



Energy for
generations

Debt Investor Presentation Business Update

October 2018

esb.ie/ir



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Agenda



Energy for
generations

ESB Background and Strategy

Financial Overview

Business Profile

Funding and Liquidity

Outlook & Summary



Energy for generations

ESB Background and Strategy



ESB Key Credit Strengths

Leading Irish Energy Utility



- 95% Irish Government owned
- Markets - Ireland and Great Britain
- Owns all networks in ROI and NI ¹
- Irish electricity market: 42% share of generation and 34% share of supply in 2017

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 ²

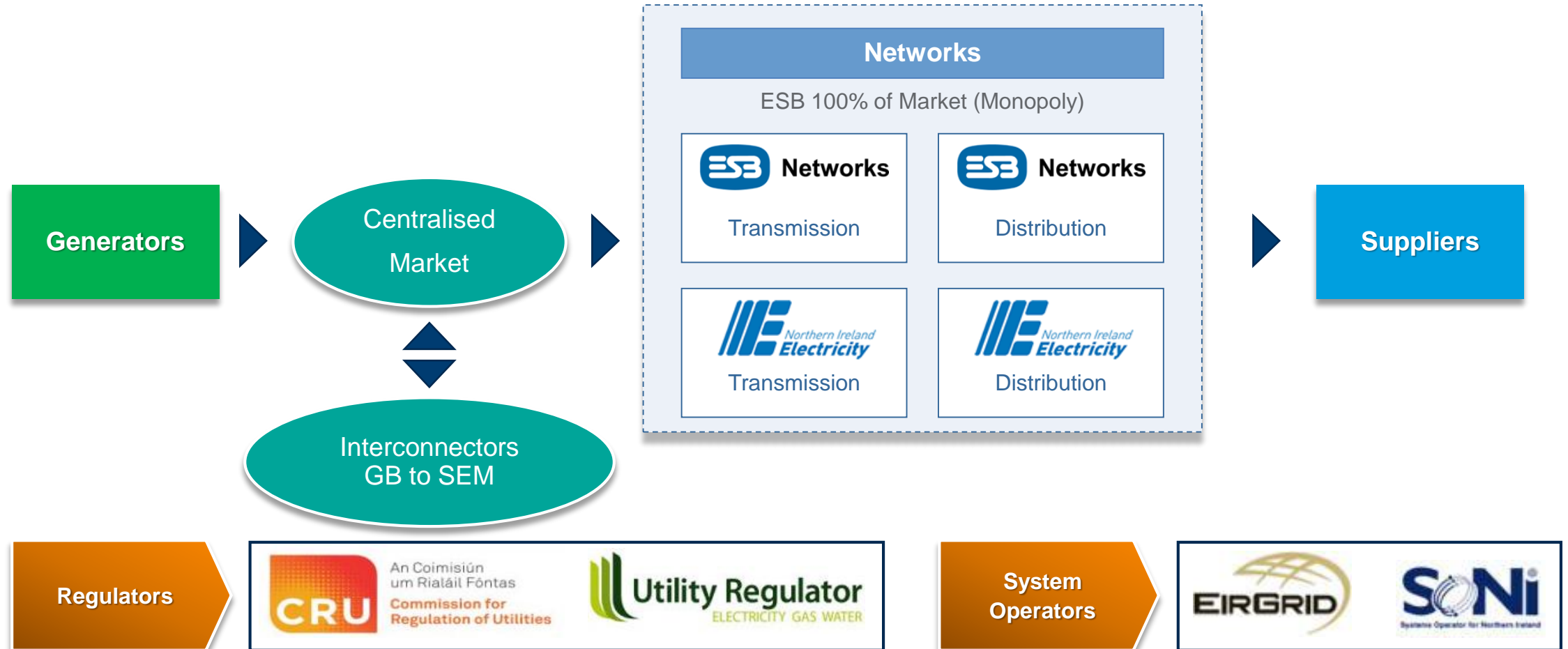
Consistent Financial Performance



- 2017 EBITDA €1.28bn & Gearing 52%
- Diversified funding and strong liquidity position
- Credit ratings of A- and A3

