MOODY'S RATINGS

Rating Action: Moody's Ratings changes outlook on ESB to positive; affirms A3 ratings

19 Aug 2024

London, August 19, 2024 -- Moody's Ratings (Moody's) has today changed to positive from stable the outlook of Electricity Supply Board (ESB) and its financing subsidiary, ESB Finance Designated Activity Company (ESB Finance DAC). Concurrently, Moody's has affirmed the A3 long-term issuer rating, P-2 short-term issuer rating and (P)A3 senior unsecured MTN program rating of ESB, and the A3 backed senior unsecured debt ratings and (P)A3 backed senior unsecured MTN program rating of ESB Finance DAC. Finally, Moody's has also affirmed the baa1 Baseline Credit Assessment (BCA) of ESB.

Today's rating action follows our change of the outlook on the Aa3 rating of the Government of Ireland to positive from stable announced on 16 August 2024. For additional details on the rationale for the sovereign rating action, please refer to the press release https://ratings.moodys.com/ratings-news/426845 .

RATINGS RATIONALE

The positive outlook reflects the positive outlook on the Government of Ireland's Aa3 long-term issuer rating and the fact that a one notch upgrade of the government's rating will lead to a one notch upgrade of ESB's ratings.

Given its 97% ownership by the Government of Ireland, ESB is considered a government-related issuer (GRI) under our Government-Related Issuers methodology. The company's A3 rating is determined by the combination of (1) its standalone credit quality, or BCA, of baa1; and (2) our assessment of high dependence and strong likelihood of extraordinary support being provided by the Government of Ireland.

Our assessment of a strong probability of government support in the event of financial distress reflects the strategic importance of ESB as the onshore electricity transmission owner and electricity distribution system operator, both across the island of Ireland, and its sizeable market share in both generation and supply. It also takes into account that delivery of the company's current five year plan, covering the 2024-

28 period, and its Net Zero Strategy by 2040 will facilitate the Republic of Ireland achieving its decarbonization policy. The high default dependence reflects that over 75% of the group's revenues and assets typically emanate from the Republic of Ireland.

The affirmation of ESB's baa1 BCA reflects our expectation that execution of the group's large investment programme will absorb some of the significant financial flexibility that ESB has at the current BCA / rating level. We project ESB's (Moody's adjusted) consolidated net debt, which excludes debt in joint ventures, will rise from €6.5 billion as of December 2023 to nearly €10 billion by December 2028. Earnings will not grow as quickly as borrowings and we project Funds From Operation (FFO) / Net Debt will fall to slightly above 20% from FY2025 onwards, however still well above the amended minimum guidance for the baa1 BCA of at least 17%. ESB's solid financial profile has been supported by higher earnings from its generation and trading business in recent years and a continued prudent financial policy (its long-standing dividend policy is for a payout ratio of 40% of normalised profit after tax).

Over 90% of ESB's planned investments, which total approximately €11 billion over the 2024-28 period on a net basis (net of customer contributions and repayment of shareholder loans), are in the group's electricity network business and the build-out of its renewables portfolio. ESB anticipate that around two thirds of all investments will be in its electricity network businesses but this will depend on upcoming regulatory determinations. In the Republic of Ireland, which comprises around 80% of the group's networks assets as measured by RAB (€13.2 billion in total as of December 2023) and whose operations are governed by one of the most stable and predictable regulatory regimes in Europe, ESB will submit its regulatory submission for the 2026-30 (PR6) regulatory period in Q4 2024. Draft and final determinations are expected in the first and second half, respectively, of 2025. In Northern Ireland, the regulator's draft determination for the upcoming control (RP7), which will run for six years from April 2025, provides for £2.2 billion (in 2021/22 prices) of total expenditure (totex) costs. This represents a 58% increase from the current period on a comparable basis. Based on our assumptions of key regulatory parameters for these determinations, and power prices remaining elevated, we expect ESB to derive 65-70% of its EBITDA from its regulated network operations over the 2025-28 period.

ESB has guided to over €3 billion of investments in renewables over the 2024-28 period. These investments will facilitate the group making significant progress towards its target of having 5 gigawatts (GW) of installed renewable capacity by 2030. As of December 2023, ESB's share of installed renewable capacity was 0.98 GW with the company having either secured renewable subsidies or has taken investment decision on a further 1.4 GW.

While the resulting growth in contracted earnings from its generation portfolio, which also include capacity revenues for its thermal generation fleet, will boost the quality and quantity of generation earnings, it is likely to lead to further growth in the level of off balance sheet debt. This totalled €1.7 billion as of December 2023, equivalent to

26% of the consolidated group's adjusted net debt, and will increase materially if the group approves the investment decision on the Inch Cape offshore wind project (a 1.08 GW project of which ESB owns 50%) later this year. Material additional debt in joint ventures means, once more projects are operational, that there is sizeable share of cash flows over which ESB does not have full control and may be structurally subordinated to project finance debt.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The ratings could be upgraded if the sovereign rating of the Government of Ireland was upgraded. Upwards rating pressure could also arise if, following regulatory determinations for its network businesses, ESB was expected to maintain FFO / Net Debt in the low 20s, in percentage terms, on a sustained basis, with no increase in business risk.

Downwards pressure on the BCA is not currently anticipated given our expectation that ESB will retain significant financial flexibility at the current level as it executes its planned investment programme. However, downwards rating pressure on the BCA could arise if (1) ESB appeared unlikely to maintain FFO/Net Debt of at least 17%. A one-notch downgrade of the BCA may not necessarily lead to a rating downgrade.

A deterioration in the group's business risk profile, either as a result of growth in the group's non-regulated businesses or substantial increase in investments in debt-funded minority shareholdings (as a percentage of the consolidated group's net debt), could lead to a tightening of the upgrade and downgrade financial metric thresholds.

The methodologies used in these ratings were Regulated Electric and Gas Networks published in April 2022 and available at https://ratings.moodys.com/rmc-documents/386754, and Government-Related Issuers methodology published in January 2024 and available at https://ratings.moodys.com/rmc-documents/406502. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

Electricity Supply Board (ESB) is the former incumbent vertically integrated electric utility in the Republic of Ireland. It holds leading market positions in power generation and electricity supply and is the monopoly owner of electricity distribution and transmission networks across the island of Ireland. In FY2023, ESB reported revenues of €6.8 billion and EBITDA of €2.0 billion.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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