H1 2026 RESULTS

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Delphine Deshayes

Thank you, and good morning, everyone. It's my pleasure to welcome you to ENGIE's H1 conference call. Shortly, Catherine and Pierre-François will present our half-year results, following which we will open the lines to Q&A. With my polite request of limiting your questions to one or two only, please.

And with that, over to Catherine.

Catherine MacGregor

All right. Good morning, everyone. ENGIE has achieved an excellent first half of 2026, marked by expansion in upstream and midstream, dynamic downstream results, and strong headway on performance. Earnings are broadly stable, despite the tailwinds of last year fading away. I am pleased to announce an upgrade in guidance for full-year net recurring income group share to a range of €4.9bn to €5.5bn from the previous range of €4.6bn to €5.2bn.

A few highlights. We are at virtually 60GW in renewables and batteries. That's up by almost a third since the start of 2024. We have transformed our scale in electricity grids with the UK Power Networks acquisition plus the award of transmission project in Latin America. Our commercial businesses are performing well and with improving predictability. We are developing rapidly in delivering power to data centers, and our performance measures are gaining momentum across the group. In the Middle East, and despite the turbulence there, our operational performance has been good with little financial impact on the group, testifying to the resilience of our business structure there, as well as the operational excellence and strong sense of responsibility of our teams in the region. Our discussions to transfer our nuclear activities to the Belgian government are moving forward constructively. Since the signature of the letter of intent in April, project teams have been established. The process is now going full speed. The two parties are working in good faith towards the next step of heads of term on October 1st. All in all, despite the complexity of the project, I am reasonably optimistic that a deal can be concluded.

Before I move on, a few words on the rapidly evolving energy environment and why it continues to play to ENGIE strength and make us the go-to utility. It is clear that the ramifications of the Middle East conflict following on from the war in Ukraine represent a tipping point in forcing countries to prioritize energy security and sovereignty. In many of our countries, this is translating into a renewed push for electrification. The EU just issued a plan targeting a doubling in electricity share in energy consumption to 46% by 2040, with flexibility to implement incentives to encourage investments, improve affordability, and widespread boosting of BESS deployment. In France, a countrywide electrification plan bearing early fruits with a 63% jump in electrical vehicle sales in H1 2026. And we saw, again in France, a sharp increase in CRM prices supporting flexible assets. Germany issued its CRM framework paving the way for the construction of new H2 ready gas-fired power plants. Spain and the Netherlands are also moving forward with long-awaited CRM schemes. But there is a further reason why 2026, to me, is a tipping point, and that is climate, which is becoming less predictable, more extreme, as seen with the number of heat waves and tragic fires recently observed in several countries. So, geopolitics, electrification, more unpredictable weather patterns, changing customers' behaviors, these are all new challenges to the energy system that we have to respond to, and at ENGIE, we are very well-positioned to do so. As we have over the last years built an industrial model that is integrated with a quality asset portfolio embedding the right flexibility with best-in-class energy management capabilities resilient to varying market conditions.

In our Q1 results presentation, I said that I strongly believe that having attractively located high-quality physical assets matters and we are showing just that, as we are creating many opportunities to enhance and extend the value of these assets over the lifetime. We have a number of examples of how we go about this. In Brazil the Jirau hydro plant raising its reservoir water level to 90-meter above sea level during the dry season, thereby generating up to 236MW of extra electricity. In the UK, investing £1bn on our pumped storage plants at First Hydro, thereby ensuring 25 further years of operation. In Europe, repowering suitable units within a 440 strong onshore wind portfolio through anticipation, community support, and existing grid access, with 0.2GW repowered at the end of 2025 and over 1GW targeted by 2030. And also in Europe, investing on the agility of our gas fired fleet now nimble enough to achieve up to 1,000 startups every quarter. And in the Middle East, extending the long-term PPAs of our gas plants, most recently 1.5GW in Oman with very good NPVs. Boosting the potential of our assets by applying our industrial, commercial, and financial expertise is and will remain a fundamental factor at ENGIE.

Turning to this next slide, some headline numbers. EBIT excluding nuclear was up 3% at €5.3bn compared to the first half of 2025. Performance improvements amounted to €304m through multiple initiatives such as digital automatization of curtailment at Renewables and BESS, AI-based optimization on forecasting supply volumes, and proactively exiting CFDs in favor of PPAs where it makes sense. In fact, embedding a culture of performance throughout the Group so that it does become the day-to-day norm. In that respect, UK Power Networks' veritable obsession with performance and customer service excellence can provide a valuable new benchmark. Net recurring income group share was little changed at €3bn. Economic net debt rose due to the inclusion of UK Power Networks, up by one-third since end of 2025 to €60bn. And that is the strong first-half performance that enables us to look forward with confidence, and we're raising the full-year guidance range for net recurring income group share to €4.9bn to €5.5bn.