Electricity Industry Structure: Ireland

One Single Electricity Market (SEM) - All-Island





ESB	<ul style="list-style-type: none"> Established 1927, Leading Irish Utility, 95% Government-owned. Markets Ireland & UK
Networks	<ul style="list-style-type: none"> Owner of the Regulated Republic of Ireland transmission & distribution networks (2017 RAB €7.7bn) Owner of the Regulated Northern Ireland transmission & distribution networks (2017 RAB €1.7bn)
Generation	<ul style="list-style-type: none"> Portfolio 5.8 GW. Irish¹ capacity 4.4 GW and 42% market share in 2017. GB capacity 1.4 GW Diversified fuel mix. Benefits from capacity and regulatory supports
Customer Solutions	<ul style="list-style-type: none"> Customer facing businesses including supply of electricity, gas and smart energy services in Ireland and UK 34% Irish¹ electricity supply market share in 2017 and 1.4 million customers accounts
Financial	<ul style="list-style-type: none"> Regulated Networks Businesses account for ~ 66% of EBITDA, capex and assets Solid EBITDA 2017 €1.28bn, Assets €12.3bn, Gearing 52% Strong liquidity position and credit ratings A- and A3

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





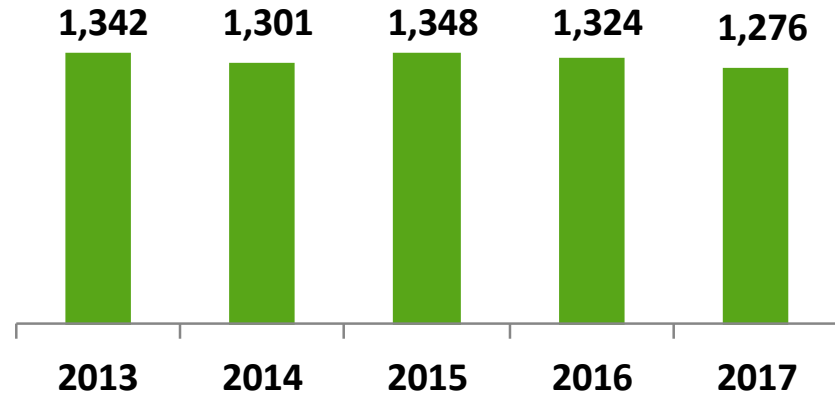
Energy for generations

Financial Overview

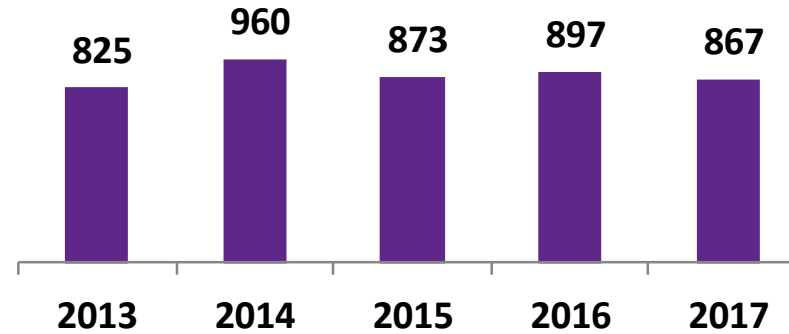


Consistent Financial Performance

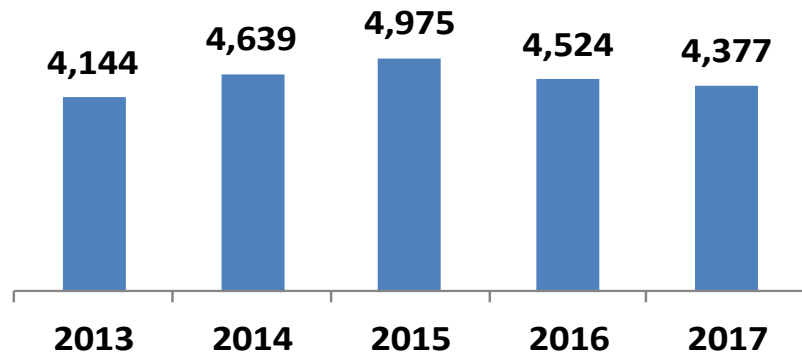
EBITDA (€m)



