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Electricity Supply Board

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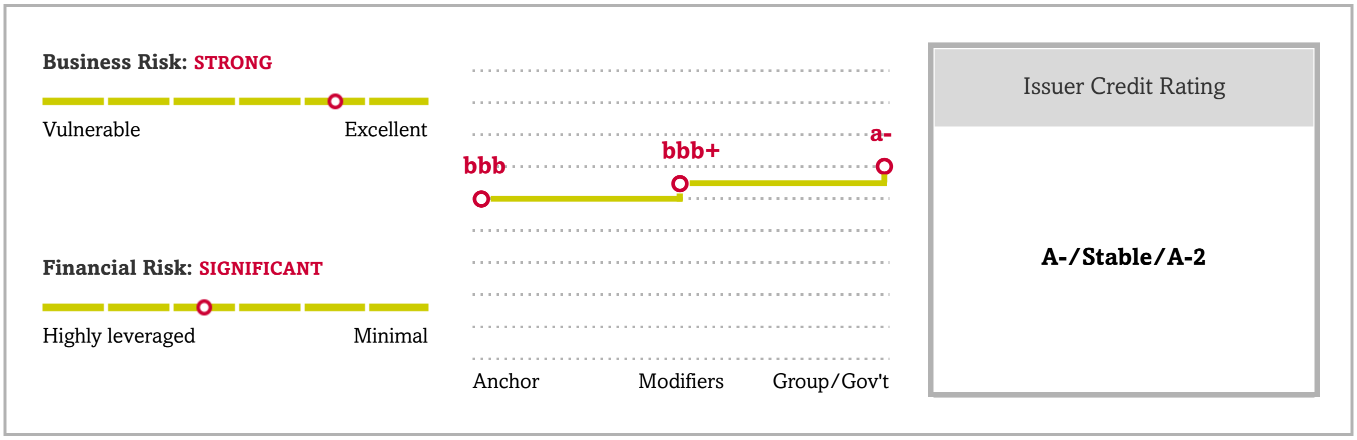
Table Of Contents

Table Of Contents (cont.)

Electricity Supply Board



Credit Highlights

Overview

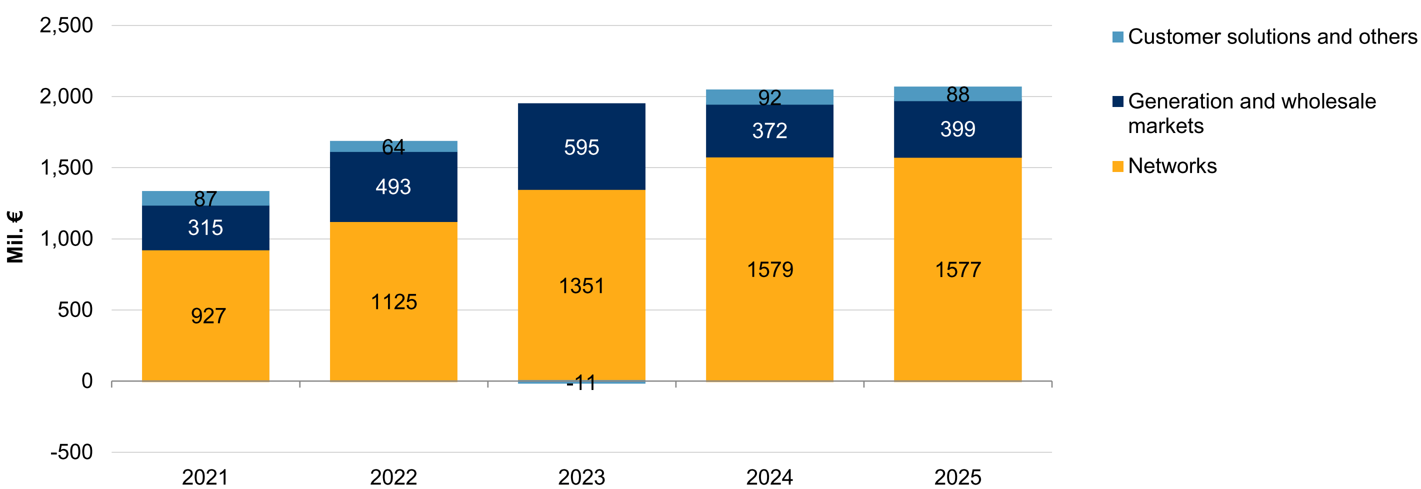
Key strengths	Key risks
Strong position in the Irish energy market where it is the largest vertically integrated utility by revenue.	Sizable capital expenditure (capex), averaging about €1.7 billion per year over 2023-2025, reducing deleveraging prospects.
Stable and predictable regulated networks projected to generate around two-thirds of EBITDA.	Complexity due to the strategic shift of energy generation toward renewables, which is currently facing operational delays.
Flexible financial policy with relatively low dividend payout of about 40%.	Lower remuneration for regulated power transmission and distribution operations in Ireland for the current five-year regulatory period (PR5; 2021-2025), although manageable at the current rating and thresholds.
Moderate support from the Irish government (96.9% shareholder), translating into one notch of uplift to the stand-alone credit profile (SACP).	Customer solution business (about 5%-10% of 2023-2025 annual EBITDA) is exposed to volatile market conditions.
Generation and trading carbon intensity targeted to reach 140 grams per kilowatt-hour (g/kWh) by 2030 versus 419 g/kWh in 2022.	Around 20% of 2022 reported debt in joint ventures (JVs) leading to high total debt.

We expect Electricity Supply Board (ESB) will generate about 70% of its EBITDA from regulated activities over 2023-2025, providing earnings stability. ESB's strong business risk profile is underpinned by stable and predictable cash flows from its low risk regulated electricity transmission and distribution network operations, which contributed almost 53% of its reported consolidated EBITDA (before exceptional items) of €1.675 billion in 2022 compared with 72% in 2021. In a normal year, this contribution is typically higher than that of European integrated peers at the same business risk levels, from stable and predictable regulated network activities. 2022 was an exceptional year for vertically integrated companies, resulting in increased unregulated EBITDA due to unprecedentedly high power prices. ESB's generation and trading business' EBITDA increased significantly to about 55% of consolidated EBITDA in 2022, from about 23% in 2021. We expect this contribution to reduce from 2023 as energy prices started to fall at the beginning of the year (see "S&P Global Ratings Lowers Hydrocarbon Price Assumptions On Moderate Demand," published June 22, 2023).