In our Renewable and Flex power GBU, we commissioned 2.4GW of new capacity in BESS, solar and wind over the first six months and we are now close to 60GW of installed capacity. At the end of June, we had 84 ongoing projects with more than 6GW under construction. On the U.S. specifically, power market fundamentals remain strong, demand growth is real. In fact, Texas ERCOT market set an all-time peak above 91GW on July 22nd, driven by heat and data center load. We do continue to grapple with timing, especially as federal wind permitting, largely tied to FAA reviews, remains slow-moving industry-wide, and part of our near-term pipeline has shifted with it. To protect our U.S. ambition, we have safe-harboured about 8GW to 10GW of our 26GW U.S. development pipeline. We will still bring 1 to 1.2GW into commercial operation this year, with a further 1.4GW already with FID advancing for construction. And while we expect total renewables and BESS full-year 2026 capacity additions to be somewhat below the 5.5GW organic growth of 2025, we remain confident in reaching our 2030 target with a ramp-up in growth over the final years of the decade based primarily on the strength and the optionality of our global pipeline as well as potential for small to medium-sized expansion through acquisition. Amongst the highlights of the first half of this year were a doubling in PPAs signed compared with 2025, the completion of commissioning of the Iles d'Yeu and Noirmoutier offshore wind farm and the award of 325MW of onshore wind projects in France, of which 209MW repowering. Whilst in BESS, we commissioned the Tocopilla unit in Chile and started construction of the Drogenbos unit in Belgium.

I would like to pay a tribute to Paulo Almirante, who stepped down from being EVP of Renewable and Flex Power, but will remain as a senior advisor to ENGIE. Paulo has been absolutely instrumental in transforming the business over the last five and a half years into what it is today, a real industrial machine combining ambitious growth with rigid discipline. Thank you, Paulo, and welcome to Pedro Vasconcelos. Pedro, your wealth of experience and international perspective are ideally suited to continue delivering on our ambitious roadmap. I am delighted that you have joined us at ENGIE, and what is for sure is that you have certainly hit the ground running.

Moving on to our data center activities, which are a strong focus of our growth. We are making good progress towards the three targets that I had highlighted in my February presentation. We have already achieved 47% of our 2030 target of supplying 50 terawatt hours of electricity to the technology and data center segments. We now have a total of 7GW of PPAs ongoing with tech and data centers and our pipeline of co-siting projects has grown by 1GW to 7GW of data center capacity since the start of 2026 and that includes 4GW of advanced stage projects up from 0.8GW. The opportunity set is exciting as we draw on various value creation levers from enhanced margins on supply deals and risk management revenues, PPAs unlocking new generation capacities and sometimes even the sale of power land in the case of co-siting projects.

Now, on to Power Networks. A major strategic landmark in Q2 was the full consolidation of UK Power Networks from May onwards. The integration process is going well. During these first two months, we have been able to learn even more about the culture of UK Power Networks that embraces every dimension of performance, safety, reliability of the network, customer satisfaction, cost efficiency. UK Power Networks is now actively involved in the ED3 process and is submitting today its business plan draft to Ofgem. Outside the UK, in Latin America, we were awarded a 400-kilometer power transmission line project in Peru, following almost 300-kilometer of growth via auction and acquisition in Brazil and Peru in Q1. That keeps us on track towards our ambition of 10,000-kilometer of operational power transmission lines by 2030.

With that, I will pass it over to Pierre-François.

Pierre-François Riolacci

Thank you, Catherine. Good morning, everyone. Thank you for joining us for this ENGIE H1 2026 results presentation.

With the first half of the year, as expected, we are back to organic EBIT growth, excluding nuke. And on top of that, we, of course, benefit from the first contribution of the acquisition of UK Power Networks. EBIT excluding nuke stood at €5.3bn, also up year-on-year, despite the first six months of '25 were still supported by the prices locked in the aftermath of the 2022 crisis. Net recurring income group share reached €3bn, broadly stable compared to last year, and despite, again, the phase-out of nuclear activities. Cash generation remained healthy, with CFFO at €6.9bn. The year-on-year decrease mainly reflects the nuclear phase-out and some working capital movements, but the level remains strong and supportive of our investment plan. CapEx reached €22.9bn, primarily due to the acquisition of UK Power Networks for €19bn. And as expected, both net debt and economic net debt increased following the transaction. Consistent with a strong H1 performance, we are upgrading our 2026 guidance with a new midpoint at the top end of the former one. And I will, of course, come back on it.

Let's now turn to the EBIT evolution excluding nuke, starting from €5.1bn in H1 '25. It does reach €5.3bn in H1 2026. On an organic basis, the increase is plus €66m. Scope and foreign exchange had a negative effect excluding UK Power Networks, mainly from the U.S., dollar and the portfolio rationalization in cash generation. The acquisition of UK Power Networks then added around €180m from its consolidation since May. Price and volatility were negative as expected. These mainly reflect trends, which were observed in Q1, such as lower capture spreads in flex power as the high levels hedged during the crisis are now all gone, but also continued normalization in B2B and soft power market conditions for Energy Management activities. Volumes were also negative, mainly due to milder temperatures in Q1 and lower hydro volumes. Against this, commissioning contributed €262m, driven by new renewable and flex capacity for about €200m, additional regulated assets in France and power projects in Brazil for about €50m, and performance contributed €304m showing that the plan continues to be a meaningful lever across the organization. Other items are not significant and include settlements and timing effects. It is the incontestable confirmation that our reported performance is flowing straight into the bottom-line. Nuclear EBIT decreased by €382m, essentially reflecting the Belgian nuclear phase-out and also lower achieved prices in France. So overall, the message is pretty clear. Our growth platforms and performance engine are outpacing the fade of market tailwinds and nuclear phase-out.

