



Energy for  
generations

# Investor Presentation Business Update

January 2019  
[esb.ie/ir](http://esb.ie/ir)



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# Agenda



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**ESB Background and Strategy**

**Financial Overview**

**Business Profile**

**Funding and Liquidity**

**Outlook & Summary**



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# ESB Background and Strategy



## 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 34% share of supply in 2017

## Stable Business Profile



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

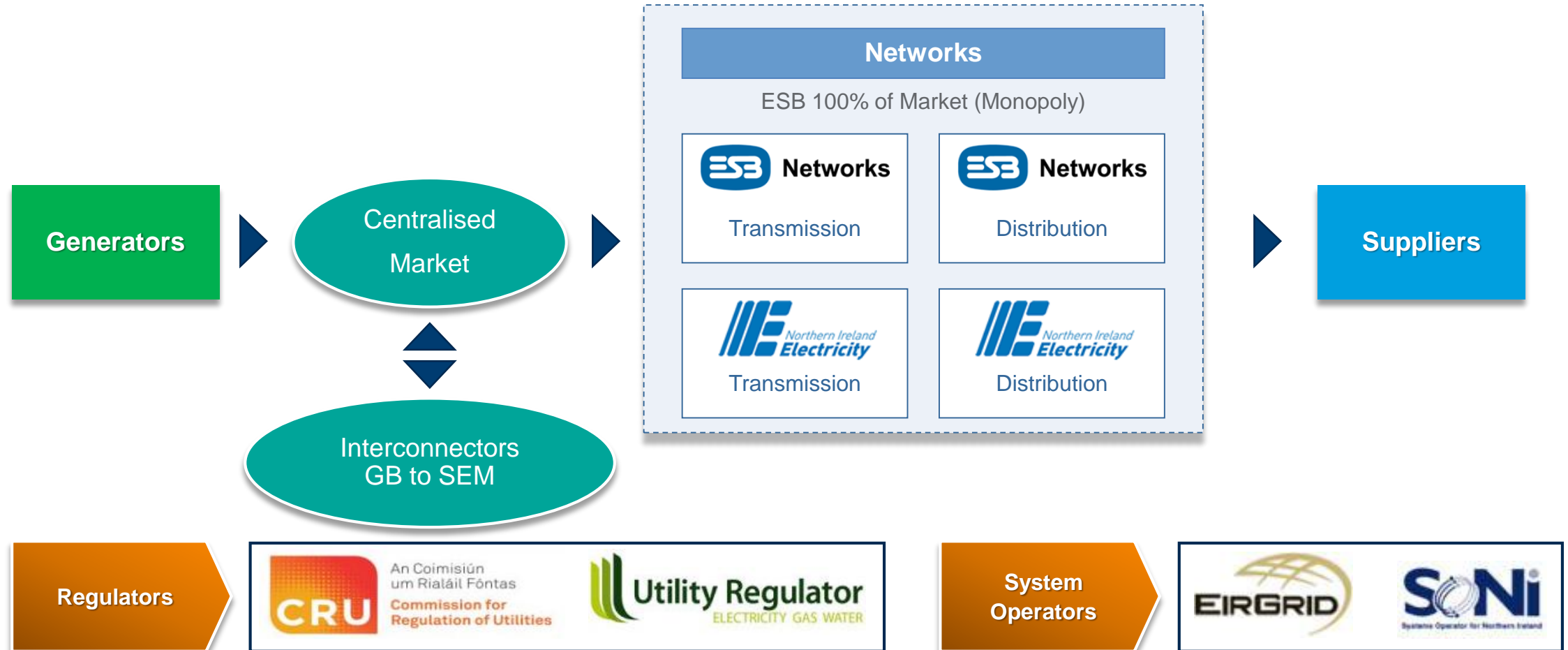
## Consistent Financial Performance

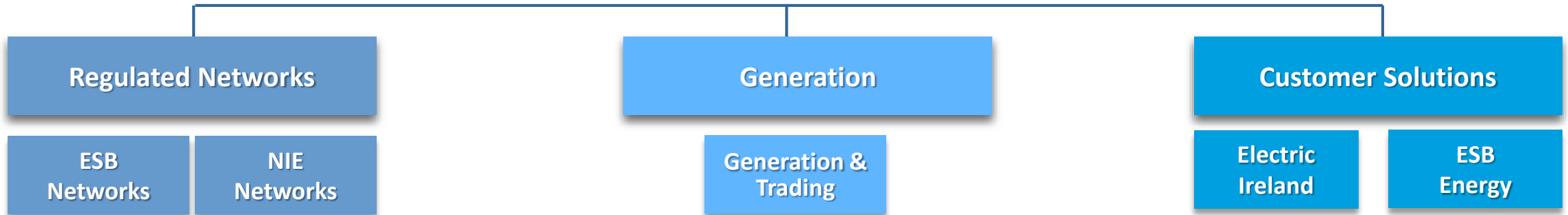


- H1 2018 €620m & Gearing 53% (2017 EBITDA €1.28bn & Gearing 52%)
- Diversified funding and strong liquidity position
- Credit ratings of A- and A3

