



Energy for  
generations

# ESB

## Debt Investor Presentation Business Update

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November 2016

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# ESB Team



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Group Treasurer



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# Agenda

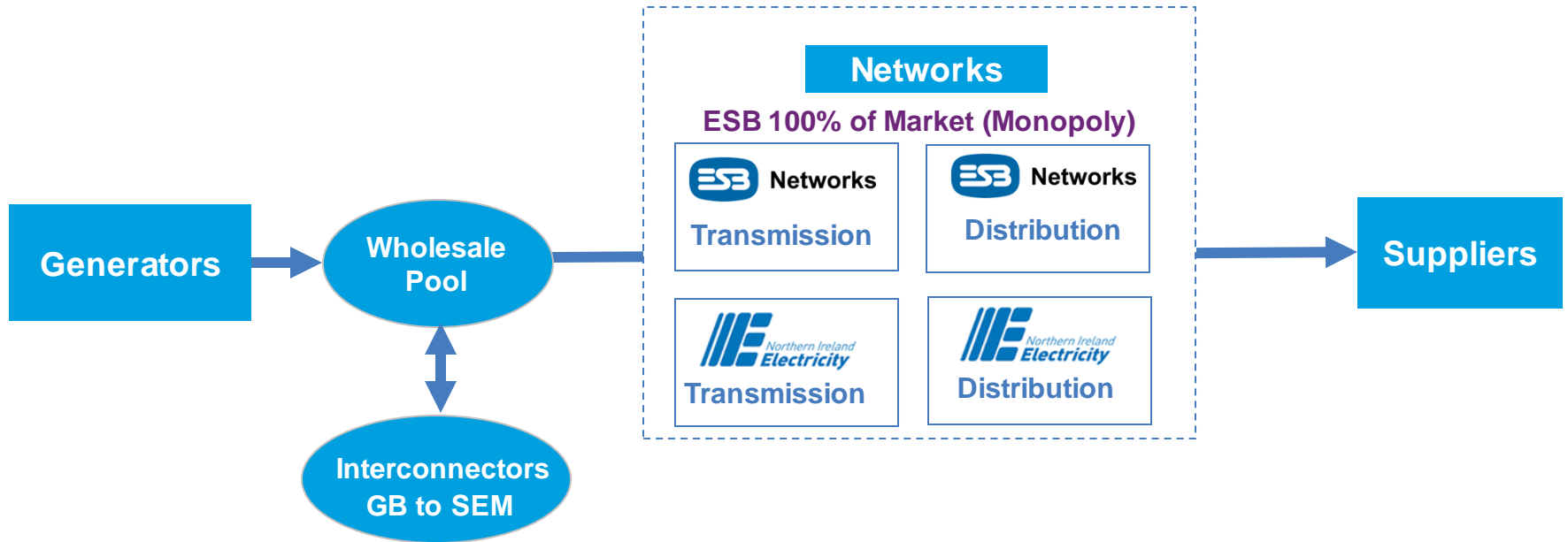


- ESB Background and Strategy
- Financial Results
- ESB Business Profile
- Funding and Liquidity
- Outlook & Summary

# ESB Background and Strategy

# Electricity Industry Structure

## One Single Electricity Market (SEM) - All-Island



Regulators



System Operators

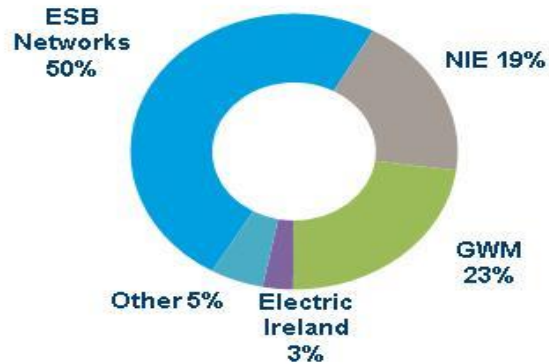




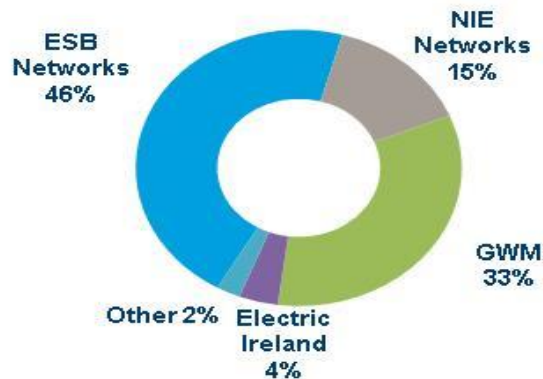
- **History** Established 1927, Vertically Integrated, 95% Government-owned. Markets Ireland & UK.
- **Networks** Owner of the Regulated Republic of Ireland T&D networks (2015 RAB €7.4bn)  
Owner of the Regulated Northern Ireland T&D networks (2015 RAB €1.6bn)
- **Generation** Capacity 5.7 GW. All-Island Capacity 4.3GW and 49% Market Share. GB Capacity 1.4 GW. Diversified fuel mix. Capacity & Regulatory Supports.
- **Supply** 38% Market Share and 1.4 million Customers served on an All-Island basis
- **Innovation** Successful International Engineering consultancy; Clean Tech Fund (Novus Modus); e-Cars; Fibre
- **Financial** Regulated Networks Businesses account for ~ 66% of EBITDA and assets  
Strong EBITDA 2015 €1.35 bn. Assets €13.2bn. Gearing 55%.  
Strong Liquidity Position €1.9bn. Stable Credit Ratings A- / Baa1 / BBB+.

# ESB Asset & EBITDA Profile

## 2015 Assets by Business - €13.2bn



## 2015 EBITDA by Business - €1,348<sup>1</sup> (€m)



## Key Points

- 2015: Regulated Transmission & Distribution networks account for 61% of EBITDA and 69% of assets
- ESB owns 100% of T&D assets in Republic of Ireland and Northern Ireland
- Stable, established and well understood regulatory environment
- Balanced Generation-Supply position. All-Island generation market share of 49% by volume. All-Island supply market share 38%.

