MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook on EDF, EDFT, Edison and EDF Energy to stable; affirms ratings

27 Aug 2021

Paris, August 27, 2021 -- Moody's Investors Service ("Moody's") has today changed to stable from negative the outlook on Electricite de France (EDF). At the same time, Moody's has affirmed the long-term A3 issuer and senior unsecured ratings, the Baa3 perpetual junior subordinated debt ratings and the Prime-2 short-term ratings of EDF. Concurrently Moody's has changed the outlook to stable from negative for EDF Trading Limited (EDFT), Edison S.p.A. and EDF Energy Holdings Ltd (EDF Energy). At the same time, Moody's has affirmed the Baa2 long-term issuer ratings for EDF Trading, Edison and EDF Energy.

The rating actions follows EDF's robust financial performance over H1 21 which led to financial metrics above Moody's guidance for the current baa2 Baseline Credit Assessment (BCA). It further takes into account the July 2021 announcement by the Government of France (Aa2 stable) that agreement with the European Commission on French nuclear reform is not expected in the near-term.

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

RATINGS RATIONALE

RATIONALE FOR THE STABLE OUTLOOK

The change of outlook to stable reflects Moody's expectation that EDF will comfortably maintain credit metrics commensurate with the baa2 BCA, its standalone credit quality before taking into account potential government support, with funds from operations (FFO)/net debt at least in the mid-to-high teens in percentage terms.

Over the next 2-3 years, Moody's expects EDF's EBITDA to rise substantially, as a result of (1) favorable market conditions, already partially captured in 2022 earnings through the group's hedging, on the back of rising gas, carbon and consequently power prices; (2) an increase in nuclear output, albeit below the 380-400 Terawatt hours (TWh) historic output. In 2020, nuclear generation was strongly affected by the staff protection measures associated with the pandemic. Over H1 21, and with limited prolonged outages, nuclear power generation grew by 7.7TWh, or +4% in comparison with H1 20. In July 2021, the group upgraded its estimate for nuclear output to be in the range of 345-365 TWh in 2021, compared with 335 TWh in 2020; and (3) additional regulated revenue, coming from regulated indexed adjustments and investment to connect new renewable capacity in France.

Despite higher earnings, Moody's anticipates that EDF will continue to have negative free cash flow (FCF) and hence increasing debt over 2021-23. EBITDA will remain insufficient to cover the group's large capex programme. The shortfall would be exacerbated in case of suspension of the scrip dividend policy.

The change of outlook to stable further anticipates that EDF will receive financial relief to support any acceleration in the development of new capacities, including the potential construction of six new European Pressurised Reactors (EPRs) in France, in addition to the targeted 60 gigawatts (GW) of renewable capacities by 2030. The group will not receive income from assets under construction. Absent mitigation through new economic regulation, for example, meeting these objectives will involve a significant increase in borrowing.

The French government has been pursuing negotiations with the European Commission with regards to a nuclear new regulation which will be combined with a restructuring of the EDF group into three distinct entities: (1) EDF Blue, potentially 100% held by the government, holding the French and international nuclear, thermal activities, Framatome and RTE; (2) EDF Azur, operating the French hydroelectric capacity under a "quasi-regie" contract; and (3) EDF Green holding renewables (excluding hydroelectric activities), customers and services activities, Enedis and international activities. The latter would be a 70% subsidiary of the former, with the remaining capital being free float.

The initial timetable assumed implementation by beginning of 2022. Moody's expects the complexity of the issues and the French elections will now result in material delays to the reform.

The change of EDFT's outlook follows that of EDF. This reflects EDFT's linkages to EDF given its strategic importance as the group's trading arm and significant integration into EDF, as evidenced by the French group's close oversight of the company's trading activities, risk management and finances, as well as the funding and liquidity support provided.

The change of Edison's outlook also follows that of EDF. This reflects that Edison credit quality is supported by its ownership by EDF. The stable outlook also takes into account Moody's expectation that Edison will maintain robust financial metrics with, for example, FFO/net debt at least in the high twenties in percentage terms.

The change of EDF Energy's outlook also follows that of EDF. This reflects the full ownership by EDF and financial support provided to its UK subsidiary.