# Electricity Industry Structure: Ireland

One Single Electricity Market (SEM) - All-Island





<b>ESB</b>	<ul style="list-style-type: none"> <li>Established 1927, Leading Irish Utility, 95% Government-owned. Markets Ireland &amp; UK</li> </ul>
<b>Networks</b>	<ul style="list-style-type: none"> <li>Owner of the Regulated Republic of Ireland transmission &amp; distribution networks (2017 RAB €7.7bn)</li> <li>Owner of the Regulated Northern Ireland transmission &amp; distribution networks (2017 RAB €1.7bn)</li> </ul>
<b>Generation</b>	<ul style="list-style-type: none"> <li>Portfolio 5.8 GW. Irish<sup>1</sup> capacity 4.4 GW and 42% market share in H1 2018. GB capacity 1.4 GW</li> <li>Diversified fuel mix. Benefits from capacity and regulatory supports</li> </ul>
<b>Customer Solutions</b>	<ul style="list-style-type: none"> <li>Customer facing businesses including supply of electricity, gas and smart energy services in Ireland and UK</li> <li>33% Irish<sup>1</sup> electricity supply market share in 2017 and 1.4 million customers accounts</li> </ul>
<b>Financial</b>	<ul style="list-style-type: none"> <li>Regulated Networks Businesses account for over two thirds of EBITDA, capex and assets</li> <li>Solid EBITDA €620m for H1 2018 (2017 €1.28bn), Assets €12.2bn, Gearing 53%</li> <li>Strong liquidity position and credit ratings A- and A3</li> </ul>



# 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





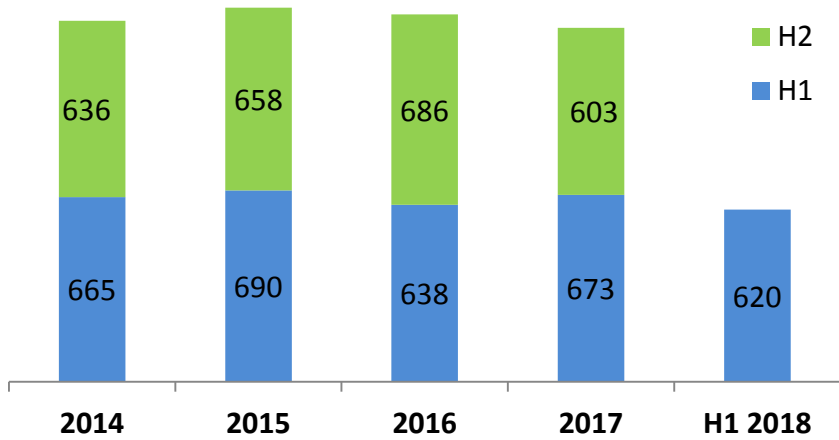
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# Financial Overview