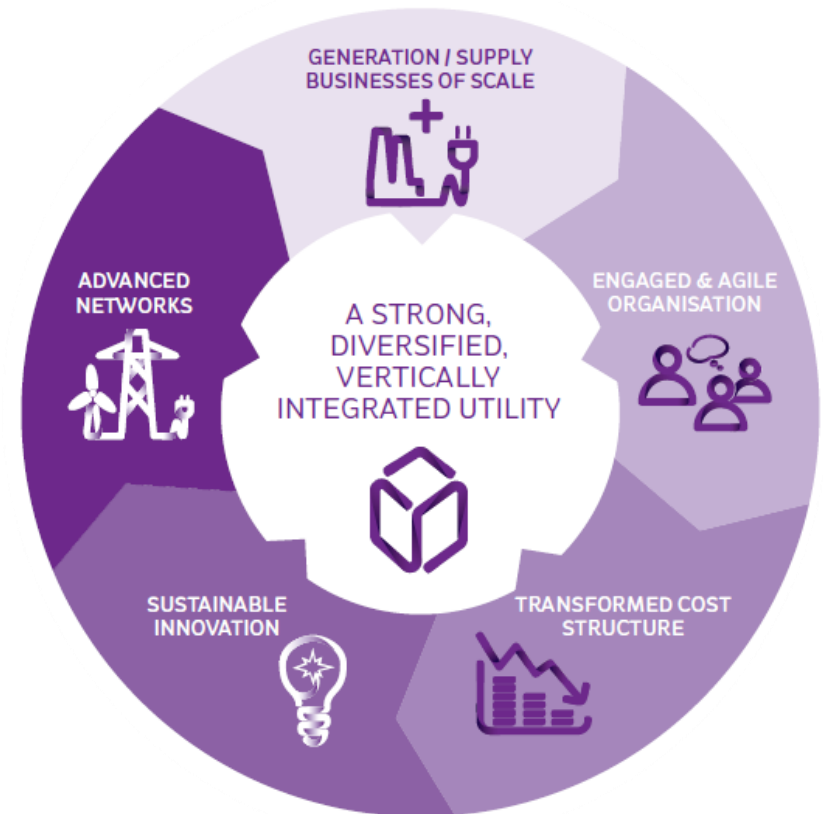
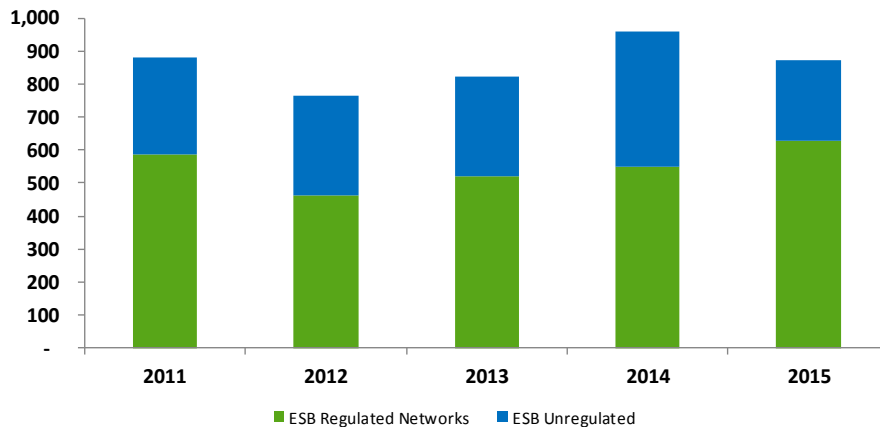
<sup>1</sup> Before Exceptional items:  
2015: Generation Impairment charge (€104m) - Corby in GB (€58m) & Coolkeeragh in NI (€46m) [esb.ie](http://esb.ie)



## Key Points

- Energy Focus
- Diversified Vertically Integrated Utility
- Markets – Ireland and Great Britain
- Investments – Networks (Ireland) and Generation (Ireland & Great Britain)
- Prudent Financial Management

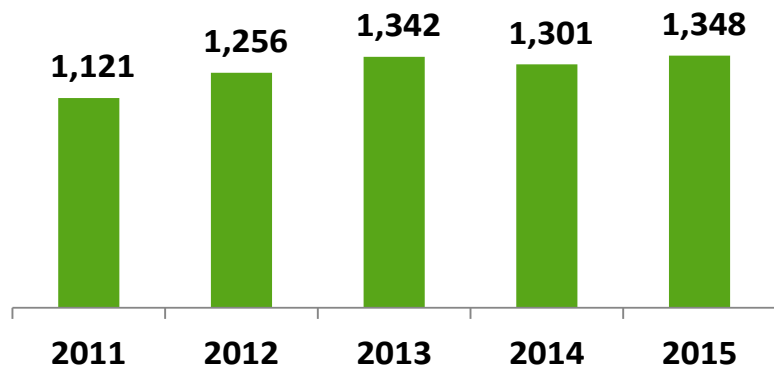
## ~ 66% Capex on Regulated Networks (€m)



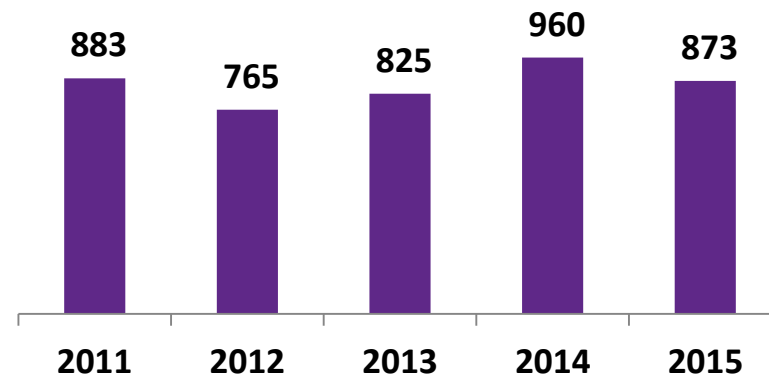
# Financial Overview

# Consistent Financial Performance

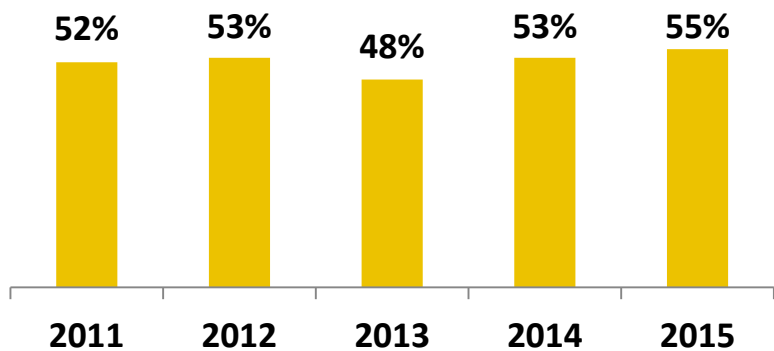
## EBITDA <sup>1</sup> (€m)