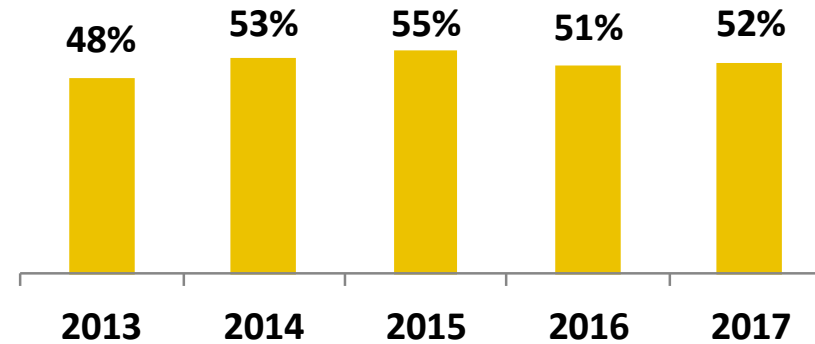
Capital Expenditure (€m)



Net Debt (€m)



Gearing (%) ¹



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

Satisfactory performance in challenging generation and supply market conditions

- Operating Profit €244m; Capex €499m; Gearing 53%
- Regulated Networks Businesses in Ireland¹ : 88% operating profit 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&T)

- 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; Operating profit €18m is €28m lower than H1 2017 mainly due to higher energy costs and timing of price increases

Strong liquidity position

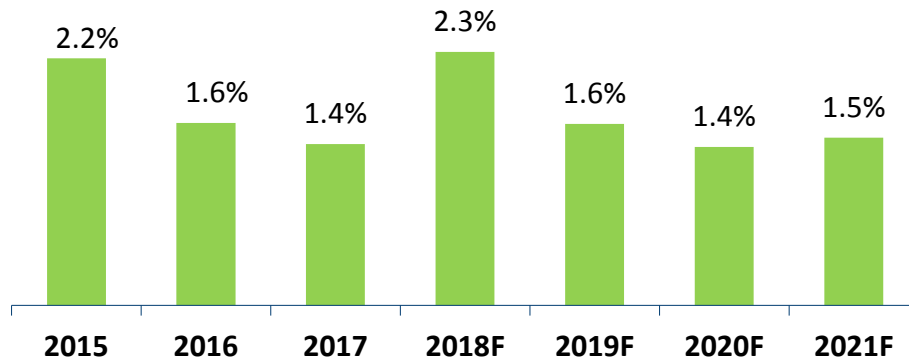
Moody's credit rating A3 and S&P credit rating A- affirmed in May 2018, both with stable outlook

Business Profile



Macro Environment

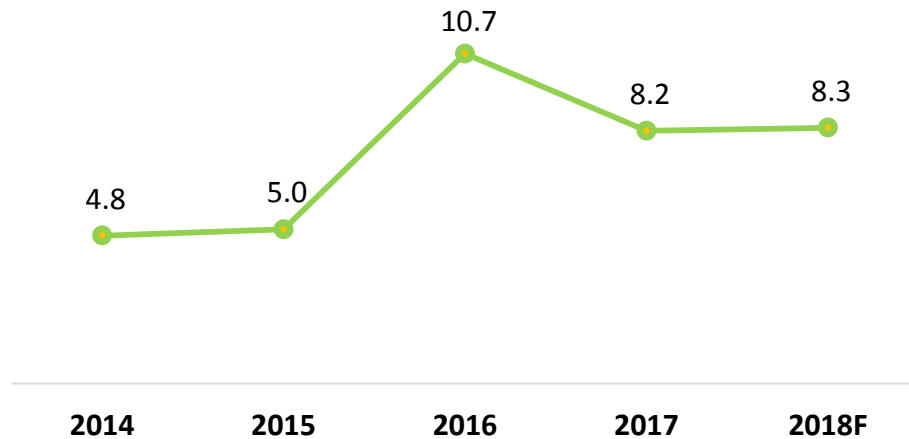
SEM¹ System Demand Growth (%)



¹Single 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

Network Regulation Overview in Ireland

- Revenue determined by ROI and NI Independent Regulators
 - CRU (Republic of Ireland) for ESB Networks
 - Utility Regulator (Northern Ireland) for NIE Networks
- Regulatory framework similar to Ofgem in Great Britain
- Regulatory objectives: Protect customers' interests, while ensuring safe, secure, sustainable Networks at reasonable cost, that earn a fair return
- Multi-year Price / Revenue Control Cycles
 - Allowance for Opex and Capex
 - Allowed real return on Regulated Asset Base (RAB)
 - No volume risk. Inflation adjustment to opex, capex and RAB.
 - Incentives for strategic innovation, customer service and network performance
- Model well established and considered robust by investors and rating agencies