Moving now to Renewable And Flex Power. EBIT stands at €1.8bn, down 5% organically. But behind these headline numbers, the drivers are quite different between Renewables and Batteries on one side and Gas Generation on the other. Renewables and BESS delivered the positive contribution. In H1, installed renewable and storage capacity continue to increase with new wind, solar, and battery assets coming on stream. This confirms the quality of our development model and the value of disciplined investment execution. It was supported further by another strong contribution of performance. At the same time, the business faced headwinds from lower captured prices in Europe, although this impact was partially offset by the reduction in the French hydro tax. Gas Generation decreased, mainly due to lower captured spreads in Europe, as strong hedges in Q1 '25 are not there anymore, and also due to disposals, to the non-repeat of positive one-offs recorded last year, and also the pipeline failure in Peru in Q1 '26. This was partly offset by positive pricing effect in Chile and the contribution of Flemalle in Belgium. In June, exceptionally hot weather supported the generation in Europe, but not enough to offset the Q1 normalization. Overall, Renewable and Flex Power continues to deliver value in an environment lacking the tailwinds of the first half of last year.

Let's move now to Infrastructures, which delivered a strong contribution in the first half, EBIT increased by 13%. The key addition of the half-year is, of course, UK Power Networks, which contributed €180m in the period. Closing took place in May, two months ahead of our initial expectations, and as Catherine said, integration is progressing well. Organic growth stands at plus 4%. Gas Networks delivered a solid operational performance with tariff increases in France and Romania, as well as continued efficiency actions. These positives were partly offset by a negative temperature effect in France, as the first half was warmer than both last year and average conditions. In France, this reduced distributed volumes, weighed on the contribution of GRDF. Power Networks continued to grow strongly, plus 19% organic increase. This was supported by inflation-linked indexation in Brazil and a positive one-off in Chile. The transmission network in Latin America continues to expand with new projects and concessions supporting grid reliability and renewable integration. Local Energy Infrastructure, LEI, also delivered growth. District heating and cooling networks benefited from development and tariff indexation, while EV charging benefited from the European development of EVs and charging stations. Weather was again a negative factor, but operational performance and new projects more than offset it. In short, H1 illustrates why Infrastructures is becoming even more central to ENGIE's profile, regulated, predictable, growing, and directly linked to the energy transition.

Turning now to S&EM. EBIT was broadly stable organically. B2C and Energy Management were positive, while B2B declined as expected from an unusually high base last year. B2C showed a strong increase. This reflects effective portfolio management, solid operational execution, but also the non-repeat of negative timing effects recorded in the second quarter last year. Belgium and the Netherlands performed well, notably in power portfolio management. These positives were partly offset by milder weather and lower gas volumes in France. This quarterly flow of a profit in 2026 is a reasonable proxy of the proper seasonality going forward. B2B was down as anticipated. One reason is the progressive normalization of margins and legacy contracts signed during the period of high volatility a few years ago. We also had lower positive seasonality and the non-repeat of 2025 one-offs. Commercial momentum remains sound and current margin levels, which are underpinning our result of tomorrow, are in line with expectations. Energy Management delivered a strong performance in gas and LNG. This includes positive settlements on gas contracts and also favorable market conditions. In power, our PPA activities in the U.S. performed well, but market conditions were more challenging with lower volatility. All in all, we are in good shape to deliver for S&EM a full-year, not far off the EBIT contribution of last year. With a former GEMS, I know you still have this reference in mind, maybe the last time that we discussed GEMS, but still, a former GEMS around €1.7bn, well above the €1.5bn we were planning to achieve exiting the crisis.

Let me now spend a moment on performance, which remains the key contributor to earnings growth. In the first half, performance contributed €304m to EBIT, demonstrating that our improvement initiatives continue to deliver tangible value. You can see the contribution of each of the three pillars of our performance plan on this slide. But let me bring the plan to life with some concrete examples. And first, in B2C France, the use of AI has allowed to reduce significantly the client contacts in our call centers, demonstrating the value of digitalization and automation to generate about €5m full-year impact. Second, in Local Energy Infrastructures, continued simplification efforts led to the reduction of about 75 positions, not only lowering our cost base, but also improving efficiency for a total contribution of about €13m full-year impact. And third, in Renewable and Flex Power, operational excellence initiative increased the availability of solar and wind assets in Brazil, translating to higher production and stronger profitability for about €9m full-year impact. These three examples show that performance is not just a corporate slogan. It is very concrete, measurable, embedded in our day-to-day operations from digital transformation and organizational simplification to simple industrial excellence.

