MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook on ESB's Baa1 rating to positive; affirms ratings

Global Credit Research - 17 May 2016

London, 17 May 2016 -- Moody's Investors Service has today changed to positive from stable the outlook on the Baa1 long term issuer rating of Electricity Supply Board (ESB) and on the Baa1 backed senior unsecured debt rating of its financing subsidiary ESB Finance Limited (ESB Finance). Concurrently, Moody's has affirmed these ratings and the short-term Prime-2 (P-2) ratings.

A full list of affected ratings is provided towards the end of this press release.

Today's rating action follows Moody's upgrade of Ireland's long-term government bond rating to A3 with a positive outlook from Baa1 with a positive outlook (please refer to Press Release, published on 14 May 2016 for more information.:

https://www.moodys.com/research/Moodys-upgrades-Irelands-sovereign-rating-to-A3-outlook-remains-positive--PR_348797.

RATINGS RATIONALE

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 Baa1 ESB's rating is based upon Moody's evaluation of the company's standalone credit strength and does not incorporate any uplift for ownership by the A3-rated government. The outlook change to positive on ESB's Baa1 ratings mirrors the positive outlook on the government's bond rating, and reflects that a notch of support could be incorporated into the rating in accordance with the GRI methodology, if Ireland's government bond rating were to strengthen further from its current positioning at A3.

ESB's Baa1 ratings reflect (1) the significant proportion of earnings that the company generates through its regulated transmission and distribution operations, which contributed 61% of EBITDA in 2015; (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.

However, the ratings also more negatively reflect (1) the relatively higher business risk profile of ESB's generation and supply business, which accounted for 37% of 2015 EBITDA; (2) an increased level of uncertainty in the generation business resulting from a potential re-design of the Irish Single Electricity Market (SEM), which is required to enable market coupling with the UK; and (3) the challenges associated with a large capital investment programme, although this is beginning to reduce.

The Baa1 ratings also factor in ESB's solid financial performance in 2015 against an improving macroeconomic environment which Moody's estimates will be reflected in GDP growth of 5% and 3.5% in 2016 and 2017 respectively. EBITDA rose by 3.6% on a like-for like basis to EUR1,348 million in 2015. Funds from operations (FFO)/net debt improved a little to 17.8% from 16.9%, consistent with Moody's guidance for the Baa1 rating, notwithstanding that net debt rose by EUR336 million to EUR4,975 million.

The positive outlook on ESB's ratings reflects (1) the positive 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 Baa1 rating level, 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 (1) Ireland's long-term government bond ratings were to be raised, assuming unchanged support and dependence assumptions, and ESB maintains a credit profile consistent with guidance for the Baa1 rating level; or (2) 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) the downward movement in the Government of Ireland's rating by more than two notches; (2) a material debt-funded acquisition or capital investment that eroded ESB's financial flexibility; (3) material unfavourable changes in the regulatory framework in Ireland; (4) an increase in the proportion of non-regulated activities within ESB's business mix; (5) a substantial and persistent deterioration in the group's credit metrics.

The methodologies used in these ratings were Regulated Electric and Gas Networks published in November 2014, and Government-Related Issuers published in October 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: Electricity Supply Board (ESB)

.... ST Issuer Rating, Affirmed P-2

.... LT Issuer Rating, Affirmed Baa1

....Senior Unsecured MTN, Affirmed (P)Baa1

..Issuer: ESB Finance Limited (ESB Finance)

....BACKED Senior Unsecured MTN, Affirmed (P)Baa1

....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

Outlook Actions:

..Issuer: Electricity Supply Board (ESB)

....Outlook, Changed To Positive From Stable

..Issuer: ESB Finance Limited (ESB Finance)

....Outlook, Changed To Positive From Stable

Headquartered in Dublin, Ireland, Electricity Supply Board (ESB) is a leading Irish diversified and vertically integrated utility. The group reported revenues of EUR3.4 billion for 2015.

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