We forecast ESB will increase capex over the next few years to fund network extensions and upgrades (75% of gross capex) as well as the shift in its energy generation mix, toward renewables and away from fossil fuels. We expect ESB's gross capex will be about €6 billion over 2023-2025, which is approaching our about €5 billion forecast for ESB's EBITDA generation over the same period. We expect this increased capex, coupled with dividends, will lead to negative free cash flows of about €400 million-€500 million per year over 2024-2025. The capex program will strain the balance sheet, leading to additional debt issuances of above €1 billion from 2023 to 2025. Yet, we consider the investment to be credit-positive for the next two years at least. This is because we expect it should gradually increase EBITDA, as we forecast our adjusted funds from operations (FFO) to debt will be 17.5%-18.5% in 2023-2024, compared with our current guidance of 17%.

Chart 1

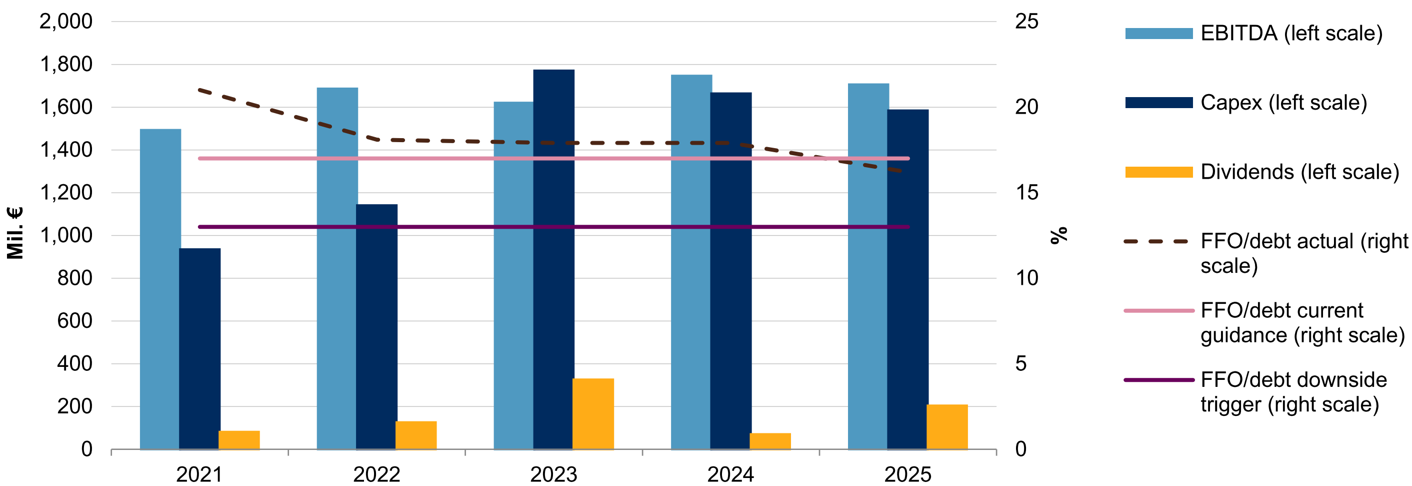
€6 billion of the total €9 billion capex for PR5 will be backloaded
75% will be used for networks



Capex--Capital expenditure. Source: S&P Global Ratings.

Chart 2

We forecast FFO to debt to remain within the significant category for PR5



Capex--Capital expenditure. FFO--Funds from operations. Source: S&P Global Ratings.

We expect ESB will continue to fund a significant share of its renewable investments in JVs with equity and shareholder loans, which will weigh on the increasing debt. These JVs have so far raised significant project-level debt to finance the construction of new renewable farms, notably onshore and offshore wind mostly in the U.K. and Ireland. ESB's share of debt in JVs was about €1.35 billion as of Dec. 31, 2022, which is about 20% of its total reported debt of €6.89 billion. The high debt in JVs subsequently leads to high debt for ESB. Because all the JVs are accounted as equity investments, we only include ESB's share of debt in our projections. ESB projects generation and trading gross capex over 2023-2025 of €1.3 billion-€1.4 billion of which €350 million-€400 million will be through JVs--mainly for renewables. The renewable generation JVs are backed by support mechanisms that give price certainty, although cash flow will be subject to output volatility. Over time, we expect ESB to receive material cash flow from the JVs as they become operational, initially through repayment of shareholder loans and later dividends, which should boost FFO to debt.

We expect ESB's dividend policy to remain flexible and the Irish state supportive. The company benefits from a supportive dividend policy agreed with the Irish government in 2013, which has provided targeted dividends at a rate of 40% of adjusted profit after tax since 2017. ESB's 2023 dividend of €327million is based on its 2022 results and includes a one-off enhanced dividend to recognize the high profits from the generation and trading business. Generation and trading's 2022 reported operating profit of €774 million was up €590 million on 2021, mainly due to increased energy margins as a result of higher wholesale market prices in both Ireland and Great Britain. A large component of the projected dividend for 2023 is aligned to the dividend policy and, ESB plans to apply its dividend policy of 40% of its adjusted profits going forward.

ESB's customer solutions business (retail) experienced significant losses of about €79 million in 2022. The losses were mainly in its U.K. supply business, reflecting the effects of high energy prices and price caps in place since 2019. The supply business in the Republic of Ireland (ROI) also recorded lower profits as ESB gave each client €50 credit. We do not forecast losses in 2023 as ESB still has the biggest market share in ROI and offers attractive competitive prices. That said, we will monitor the U.K. supply business' performance as continued losses could pressure ESB's credit profile.

The company faces little regulatory reset risk ahead of 2026. Regulatory periods in Ireland are reviewed every five years since 2001 for electricity, and since 2002 for gas. We view a review before the end of 2025 as unlikely. Ireland's Commission for Regulation of Utilities (CRU) set the pre-tax, real weighted average cost of capital (WACC) for PR5 at 3.80%, down from 4.95% in the previous regulatory period (PR4).

