



Energy for generations

# Debt Investor Presentation 2018 Half Year Results and Business Update

2<sup>nd</sup> October 2018



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**Pat Fenlon**

**Group Finance  
Director**



**Susan McCarthy**

**Group  
Funding Manager**



**Ted Browne**

**Manager, Investor  
Relations  
& Credit Rating**

# Agenda

Key Credit Strengths

H1 2018 Highlights

H1 2018 Financial Review

Business Review

Funding and Liquidity

Outlook and Summary



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# ESB Key Credit Strengths

## Leading Irish Energy Utility



- 95% Irish Government owned
- Markets - Ireland and Great Britain
- Owns all networks in ROI and NI <sup>1</sup>
- Irish electricity market: 42% share of generation and 33% share of supply

## Stable Business Profile



- Regulated electricity networks businesses in Ireland account for approximately two-thirds EBITDA and assets
- Supported by established and transparent regulatory frameworks regarded as robust by credit rating agencies <sup>2</sup>

## Consistent Financial Performance



- EBITDA H1 2018 €620m & Gearing H1 2018 53%
- Diversified funding and strong liquidity position
- Credit ratings of A- and A3

<sup>1</sup> In Republic Of Ireland (ROI) and in Northern Ireland (NI) via its wholly-owned subsidiary NIE Networks

<sup>2</sup> See S&P Global report published May 2018 "Why we see the Republic of Ireland's Electricity Regulatory Framework as supportive"

## ESB's strategy to 2030 – Leading the transition to low carbon energy

### Satisfactory performance in challenging generation and supply market conditions

- Operating Profit €244m; EBITDA €620m; Capex €499m; Gearing 53%
- Regulated Networks Businesses in Ireland: 88% operating profit and 73% of assets supported by established and transparent regulatory frameworks

### Networks

- ESB Networks (ROI) PR4 2016-20 delivery. Operating profit €181m in line with H1 2017.
- NIE Networks (NI) RP6 October 2017- March 2024 delivery. Operating profit €35m is €16m higher than H1 2017.

### Generation (G&WM)

- Irish market share 42%. Investment in low carbon and renewables. Operating profit €44m is €43m lower than H1 2017 mainly due to lower GB energy margins

### Supply (Electric Ireland)

- Competing effectively. Irish market share 33%. Operating profit €18m is €28m lower than H1 2017 mainly due to higher energy costs and timing of price increases

## Strong liquidity position €1.8bn

Moody's credit rating A3 and S&P credit rating A- affirmed in May 2018. Both with stable outlook.

# ESB - Strategy for a Brighter Future



## ESB's Purpose

Create a brighter future for our customers by leading the transition to reliable, affordable, low carbon energy

- Meet customers' energy needs through diverse businesses across energy value chain
- Markets – Ireland and Great Britain
- Investment focus
  - Smart reliable networks
  - Low carbon energy
  - New business growth potential





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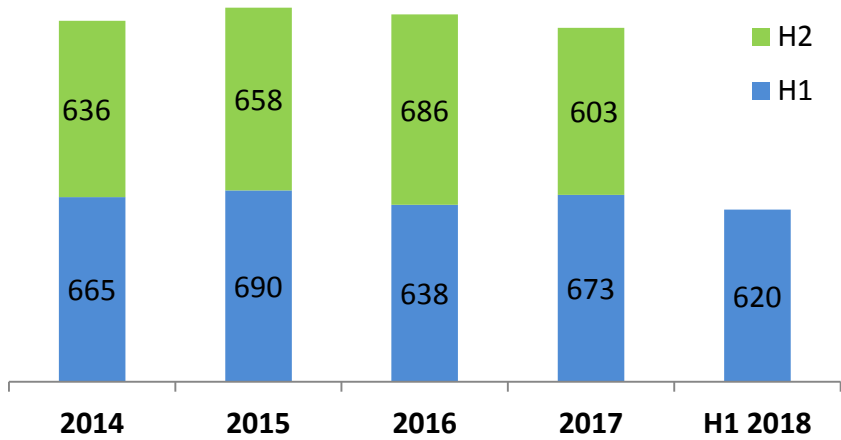
# H1 2018 Financial Highlights