RATIONALE FOR AFFIRMATION OF THE RATINGS

EDF's A3/P-2 ratings continue to reflect a standalone credit quality or BCA of baa2 and Moody's expectation that the Government of France, EDF's majority shareholder, would continue to provide support if needed.

The baa2 BCA is underpinned by (1) the scale and breadth of EDF's businesses across the energy value in France, which account for more than two-thirds of its EBITDA; (2) the rising contribution to earnings from its domestic regulated activities and renewables business, which together account for around 37% of the group's EBITDA in 2020, as a result of new connections and additional capacities driven by the energy transition plan outlined in the multi-year energy programme; and (3) its geographical diversification given its sizeable positions in Italy and in the United Kingdom (UK).

These positives are balanced by (1) EDF's fixed-cost merchant power generation in France and the UK, which exposes it to power price volatility, albeit supportive since H2 20; (2) increasing competition in the French supply market, which result in a weakening of EDF leading position; (3) a significant capital spending programme which results in negative FCF; and (4) the construction risk associated with the Flamanville new nuclear reactor in France and the Hinkley Point C (HPC) new nuclear project in the UK.

The A3 issuer and senior unsecured ratings incorporate an uplift for potential government support to EDF's standalone credit quality, which is expressed by Moody's as a BCA of baa2. The uplift to the BCA, of two notches, results from the credit quality of EDF's shareholder, the Government of France, and Moody's assessment of there being "high" probability of government support in the event of financial distress, as well as "high" default dependence.

The Baa3 perpetual junior subordinated debt ratings, which is one notch below EDF's baa2 BCA, reflects (1) the features of the hybrids that receive basket 'C' treatment, i.e. 50% equity or "hybrid equity credit" and 50% debt for financial leverage purposes; and (2) that the A3 senior unsecured rating benefits from two notches of uplift based on Moody's expectations for potential extraordinary support from the French government. The difference in ratings takes into account Moody's view that, in a distressed scenario, support from the French State could entail distinctions between deeply subordinated notes and senior unsecured bonds.

Affirmation of EDFT Baa2 rating follows that of EDF. EDFT benefits from the full ownership and control by EDF. In the context of the liquidity risks and cash flow volatility that characterise wholesale energy trading, EDFT's credit profile is supported by its strategic importance derived from its exclusive right to transact energy for EDF on the European wholesale energy markets. EDFT is financed by EDF and has access to contingency funding from EDF in case of emergency. Moody's expects that EDF will continue to provide support to EDFT as the latter pursues its mandate to optimize the group's access to wholesale energy markets.

Affirmation of Edison Baa2 rating follows that of EDF. Edison is significantly integrated with EDF, with the latter exercising close managerial and financial control and further supporting the company through intercompany debt. Moody's expects EDF's management to continue to tightly oversee Edison's operations. Edison's credit quality further benefits from an improved business risk profile, a positive momentum in earnings growth and stronger cashflow generation on the back of increased electricity generation capacity; the optimised flexibility and appropriate indexation of gas contracts; and the long-term exposure to wholesale power prices in Italy, Government of (Baa3 stable).

Affirmation of EDF Energy's Baa2 rating follows that of EDF. EDF Energy benefits from its close integration into the EDF group and the majority of financing needs being procured by EDF through cash and equity injection, resulting in a solid financial profile with low leverage. EDF Energy's credit quality is based upon (1) its scale and business risk profile as a major UK integrated utility; (2) it not being responsible for the funding of qualifying nuclear liabilities associated with existing plants, except costs related to unburnt fuel, under the agreements signed with the British government; (3) the company's exposure to volatile power prices as a result of a predominantly fixed-cost generation fleet; and (4) the risks associated with construction of the HPC new nuclear plant.

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

Upward rating pressure is unlikely in the medium term, given the group's substantial capital spending commitments and uncertainties surrounding nuclear reform and the associated organisational and financial restructuring of EDF. Nevertheless, the ratings could be upgraded if (1) there is clarity on the nuclear regulation's evolution; and (2) EDF appears likely to achieve credit metrics in excess of the guidance for an A3 rating on a sustainable basis, as a result of higher power prices or the introduction of regulatory measures that would support the group's business model.

The ratings could be downgraded if (1) EDF's credit metrics appear likely to fall persistently below guidance; (2) a change in the group's relationship with the French government were to cause us to remove the uplift for government support; or (3) there were to be a significant downgrade of France's government rating.