ESB will continue to benefit from support from the Irish government (AA/Stable/A-1+). The Irish state owns 96.9% of the company and considers ESB strategically important because it is the largest Irish power generator and the monopoly power distributor. This strong link with the Irish government leads us to incorporate one-notch of uplift to our rating on ESB.

Outlook: Stable

The stable outlook on ESB reflects that on Ireland. It also reflects our view that ESB's FFO to debt will remain around 17%, on average, over the medium term.

Downside scenario

We could lower the rating on ESB if we take a similar action on Ireland. We could revise down ESB's stand-alone rating if its earnings became more volatile or if the group's profitability weakened. This could stem from lower returns from the regulated network businesses--reflecting underperformance against regulatory allowances--or a weaker performance in the unregulated business.

ESB's SACP could also come under pressure if its debt increased without a simultaneous increase in FFO. This could be caused by an unexpected increase in capex, a debt-financed acquisition, or higher-than-anticipated dividend pay-outs. At the current sovereign rating level, if we revised down the SACP by one notch we would also lower the rating on ESB by one notch under our government-related entity (GRE) methodology.

Upside scenario

We cap our ratings on ESB at the sovereign rating because the Irish government owns 96.5% of ESB, and a significant proportion of the group's earnings are regulated in, and originate from, Ireland. If we raise the rating on Ireland by one notch, we would also raise the rating on ESB, all else being equal.

We are unlikely to revise the SACP upward over the next three years, mainly based on the group's forecast metrics, which are affected by its sizable and partly debt-financed capex program.

Our Base-Case Scenario

Assumptions

Our base-case assumptions for 2023-2025 are:

- Ireland real GDP growth of 2.0% in 2023, 2.5% in 2024, and 3.1% in 2025.
- U.K. real GDP growth of 0% in 2023, 0.9% in 2024, and 1.6% in 2025.
- Reduction in WACC to 3.80% for PR5 (2021-2025), from 4.95% under PR4.
- Continued regulatory visibility and high predictability of earnings from ESB's Ireland-based network operations as well as its subsidiary, Northern Ireland Electricity (NIE).
- Revenue increase of 49%-50% in 2023 followed by a decline of about 13%-14% in 2024 and about 5% in 2025.
- Increasing year-on-year EBITDA margin of 14%-19%.
- Annual net capex of about €1.7 billion on average per year, with about two-thirds invested in regulated networks. Capex materially adjusted for supply contributions (€225 million-€230 million annual average) and repayment of shareholder loans (€105 million-€110 million annual average).
- One-off enhanced dividend of €327 in 2023 due to high profits in the generation business in 2022; afterward, distributions under the current dividend policy agreed with the Irish Government, which provides targeted dividends at a rate of 40% of adjusted profit after tax.
- Gearing of 54%-56% reduced from 58% in 2022.

Key metrics

Electricity Supply Board--Key metrics

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2021a**	**2022a**	**2023e**	**2024f**	**2025f**
EBITDA	1,493	1,686	1,600-1,650	1,725-1,775	1,675-1,725
Capital expenditure (capex)	935	1,142	1,750-,1,800	1,650-1,700	1,550-1,600
Dividends	81	126	327	70-75	200-205
Debt	5,770	7,264	7,000-7,500	7,500-8,000	8,000-8,500
Adjusted ratios					
Debt/EBITDA (x)	3.9	4.3	4.5-5.5	4.5-5.5	4.5-5.5
FFO/debt (%)	21.0	18.1	17.5-18.5	17.5-18.5	15.5-16.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. Capex materially adjusted for supply contributions and repayment of shareholder loans.

We expect EBITDA growth from business-risk-supportive capex that is focused mainly on regulated networks and JVs. ESB's investment plan comprises around €5.3 billion capex from 2023 to 2025 and leads to healthy EBITDA growth over our forecast period--€1.70 billion-€1.80 billion by year end 2024. ESB will spend €3.8 billion-€3.9 billion on expanding its energy networks in ROI and at NIE, followed by generation and trading (approximately €1.3 billion) and energy retail. In addition to the upcoming material expansion of its energy network, we also expect ESB to maintain around 70% of EBITDA from regulated operations.

A heavy investment period lies ahead, leading to negative discretionary cash flow (DCF). We estimate capex in 2023 and 2024 to increase to €1.6 billion-€1.8 billion annually, up from €1.56 billion in 2022. We expect this, together with extraordinary dividends in 2023 of €327 million and roughly €70 million in 2024, to lead to negative DCF of €700 million-€800 million in 2023 and €300 million-€400 million in 2024. At the same time, we forecast net debt will increase to €7.3 billion-€7.4 billion in 2023 and then to €7.7 billion-€7.8 billion in 2024, from €7.2 billion in 2022, in line with the increased capex.

Company Description

ESB was established in 1927 and is 96.9% owned by the government of Ireland. It reported an adjusted EBITDA of roughly €1.675 billion for 2022.

ESB is an integrated utility predominantly operating in Ireland and Northern Ireland. It has a leading market position across the island. ESB's activities span power generation, electricity transmission and distribution, and power supply.

ESB is the monopoly owner of the transmission and distribution grids in Ireland and Northern Ireland with a regulated asset base of approximately €12.0 billion (comprising ESB Networks €9.7 billion and NIE Networks €2.3 billion) and has a 30% share in the integrated single electricity generation market across the whole island.

NIE is a wholly owned subsidiary of ESB. It is the only electricity transmission asset owner and the electricity distribution network owner and operator in Northern Ireland.

In 2022, ESB had 41% share of the Irish electricity supply market and supplied electricity and gas to about 1.5 million customers. Within gas supply, ESB had market share of 23%.