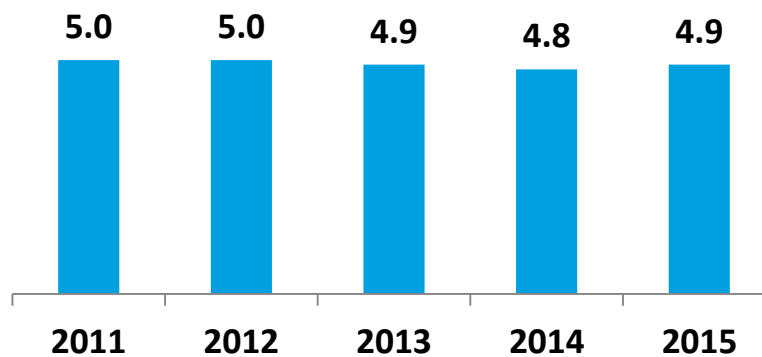
## Capital Expenditure (€m)



## Gearing (%) <sup>2</sup>



## Adjusted EBITDA <sup>1</sup> Interest Cover (times covered)



<sup>1</sup> Before Exceptional items

<sup>2</sup> Gearing = Debt / (Debt + Equity) on IFRS basis

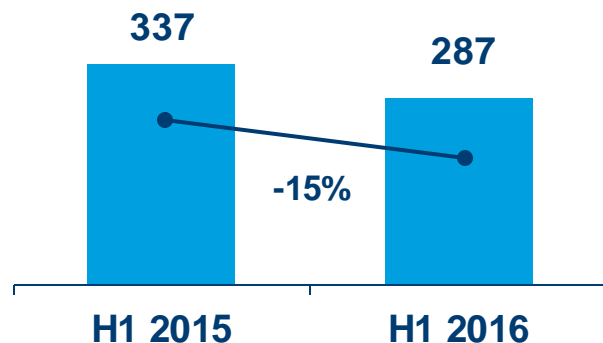
# Highlights – H1 2016



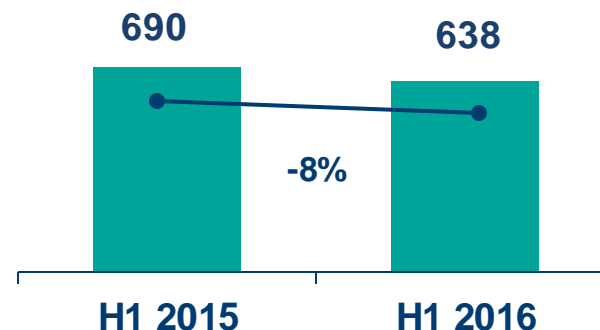
- Solid Performance. 64% of H1 2016 EBITDA from Regulated Networks Businesses
- Prudent financial management protected credit metrics from Sterling & interest rate volatility
- Capital Investment €356m: networks assets in Ireland €224m (63%) & Carrington €40m
- Networks
  - ROI: PR4 2016-20 Implementation ~ 50% of Group EBITDA
  - NI : NIE Networks RP6 (Oct 2017 - March 2024) submission and RP5 delivery
- Generation (GWM) and Supply (Electric Ireland)
  - Lower SEM power prices: mitigated by GWM hedging and by increased profits in Electric Ireland
  - Carrington Plant commercial operation September
- Strong liquidity position €1.9bn. €600m 15-year Bond & €285m buy-back in May.
- Stable credit ratings of A- / Baa1 / BBB+

# H1 2016 – Key Financial Highlights

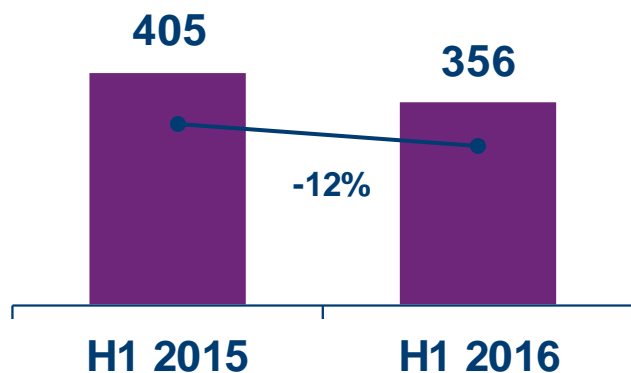
## Operating Profit (€m)



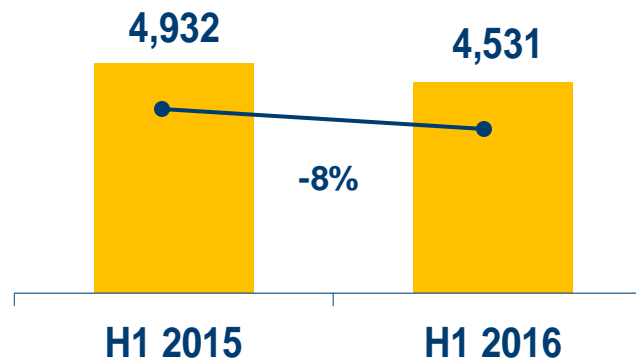
## EBITDA (€m)