Let's now have a look at the main items between EBIT and net income. Recurring financial result was €1.1bn negative, down €0.2bn year-on-year, notably reflecting the financing of UK Power Networks and also the impact of ForEx in foreign currency denominated debt, notably Brazilian real. Recurring income tax amounted to €0.8bn. The effective tax rate around 22% is in line with expectations. This includes the market standard treatment of UK Power Networks deferred tax balances. After minority interest, Net Recurring Income group share reached €3bn, broadly stable versus last year. Moving from recurring to reported net income, commodities mark-to-market had a positive effect of €0.6bn, mainly reflecting the fair value evolution of the hedging portfolio. Other items were negative by €0.2bn, including costs linked to the UK Power Networks transactions and some portfolio cleanup actions. This leads to net income group share of €3.3bn.

Turning now to cash generation. CFFO was €6.9bn. The year-on-year decrease is primarily explained by lower operating cash flow with the nuclear phase-out, about minus €0.4bn impact on CFFO, also by the change in working capital. Part of this came from inventory, mainly linked to the price effect on gas. Operating working capital also increased, reflecting higher business activity and prices. Margin calls were close to neutral, which reflects the risk-management tools and processes we put in place during the energy crisis to reduce cash volatility of our operations. Still, CFFO remains high in absolute terms and continues to provide substantial funding capacity for investments, dividends, and credit discipline.

Looking at net debt and credit ratio. The increase of economic net debt is of course driven by the acquisition of UK Power Networks, with CapEx of around €19bn, only linked to this transaction. These effects were partly offset by the capital increase and the hybrid debt issued to finance the acquisition. Disposals contribution in H1 is immaterial, be mindful that the Jirau sell-down was completed in July. Economic net debt to EBITDA stands at 4.2x, temporarily above the 4x threshold, because the debt impact of UK Power Networks is fully included, while we just had 2 months of EBITDA contribution. We expect this ratio to move back near 4x by the end of the year. In summary, the leverage increase is clearly transaction-related and temporary, while our commitment to a strong investment-grade profile remains untouched.

Let me conclude now with our updated guidance for '26. Following the strong performance delivered on the first half, we are upgrading our full-year guidance with a new midpoint at the top end of the former one. This guidance upgrade reflects confidence, not optimism. Beyond the early closing of UK Power Networks, it is grounded in solid fundamentals and several supportive factors. First, of course, the quality of our H1 operating performance supported by the contribution of our growth investments, including UK Power Networks closing two months ahead of schedule. But also, second, the continued execution of our performance plan, which remains a meaningful driver of earning growth. Third, we benefit from better than expected ForEx environment, especially U.S. dollar and Brazilian real, and power prices, albeit 2026 was significantly hedged at the beginning of the year, as you should expect.

In addition, we now expect a lower recurring effective tax rate in the range of 18% to 22%.This range takes into account some uncertainty related to the ongoing discussions in Belgium. Looking ahead, we see limited risk exposure for the remainder of the year. The vast majority of our merchant positions are now already hedged, providing strong visibility on earnings and cash generation for the next few months. Overall, the combination of strong operational execution, disciplined investment deployment, and high earnings visibility leaves us well-positioned for the remainder of the year.

With that, let me hand over to Catherine to conclude today's presentation.

Catherine MacGregor

Thank you, Pierre Francois. So in conclusion, a successful first half for ENGIE with upgraded full-year expectations. The strength of our industrial model is showing results in the context of geopolitical, market, and weather unpredictability. It is compounded by our commitment to enhance the value from our existing asset base to invest in our growth priorities with strict discipline and to remain laser-focused on execution and performance. All dedicated to supporting our customers with affordable and reliable, sustainable energy whenever they need it. I can't end without paying tribute to our incredible ENGIE teams who are, without a doubt, among the best professionals in the industry and the real reasons behind our continued success. Thank you.

Back to you, Delphine.

Delphine Deshayes

Thank you, Catherine. Operator, can you please open the line to Q&A? And once again, please make sure to limit your questions to one or two only. Thank you.

Q&A

Operator

The first question comes from Harry Wyburd of BNP Paribas.

Harry Wyburd

Good morning, everybody. Thanks for taking my questions. I'll take my full two questions. So firstly, it's a fairly predictable one, but on Energy Management or the former GEMS perimeter. So in Q2, you did pretty well in Energy Management. Is that just pure good performance in gas and LNG trading, or was there something new on gas contract renegotiations in there? I think you mentioned them both in the 1H and the 1Q updates and I think you said you did €100m of gas contract renegotiations in 1Q. I wondered whether that had been any more in 2Q.

And then maybe you could just clarify what your expectations are for the full-year now. I think you mentioned €1.7bn of EBIT, if I picked that up correctly, for GEMS -- former GEMS perimeter. But would that include the gas contract renegotiations, or is that an ex-gas contract renegotiations figure? So that's the first one.