Peer comparison

Table 1

Electricity Supply Board--Peer comparison					
Industry sector: Electric					
	Electricity Supply Board	**EnBW Energie Baden-Wuerttemberg AG**	**Energie AG Oberoesterreich**	**Scottish Power Ltd.**	**SSE PLC**
Ratings as of July 13, 2023	A-/Stable/A-2	A-/Stable/A-2	A/Stable/--	BBB+/Stable/A-2	BBB+/Positive/A-2
	--Fiscal year ended--				
	Dec. 31, 2022	**Dec. 31, 2022**	**Sept. 30, 2022**	**Dec. 31, 2022**	**March 31, 2023**
(Mil. €)					
Revenue	7,506.6	55,935.3	4,066.2	9,458.4	14,223.2
EBITDA	1,686.4	3,322.8	261.0	1,733.0	3,435.7

Table 1

Electricity Supply Board--Peer comparison (cont.)					
Funds from operations (FFO)	1,312.1	2,788.2	203.5	1,475.9	2,800.4
Interest expense	177.6	388.9	26.9	290.3	523.9
Cash interest paid	175.9	306.7	24.5	248.8	299.8
Cash flow from operations	527.6	1,900.7	1,136.4	1,183.4	1,629.0
Capital expenditure	1,141.7	2,613.8	184.3	1,140.8	2,002.1
Free operating cash flow (FOCF)	(614.1)	(713.1)	952.0	42.6	(373.0)
Discretionary cash flow (DCF)	(752.6)	(1,150.7)	884.8	(1,782.9)	(1,084.4)
Cash and short-term investments	430.6	5,971.6	1,202.9	1,218.3	1,015.5
Debt	7,264.3	10,206.0	0.0	7,811.9	10,513.5
Equity	4,781.6	14,013.7	1,794.5	6,762.7	11,585.4
Adjusted ratios					
EBITDA margin (%)	22.5	5.9	6.4	18.3	24.2
Return on capital (%)	7.7	9.0	5.9	5.8	13.7
EBITDA interest coverage (x)	9.5	8.5	9.7	6.0	6.6
FFO cash interest coverage (x)	8.5	10.1	9.3	6.9	10.3
Debt/EBITDA (x)	4.3	3.1	0.0	4.5	3.1
FFO/debt (%)	18.1	27.3	N.M.	18.9	26.6
Cash flow from operations/debt (%)	7.3	18.6	N.M.	15.1	15.5
FOCF/debt (%)	(8.5)	(7.0)	N.M.	0.5	(3.5)
DCF/debt (%)	(10.4)	(11.3)	N.M.	(22.8)	(10.3)

N.M.--Not meaningful.

ESB's peers are mid-sized European vertically integrated utilities, all with strong business risk profiles, reflecting the significant share of low risk regulated network activities.

ESB's closest peer is EnBW Energie Baden-Wuerttemberg AG (A-/Stable/A-2), which is one of Germany's largest vertically integrated utilities. EnBW is principally engaged in electricity generation and trading, as well as electricity grid operation. We assess the likelihood of government support as moderate for EnBW, leading to one notch of uplift from the SACP, as is the case with ESB.

Energie AG Oberoesterreich (A/Stable/--) is the largest Austrian utility company and has a high market share in the retail power and gas supply. Austria accounts for about 94% of Energie's EBITDA, and the remainder comes from the Czech Republic. The Upper-Austria state owns 53% of Energie, the Raiffeisen consortium 14%, Oberbank 5%, and several regional Austrian utilities own the rest. The rating on Energie includes one notch of uplift, reflecting a moderate likelihood that the majority shareholder would provide timely and sufficient extraordinary support in the event of financial distress.

Iberdrola's fully owned subsidiary Scottish Power Ltd. (BBB+/Stable/A-2) is a vertically integrated electric utility with operations in the U.K. It is among the U.K.'s six largest energy supply companies, the third largest electricity distributor, and the largest renewable energy provider, with 100% of its production from renewable sources.

SSE PLC (BBB+/Positive/A-2) is a listed, investor-owned energy company with generation, transmission, distribution, and supply operations in Scotland, England, Wales, and Ireland. It reported adjusted EBITDA of about £1.97 billion for the year ending March 31, 2022. SSE operates mainly in two segments: networks (45% of EBITDA) and energy (56%). Higher energy prices will improve SSE's operating conditions over the next 24 months thanks to the group's integration along the energy value chain and the diversity of its generation fleet. This is in tandem with the group's ongoing remedy measures to support its £12.5 billion capex program. We expect both factors to translate into significantly stronger credit metrics. Notably, we now project its adjusted FFO to debt to average above 30% until the financial year ending March 31, 2025, from 18% as of financial year 2022.

Business Risk: Strong

ESB's strong business risk profile is underpinned by its stable and predictable cash flows from its low risk regulated electricity transmission and distribution network operations in Ireland and Northern Ireland. These cash flows contributed almost 72% of consolidated EBITDA in 2021 and 53% in 2022.

We consider that regulatory frameworks for electricity and gas transmission and distribution networks in Ireland exhibit the following supportive characteristics consistent with a strong regulatory advantage:

- Use of system tariffs are set over a five-year period (and reset annually for electricity networks) based on the regulator's allowed operating costs, recovery of allowed capital investment over their asset lifetimes, and an allowed return on the regulatory network asset base.
- The regulator benefits from a solid track record of stability over successive five-year regulatory periods with well-defined conditions. This provides companies with good visibility on financial performance.
- The regulatory reset risk in ESB's network activities in Ireland is low as the current five-year regulatory period, which started in January 2021, will continue until December 2025.

The PR5 determination for ESB's regulated transmission and distribution activities in Ireland (which account for about 57% and 40% of ESB's EBITDA in 2021 and 2022, respectively) decreased ESB's transmission activities remuneration. Ireland's CRU set the pre-tax, real WACC for PR5 at 3.80%, down from 4.95%. The lower assessment is mainly a reflection of lower interest rates in capital markets. We note that the WACC is still relatively high compared to other European regulatory frameworks. PR5 also introduced an increase in gross capex allowance, to €4.4 billion from €2.7 billion under PR4, which we view as positive. The increase accounts for an accelerated smart meter roll-out and investment in renewable generation. Furthermore, we understand the CRU will allow capex flexibility, depending on the speed of electrification in other sectors, namely heating and transport. We expect ESB's dividend policy to remain flexible and the state supportive.

For further information on the Irish regulatory framework, see Why We See The Republic of Ireland's Electricity And Gas Regulatory Framework As Supportive, published May 8, 2018.

