latter but still lower than Iberdrola's and SSE's after the acquisition.

Engie's higher debt capacity than Electricite de France's (EDF, BBB+/Stable; Standalone Credit Profile (SCP): bbb-) reflects the latter's weaker business profile (due also to higher operational risk entailed in its investment plan and asset base) and deeply negative free cash flow (FCF) expected across its business plan. EDF's IDR benefits from a two-notch uplift from its SCP, under Fitch's Government-Related Entities (GRE) Rating Criteria. We rate Engie on a standalone basis because the French state, with 23.6% of its share capital and 34.3% of voting rights, does not have economic or voting control over the company.

FITCH'S KEY RATING-CASE ASSUMPTIONS

-- UKPN consolidated from June 2026

-- Engie's Fitch-adjusted EBITDA (deduction of operating leases and contribution from equity-accounted entities) at about EUR13.3 billion in 2025, EUR13 billion in 2026, EUR14.4 billion in 2027 and EUR15.1 billion in 2028; including contribution from UKPN of EUR0.8 billion in 2026 (consolidated from June 2026) and EUR1.7 billion for 2027-2028

-- EBITDA in networks in France based on allowed returns for the regulatory period; UKPN regulated revenue based on allowances for over RIIO-ED2 under regulatory price control financial model published in January 2024.

-- Capex (net of financial capex and capitalised interests) of about EUR27 billion cumulatively for 2026-2028 including UKPN capex

-- Acquisition cost of EUR12 billion for UKPN

-- Dividends in 2025-2027 in line with Engie's dividend policy (65%-75% of group net result, with a floor of EUR1.1 per share)

-- Asset disposals of about EUR4 billion in 2026-2028

-- Equity issuance of EUR3 billion and EUR3 billion of hybrid debt as part of acquisition funding

CORPORATE RATING TOOL INPUTS AND SCORES

Fitch scored the issuer as follows, using our Corporate Rating Tool (CRT) to produce the SCP:

- Business and financial profile factors (assessment, relative importance): Management (bbb, Lower), Sector Characteristics (a-, Moderate), Market and Competitive Positioning (bbb+, Moderate), Diversification and Asset Quality (a-, Moderate), Company Operational Characteristics (a, Higher), Profitability (bbb, Moderate), Financial Structure (bbb, Higher), and Financial Flexibility (a, Moderate).

- The quantitative financial subfactors are based on custom CRT financial period parameters: 20% weight for the forecast year 2026, 40% for the forecast year 2027, and 40% for the forecast year 2028.

- Assessments of the quantitative financial subfactors also include bespoke calculations.

- The Governance assessment of 'Good' results in no adjustment.

- The Operating Environment assessment of 'a' results in no adjustment.

- The SCP is 'bbb+'.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- Nuclear-adjusted FFO net leverage above 4.9x (relaxed from 4.7x before) on a sustained basis

-- Substantial reduction in the share of regulated, quasi-regulated and contracted EBITDA

-- Adverse regulatory or fiscal changes affecting the predictability of cash flows

-- For Electrabel and other subsidiaries, materially weaker ties with Engie

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- Nuclear-adjusted FFO net leverage sustained below 4.0x, supported by a consistent financial policy

-- Increased share of regulated EBITDA could lead to an upward revision of the debt capacity

LIQUIDITY AND DEBT STRUCTURE

As of end-2025, Fitch-calculated readily available cash and cash equivalents was EUR15.3 billion, complemented by EUR10.7 billion of undrawn committed credit facilities.

The UKPN transaction will be first funded by a EUR12 billion bridge payment. The bridge facility will be gradually repaid in stages in accordance with the company's funding plan delivery including the capital increase, disposals, hybrid and senior unsecured issuance. Engie will consolidate about EUR6 billion of non-adjusted net debt from UKPN but will maintain prior-ranking debt level in line with Fitch's thresholds for structural subordination.

ISSUER PROFILE

Engie is a large international integrated utility based in France, with networks, largely gas, (33% of 2024 reported EBITDA), renewables and flexible generation (31%), supply and energy management (23%), and nuclear (14%). In 2025 nuclear activities were largely deconsolidated following an agreement with the state of Belgium.

SUMMARY OF FINANCIAL ADJUSTMENTS

We adjust our FFO-based leverage ratios by the unfunded portion of Belgium's nuclear dismantling provisions. For this, net debt is increased by nuclear liabilities net of associated unencumbered assets. The FFO is increased by the cash flow impact of nuclear provisions included in FFO for that year.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

[Click here](#) to access Fitch's latest quarterly Global Corporates Sector Forecasts Monitor data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

CLIMATE VULNERABILITY SIGNALS

The results of our Climate.VS screener did not indicate an elevated risk for Engie.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Engie S.A.	LT IDR	BBB+ Rating Outlook Stable		BBB+ Rating Outlook Stable
	ST IDR	F1	Affirmed	F1
senior unsecured	LT	A-	Upgrade	BBB+
subordinated	LT	BBB	Upgrade	BBB-
senior unsecured	ST	F1	Affirmed	F1
Engie Invest International S.A.	LT IDR	BBB+ Rating Outlook Stable		BBB+ Rating Outlook Stable
Electrabel S.A.	LT IDR	BBB+ Rating Outlook Stable		BBB+ Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 02 Aug 2024\) \(including rating assumption sensitivity\)](#)

[Corporate Hybrids Treatment and Notching Criteria \(pub. 08 Apr 2025\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub. 27 Jun 2025\)](#)

[Corporate Rating Criteria \(pub. 09 Jan 2026\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 09 Jan 2026\)](#)

[Country-Specific Treatment of Recovery Ratings Criteria \(pub. 20 Feb 2026\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 ([09 Jan 2026](#), [08 Apr 2025](#), [09 Jan 2026](#))

ADDITIONAL DISCLOSURES

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Electrabel S.A.

EU Issued, UK Endorsed

Engie Invest International S.A.

EU Issued, UK Endorsed

Engie S.A.

EU Issued, UK Endorsed

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