And then the second one is a topic we haven't covered that much recently, regulatory reviews in French gas networks. I guess, for GRDF, if I've remembered correctly, the regulatory reviews or the end of the period is less than two years away now. And I think in these current regulatory periods, you've benefited from timing effects quite significantly. So I just wondered if you could remind us where things stand on the next regulatory period and how confident you are that you will be able to maintain a smooth earnings profile if there's a different volume catch-up figure in the next regulatory review? Thank you.

Catherine MacGregor

Maybe just a quick word on the second question. Just to remind everybody on the timing, right? So 2027 is going to be the year of engagement with the CRE to prepare the next regulatory period. So right now, what is maybe meaningful on the topic of gas networks is the fact that there's been a report issued by the CRE that laid out the different scenarios that they're looking at and reinforcing obviously the importance of gas in the system to 2050 and looking at even beyond 2050. So there are different scenarios, pretty much mostly in line with our own view of the decrease of gas, but also the importance of gas in the system. So that's one point. There are also some important features in that report that reaffirm the need to look at things like potentially starting to dismantle some part of the network, but that would need to be covered by the tariff. So that's very important to us, obviously, as the shareholder. So there are some really good and important positive points in that report that laid out the foundations of the work that we will do with the CRE next year to prepare the next regulation period. And that, of course, will include all the clawback mechanisms that are very typical of the French regulations, and that often is the result of the volumes that decreased, particularly as a result of the climate, which we have seen this year, climate being again a factor behind volumes decrease. And that will necessarily lead to a clawback mechanism kicking in, for which we don't expect any deterioration in terms of scheme for the next regulatory period.

Pierre-François ?

Pierre-François Riolacci

Yes. And thank you, Harry, for, indeed, not a completely unexpected question. So, you're right to point out that Q2 in EM was strong and probably stronger than what you had in mind. It's actually on the back of two things. One, indeed, very decent trading condition on gas, but also, indeed, some supplement, complement into our gas settlement.

Now, so €1.7bn that I mentioned as a landing point for the former GEMS, and again, with some of the usual caveats, it's basically a for B2B, again, a strong business, which is getting closer to the €1bn delivery and so that's definitely a strong asset. And on top of that, of course, by difference, an EM, which is around 0.7, that's where we would see that. And in that amount, there would be, indeed, the positive contribution of this gas settlement. But we are actually banking in H2 with some cautious de-risking, given the current environment, and which is also, as you know, part of our strategy. And you've seen that pattern over the years, that H2, we tend to be a bit conservative in terms of risk management. And that's also in our numbers. So I think the €1.7bn that you see is quite a robust €1.7bn, which is not overly inflated by one-off, and I think that's what you were after.

Harry Wyburd

Got it. Thank you. And the supplement to the gas contract renegotiation in Q2, would you be able to quantify that how much extra you got?

Pierre-François Riolacci

Yes. I mean, now we are done with this settlement so the big chunk was in Q1 and the smaller one in Q2.

Operator

The next question is from Wanda Serwinowska of UBS.

Wanda Serwinowska

Two questions from you if I may. The first one is on the performance plan. I think you mentioned in Bloomberg quoted that you are like €100m ahead of the plan. Should we expect an upside to your current plan, or did you deliver H1 quicker than you expect? I'm thinking what should we model beyond 2026 on your performance plan?

And the second question is on the German new CCGT auctions, Catherine, I think you mentioned it and I think you have one project. So, what is your appetite for the German CCGT auctions? And would you be ready to have a project for the first auction or for the second one? Thank you.

Catherine MacGregor

Yes. So we are obviously in the process of studying all the features and the details of the framework. We do have indeed potential projects that we are considering for an auction. And I don't know if it's the first or second one that you're referring to. So it's one of them and it should come fairly quickly. But obviously, we will only participate if we feel that the conditions are adequate for us. But yes, we are interested in participating very, I would say, selectively in reinforcing the flexibility need in Europe. We have done that with Flemalle. So the Germany framework might be interesting. We're looking at it.

Pierre-François Riolacci

Okay. And then maybe on performance, clearly, we're very pleased with our H1 numbers. We are €300m, including a contribution of loss-making of about €90m. So it means that the rest of the plan is delivering north of €200m for six months. It's a pretty good number. Clearly, trading above €300m, which is more or less €300m full-year contribution that we give. So it's going to be another good year of performance for 2026. So very pleased with that.

Now, please do not extrapolate too early. But it's clear that the momentum that we had last year is still around in '26 in terms of delivering strong performance numbers. But we should be careful about before extrapolating to future years, but very pleased with the pace that we have today.

Catherine MacGregor

Yes, and it was the second auction in December that I was talking about.

Wanda Serwinowska

Thank you very much. I got some IT issues. So Catherine, I missed 90% of your answer. I will read the transcript. Can I just quickly check? I don't know really what you said. Have you secured turbines? And do you have all the permitting in place? I'm trying to understand how ready you are for the auctions in December. And I'm sorry, Delphine, for the follow-up.