The regulatory reset risk for NIE Networks is also low as Northern Ireland's current regulatory period, which began Oct. 1, 2017, has been extended by one year to March 31, 2025. The current price control period (RP6) in Northern Ireland follows the key principles of the regulatory frameworks applicable to U.K.-regulated utility businesses, which we assess as credit-supportive. These strengths are partially offset by the most recent regulatory determination, which we consider tough, because it includes one of the lowest WACCs we have seen (3.14% vanilla or 3.8% pre-tax). The price control, however, includes an adjustment mechanism to WACC for new debt raised during RP6 that references the prevailing market rate at the time of issue.

ESB benefits from its leading market position in the Irish electricity generation and supply markets. Its well-balanced power generation and supply operations offset, to some extent, the risk of competition and price volatility. We consider ESB well-positioned, and we expect a significant proportion of its energy margin to continue benefiting from capacity payments and quasi-regulated regulatory supports.

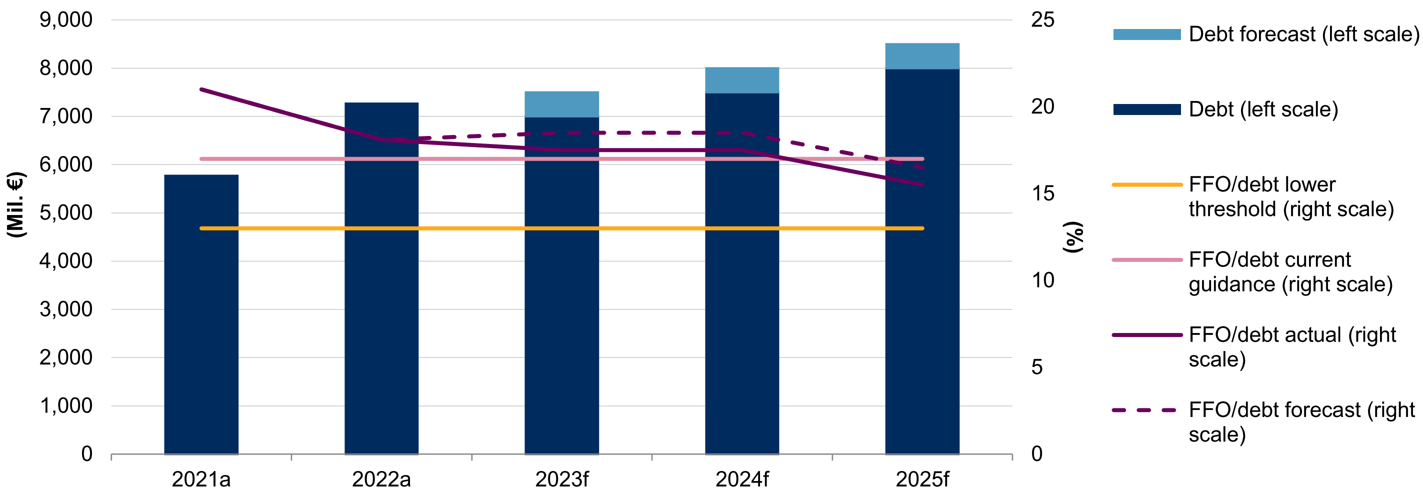
We will monitor ESB's increasing share of installed capacity from renewables as it plans to reach about 5 gigawatts (GW) of renewable assets by 2030 under its net zero by 2040 strategy, compared to 923 megawatts in 2022. ESB and Orsted (BBB+/Stable/A-2), the world leader in offshore wind, signed an agreement in June 2023 to jointly develop an Irish offshore wind portfolio in a landmark deal. With the agreement, which marks the most ambitious partnership in Ireland to date, Orsted becomes a 50/50 partner in a pipeline of offshore wind development projects off the Irish coast. The partnership has the potential to deliver up to 5GW of renewable energy and complementary renewable hydrogen projects, and the first of these offshore wind projects should compete in the next Irish offshore wind auction, ORESS 2.1. The partnership also encompasses an agreement to explore opportunities from renewable hydrogen produced from the projects in the longer term. It aims to help deliver on the Irish Government's 2030 target of installing 7 GW of offshore wind and ultimately support Ireland's transition to net-zero emissions.

Financial Risk: Significant

We forecast annual FFO to debt will average around 17% for the remainder of ESB's regulatory period, through to 2025 although with some volatility. ESB's financial risk profile reflects our view that the group will still generate gradually increasing FFO over the medium term, mainly because of sizable investments in networks driven by network reinforcement for increased renewables. We project ESB will issue debt on average of €350 million-€360 million each year over 2023-2025 to fund its incremental PR5 capex and renewable generation expansion. Although we anticipate the headroom under our current 17% guidance will tighten in 2025 due to ESB's increased debt issuances, we expect FFO to debt to continue to be around 17%, the current threshold for a 'bbb+' SACP.

Chart 3

We forecast FFO to debt to remain within the significant category

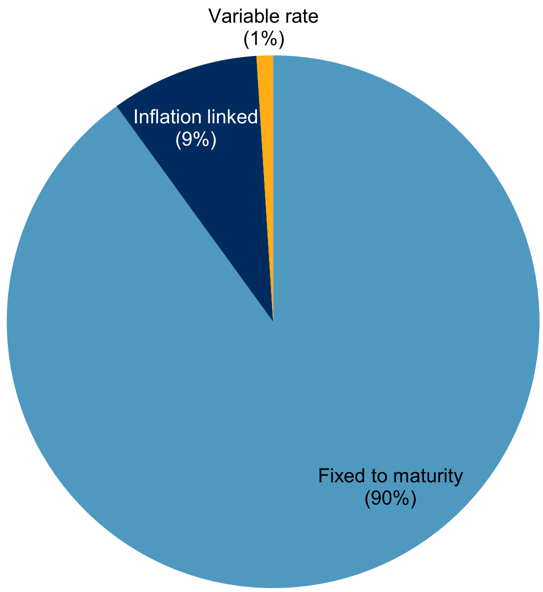


a--Actual. f--Forecast. FFO--Funds from operations. Source: S&P Global Ratings.