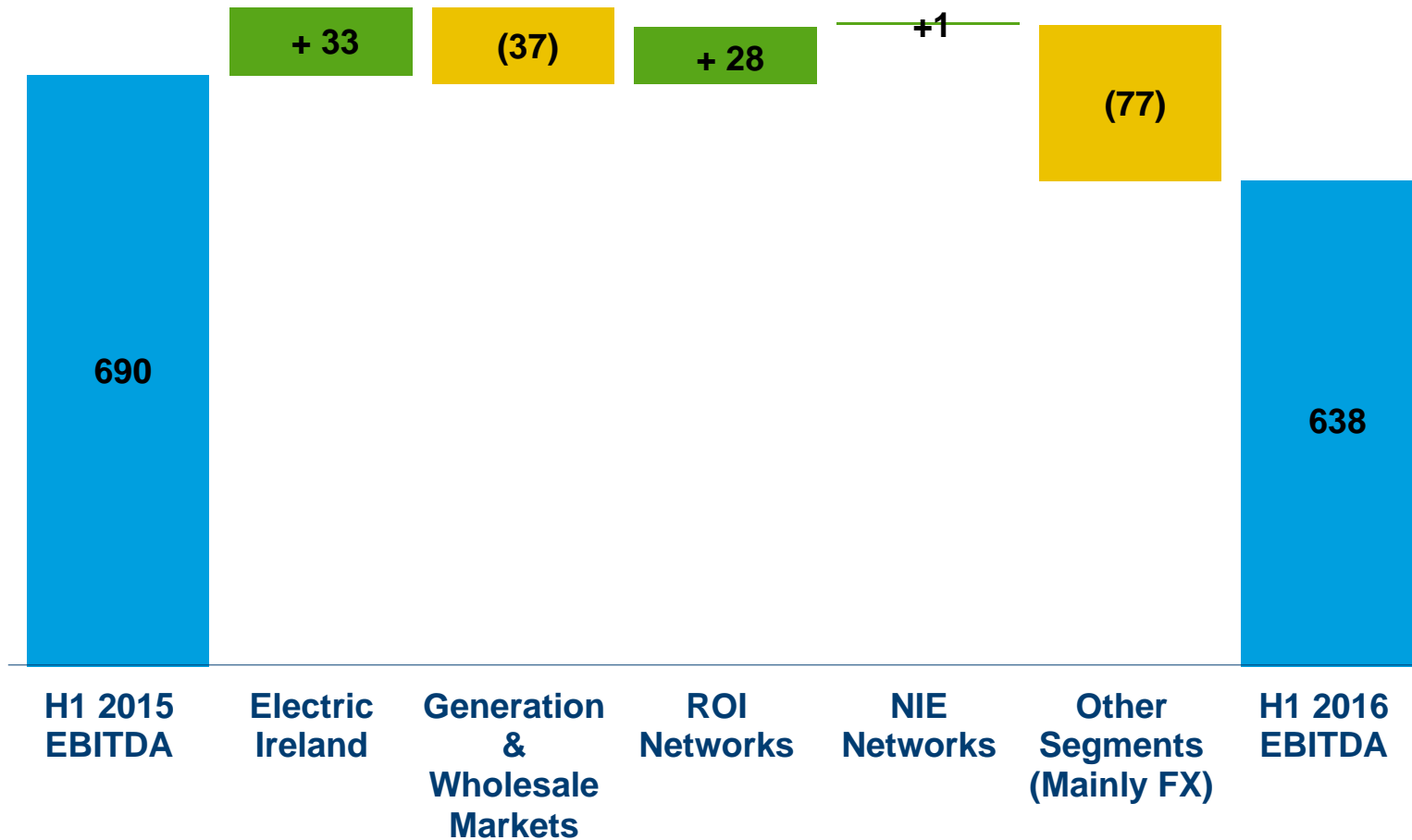
## Capital Expenditure (€m)



## Net Debt (€m)



# EBITDA Movement – H1 2016 vs H1 2015



# Interest Cover and Gearing

## Adjusted<sup>1</sup> EBITDA Interest Cover



## Adjusted<sup>1</sup> Gearing %



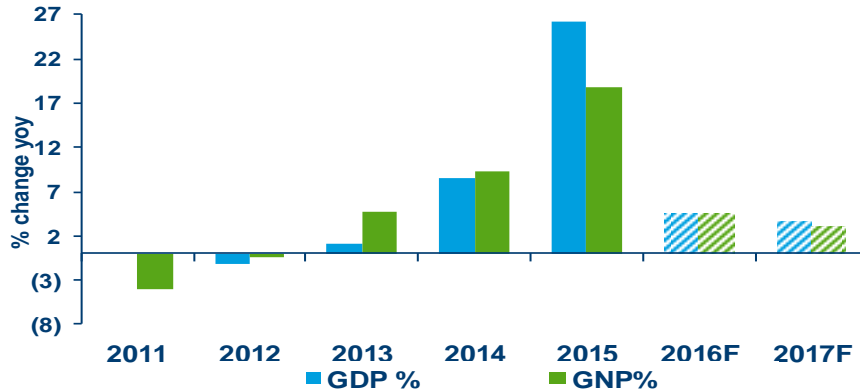
- ESB US Private Placement Agreement Covenants:
  - Adjusted<sup>1</sup> EBITDA Interest Cover > 3.5x
  - Adjusted<sup>1</sup> Gearing < 67.5%

<sup>1</sup>Adjusted to restate financials to accounting principles in effect at time of USPP issue (UK GAAP 2002).  
H1 2016 Indicative – subject to final certification. Gearing H1 2016 52% and H1 2015 54% on IFRS basis.

# Business Review

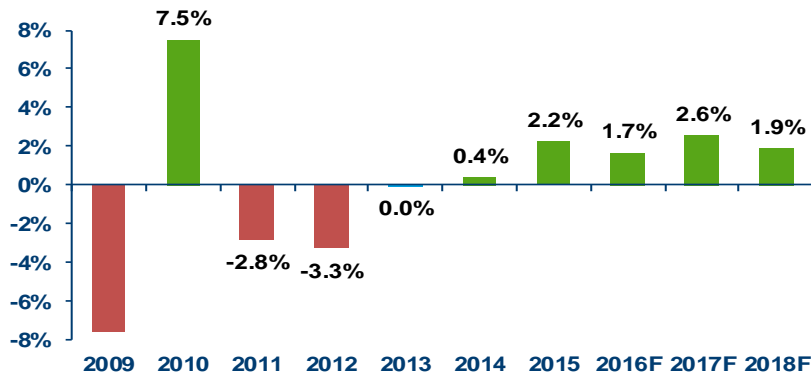


## Irish GDP Growth strong



Source: CSO, Central Bank Ireland

## SEM System Demand Growth



Source: Eirgrid

## Ireland

- Consistently strong economic growth
- Forecast GDP 2016: 4.5% 2017: 3.6%
- Broad based growth
- Irish sovereign rating strengthened
  - A+ Stable (S&P) / A Stable (Fitch) / A3 Positive (Moody's)
- SEM Electricity demand growth

## UK

- Brexit. Prudent financial management protecting ESB's Credit metrics. Ongoing review.
- UK Electricity. Lower demand. Tight Capacity Reserve Margins.