Business Description

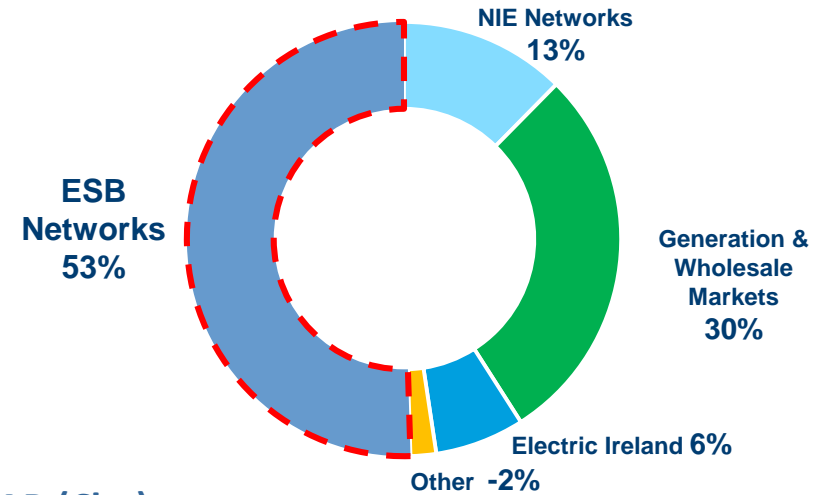
- ~53% of Group EBITDA and 56% Group Assets
- Sole owner and operator of distribution network and sole owner of transmission network in Republic of Ireland
- Regulated Asset Base (RAB) 2017 €7.7bn
- **Strategy:** Smart Reliable Networks
- PR4 Revenue Determination (2016-2020)

Significant Capital Investment

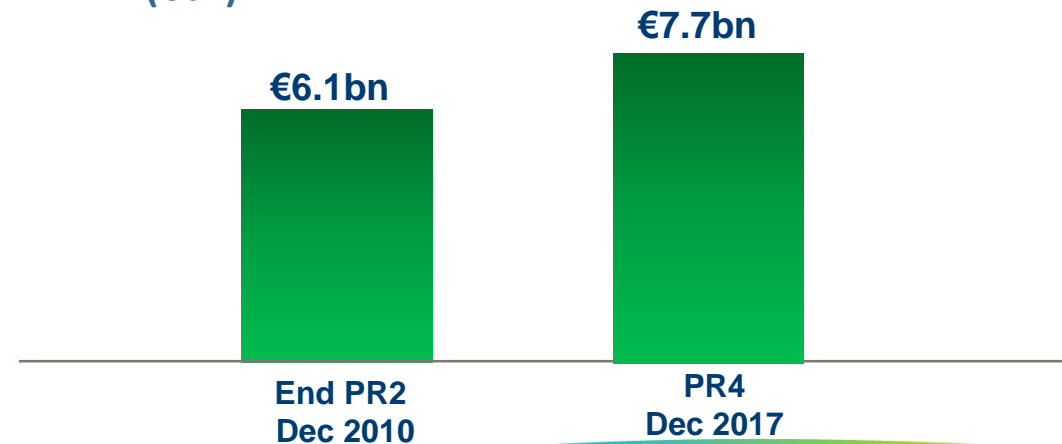
WACC 4.95% pre tax real ¹

- **Focus**
PR4 delivery

2017 EBITDA - €1.28 bn



RAB (€bn)



¹ WACC pre tax real calculated real pre tax cost of debt and real pre tax cost of equity

² Estimated RAB value end 2017 per CRU published PR4 revenue determination methodology

