

**Rating Action: Moody's downgrades EDF's issuer rating to Baa1; negative outlook**

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21 Feb 2022

Paris, February 21, 2022 -- Moody's Investors Service (Moody's) has today downgraded to Baa1 from A3 the long-term issuer rating and senior unsecured ratings of Electricite de France (EDF). It has also downgraded EDF's senior unsecured MTN program rating to (P)Baa1 from (P)A3, as well as EDF's perpetual junior subordinate debt rating to Ba1 from Baa3 and its Baseline Credit Assessment (BCA) to baa3 from baa2. Concurrently, Moody's has downgraded to Baa3 from Baa2 the long-term issuer ratings for EDF Trading Limited (EDFT), Edison S.p.A. and EDF Energy Holdings Ltd (EDF Energy).

At the same time, Moody's has affirmed EDF's short-term Prime-2 Commercial Paper program ratings.

The outlooks on EDF, EDFT, Edison S.p.A. and EDF Energy are negative.

This rating action follows EDF's action plan [1], announced on 18 February 2022, to mitigate low nuclear output over 2022-23 and the consequences of ARENH cap rise for 2022. The action concludes the review for downgrade initiated on 17 January 2022.

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

#### RATINGS RATIONALE

The rating downgrade reflects Moody's view that EDF's risk profile has become more volatile as a result of unstable and unpredictable nuclear output associated with fleet ageing; the increased exposure of earnings to volatile wholesale electricity prices following the significant disposal programme of recent years; and detrimental political intervention to protect end-customers in a context of elevated power prices. The rating action further takes into account the lack of visibility around (1) the form and timing of nuclear reform in France, at a time when negotiations with the European Commission are suspended; (2) the nature of assets which will be sold by 2024; and (3) the potential consequences for energy policy and EDF of the upcoming French elections.

Moody's has downgraded EDF's Baseline Credit Assessment (BCA), which reflects its standalone credit quality before taking into account potential government support, to baa3 from baa2. The rating agency expects that 2022 credit metrics will fall significantly short of levels consistent with the previous baa2 BCA, with funds from operations (FFO)/net debt potentially declining to around 2% as compared with guidance for the previous BCA in the mid-to-high teens in percentage terms. This is despite planned mitigation measures including a EUR2.5 billion capital increase, the prolonged scrip dividend policy over 2022-23 and a EUR3 billion disposal programme.

EDF expects that the additional 20 TWh of electricity that the group must sell under the ARENH mechanism over April to December 2022, to limit the increase in regulated tariffs for 2022 to 4%, will represent a c. EUR8 billion additional cost at the EBITDA level. Concomitantly, the lower than previously anticipated nuclear output resulting from the recent corrosion issues will cause another c. EUR11 billion additional cost at the EBITDA level. This cumulative c. EUR19bn extra cost exceeds 2021 EBITDA of EUR18 billion.

Moody's expects that EDF will rebuild its financial flexibility from 2023 onwards, supported by elevated power prices and a nuclear output that EDF estimates in a range from 300-330TWh. However, recovery in the group's financial metrics' will be subject to the development of wholesale prices and nuclear output. These parameters are hard to predict and have been particularly volatile; Moody's notes the gradual decline of EDF's nuclear output over the last decade from 408TWh in 2010 to an expected range from 295-315TWh in 2022.

EDF falls under Moody's Government Related Issuers Methodology and its Baa1/P-2 ratings incorporate an expectation that the Government of France, EDF's majority shareholder, would continue to provide support if needed. The issuer and senior unsecured ratings incorporate a two-notch uplift from the baa3 BCA for such potential support, capturing the credit quality of 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 BCA is underpinned by (1) the scale and breadth of EDF's businesses across the energy value in France, which account for more than 75% 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 2021, 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 Ba1 perpetual junior subordinated debt ratings, which is one notch below EDF's baa3 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 Baa1 senior unsecured rating benefits from two notches of uplift based on Moody's expectations for potential extraordinary government support. 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.

The change of EDFT's ratings to Baa3 from Baa2 follows EDF's BCA. EDFT is fully owned and closely controlled by EDF and the rating downgrade reflects the close linkages between the entities and the rating agency's view that EDF's standalone credit quality acts as a constraint. 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.

The change of Edison's ratings to Baa3 from Baa2 follows EDF's BCA. 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).

The change of EDF Energy's ratings to Baa3 from Baa2 follows EDF's BCA. 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 rating is further 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.

## ESG CONSIDERATIONS

Social risk is a key driver of the rating action. The French government's decision to step in to address affordability concerns and protect end-customers as planned is an adverse political intervention and highly detrimental to EDF's economic interests, resulting in an additional cost of c. EUR8billion.