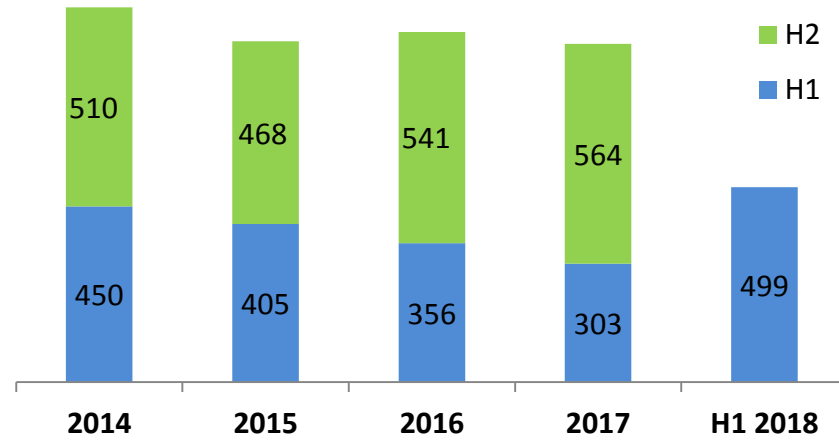


# Consistent Financial Performance

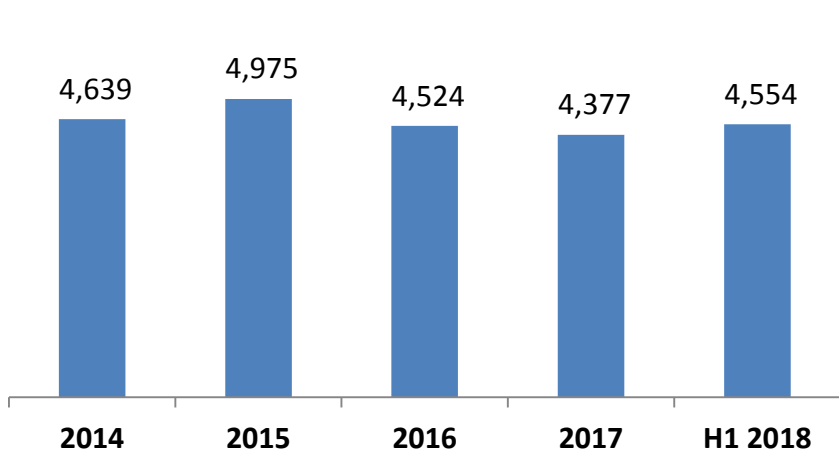
## EBITDA (€m)



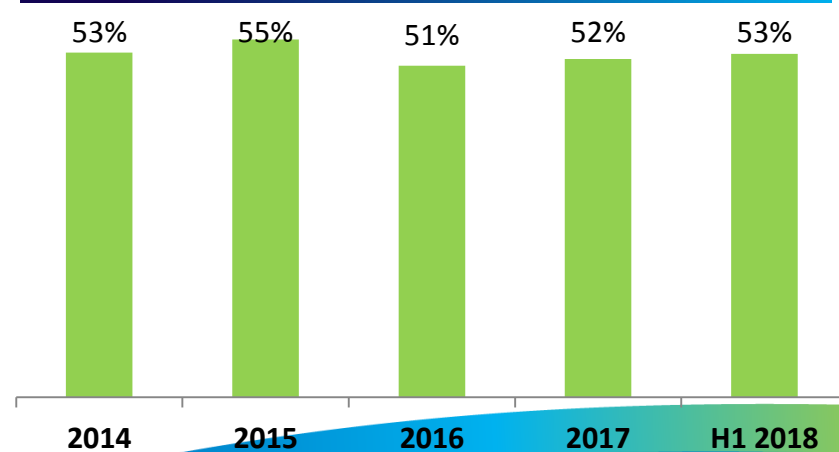
## Capital Expenditure (€m)



## Net Debt (€m)



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



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

# H1 2018 Highlights

- Operating Profit €244m; 88% from Regulated Networks Businesses in Ireland;
- Capex €499m: €266m in Regulated Networks, €193m in Generation;
- Regulated Networks Businesses in Ireland: supported by established and transparent regulatory frameworks;
- Generation & Trading : lower GB energy margins partially offset by higher wind margins;
- Electric Ireland : competing effectively despite higher energy costs

# Business Profile



# Macro Environment



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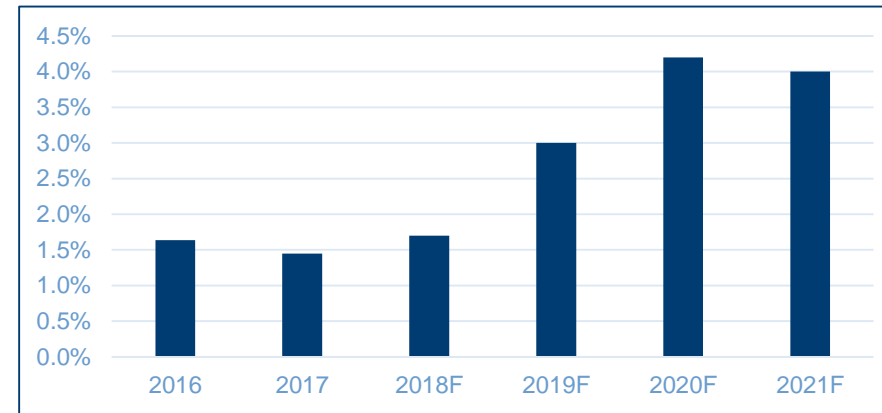
## Ireland

- Irish economy performing strongly
- GDP +7.2% 2017 +6.7% 2018 forecast
- SEM Electricity demand growth
- Irish sovereign rating strengthened
  - A+ Stable (S&P ) and A2 Stable (Moody's)