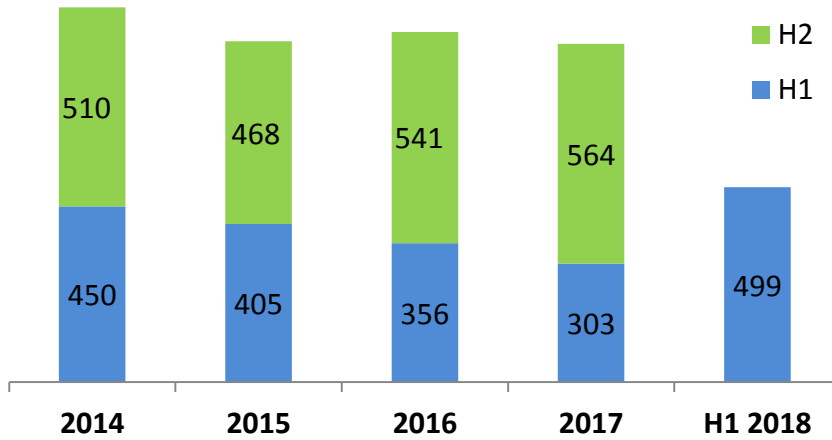


# Consistent Financial Performance

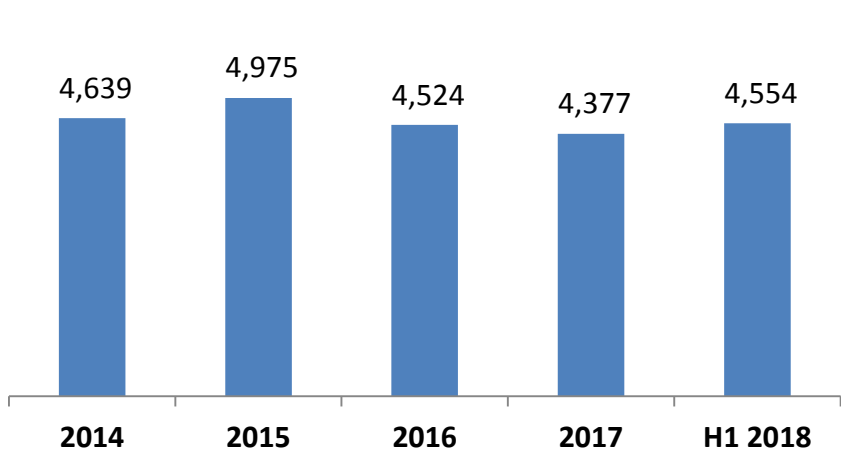
## EBITDA (€m)



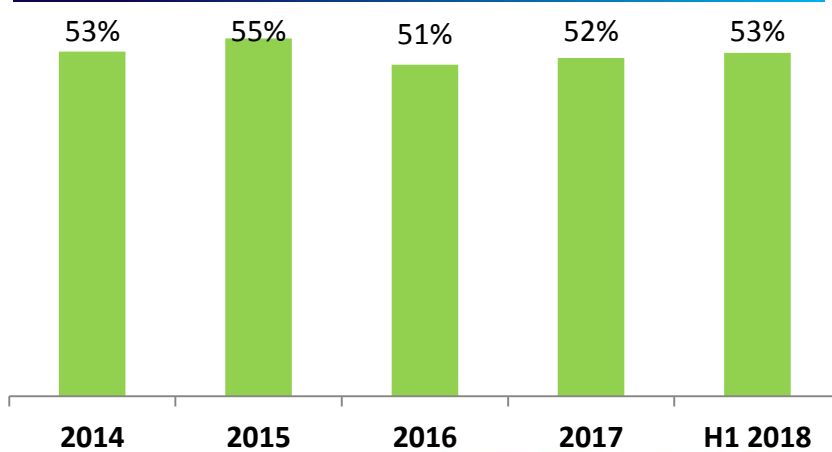
## Capital Expenditure (€m)