Northern Ireland Electricity (NIE) Networks

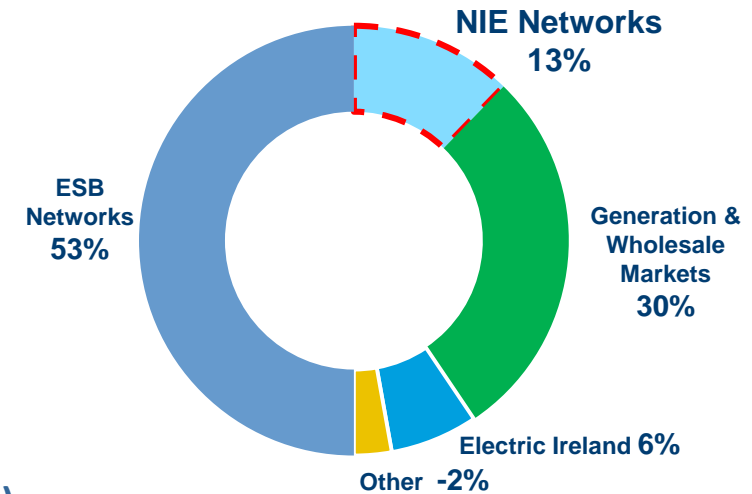


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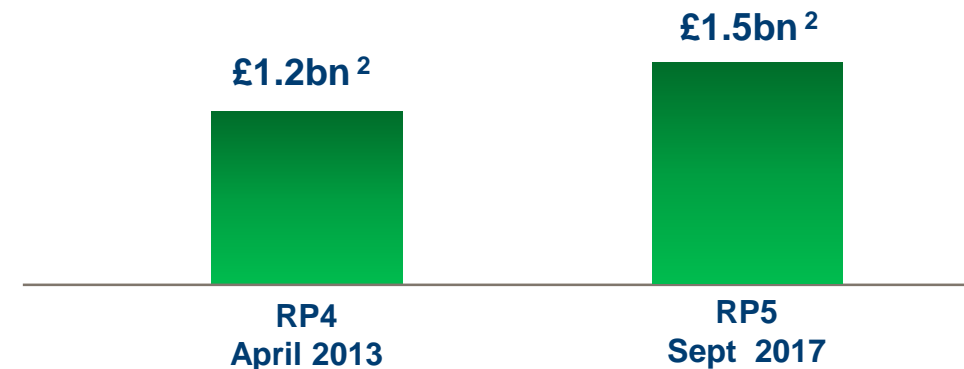
Business Description

- ~13% of Group EBITDA and 16% Group Assets
- Sole owner and operator of distribution network and sole owner of transmission network in Northern Ireland
- Regulated Asset Base 2017 €1.7bn / £1.5bn nominal
- **Strategy:** Smart Reliable Networks
- RP6 revenue determination (Oct 2017 – Mar 2024)
Revenue visibility to March 2024
- RP6 WACC 3.2% vanilla real¹ (3.8% pre tax real), reflecting low interest rate environment¹
- **Focus**
RP6 Implementation

2017 EBITDA - €1.28 bn



RAB (€bn)



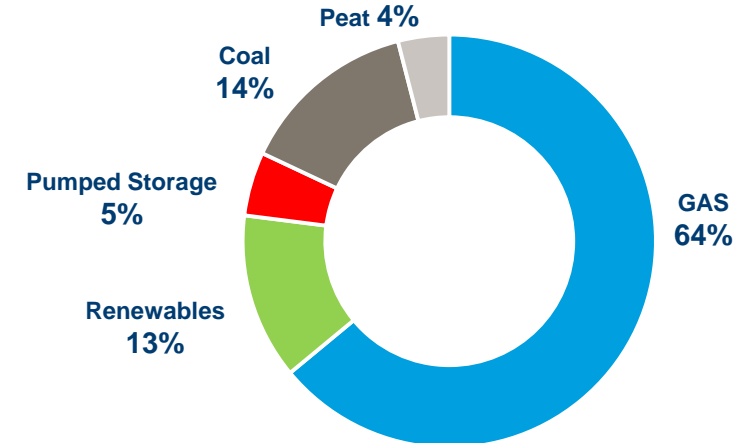
¹ Vanilla WACC ACC calculated real pre tax cost of debt and real post tax cost of equity
² RAB values are per the UR at the start of RP5 (1st April 2013) and end of RP5 (30 Sept 2017)

Generation & Trading (G&T)

Business Description

- ~30% of Group EBITDA and 20% Group Assets
- **Strategy**
Transition to low carbon energy
Develop energy services
- 5.8 GW: 4.4 GW All-Island and 1.4 GW in GB
- All-Island SEM¹ market share 42% by volume
- Diversified fuel mix: gas, renewables, coal and peat
- SEM¹ portfolio benefits from capacity & quasi regulatory supports
- Investment
Low carbon and renewables
- **Focus**
Integrated Single Electricity Market
Renewable Investment