The ratio guidance for an A3 rating might be revised following announcement of any reforms.

EDFT's rating could be upgraded if EDF's baa2 BCA is. A downgrade of EDF's BCA would likely result in a corresponding downgrade of EDFT's rating. EDFT's rating could also be downgraded following financial performance issues (for example, trading losses) or an increase in external debt at EDFT.

Edison's rating could be upgraded if EDF's baa2 BCA is and if it appears that credit metrics strengthen towards FFO/net debt above the high twenties in percentage terms on a sustainable basis. Any upgrade would be considered in the context of the credit quality of EDF, which, in the absence of greater insulation between the two entities, will likely act as a constraint. A downgrade of EDF's baa2 BCA would likely result in a corresponding downgrade of its Italian subsidiary's rating. Edison's rating could also be downgraded if Edison's operating performance or capitalisation were to deteriorate significantly.

EDF Energy's rating could be upgraded if (1) EDF's baa2 BCA is; (2) construction of HPC proceeds in line with current time and cost assumptions; (3) existing nuclear fleet availability appears to stabilise; and (4) the supply division restores its operational performance on a sustainable basis. Any upgrade would be considered in the context of the credit quality of EDF, which, in the absence of greater insulation between the two entities, will likely act as a constraint. Any downgrade of EDF's baa2 BCA would likely result in a corresponding downgrade of its UK subsidiary's rating. EDF Energy's rating could also be downgraded if EDF Energy's operating performance or capitalisation were to deteriorate, or it were no longer considered financially and operationally integrated within the EDF group as a result of a change in EDF's strategy or financial policy.

With a reported EBITDA of EUR16.2 billion as of 31 December 2020 and net installed generation capacity of 128 GW as of year-end 2020, EDF is one of Europe's largest integrated utilities, providing electricity generation, distribution and supply services. The group is organised along the following business lines: (1) France - generation and supply, where it is the dominant power generator and supplier; (2) France - regulated, which primarily includes electricity distribution through its subsidiary Enedis; (3) UK, through EDF Energy, the country's largest generator following the acquisition of British Energy; (4) Italy, where it is the third-largest generator through Edison; (5) other international, which mainly consists of Belgium, where EDF Luminus is the second-largest electricity group in the Belgian market, and in the Netherlands; (6) EDF Renouvelables (EDFR), the group's wholly owned investment vehicle for renewables, excluding hydro; and (7) other activities, which include Framatome, EDFT and energy services through Dalkia.

LIST OF AFFECTED RATINGS

Issuer: Electricite de France

..Affirmations:

....Long-term Issuer Rating, affirmed A3

....Senior Unsecured Regular Bond/Debenture, affirmed A3

....Senior Unsecured Shelf, affirmed (P)A3

....Backed Senior Unsecured Shelf, affirmed (P)A3

....Senior Unsecured Medium-Term Note Program, affirmed (P)A3

....Backed Senior Unsecured Medium-Term Note Program, affirmed (P)A3

....Junior Subordinated Regular Bond/Debenture, affirmed Baa3

....Commercial Paper, affirmed P-2

....Backed Commercial Paper, affirmed P-2

..Outlook Action:

....Outlook changed to Stable from Negative

Issuer: Edison S.p.A.

..Affirmation:

....Long-term Issuer Rating, affirmed Baa2

..Outlook Action:

....Outlook changed to Stable from Negative

Issuer: EDF Trading Limited

..Affirmation:

....Long-term Issuer Rating, affirmed Baa2

..Outlook Action:

....Outlook changed to Stable from Negative

Issuer: EDF Energy Holdings Ltd

..Affirmation:

....Long-term Issuer Rating, affirmed Baa2

..Outlook Action:

....Outlook changed to Stable from Negative

The principal methodologies used in rating Electricite de France were Unregulated Utilities and Unregulated Power Companies published in May 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1066389 , and Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207 . The principal methodology used in rating EDF Trading Limited was Trading Companies published in June 2016 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_190422 . The principal methodology used in rating Edison S.p.A. and EDF Energy Holdings Ltd was Unregulated Utilities and Unregulated Power Companies published in May 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1066389 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Celine Cherubin
Vice President - Senior Analyst
Infrastructure Finance Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Neil Griffiths-Lambeth
Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France

JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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