## Net Debt (€m)



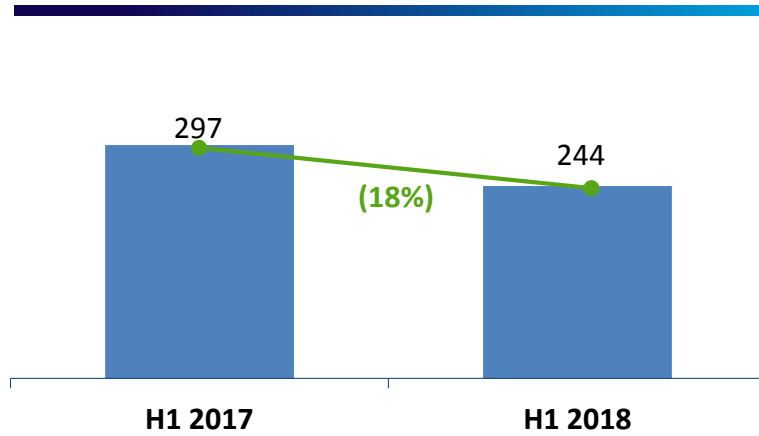
## Gearing (%) <sup>1</sup>



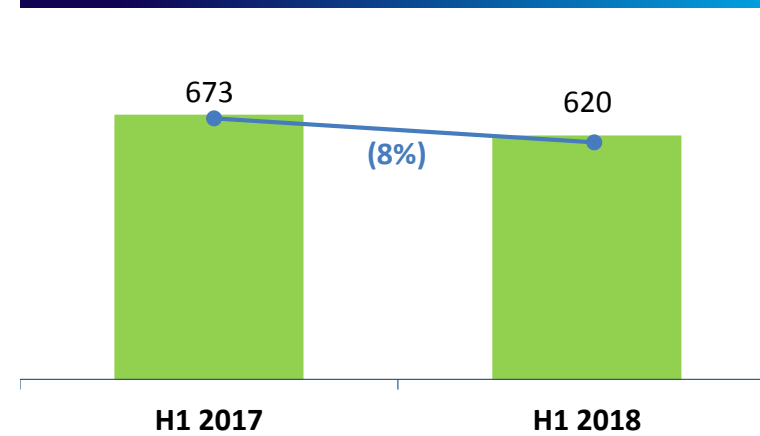
<sup>1</sup> Gearing = Net Debt / (Debt + Equity) on IFRS basis

# H1 2018 – Key Financial Highlights

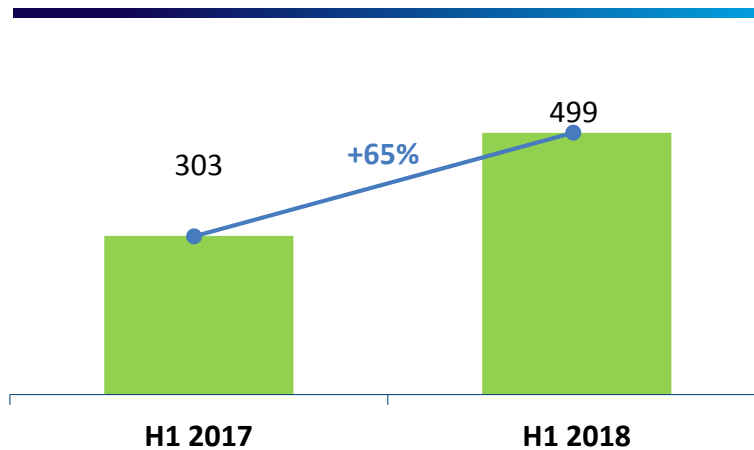
## Operating Profit (€m)



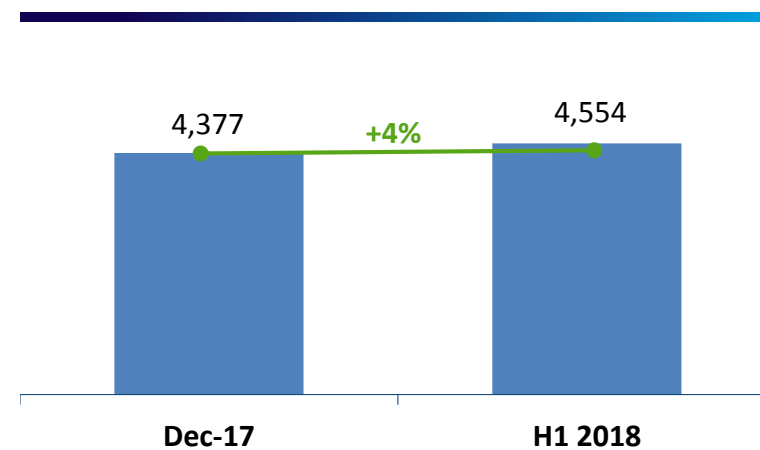
## EBITDA (€m)