# Network Regulation Overview in Ireland

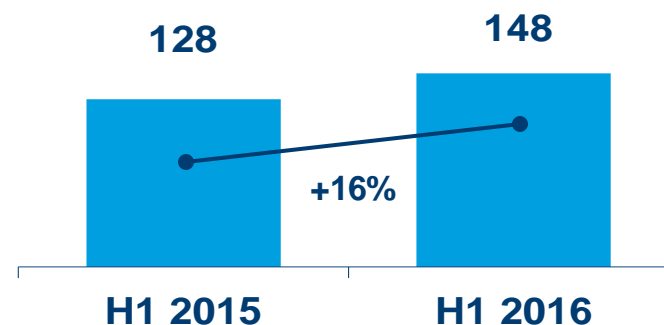
- Revenue determined by ROI and NI Regulators
  - CER (Republic of Ireland)
  - Utility Regulator (Northern Ireland)
- Similar principles as apply in Great Britain
- Regulatory Objectives: Protect customers' interests; while ensuring safe, secure Networks that can fund activities and earn a fair return.
- 5 Year Price / Revenue Control Cycles
  - Allowance for Opex
  - Allowance for Capex (Depreciation)
  - Allowed return on Regulated Asset Base (RAB)
  - No Volume Risk. Inflation Adjustment.
  - Incentives for Strategic Innovation, customer service and network performance
- Model well established and considered robust by Financiers and Rating Agencies



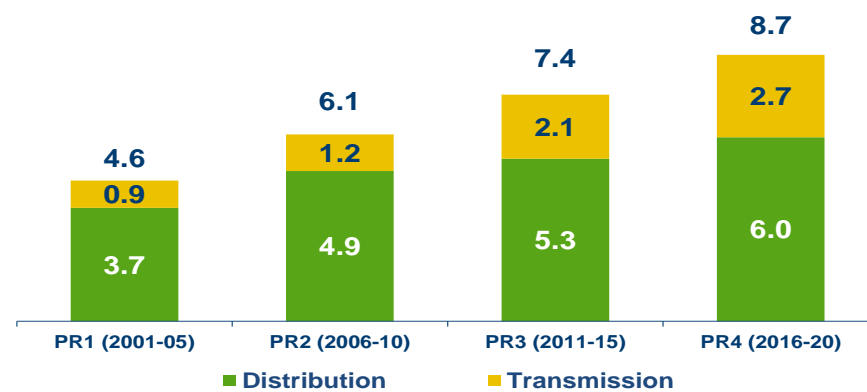
## Business Description

- ~ 50% of Group EBITDA, Assets & Capex
- Sole owner and operator of the distribution network and sole owner of the transmission network in Republic of Ireland
- Strategy: Advanced Networks
- Regulated Asset Base (RAB) of €7.4bn
- ESB Networks PR4 Revenue (2016-20) concluded Underpins ~ 50% of Group EBITDA and Capex
- **2016 and 2017 Focus: PR4 delivery**

## Operating Profit (€m)



## RAB (€bn)



# Networks PR4 (2016-2020) Determination Summary



- Underpins ~ 50% of Group EBITDA & Capex
- Regulatory model unchanged from PR3. Focus on delivery

	PR4 Determination	PR3 Outturn
Overall Revenue	€5.3bn (real, 2014)	€4.4bn
WACC (pre-tax, real)	4.95%	5.20% (post mid-term review)
Net Capex	€2.8 bn (real, 2014) (includes SMART €0.5 bn)	€2.1bn
Operating Allowances	€1.7bn (real, 2014)	€1.4bn
RAB Projected	€8.7 bn (real, 2014)	€7.4 bn
2010 Pension Agreement Recovery <sup>1</sup>	Separate submission requested CER 'not minded to allow'	Not recovered
Asset Life	Unchanged Commitment to review in PR5	Transmission – 50 years Distribution – 45 years
Strategic Innovation Fund <sup>2</sup> Incentives <sup>2</sup>	€0.1 bn (real, 2014) €0.05 bn (real, 2014)	€0 €0.01bn

1 Recovery of once -off pension costs associated with a 2010 staff pension agreement  
2 Strategic Innovation fund not expected to be subject to further public consultation (decision 2017). Incentives subject to public consultation in 2017

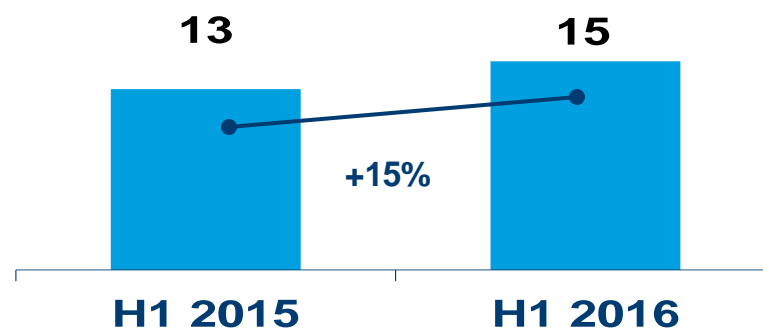
# Northern Ireland Electricity (NIE) Networks



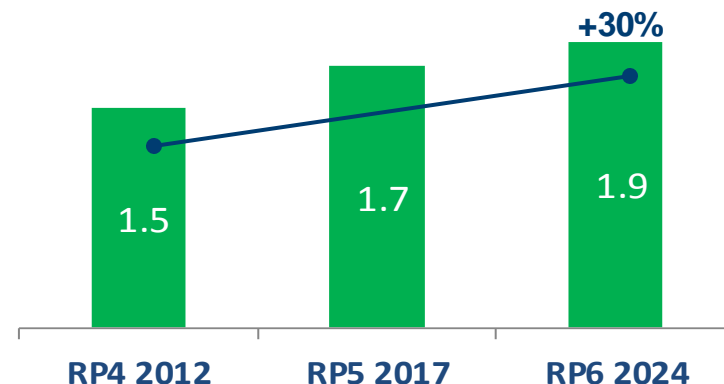
## Business Description

- 2015: Comprises ~15% of Group EBITDA and 19% Assets.
- Sole owner of the distribution and transmission networks in Northern Ireland
- Strategy: Advanced Networks
- Regulated Asset Base 2015 €1.6 bn
- RP6 submitted (Oct 2017 – March 2024)  
Draft determination March 2017. Final determination Summer 2017.
- **2016 and 2017 Focus:** RP5 Delivery & Acceptable RP6 Outcome

## Operating Profit (€m)



## RAB (€ bn)



# NIE Networks RP6 Submission Summary

- NIE Networks RP6 (Oct 2017 – March 2024) submitted. Underpins ~ 15% of Group EBITDA.
- Draft Determination March 2017. Final Determination Summer 2017.
- Focus on securing an acceptable outcome