We incorporate inflation accruals in our calculation of adjusted FFO. Inflation rates weigh on our adjusted credit metrics because inflation-linked debt balances and derivatives exposure will increase annual accrued payments. Under its board approved interest rate policy, ESB prefers debt with fixed interest rates, and will target having a significant majority of its debt at fixed or inflation-linked interest rates to maturity, with a minimum of 60% fixed maintained at all times. On Dec. 31, 2022, almost 90% of ESB's borrowings were fixed to maturity--9% was inflation linked including its index-linked inflation swaps and approximately 1% was variable rate.

Chart 4

Electricity supply board debt interest rates profile
As of Dec. 31, 2022



Source: Electricity Supply Board 2022 Annual Report & Financial Statements.

Financial summary

Table 2

Electricity Supply Board--Financial summary

Industry sector: Electric

	--Fiscal year ended Dec. 31--				
	2022	**2021**	**2020**	**2019**	**2018**
(Mil. €)					
Revenue	7,506.6	5,319.2	3,653.1	3,641.0	3,431.8
EBITDA	1,686.4	1,493.3	1,354.4	1,368.3	1,204.1
Funds from operations (FFO)	1,312.1	1,213.7	1,088.3	1,124.3	891.0
Interest expense	177.6	155.4	168.4	198.7	260.2
Cash interest paid	175.9	168.0	184.3	193.5	238.2
Cash flow from operations	527.6	1,411.1	1,005.2	938.3	852.3
Capital expenditure	1,141.7	934.9	881.1	804.2	907.0
Free operating cash flow (FOCF)	(614.1)	476.2	124.1	134.1	(54.7)
Dividends paid	126.1	80.8	50.3	42.9	34.9
Discretionary cash flow (DCF)	(752.6)	385.8	65.4	86.6	(94.5)
Cash and short-term investments	430.6	276.4	248.7	125.1	229.1

Table 2

Electricity Supply Board--Financial summary (cont.)

Industry sector: Electric					
	--Fiscal year ended Dec. 31--				
	2022	**2021**	**2020**	**2019**	**2018**
Gross available cash	430.6	276.4	248.7	125.1	229.1
Debt	7,264.3	5,769.6	5,820.6	6,013.4	5,703.8
Equity	4,781.6	4,111.3	3,908.1	3,895.2	3,644.1
Adjusted ratios					
Annual revenue growth (%)	41.1	45.6	0.3	6.1	6.3
EBITDA margin (%)	22.5	28.1	37.1	37.6	35.1
Return on capital (%)	7.7	5.7	6.4	6.4	4.4
EBITDA interest coverage (x)	9.5	9.6	8.0	6.9	4.6
FFO cash interest coverage (x)	8.5	8.2	6.9	6.8	4.7
Debt/EBITDA (x)	4.3	3.9	4.3	4.4	4.7
FFO/debt (%)	18.1	21.0	18.7	18.7	15.6
Cash flow from operations/debt (%)	7.3	24.5	17.3	15.6	14.9
FOCF/debt (%)	(8.5)	8.3	2.1	2.2	(1.0)
DCF/debt (%)	(10.4)	6.7	1.1	1.4	(1.7)
Debt/debt and equity (%)	60.3	58.4	59.8	60.7	61.0

Reconciliation

Table 3

Electricity Supply Board--Reconciliation of reported amounts with S&P Global Ratings' adjusted amounts

	--Fiscal year ended Dec. 31, 2022--								
Electricity Supply Board reported amounts (Mil. €)									
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
Reported	6,892.8	4,829.9	7,596.1	1,764.1	846.7	135.9	1,686.4	662.5	1,322.7
S&P Global Ratings' adjustments									
Cash taxes paid	--	--	--	--	--	--	(103.4)	--	--
Cash interest paid	--	--	--	--	--	--	(153.6)	--	--
Cash interest paid: Other	--	--	--	--	--	--	(22.3)	--	--
Reported lease liabilities	128.8	--	--	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	13.5	--	--	2.1	2.1	4.4	--	--	--
Accessible cash and liquid investments	(430.6)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	28.6	--	--	--

Table 3

Electricity Supply Board--Reconciliation of reported amounts with S&P Global Ratings' adjusted amounts (cont.)

Dividends received from equity investments	--	--	--	29.0	--	--	--	--	--
Asset-retirement obligations	475.0	--	--	--	--	8.7	--	--	--
Nonoperating income (expense)	--	--	--	--	5.3	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	46.1	--
Noncontrolling interest/minority interest	--	(48.3)	--	--	--	--	--	--	--
Debt: Contingent considerations	18.8	--	--	--	--	--	--	--	--
Debt: Other (situational)	166.0	--	--	--	--	--	--	--	--
Revenue: Other (situational)	--	--	(89.5)	(89.5)	(89.5)	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	--	0.9	0.9	--	--	--	--
EBITDA: Derivatives	--	--	--	(12.8)	(12.8)	--	--	--	--
EBITDA: Business divestments	--	--	--	(3.4)	(3.4)	--	--	--	--
EBITDA: Other (situational)	--	--	--	(4.0)	(4.0)	--	--	--	--
Depreciation and amortization: Other	--	--	--	--	89.5	--	--	--	--
EBIT: Finance/interest income & other (principle based)	--	--	--	--	4.0	--	--	--	--
Funds from operations: Other (principle based)	--	--	--	--	--	--	(95.0)	--	--
Operating cash flow: Other (situational)	--	--	--	--	--	--	--	(181.0)	--
Capital expenditure: Customer contributions	--	--	--	--	--	--	--	--	(181.0)
Total adjustments	371.5	(48.3)	(89.5)	(77.7)	(7.9)	41.7	(374.3)	(134.9)	(181.0)

S&P Global Ratings' adjusted amounts

	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditure
Adjusted	7,264.3	4,781.6	7,506.6	1,686.4	838.8	177.6	1,312.1	527.6	1,141.7

