

Rating Action: Moody's upgrades ESB's rating to A3; stable outlook

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London, 19 September 2017 -- Moody's Investors Service (Moody's) has today upgraded the long term issuer rating of Electricity Supply Board (ESB) and the backed senior unsecured debt ratings of its financing subsidiary ESB Finance Designated Activity Company (ESB Finance DAC) to A3 from Baa1. Concurrently, Moody's upgraded to (P)A3 from (P)Baa1 the provisional rating on the euro medium term note (EMTN) programme of ESB and ESB Finance DAC and affirmed ESB's short-term issuer rating at Prime-2. The outlook has been changed to stable from positive.

Today's rating action follows Moody's upgrade of Ireland's long-term government bond rating to A2 with a stable outlook from A3 with a positive outlook (please refer to Press Release, published on 15 September 2017 for more information): http://www.moodys.com/viewresearchdoc.aspx?docid=PR_372429

RATINGS RATIONALE

The one notch upgrade reflects the improved credit quality of the Irish government and Moody's assessment of the likelihood of the government providing support to ESB, should it become necessary.

ESB is 95%-owned by the Irish government, and as such Moody's considers the company's rating according to its methodology for Government-Related Issuers (GRIs). At A3, ESB's rating is based upon Moody's evaluation of the company's standalone credit strength (or Baseline Credit Assessment) of baa1 and the rating agency's assessment of a moderate likelihood of the Irish government providing support to ESB, should this become necessary. This results in a one notch rating uplift under the GRI methodology.

In addition, ESB's A3 ratings positively reflect (1) the significant proportion of earnings that the company generates through its regulated transmission and distribution operations, which contributed 63% of EBITDA in 2016; (2) the low business risk profile of these networks, and stable returns under well-established and transparent regulatory frameworks; and (3) the company's diversified funding sources and sound liquidity position. The A3 ratings also factor in ESB's solid financial performance in 2016 against an improving macroeconomic environment. Funds from operations (FFO)/net debt improved to 19.6% from 17.9%, consistent with Moody's guidance for the current BCA and adjusted net debt decreased by EUR527 million to EUR5,378 million.

However, the ratings also more negatively reflect (1) the relatively higher business risk profile of ESB's generation, supply and innovation businesses, which accounted for 33% of 2016 EBITDA; and (2) an increased level of uncertainty in the generation business resulting from the expected re-design of the Irish Single Electricity Market (SEM), which is required to enable market coupling with the EU; and (3) the challenges associated with a large capital investment programme.

The stable outlook on ESB's ratings reflects (1) the stable outlook on Ireland's long-term government bond ratings; and (2) Moody's expectation that ESB will maintain a credit profile consistent with guidance for the current rating, which includes funds from operations (FFO) interest cover of above 3.5x and FFO to net debt of at least the mid-teens.

WHAT COULD MOVE THE RATINGS UP/DOWN

Upwards pressure could develop on ESB's ratings if ESB's underlying credit profile was to strengthen such that FFO interest cover and FFO/net debt were expected to be sustainably above 4.5x and 20%, respectively and no material negative consequences arise from the review of the Irish Single Electricity Market design.

Although not currently expected, downward rating pressure could arise from (1) a material debt-funded acquisition or capital investment that eroded ESB's financial flexibility; (2) material unfavourable changes in the regulatory framework in Ireland; (3) an increase in the proportion of non-regulated activities within ESB's business mix; (4) a substantial and persistent deterioration in the group's credit metrics; or (5) downward movement in the Government of Ireland's rating.

The methodologies used in these ratings were Regulated Electric and Gas Networks published in March 2017, and Government-Related Issuers published in August 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Electricity Supply Board (ESB) is a leading Irish diversified and vertically integrated utility headquartered in Dublin, Ireland. The group reported revenues of EUR3.2 billion for 2016

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