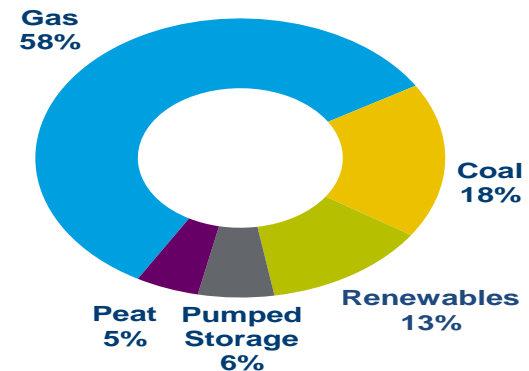
	RP6 Submission	RP5
	Oct 2017 - March 2024	Oct 2012 - Sept 2017
<b>Overall Revenue Total</b>	€2.1 bn (real, 2016) €326 m p.a. (real, 2016)	€ 1.7 bn €304 m p.a.
<b>WACC (Vanilla, real)</b>	4.1%	4.1%
<b>Net Capex</b>	€0.9 bn (real, 2016) €137 m p.a. (real, 2016)	€0.7bn €124m p.a.
<b>Operating Allowances</b>	€0.47 bn (real, 2016) €82 m p.a. (real, 2016)	€0.53 bn €85 m p.a.
<b>RAB Projected</b>	€1.9 bn (real, 2016)	€1.7 bn

# Generation & Wholesale Markets

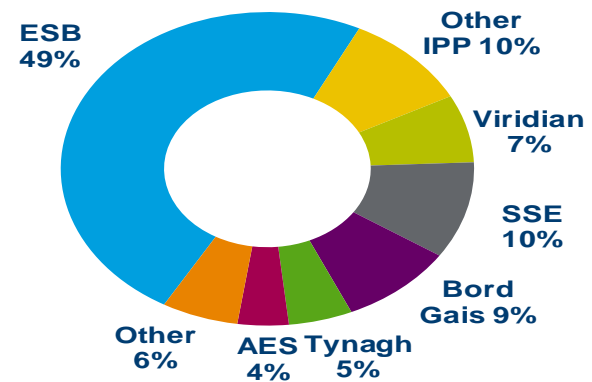
## Business Description

- ~ 33% of Group EBITDA & 23% Assets
- 5.7 GW: 4.3 GW All-Island and 1.4 GW in Great Britain
- Strategy: Generation Business of Scale
- Carrington Commercial Operation Sept 2016
- All-Island market share of 49% by volume
- Diversified fuel mix: gas, coal, peat, hydro & wind
  
- Profitable. SEM portfolio - Capacity & Regulatory supports
  
- **2016 & 2017 Focus:**
  - Continued good plant availability
  - Carrington
  - GB Capacity auction
  - I-SEM Design

## H1 2016 Installed Capacity by Fuel Type



## H1 2016 Market Share



# SEM to I-SEM Transition

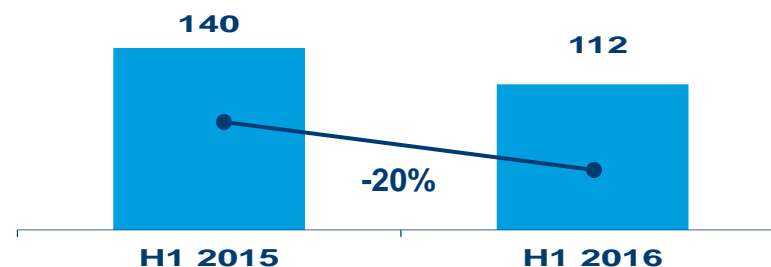
## SEM Overview

- Profitable. SEM portfolio – Capacity & Regulatory supports
- H1 2016 Operating profit lower due to lower energy margins
- Renewables focus for future GWM capex.

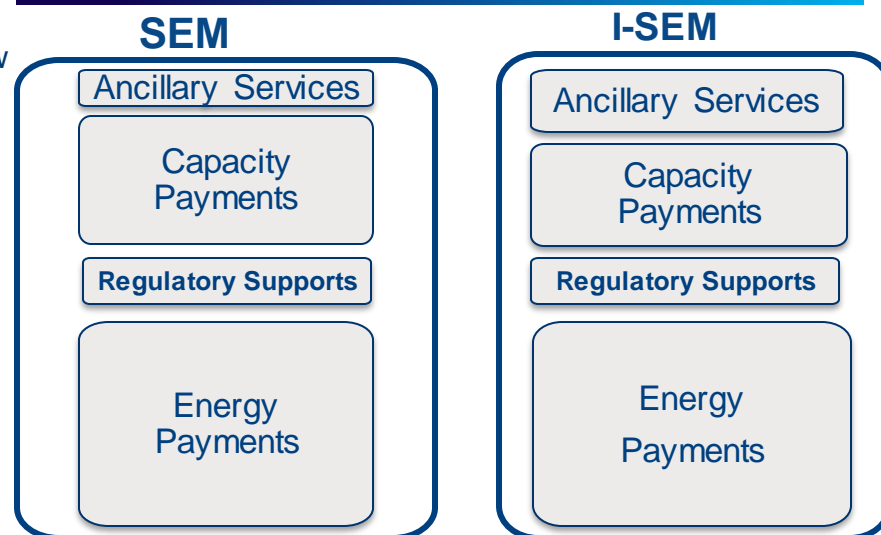
## I-SEM

- EU Internal Energy Market rules compliance & changes how ancillary services rewarded to support more renewables
- CER changed target full implementation to May 2018
- Full rules and mechanisms not yet decided
- However, expected that:
  - Capacity payments will remain, but be lower and awarded on a different basis (auction)
  - Ancillary service payment 'pot' will be increased
- Too early to make any meaningful conclusions around financial impact. ESB well placed to avail of new approach given portfolio mix.