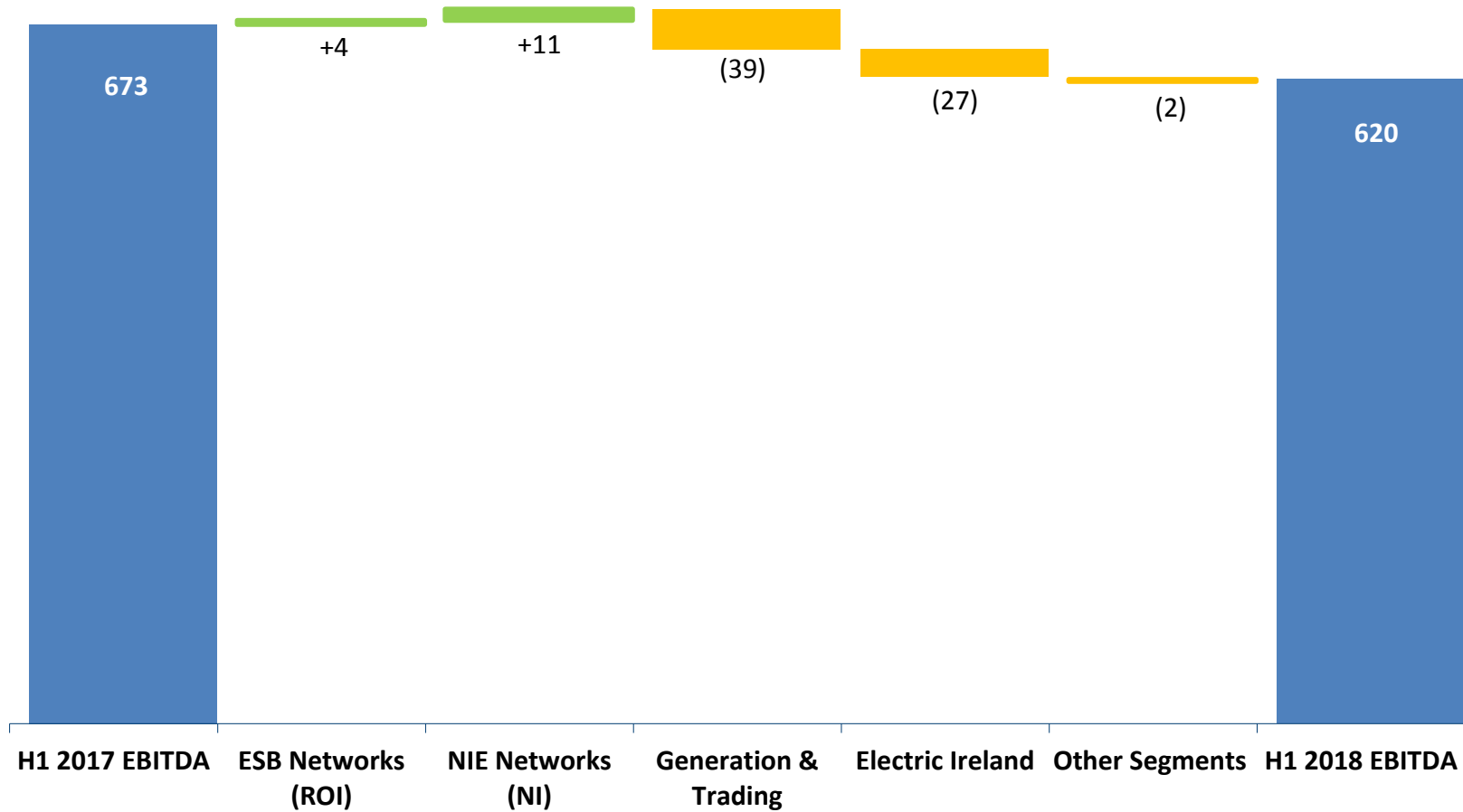
## Capital Expenditure (€m)



## Net Debt (€m)



# EBITDA Movement – H1 2018 vs H1 2017





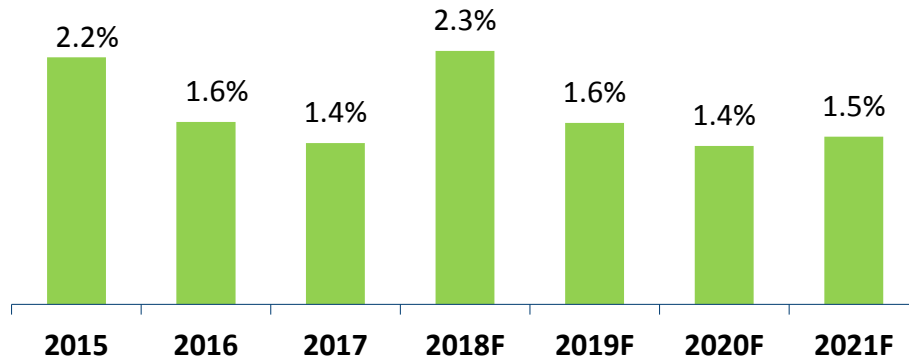
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# Business Review