2017 Installed Capacity by Fuel Type



SEM Generation Market Share (MWh) 2017



¹ SEM = Republic of Ireland and Northern Ireland

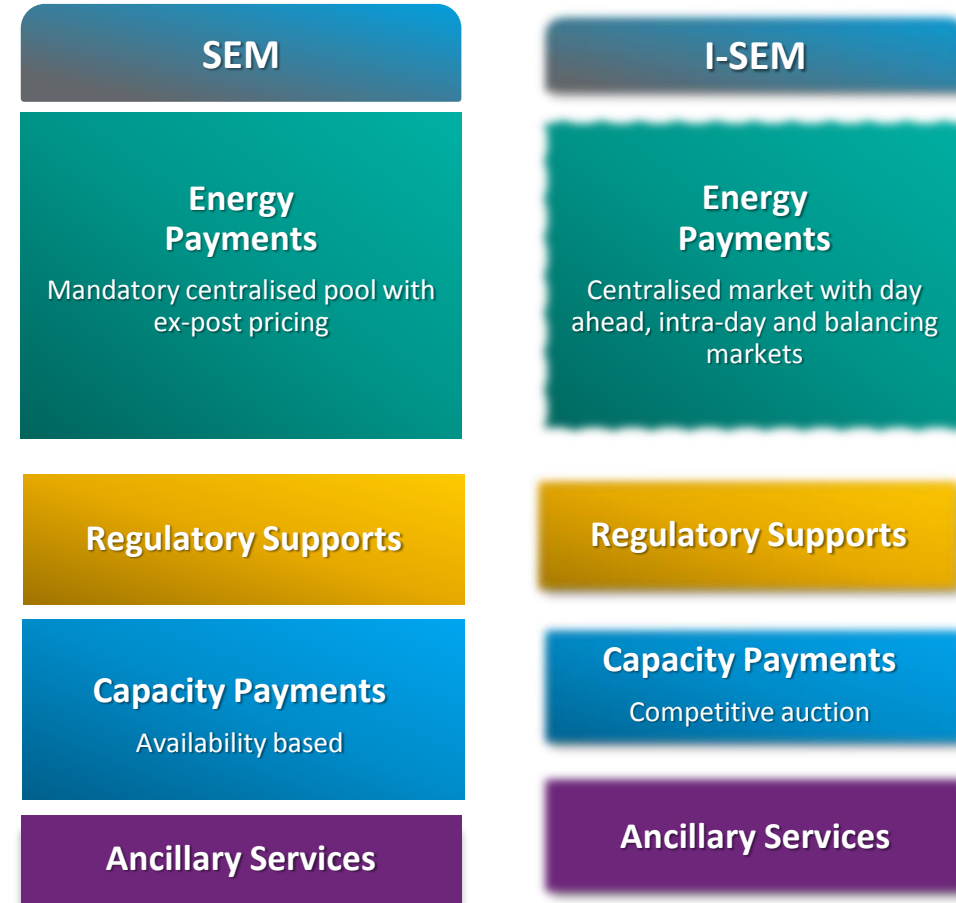
Integrated Single Electricity Market



Energy for generations

- EU Internal Energy Market compliance to align energy trading more closely with EU
- “Go live” 1st Oct 2018
- Capacity payments remain, but lower Capacity auction for 1st Oct 2018 to 30 Sept 2019
 - 91% of G&T 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