## Operating Profit (€m)



## Broad Indicative Changes

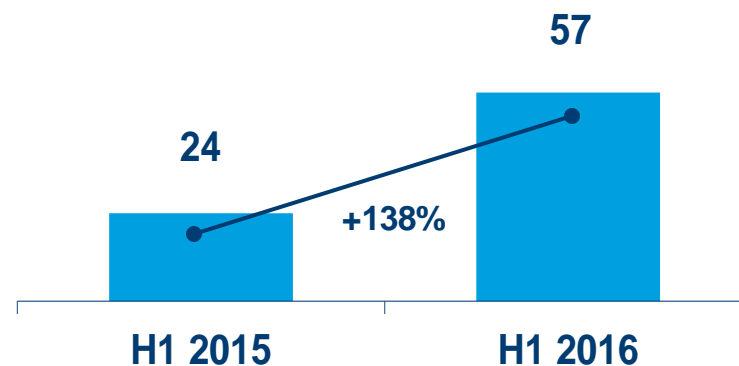




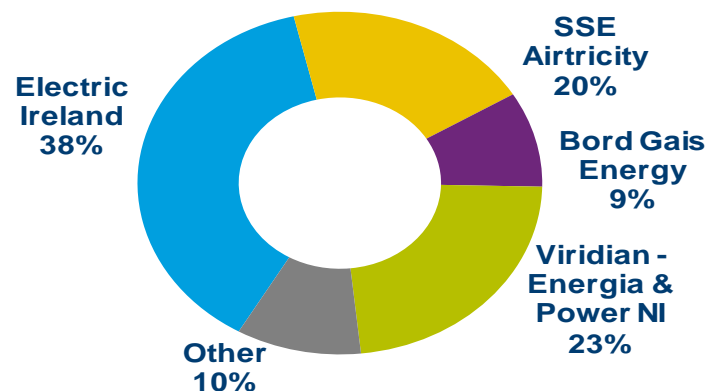
## Highlights

- 2015: ~ 4% of Group EBITDA (10% H1 2016)
- Higher H1 2016 operating profit and Net margin due to higher energy margins
- Market share 38%. 1.3 million customers.
- Strategy: Competitive Offerings, Retaining existing customers. Excellent customer service. New and Innovative Products.
- Highest Customer Satisfaction among all electricity suppliers in 2015 (per CER)
- **2016 & 2017 Focus:** Customer service, competitive offerings and maintaining market share at appropriate net margin

## Operating Profit (€m)



## Retail Market Share (MWh)



## Focused on developing new business opportunities

ESB International	Novus Modus	ESB Telecoms	Ocean Energy	E-Cars
<ul style="list-style-type: none"> <li>Multi-disciplinary engineering, strategy and O+M consultancy business</li> <li>40 years in operation Internationally. Turnover &gt; €100m</li> </ul>	<ul style="list-style-type: none"> <li>Clean-Tech fund</li> <li>Invests in renewable energy and energy efficiency sectors</li> </ul>	<ul style="list-style-type: none"> <li>Owns fibre-optic network and network of independent mobile-phone towers</li> <li>Sub-sea fibre-optic cable linking ROI and UK</li> <li>Fibre to the Building Joint Venture with Vodafone (SIRO)</li> <li>National Broadband Shortlist</li> </ul>	<ul style="list-style-type: none"> <li>Supports range of initiatives in the Ocean Energy sector</li> </ul>	<ul style="list-style-type: none"> <li>Advanced electric vehicle infrastructure</li> <li>2,300 charge points</li> </ul>

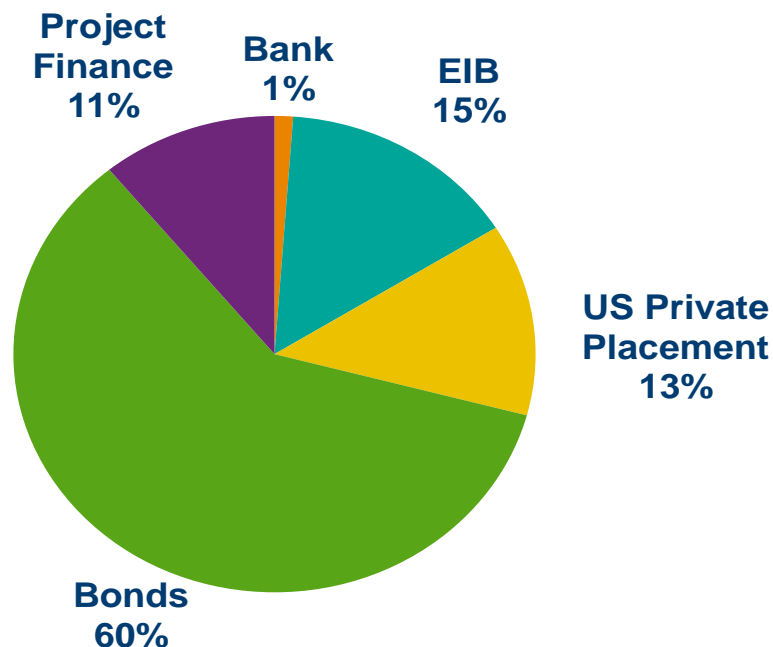
## Division Financials

	<b>2016-20</b> <b>% of Group</b>
<ul style="list-style-type: none"> <li>EBITDA</li> </ul>	~ 2%
<ul style="list-style-type: none"> <li>Capex</li> </ul>	~4%