# Macro Environment

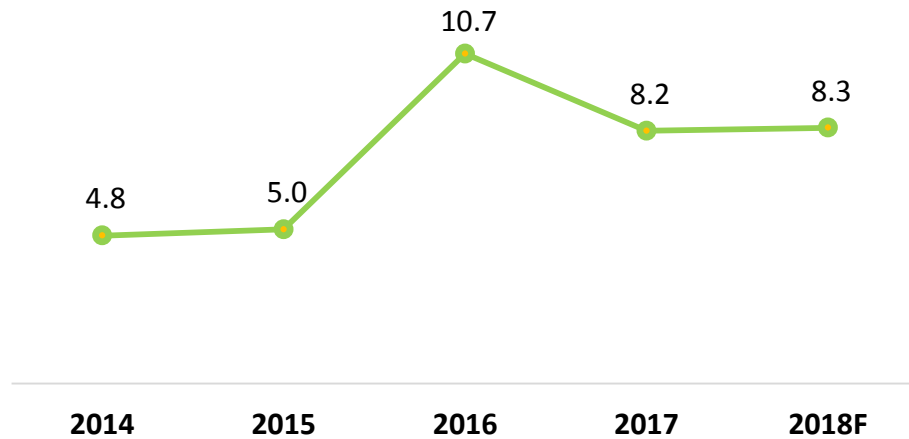
## SEM<sup>1</sup> System Demand Growth (%)



<sup>1</sup> Single Electricity Market = Republic of Ireland and Northern Ireland

Source: Eirgrid

## GB Base Load Clean Spark Spread (£/ MWh)



Source: Epex & Marex Spectron

## Ireland

- Irish economy performing strongly
- GDP 7.2% 2017 4.7% 2018 forecast
- SEM Electricity demand growth
- Irish sovereign rating strengthened
  - A+ Stable (S&P ) and A2 Stable (Moody's)

## UK

- GDP 1.7% 2017 & 1.4% 2018 forecast
- Brexit: Uncertainty persists but prudent financial management protecting ESB's credit metrics. ESB's Networks businesses have no volume risk.
- UK Electricity
  - Tight capacity reserve margins

Forecast Irish GDP Source: Central Bank of Ireland

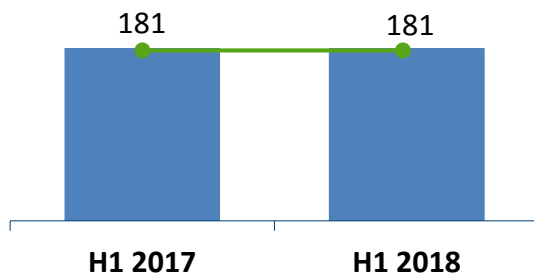
UK GDP Source: Office of Budget Responsibility

## Highlights

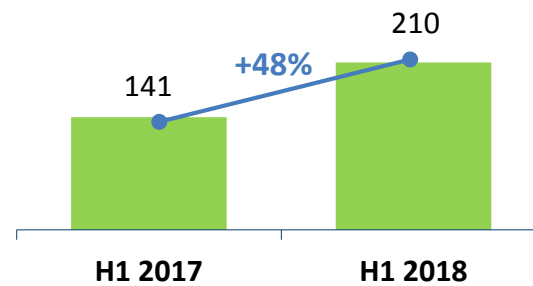
- 74% of group operating profit and 42% of group capex
- Regulated Asset Base (RAB) 2017 €7.7bn
- Strategy: Smart Reliable Networks
- PR4 Revenue Determination (2016-2020)
  - Significant capital investment
  - Higher transmission and distribution capex H1 2018
  - WACC 4.95% pre tax real <sup>1</sup>
- Operating profit in line with H1 2017
- Focus: PR4 delivery



## Operating Profit (€m)



## Capital Expenditure (€m)



<sup>1</sup> WACC pre tax real calculated real pre tax cost of debt and real pre tax cost of equity

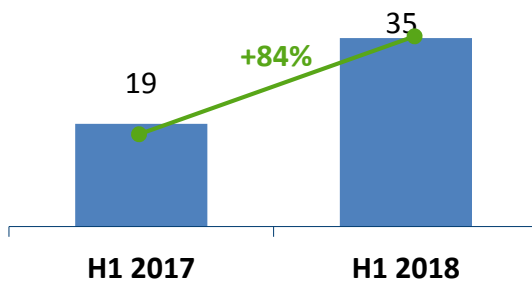
# Northern Ireland Electricity (NIE) Networks

## Highlights

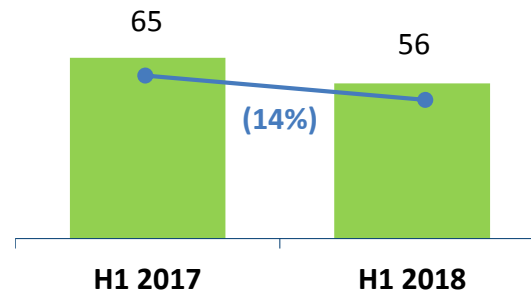
- 15% of group operating profit and 11% group capex
- Regulated Asset Base 2017 €1.7bn / £1.5bn
- Strategy: Smart Reliable Networks
- RP6 (Oct 2017 – Mar 2024)
- RP6 WACC 3.2% vanilla real <sup>1</sup> (3.8% pre tax real), reflecting low interest rate environment. Cost of new debt adjusted to market rate
- Operating profit up due to higher PSO income and use of system revenue offset by voluntary severance scheme costs
- Capex lower due to timing of transmission networks systems
- Focus: RP6 delivery