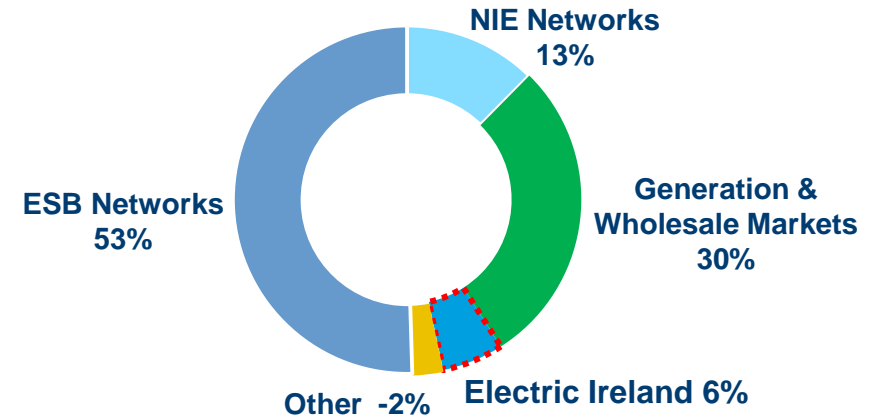


Customer Solutions

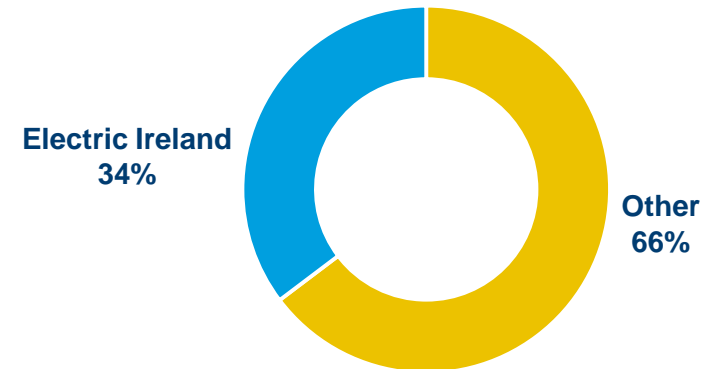
Business Description

- ~6% of Group EBITDA
- Customer-facing businesses including supply of electricity, gas, energy services, e-transport and wholesale telecoms
- **Strategy:**
Meet customer energy needs -
 - Competitive Offerings
 - Excellent Customer Service
 - Innovative and value driven solutions
- Competing effectively
- Irish market share¹ 34% 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