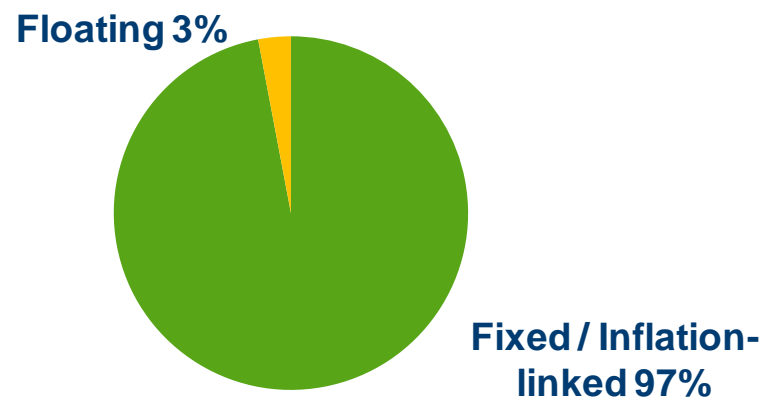
# Funding & Liquidity

# ESB Group Debt Overview

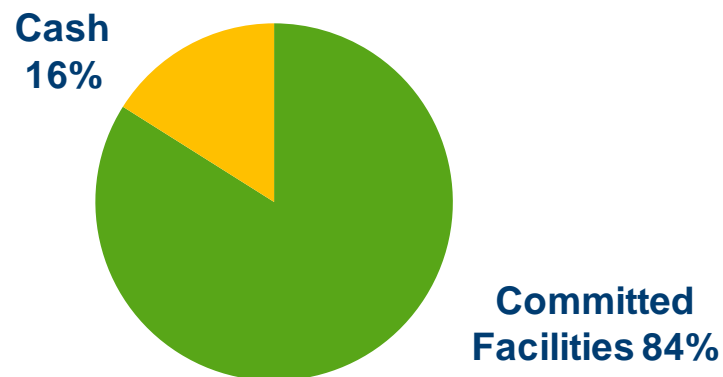
## Group Debt 30 June 2016 - €4.9 bn



## Interest Rate Management

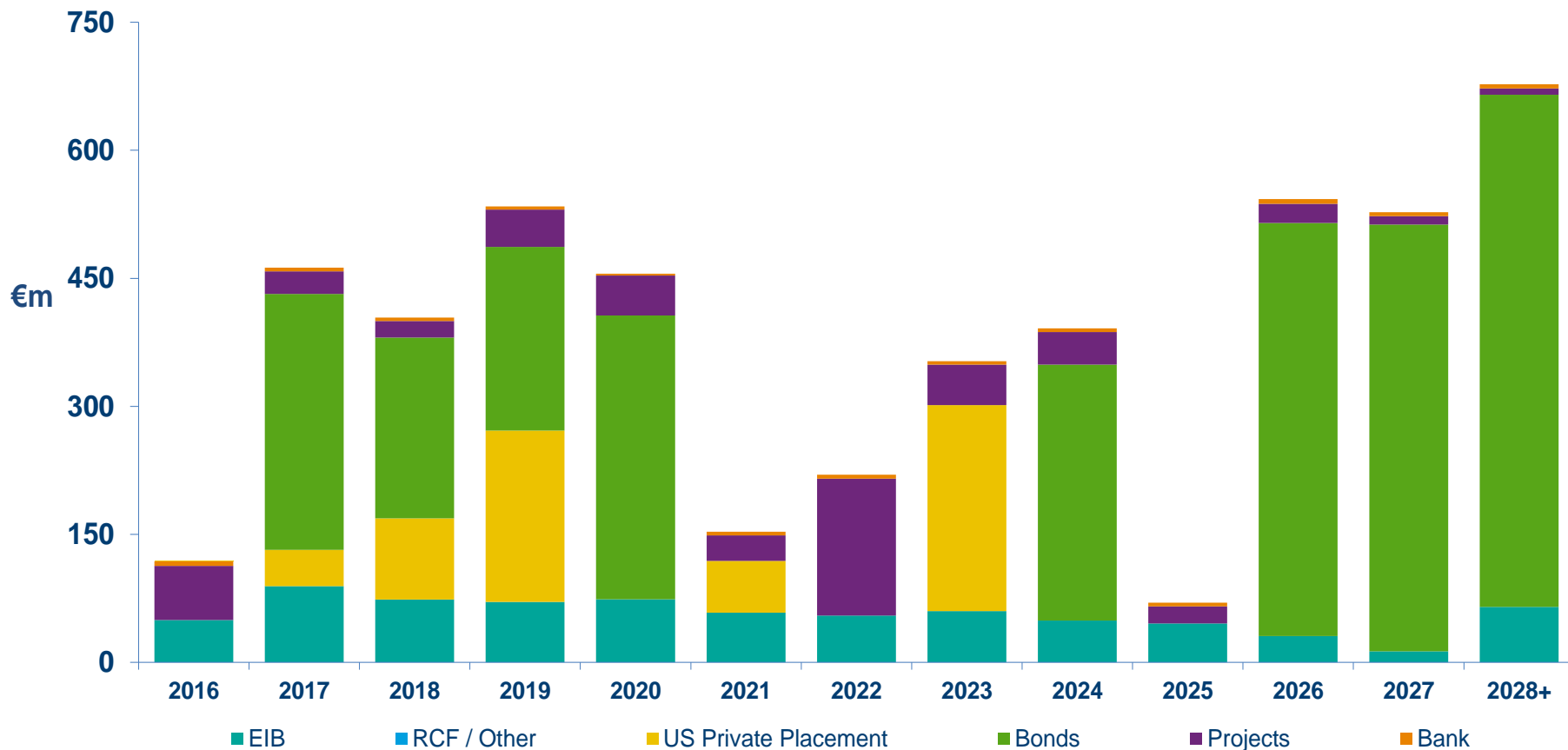


## Available Liquidity - €1.9bn



- €600m bond issued May 2016 – 15 years, 1.875%, €285m buy back of 2019 debt
- GBP debt £1.6bn ~40% debt reduced by ~€300m due to weakening Sterling since H1 2015

# Repayment Profile – 30 June 2016



- Profile manageable. €1.9bn existing liquidity and EBITDA ~ €1.3bn pa.

# Dividend Policy & Pensions



## Dividend Policy




- Dividend Policy agreed in 2013 with Irish Government (95% Shareholder)
- Target dividend pay-out ratio of 40% of normalised profits after tax by 2017 and thereafter; 38% in 2016.

## Pensions

- ESB DB Pension Scheme does not have a deficit on an ongoing actuarial basis at end 2015 following the actuarial review.

# ESB Credit Ratings

- Ratings affirmed with all three rating agencies in 2016

	Current Rating
	<b>A-</b> (Stable Outlook)
	<b>Baa1<sup>1</sup></b> (Positive Outlook)
	<b>BBB+</b> (Stable Outlook)

<sup>1</sup> Moody's rating changed to positive from stable due to upgrade of Irish sovereign to A3 positive

# Outlook and Summary



# Outlook 2017



- Continued growth in Irish macro economy and SEM electricity demand expected. Tight generation capacity reserve margins in Great Britain.
- Networks
  - ROI: PR4 2016-20 Implementation ~ 50% of Group EBITDA
  - NI : NIE Networks RP6 submission engagement with Utility Regulator
- Generation
  - Maintain Plant availability
  - Carrington Commercial Operation and GB Capacity auction
  - Integrated Single Electricity Market (I-SEM)
- Electric Ireland
  - Continued focus on customer service, value and market share at acceptable margins
- Ongoing focus on cost efficiency and financial strength

# Summary



- Leading Irish diversified & vertically integrated utility. 95% Irish Government owned
  - Operating across electricity market : Generation, Transmission, Distribution and Supply
  - Owns Transmission & Distribution Networks in ROI and NI. Regulated RAB 2015 €9bn
  - All Island Market: 49% Share of Generation & 38% Share of Supply. 1.4 m customer accounts
  - Generation: 5.7 GW. Diversified fuel mix. Capacity and Regulatory supports
- Markets – Ireland and Great Britain
- Regulated networks businesses account for ~66% EBITDA and Assets supported by well established & transparent regulatory framework
- Consistently Solid Financial Performance
  - Consistently Strong EBITDA (2015 €1.35 bn Assets €13.2bn Gearing 55%.)
  - Strong liquidity position (€1.9bn at June 2016)
  - Stable credit ratings of A- / Baa1 / BBB+

# Contacts



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