## RATIONALE FOR THE NEGATIVE OUTLOOK

The negative outlook on EDF reflects the risk of nuclear output falling short of levels currently anticipated by the group given the detection of corrosion defects. The extent of these defects across the fleet and the final impact on earnings are still uncertain. Operational uncertainties and execution risks in remedial measures that the group may pursue to bolster credit quality increases the risk of key credit metrics over 2023-24 falling below levels commensurate with the baa3 BCA, which includes FFO/net debt at least in the mid-to-high teens in percentage terms.

The negative outlook further takes into account the absence of visibility associated with economic regulation when EDF needs financial relief to support the acceleration in the development of new capacities, including the construction of six (potentially 14) new European Pressurised Reactors (EPRs) in France by 2050, in addition to the targeted 60 gigawatts (GW) of renewable capacities by 2030.

The negative outlooks on EDFT, Edison, EDF Energy reflect that of EDF given the close linkages

#### 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 negative outlook. Nevertheless, the outlook could stabilise if EDF restores a sound track record with regards to its nuclear output and it appears that EDF will be able to maintain metrics in line with guidance for the current rating, based on a FFO/net debt ratio to remain at least in the mid-to-high teens in percentage terms.

The ratings could be downgraded if (1) EDF's credit metrics appear likely to fall persistently below guidance for a Baa1 rating; (2) a change in the group's relationship with the French government were to cause Moody's 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 Baa1 rating might be revised following announcement of any reforms.

EDFT's outlook could be stabilised if that of EDF 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 outlook could be stabilised if that of EDF is. A downgrade of EDF's baa3 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 outlook could be stabilised if that of EDF is. Any downgrade of EDF's baa3 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.

#### LIQUIDITY

Liquidity remains good in the next 18 months for EDF. EDF's strong liquidity is supported by EUR22.5 billion of available cash and financial assets and a total of EUR13 billion of undrawn committed credit facilities as of 31 December 2021. These include EUR1.7 billion credit facilities maturing within one year. Despite a weak cash generation expected in 2022, these sources are sufficient to cover the group's EUR2.5 billion debt maturities and capital spending over the next 12 months.

With a reported EBITDA of EUR18 billion as of 31 December 2021 and net installed generation capacity of 123 GW as of year-end 2021, 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:

....Commercial Paper, Affirmed P-2

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

Downgrades:

...LT Issuer Rating, Downgraded to Baa1 from A3

...Junior Subordinated Regular Bond/Debenture, Downgraded to Ba1 from Baa3

...Senior Unsecured Medium-Term Note Program, Downgraded to (P)Baa1 from (P)A3

...Junior Subordinated Medium-Term Note Program, Downgraded to (P)Ba1 from (P)Baa3

...Backed Senior Unsecured Medium-Term Note Program, Downgraded to (P)Baa1 from (P)A3

...Senior Unsecured Regular Bond/Debenture, Downgraded to Baa1 from A3

...Senior Unsecured Shelf, Downgraded to (P)Baa1 from (P)A3

...Backed Senior Unsecured Shelf, Downgraded to (P)Baa1 from (P)A3

...Baseline Credit Assessment, Downgraded to baa3 from baa2

Outlook Actions:

...Outlook, Changed To Negative From Rating Under Review

Issuer: Edison S.p.A.

Downgrades:

...LT Issuer Rating, Downgraded to Baa3 from Baa2

Outlook Actions:

...Outlook, Changed To Negative From Rating Under Review

Issuer: EDF Energy Holdings Ltd

Downgrades:

...LT Issuer Rating, Downgraded to Baa3 from Baa2

Outlook Actions:

...Outlook, Changed To Negative From Rating Under Review

Issuer: EDF Trading Limited

Downgrades:

...LT Issuer Rating, Downgraded to Baa3 from Baa2

Outlook Actions:

...Outlook, Changed To Negative From Rating Under Review

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](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](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207) . The principal methodology used in rating EDF Energy Holdings Ltd and Edison S.p.A. was Unregulated Utilities and Unregulated Power Companies published in May 2017 and available at

[https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1066389](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1066389) . 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](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_190422) . Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://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.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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## REFERENCES/CITATIONS

[1] EDF 2021 Annual Results -- Outlook and Action Plan - <https://www.edf.fr/sites/default/files/contrib/groupe-edf/espaces-dedies/espace-finance-en/financial-information/publications/financial-results/2021-annual-results/pdf/annual-results-2021-pr-en-20220218-v2.pdf>

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