MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades eir to B2; positive outlook

Global Credit Research - 21 Mar 2016

Madrid, March 21, 2016 -- Moody's Investors Service has upgraded the Corporate Family Rating (CFR) of Irish telecom services provider eircom Holdings (Ireland) Limited (eir) to B2 from B3, as well as its Probability of Default Rating (PDR) to B2-PD from B3-PD.

"Our decision to upgrade eir's ratings to B2 reflects the company's improving credit metrics, with adjusted leverage expected to remain sustainably below 5.5x, mainly driven by a strong operating performance and a reduction in the IAS 19 pension deficit," says Iván Palacios, a Moody's Vice President -- Senior Credit Officer and lead analyst for eir.

Concurrently, Moody's upgraded to B2 from B3 the EUR2.0 billion (outstanding) guaranteed senior secured credit facility raised by eircom Finco S.à.r.l. and the EUR350 million guaranteed senior secured notes due 2020 issued by eircom Finance Limited. The outlook on the ratings is positive.

"The positive outlook reflects our view that eir's operating performance will continue to improve over the next 12-18 months, mainly driven by growth in eir's fibre broadband customers, increases in the average revenue per household, improving mobile performance and sustained cost cutting efforts. These will allow eir to generate growing free cash flows, and to reduce debt further," adds Mr Palacios.

RATINGS RATIONALE

Today's upgrade reflects eir's improved credit metrics and factor in Moody's expectations that the company's debt/EBITDA (as adjusted) will be around 5.2x by year ending June 2016. As a result, the rating agency now expects that eir's leverage will remain sustainably within the range commensurate with a B2 rating.

eir's more robust operating performance, with revenue growth turning positive in 2016 for the first time in six years drove this company's deleveraging. A strong macroeconomic environment, with Ireland's GDP reaching 7.8% in 2015, and a more stable competitive environment, have led to overall rational market pricing, which has in turn translated into higher revenues and EBITDA.

At the same time, eir is benefitting from its investment effort in both fibre and 4G. Its enhanced network, coupled with recent investments in exclusive content through the acquisition of Setanta Sports Channel Ireland Ltd, should allow the company to monetise the increasing demand for its products and services, and strengthen its competitive position in the Irish market.

Despite the expected negative revenue headwinds from the planned reduction in mobile termination rates in FY2016/17 (which eir expects to be broadly EBITDA neutral), Moody's expects low single digit growth in eir's EBITDA, supported by revenue growth and continued cost cutting measures. A slightly growing EBITDA, coupled with a reducing capex-to-sales ratio, and the potential for lower interest expenses as the non-call period on the 2020 senior secured notes expires in May 2016, will translate into further growth in free cash flow generation.

The rating action also reflects eir's adequate liquidity profile. eir's liquidity profile is supported by a cash balance of EUR186 million as of December 2015, the expected positive free cash flow generation, an extended debt maturity profile, with most of its debt maturing in 2022, and the adequate headroom under covenants.

RATIONALE FOR POSITIVE OUTLOOK

The positive outlook reflects eir's strong position within the B2 rating category, with the potential for moving to B1 on the basis of further improvements in performance, as well as operational and financial measures taken by management.

WHAT COULD CHANGE THE RATING UP/DOWN

Upward pressure on the rating would be supported by continued improved operating performance, with growth in revenues and EBITDA leading to lower leverage such as adjusted debt/EBITDA sustainably falling below

5.0x. Upward rating pressure would also require the group to generate growing positive free cash flows and to maintain a sound liquidity profile, with comfortable headroom under financial covenants.

Downward pressure on the rating could materialise if the group fails to execute its business plan or if pricing dynamics deteriorate, leading to weaker-than-expected credit metrics, including adjusted debt/EBITDA sustainably above 5.5x, and persistently negative free cash flow generation. Given the volatility of eir's IAS 19 pension deficit, the B2 rating with a positive outlook incorporates the potential for moderate deviations from these ranges on a temporary basis.

Moody's would also be concerned if eir's liquidity came under stress as a result of a weaker-than-expected operating performance or larger than planned cash outflows for capex or voluntary leavers.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Telecommunications Industry published in December 2010. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

eircom Holdings (Ireland) Limited is the holding company of the eir group, the principal provider of fixed-line telecommunications services in Ireland, with a revenue share of the fixed-line market of approximately 49% (according to ComReg). The group is also the third-largest mobile operator in Ireland, with a subscriber market share of approximately 21% (excluding mobile broadband and Machine to Machine, according to ComReg). eir reported revenue of EUR1.3 billion and adjusted EBITDA of EUR492 million for the last twelve months ended December 2015.

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