Liquidity: Strong

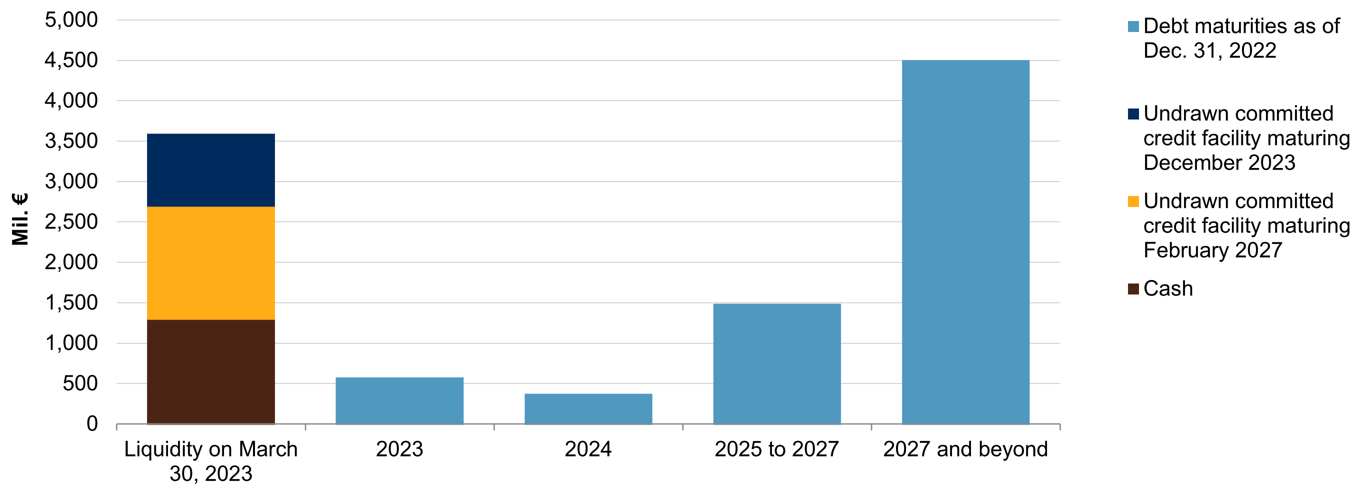
The short-term rating on ESB is 'A-2', reflecting the 'A-' long-term issuer credit rating and our assessment of ESB's liquidity as strong. Our view of ESB's liquidity primarily reflects our view that its liquidity resources will exceed its funding needs by about 1.9x in the 12 months started March 31, 2023, and by about 1.6x for the following 12 months. The group's ongoing and proactive liquidity and debt management, solid relationships with banks, and ample, proven access to capital markets, further support our assessment.

Principal liquidity sources	Principal liquidity uses
Principal liquidity sources for the 12 months from March 31, 2023, include: • Available cash balance of about €1.3 billion (excludes restricted cash in relation to the government customer support scheme held by the group, which was €754 million at the end of 2022); • An undrawn committed credit facility of €1.4 billion maturing in February 2027; • An undrawn committed credit facility of €879.3 million maturing in December 2023; • Annual FFO of about €1.3 billion; and • Proceeds from asset sales of €35 million-€40 million.	Principal liquidity uses for the same period include: • Debt maturities of about €605 million; • Capex of about €1.7 billion; and • Dividend payments of €260 million-€265 million for the 12 months from March 2023.

Debt maturities

Chart 5

Liquidity and debt maturity profile



Source: Electricity Supply Board 2022 Annual Report & Financial Statements, S&P Global Ratings.

Covenant Analysis

Compliance expectations

As of Dec. 31, 2022, ESB is fully compliant with all the covenant requirements associated with the private placement debt and other facilities.

We project ESB to have sufficient covenant headroom over the next three years.

Requirements

The private placement debt and certain other facilities have conditions which require ESB to maintain certain interest cover and asset covenants.

Environmental, Social, And Governance

ESG credit indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have an overall neutral influence on our credit rating analysis of ESB. The company currently generates just under 80% of its energy from fossil fuel--mostly gas. That makes its generation business highly carbon intensive, though the remainder, about 1 GW of generation, comes from zero-emission renewable generation. We expect ESB's carbon intensity will decline gradually over the next decade as the company transitions its thermal-based generation to clean energy sources; notably with the planned mothballing of coal generation at the Moneypoint power plant in 2025. Over the next decade, ESB plans to transition its Moneypoint coal generation site into a green energy hub with the capacity to power 1.6 million homes.

Group Influence

We do not apply our Group Rating Methodology to ESB, but we use it to arrive at the group credit profile (GCP) for its rated subsidiaries. ESB is the parent company, and we assess the GCP for ESB as 'bbb+', based on consolidated cash flows and debt at the level of ESB.

We view its 100% owned subsidiaries NIE and ESB Energy International (ESB EI) as 'core' entities because their activities are aligned with the group's strategic focus on regulated networks.

Even though we currently assess NIE's SACP at 'a-', one notch above the group GCP, we do not think that regulatory or other protections are sufficient to insulate its credit quality from that of its parent. Accordingly, we currently rate NIE at the level of the GCP.

We believe ESB EI is a 'core' entity within the ESB group, due to its high strategic importance to ESB and because it is an integrated subsidiary. We therefore equalize the rating on ESB EI with the GCP of ESB. ESB EI is a power generator and electricity supplier to small and midsize enterprises and large electricity users in Ireland and Northern Ireland and provides engineering consultancy services internationally. It contributes about 6% of ESB's EBITDA and supports ESB's strategy to remain a vertically integrated utility.