Catherine MacGregor

Yes. I mean, obviously, we have a project that is under development. And I'm not going to go through too many specifics. But we are looking to participate in that second auction. Obviously, we have land secured. And for us to participate in December auction does tell you that we are well engaged with the supplier on securing the equipment. Otherwise, it would be foolish of us to position ourselves for December. As you know, turbine supply is a scarcity these days. So yes, we are looking to do. We have secured land. And we are in good shape in terms of equipment. Again, should we go ahead, as we are finalizing, looking at all the terms of the CRM auction.

Operator

The next question is from Arthur Sitbon of Morgan Stanley.

Arthur Sitbon

Hello. Thank you very much for taking my questions. The first one is on the lower tax rate assumption that you've made for 2026. I was wondering, if you could give a bit of color on what's driving it, if we should consider that as a one-off effect or if it will impact future years as well, so post-2026. And I was wondering also if it's linked in any way to the UK capital allowance scheme now that you have UK Power Networks.

The second question is on AI. You made an interesting point on the fact that it's allowing you to save €5m in France in B2C, thanks to new initiatives. I was wondering if you could develop a little bit more on the potential of AI for your cost-saving plan. I assume that's still a very small share of your current €300m per year. But it'd be interesting to know a little bit more about the initiatives you're working on there. Thank you very much.

Catherine MacGregor

All right. Maybe I'll start with the AI question, because, yes, you're right to say that, obviously, the AI contribution on our performance plan are fairly low in proportion. On the other hand, the potential is truly exciting. So maybe just to frame the way we go about it is that we really have, in terms of digital and AI transformation, we have three main types of actions. The first one is really about digital core convergence. And that is the whole SAP story that you know about, but we also have some co-operating systems, for example, in B2B and B2C, that we are in the process of re-platforming, and that's going to be very important to give us the right foundation for AI to give its full benefit.

The second pillar is all about data. So it's really about proprietary data protection, development, standardization. This is really the thing we consider at ENGIE as our real estate, and it spans across generation, energy management, all kind of data. So we are really working very hard with the team here to reinforce the quality, the integrity of our data.

And of course, the third one is AI. And so AI, again, we have three types of things. We have AI for all. So here, it's all about training, adoption, the co-pilot. We also have an AI studio, the basis of that being multi-model. We want to make sure that we don't, obviously, depending on any one model. We also have AI for builders, which helps us with developers and people who are actually coding. And here, frankly, the productivity improvements are significant. They tell me 30%, I think it's higher than that, but that gives you an example.

And finally, and that's what's most exciting, which is going to be the AI for Business, where we apply AI to actually where we have true differentiation. And here, we have a number of examples. Again, in terms of the €300m, it's only a small portion, but in terms of potential, that is really super exciting. A few examples are, for example, how we are able to better forecast our own asset production and that helps us reduce imbalance costs.
Another example that I really like is that we're doing B2B public tender analysis. And to actually analyze a public standard, it takes six hours because these are huge documents. It's six hours per tender, which means our team can only tackle 50% of the volumes that we could. And so with AI, we have actually reduced this time analysis from six hours to seven minutes. And more importantly now, they cover 100% of the tenders that are being issued. So here you have efficiency and you have also better business. So I mean, I could go on for ages, but we have indeed a very structured approach to AI. In short, small contribution to the €300m, but this is, to Pierre Francois' point, and when we talk about our €0.8bn to €1bn plan for the next three years, we do have the conviction that as we have all these initiatives in place, beyond the three-year mark, we will continue to be able

to contribute to our earnings growth from performance, also thanks to the AI program that we are initiating in a very structured manner.

Tax rates?

Pierre-François Riolacci

Tax rates, it's a good one. So, first, on the long run, we already have guided you that we see a lower tax rate going forward. That was in our latest set of numbers and three year guidance on the back of this tax inefficiency that we could get rid of on the back of the transaction that was completed in '25, with regard to nuclear in Belgium and the free-up of our international assets.

Now, in the short-term, you do have some adjustments that happen. Like any one year, it depends on the mix of earnings. So, depending on which geography and which tax jurisdiction, the earnings are actually moving along the year, then it does change the mix and does change the average tax rate. So, we have that, among which you have indeed the UK Power Networks contribution, which is coming with a lower tax rate due to the tax incentives, but it's not new. It's just that the mix, again, can change depending on the contribution that we have during the year.

Now, there are two other items that we are factoring in in our short-term guidance. And you may have noticed that the range is actually quite wide. It's because we have first some uncertainties around the timing of us triggering the end of these tax inefficiencies. That's something we discussed briefly already a couple of times. So there is a timing point here, which is depending on the discussion that we have also in Belgium still. So here, there are some timing points. And the second one is that we are baking in this range some contingencies for whatever changes in taxes that we could see coming by the end of the year in these troubled times. So it's a prudent view, but it's also a wide range. So nothing really changing in terms of long-term structure, comfortable with the long-term guidance, but it could come up this year with a bit lower tax rate.