## Operating Profit (€m)



## Capital Expenditure (€m)



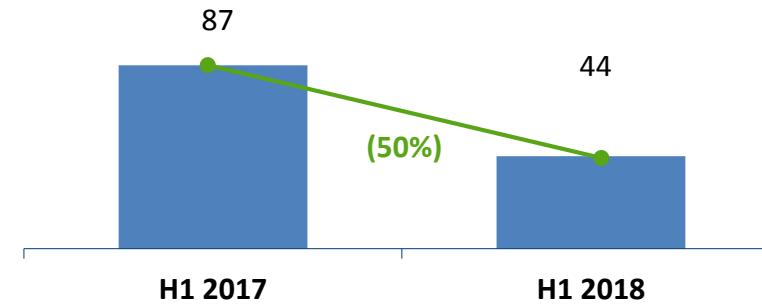
<sup>1</sup> Vanilla WACC calculated real pre tax cost of debt and real post tax cost of equity

# Generation & Wholesale Markets (G&WM)

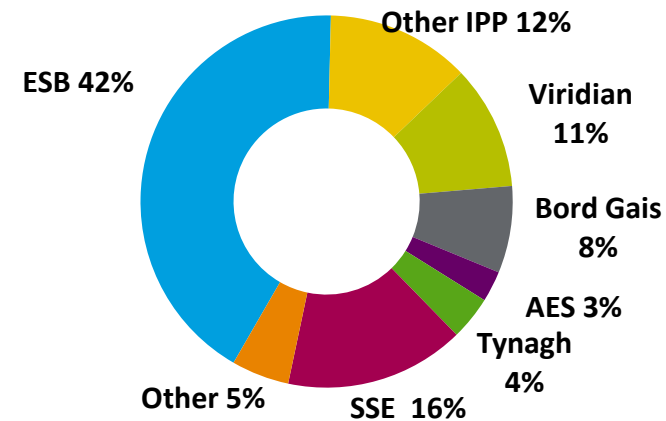
## Highlights

- 18% of group operating profit and 39% group capex
- Strategy: Transition to low carbon energy  
Develop energy services
- Irish market share 42%
- Investment:
  - Low carbon renewables
  - H1 2018 €193m v €49m H1 2017 due to 12.5% investment in 335 MW Galloper UK off-shore wind farm
- Operating profit reflects lower GB energy margin and higher plant maintenance costs
- I-SEM : Go live 1<sup>st</sup> October 2018
- Focus: Integrated Single Electricity Market (I-SEM)  
Renewable Investment

## Operating Profit <sup>1</sup> (€m)



## SEM Generation Market Share (MWh)





# Integrated Single Electricity Market Transition

- EU Internal Energy Market compliance to align energy trading more closely with EU
- “Go live” 1<sup>st</sup> Oct 2018
- Capacity payments remain, but lower Capacity auction for 1<sup>st</sup> Oct 2018 to 30 Sept 2019.  
91% of G&WM plant 3,295 MW secured contracts.  
Market average price €42.80/kW/pa.  
Next T-1 auction Dec 2018.
- Ancillary services market revenue cap increasing from €75m in 2016 to cap €235m by 2020.
- Significant energy margin expected to continue from capacity payments and quasi-regulated regulatory supports
- More challenging but ESB portfolio mix advantageous and well positioned with focus on
  - Availing of additional revenue opportunities
  - Cost efficiency
  - Investing in balanced low carbon portfolio of low thermal & renewable generation