2017 EBITDA - €1.28 bn



SEM Retail Market Share (MWh) 2017



¹ Irish= Republic of Ireland and Northern Ireland



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Funding & Liquidity

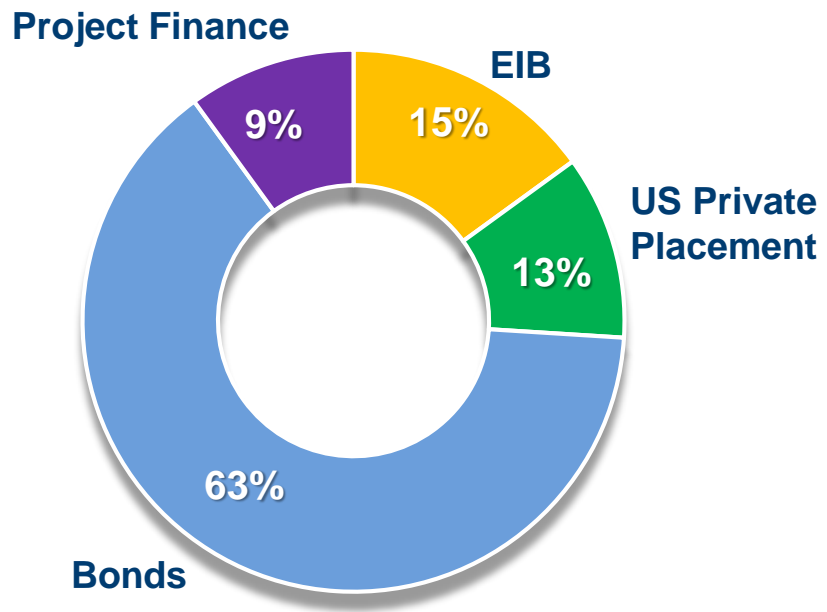


ESB Group Debt – Diversified Funding and Strong Liquidity

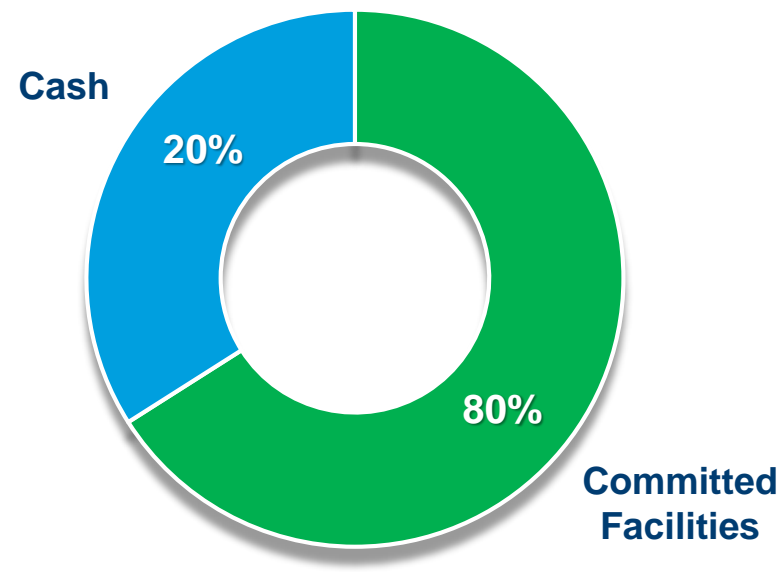


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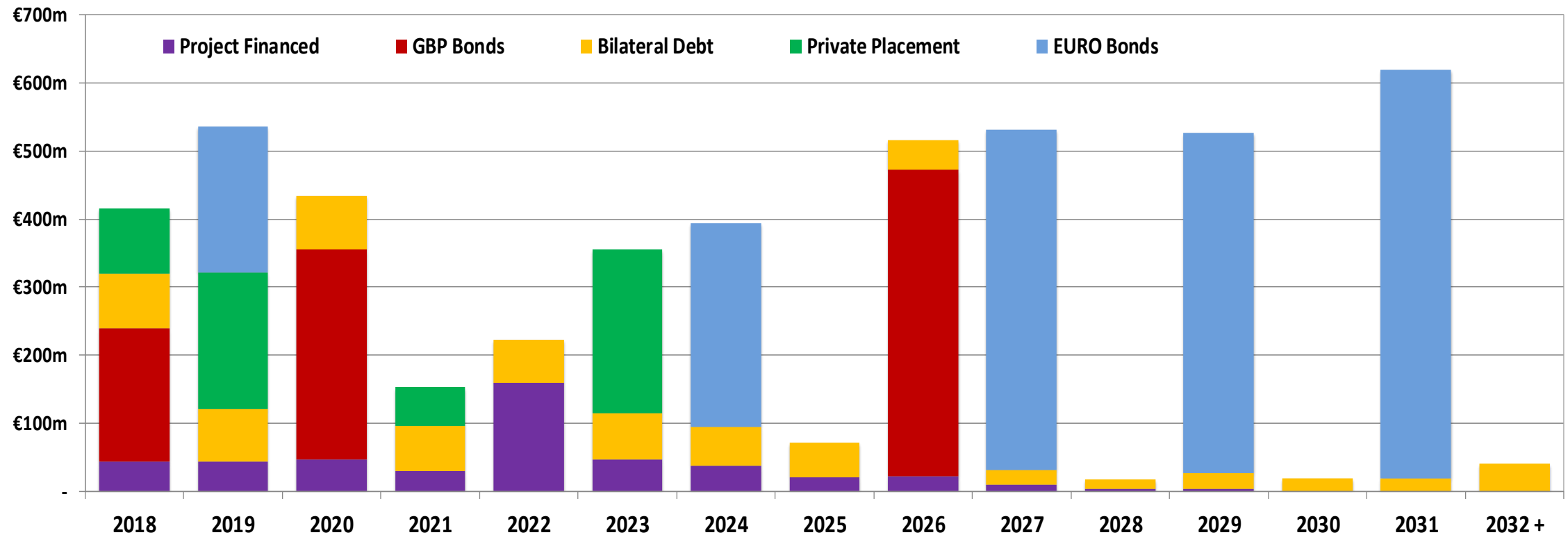
Group Debt 31 December 2017 - €4.8bn



Available Liquidity - €1.9bn



Repayment Profile – 31st December 2017



- €1.9bn liquidity December 2017 and EBITDA ~ €1.3bn pa
- NIE Networks £350m bond issued September 2018. Maturity October 2025 with 2.5% coupon

Dividend Policy	<ul style="list-style-type: none">● Dividend Policy agreed in 2013 with Irish Government (95% Shareholder)● Target dividend pay-out ratio of 40% of normalised profits after tax● Irish Government agreed that sustaining a minimum BBB+ Credit Rating is key ESB policy objective
Pensions	<ul style="list-style-type: none">● ESB DB Pension Scheme does not have a deficit on an ongoing actuarial basis at end 2017● NIE Networks DB Pension scheme. Deficit at the end of 2017 and funding plan has been agreed. Any deficit related to pre March 2012 substantially funded by customers through regulatory model

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



Energy for
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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&T)**
 - Integrated Single Electricity Market (I-SEM)
 - Low carbon and renewable investment
- **Customer Solution (Electric Ireland and ESB Energy)**
 - Meet customer energy needs through value driven solutions at appropriate margins
- **Ongoing focus on strategy delivery while maintaining financial strength**

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

Leading Irish Energy Utility



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