Arthur Sitbon

Thank you very much.

Operator

The next question is from Ajay Patel of Goldman Sachs.

Ajay Patel

Good morning, and thank you for the presentation. I wondered if you could just come back to the data center slide that you put out, and just maybe go through the levers of value creation that occur here. So like, is it that as these assets become more advanced, you benefit from maybe a land sale, or is it that you would hope to selling a PPA contract at a premium, and therefore the value communication comes outside? I just wanted to make sure, what is it here that we're looking for? And then in terms of just maturity, when you say advance, is that like the next 12 months, or is it a little bit more further out than that? Thank you.

Catherine MacGregor

All right. So we have -- you almost have to think of it a bit as a pyramid. There are three levels of value creation. The first level is fairly straightforward. It's supply contracts that we do with data centers. And these supply contracts, they tend to be on average higher margin than other type of customers. They are also more sophisticated. The type of risk management that we do with supply contracts for data centers tend to be higher tier, if you like, so that's value right there. And this is reflected by our objective of 50TWh that we have mentioned.

The second one, second type of level is typical PPAs and often PPAs that are enabling new renewable developments. So here, you have a bit of a double whammy, you have a PPA typically, with good level of, in absolute terms, and it also is enabling renewable capacity development, which is obviously has value in itself, because then it comes and reaches our portfolio. And that's what we are here to do.

And the third level, this is the co-siting development. So these are fewer in terms of number of projects, they are more complex, they take a bit longer to develop, which is why you start to see this pipeline concept for these projects. And these ones are going to have several levels of value creation, not standard. They're going to be a combination of, depending if you are going to have existing assets or new assets. Often it's a combination. You're going to have hybrid, you're going to have supply contracts. And by the way, you will also have risk management contracts drawing on to the whole energy management expertise.

So you're going to have all this, and in some cases, you will have indeed a sale of a land. When we have secured power land ahead of time, we are able to indeed secure the sale. And so that's why when you get to the top of this pyramid, you have more than one level of value creation. You have more value created, but you have less of those projects and they take a bit more time. So this is the pipeline that I've mentioned. And indeed, we have 4GW that are now in the advanced stage category, which means that some of them should bear fruit. And I'm not putting any pressure on my team here, but I'd say for sure in the next 12 months, some of them.

Ajay Patel

And I guess, the land sale would be pretty clear. Will we have the visibility on what kind of premiums you may get on the PPA contracts? I'm just trying to say, will we be in a position to able to gauge all those levers of value creation? It does seem so quite substantial.

Catherine MacGregor

Yes. I mean, we'll combine them with the projection and the earning growth that we give you because it is why we isolate the theme because we think it's a very important theme. It is at the end of the day, it's our business. It does support the value that we're creating because we do see PPA level with data centers that are supportive. We do see the margins on supply deal also better in general in the tech and data center sector, but it's a bit difficult to isolate completely and give you projection lever by lever. It says that it is indeed a sector that drives premium, also the time to market is such an issue. As you know, one of the big thing with data centers is that they really want to have their COD in two, three years. So it's really about how we are able to synchronize the time to development. And so that's a bit difficult to isolate lever by lever.

Operator

The next question is from Bartek Kubicki of Bernstein.

Bartek Kubicki

Good morning. Thank you very much for taking my questions, and thank you very much for the presentation. Congratulations on the guidance upgrade. Two issues I would like to discuss. Firstly, on UKPN. And just looking at the cost of debt of UKPN, which is roughly, if we look at 10-year outstanding corporate bond yields, it's around 2 percentage points higher than ENGIE. I wonder if you see a potential for optimizing the cost of debt from the perspective of centralizing UKPN cost of debt at the ENGIE level rather than UKPN level and consequently potentially decreasing your cost of debt and maybe even decreasing your taxes. So that would be point number one.

And point number two on Brazil. If you can remind us, because I know it has been ongoing for years, but remind us the benefits and actually the rationale for the Jirau transaction and what will be the immediate benefit for you. And also on Brazil, if we look at the transmission projects, I think it's becoming more and more consensual that the transmission investments in Brazil have relatively low IRR and I have seen companies moving away from those. So I just wonder how do you defend your transmission investments in Brazil, given the pushback from the market that the IRRs are relatively unattractive versus, let's say, the bond yields in Brazil. Thank you very much.

Catherine MacGregor

Maybe just a word on transmission now. I mean, we participate in auctions in transmission in Brazil now for a few years, and sometimes we lose. So whenever we feel the returns are not there, we just don't win. And the projects that we win so far have been good projects for us. We actually like the framework, the fact that we can actually have earnings including during the construction phase, which is quite a specific feature of the Brazilian scheme. And the fact that we now have a size in Brazil, where we actually are, from an industrial and operational standpoint, we are good. We are managing, the construction risk is there, but we are managing it really well. The teams are doing a very, very nice job, and we are starting to see the benefits of having the size. We are also very selective in the geography of the lots that we win. Obviously, Brazil is a huge country. So you have to be very careful, where you position, your new project. Do they bring you synergy geographically? Do you have teams there? The whole O&M story is also quite important. It does make the difference in the way you create value afterwards as you operate those lines. So, we look at every one of these aspects. And so far, yes, we continue to be really excited about this opportunity set. There will be an auction, a big auction in October, and we plan to participate. Again, very disciplined. If we lose, it's okay. But if we win with the right return expectation and including the right operational industrial plan, then that will be a very good addition to our assets in Brazil and in the portfolio.