## Broad Indicative Changes

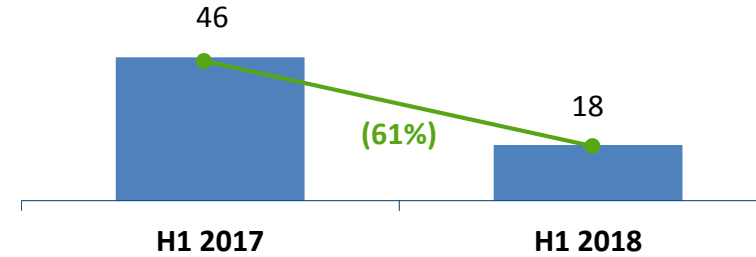


# Supply: Electric Ireland

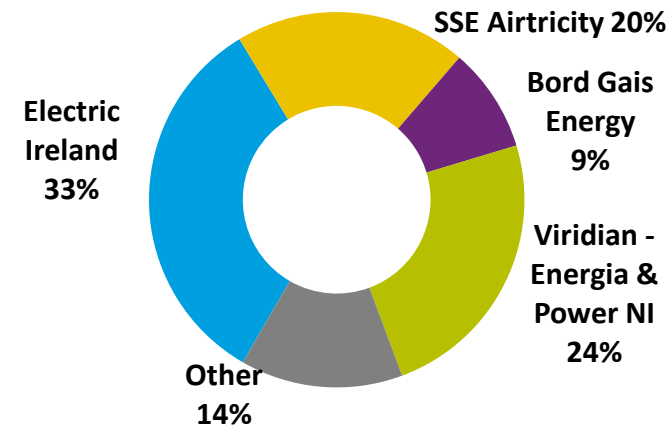
## Highlights

- 7% of group operating profit
- Strategy: Meet customer energy needs
  - Competitive Offerings
  - Excellent Customer Service
  - Innovative and value driven solutions
- Operating profit €18m lower due to higher energy costs  
Margin H1 2018 1.9%  
Residential price increase August 2018
- Competing effectively
- Irish Market share 33% with 1.4m customer accounts
- GB Supply residential market entry under brand “ESB Energy” as long term growth opportunity
- Focus: Meet customer energy needs through value driven solutions at appropriate margins

## Operating Profit (€m)



## SEM Retail Market Share (MWh)



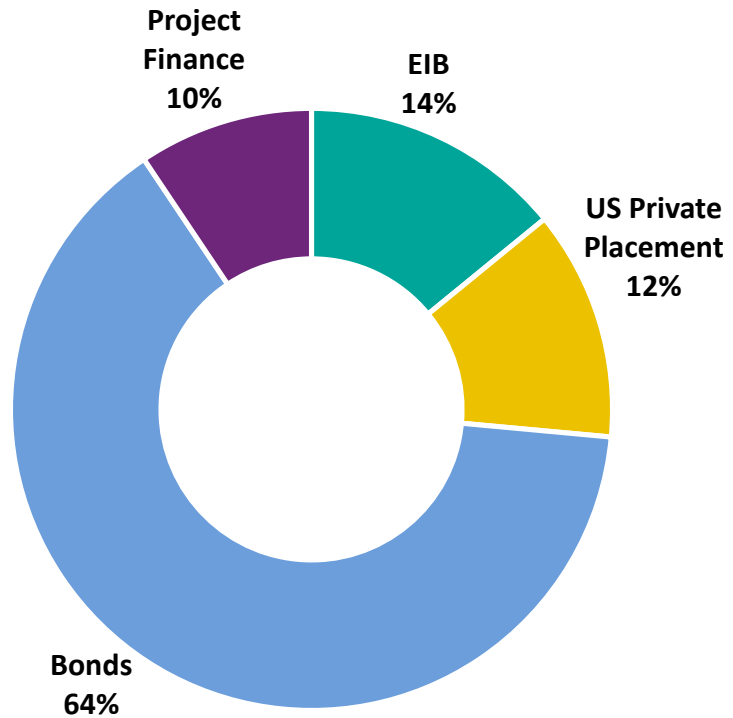
# Funding & Liquidity



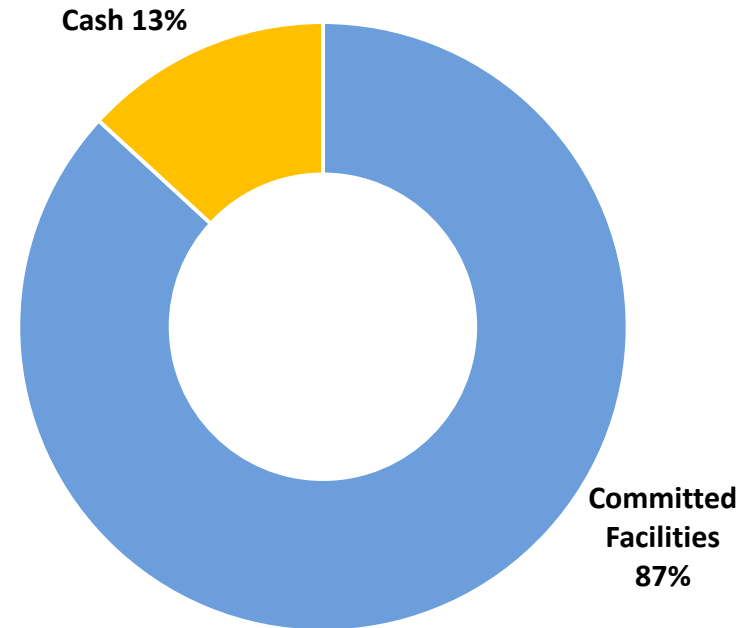
# ESB Group Debt – Diversified Funding and Strong Liquidity