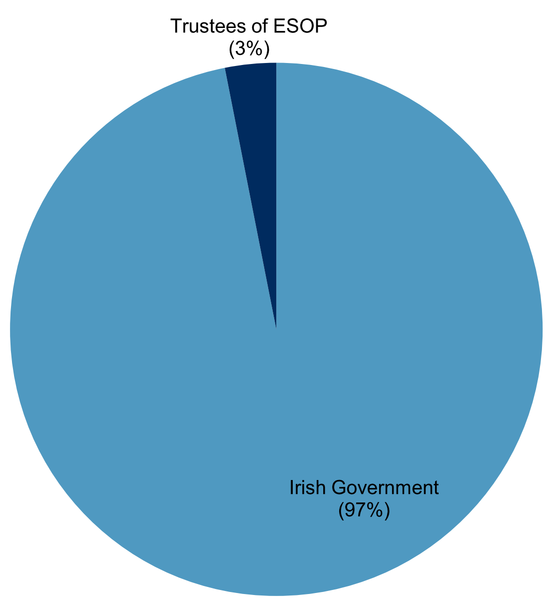
Government Influence

We consider ESB as a government-related entity (GRE). The current 'A-' long-term issuer credit rating on ESB incorporates one notch of uplift above the SACP, reflecting our view that there is moderately high likelihood that Ireland would provide timely and sufficient extraordinary support to ESB in the event of financial distress. We base our view of a moderately high likelihood of extraordinary government support on our assessment of ESB's:

- Important role as the monopoly owner of the national electricity transmission grid and the owner and operator of the electricity distribution network. The group has a leading position in the Irish energy market.
- Strong link with the Irish government, based on our view that the government will remain a majority shareholder and has no plans to privatize or divest a minority stake. ESB is 96.9% state-owned, the remainder is held through an employee share-ownership plan. Although ESB has an independent management team that makes autonomous business decisions, the government has a strong influence on the group's strategy and business plan.

Chart 6

Electricity supply board ownership
As of Dec. 31, 2022



Source: Electricity Supply Board 2022 Annual Report & Financial Statements.

The issuer credit rating on ESB was not affected by the recent upgrade of Ireland (see "Ireland Upgraded To 'AA' From 'AA-' On Strong Fiscal Performance; Outlook Stable," published May 20, 2023).

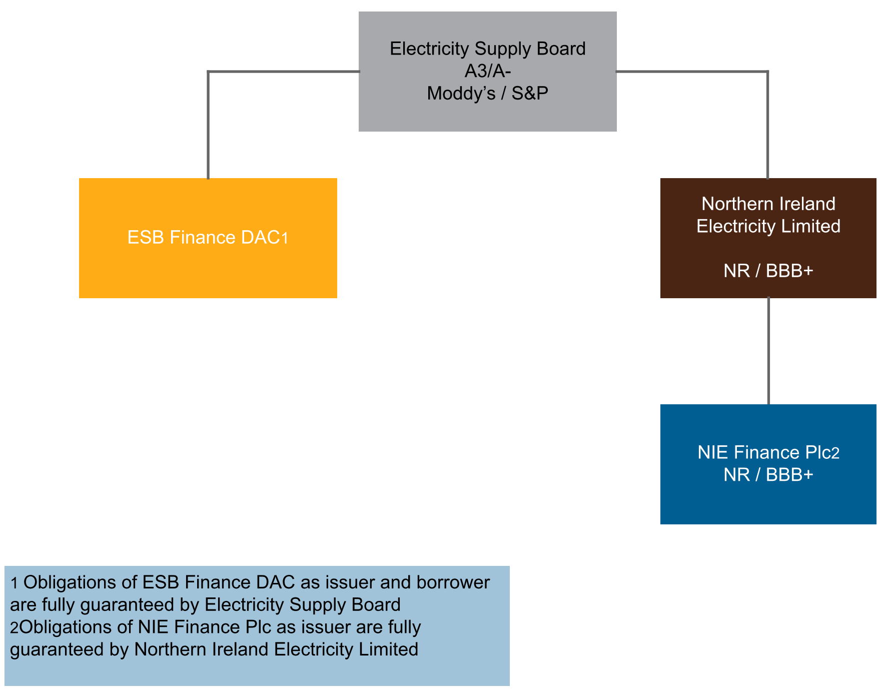
Issue Ratings - Subordination Risk Analysis

Capital structure

ESB's group capital debt structure totaled about €6.9 billion at Dec. 31, 2022, and was mostly unsecured. Most of ESB's debt is raised via ESB Finance DAC (a financing vehicle), although NIE's debt (currently about €1.3 of billion bonds), is raised by NIE Finance. As a result, structural subordination is fairly limited, at about 18% under our calculations.

Chart 7

Group Structure: Issuing Entities Only



Source: Source: Electricity Supply Board Summary of Group Structure 2017.

Analytical conclusions

ESB's debt is rated 'A-', the same level as the long-term issuer credit rating, because no significant elements of subordination risk are present in the capital structure.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-2

Business risk: Strong

- **Country risk:** Low
- **Industry risk:** Low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : bbb+

- **Group credit profile:** bbb+
- **Related government rating:** AA
- **Likelihood of government support:** Moderately high (+1 notch from SACP)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments , April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings , March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions , March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers , Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry , March 28, 2014
- General Criteria: Methodology: Industry Risk , Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry , Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions , Nov. 19, 2013

- Criteria | Corporates | General: Corporate Methodology , Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities , Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating , Oct. 1, 2010

Related Research

- S&P Global Ratings Lowers Hydrocarbon Price Assumptions On Moderate Demand, June 22, 2023
- Europe's Utilities Face A Power Price Cliff From 2026, June 22, 2023
- Research Update: Ireland Upgraded To 'AA' From 'AA-' On Strong Fiscal Performance; Outlook Stable, May 19, 2023
- Credit FAQ: How S&P Global Ratings Formulates, Uses, And Reviews Commodity Price Assumptions, April 20, 2023
- EU's Proposed Energy Market Redesign Mitigates Merchant Risks And Accelerates Renewables, April. 3, 2023
- Industry Top Trends 2023: EMEA Utilities, Jan. 23, 2023
- ESG Credit Indicator Report Card: Power Generators, Nov. 19, 2021
- Research Update: Electricity Supply Board Affirmed At 'A-/A-2' On Pandemic Resilience And Regulatory Visibility; Outlook Stable, July 7, 2021
- Why We See The Republic of Ireland's Electricity And Gas Regulatory Framework As Supportive, May 8, 2018

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of July 28, 2023)*

Electricity Supply Board	
Issuer Credit Rating	A-/Stable/A-2
Issuer Credit Ratings History	
09-Jun-2015	A-/Stable/A-2
13-Feb-2013	BBB+/Stable/A-2
17-Jan-2012	BBB+/Negative/A-2

Ratings Detail (As Of July 28, 2023)*(cont.)	
Related Entities	
Northern Ireland Electricity Networks Ltd.	
Issuer Credit Rating	BBB+/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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