Pierre-François Riolacci

Maybe just to comment on the benefits from Jirau, and I will leave to Catherine if she wants to develop further on the operational benefit. Clearly, it was a long-awaited move to move Jirau into EBE, so super pleased with that. Tremendous job has been done to bring it to the level of today, the level of operation, the level of contribution that was a prerequisite to execute on this transaction, so very pleased that it could come through. It's definitely a benefit also from a financial standpoint, because it does help the balance sheet of EBE, because there was, as you could see, a contribution also from the minority shareholders in cash, which is of course improving the ratios, the credit ratios of EBE, which is great. By the way, it was also needed, because you may have noticed that we went for the early repayment of royalties in concession that was actually completed at the end of June, with a down payment that was value-accretive, definitely. You can find in the financial notes there was a non-recurring positive income generated by this operation. So you need to look at it as a global transaction. We're very pleased with the transfer of Jirau, an enabler in terms of financial health of EBE, and also coming very nicely for reinvesting in the future with good cash flows going forward. So super pleased with this operation.

Catherine MacGregor

Only thing to add then to this is just that it also helps us moving towards simplification of our structure in Brazil, which is something that we've been working on. We had quite a complex, multiple entity organization. When we can, trying to simplify the structure is also a direction that we want to take.

Pierre-François Riolacci

And then good question on the cost of debt of UK Power Networks. Yes, indeed, it's higher. Of course, we do plan to keep raising debt at the UK Power Networks level. We have no plan to centralize the overall management of debt. However, what has to be discussed, of course, and will be discussed over the years, is the right gearing that we need to put into UKPN to maximize value, which means that how much capital do we locate into UK Power Networks. And therefore, of course, it would retrofit on the level of debt that we would have at group level. So it is definitely one area where we can play some optimization, not by centralization, but by the right level of gearing that we put into UK Power Networks. I'm looking forward to work with our new colleagues to find the best way to generate value, including outperforming, of course, the financial cost.

Delphine Deshayes

Operator, can you please take one last question?

Operator

Yes, madam. The last question is from Louis Boujard of ODDO.

Louis Boujard

Yes. Hi. Good morning, everyone. Thank you for the presentation, and thank you for taking my question as the last one. Maybe two, of course, on my side. Regarding the PPA, I think that you mentioned that you doubled the PPA signing in the 1H. We know as well that the market environment is evolving quite fast. So I was wondering if you are seeing pricing conditions that might be becoming maybe more attractive, notably from technology customers, but also more broadly on this new PPA signing. And if you think that eventually this improving trend could continue going forward.

And another one regarding the gas generation business, notably regarding the European spark spread, which remains, of course, a little bit under pressure. But we see that the market volatility and the heat wave are a little bit moving the needle in terms of where you could extract some value from the gas generating fleet. So, do you consider that the trend in terms of movement, new seasonality, and different patterns could eventually change your view regarding the medium-term earnings that could be extracted from the gas fleet? Thank you very much.

Catherine MacGregor

Yes. So quickly, on the PPA market, we did have a very good H1. It was also driven by a bit more larger deals, which it's not many, many small deals, but it's a few large deals that have also helped support the 2.4GW. Another characteristic of these numbers is that it actually comes from several different countries. It's not a huge concentration as sometimes it is. So obviously, U.S. is quite significant, but then it's Europe, and we also have in India. We have in a few other countries some PPAs. Peru is one of them, for example. In terms of pricing, I'll summarize it by saying the U.S. continues to be quite supportive. Europe is flattish, frankly, not a great price increase in Europe I'd say, flattish at best.

And in terms of the gas generation, definitely from a spread standpoint, obviously there's been a significant decrease of earnings from the gas generation, but that has been somehow somewhat compensated by the volatility value extraction that you are mentioning. And you're very right that when you look at what has happened, we had an example in June where we had a heat wave, and in just a space of a few days, there was €11m value created from our gas fleet in Europe. So it just shows you that the heat wave, and that was a little bit of my commentary to say that the weather patterns are changing on us all the time, but in a way that really does support our thesis about the value from flexible assets, and our gas fleet is super well-positioned to capture some of that.

So, obviously, we'll have to see how we are able to model that and predict that better. Right now, obviously, the spreads are fairly easy to do, but then the volatility is a bit more difficult. But in terms of, let's say, equity story and thesis for these assets, we are indeed quite positively looking at them, which, by the way, explains why we are also looking at this CRM potential in Germany.

Delphine Deshayes

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