Group Debt 30 June 2018 - €4.8bn

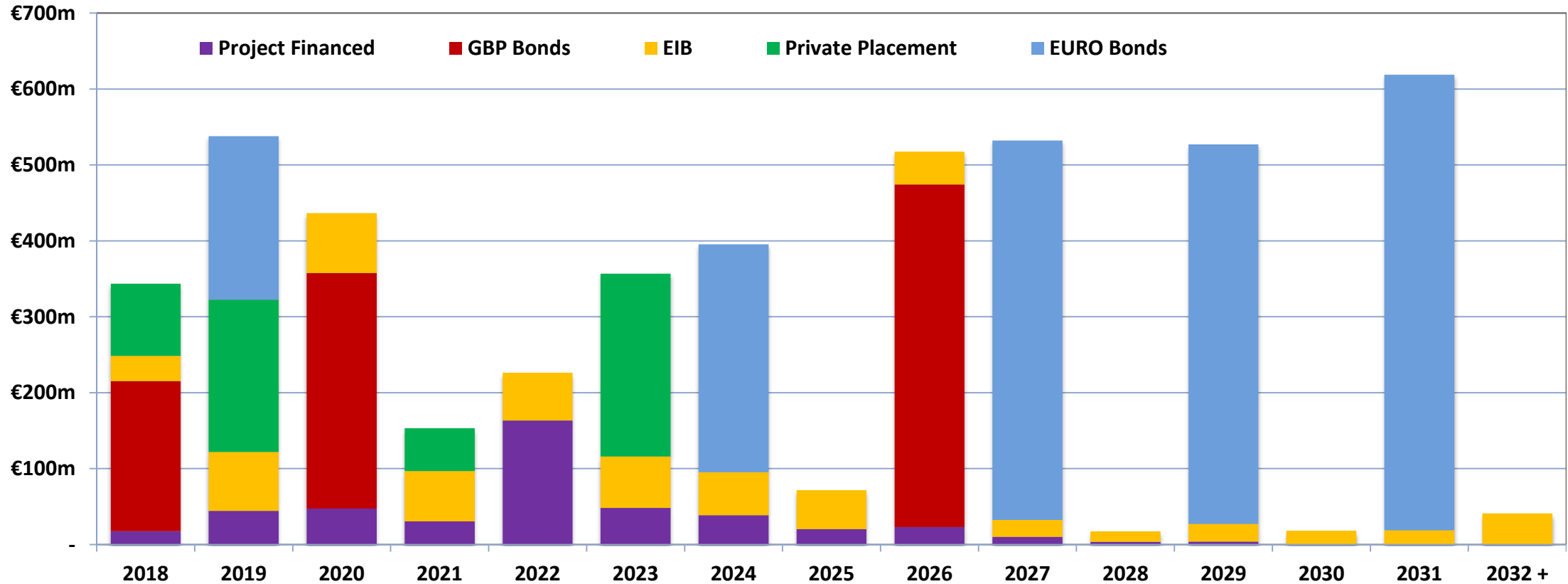


Available Liquidity - €1.8bn



NIE Networks £350m bond issued September 2018. Maturity October 2025 with 2.5% coupon

# Debt Repayment Profile – 30th June 2018



Manageable profile. €1.8 bn liquidity and EBITDA ~ €1.3bn pa.

Note: Excludes Joint Venture Debt

**S&P Global**  
Ratings

**A-**

(Stable Outlook)  
Long Term Rating

**MOODY'S**  
INVESTORS SERVICE

**A3**

(Stable Outlook)  
Long Term Rating

Credit ratings with both rating agencies reaffirmed with stable outlooks in May 2018



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# Outlook & Summary



- **Continued growth in Irish economy and SEM electricity demand expected**
- **Networks**
  - ESB Networks (ROI) PR4 2016-20 delivery
  - NIE Networks (NI) RP6 Oct 2017-March 2024 delivery
- **Generation (G&WM)**
  - Integrated Single Electricity Market (I-SEM)
  - Low carbon and renewable investment
- **Supply (Electric Ireland)**
  - Meet customer energy needs through value driven solutions at appropriate margins
- **Ongoing focus on strategy delivery while maintaining financial strength**

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# Contacts



**ESB**  
Two Gateway  
East Wall Road  
Dublin D03 A995  
Ireland

**Ted Browne**  
Manager, Investor Relations & Credit Rating  
+353 1 702 7432  
[ted.browne@esb.ie](mailto:ted.browne@esb.ie)  
[www.esb.ie/ir](http://www.esb.ie/ir)