## GB

- UK GDP +1.7% 2017 & +1.3% 2018 forecast
- Brexit
  - Uncertainty persists but prudent financial management protecting ESB's credit metrics;
  - Sterling assets matched with sterling funding;
  - SEM underpinned by pre-existing legislation in NI and ROI;
  - ESB's Networks businesses have no volume risk with NIE having revenue visibility out to Q1 2024
- UK Capacity Market
  - Under review following suspension but minimal financial impact for 2018/2019

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



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

Source: Eirgrid

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



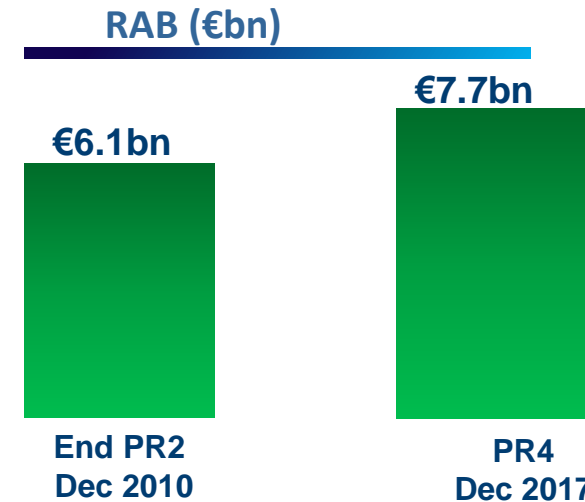
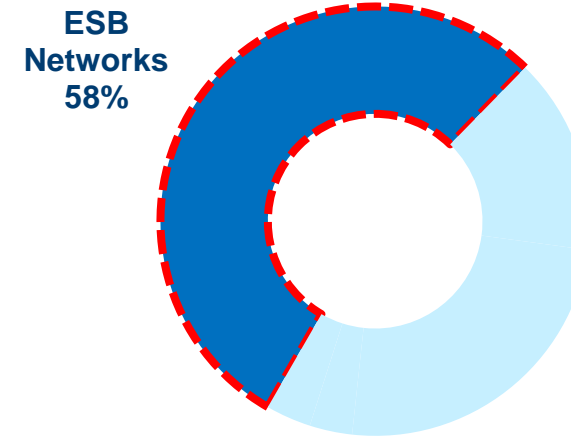
## Business Description

- ~58% 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<sup>1</sup>

- **Focus:** PR4 delivery



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

<sup>2</sup> Estimated RAB value end 2017 per CRU published PR4 revenue determination methodology



# Northern Ireland Electricity (NIE) Networks

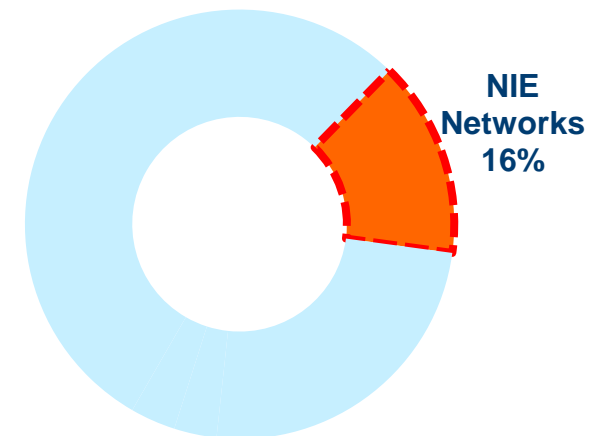
H1 2018 EBITDA - €620m



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## Business Description

- ~16% of Group EBITDA and 17% 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)  
RP6 WACC 3.2% vanilla real<sup>1</sup> (3.8% pre tax real), reflecting low interest rate environment<sup>1</sup>
- **Focus:** RP6 Implementation



## RAB (€bn)

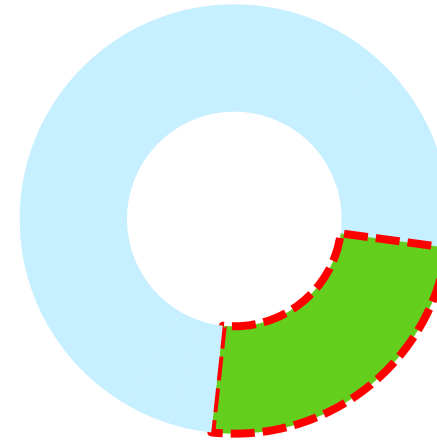


1 Vanilla WACC ACC calculated real pre tax cost of debt and real post tax cost of equity  
2 RAB values are per the UR at the start of RP5 (1<sup>st</sup> April 2013) and end of RP5 (30 Sept 2017)

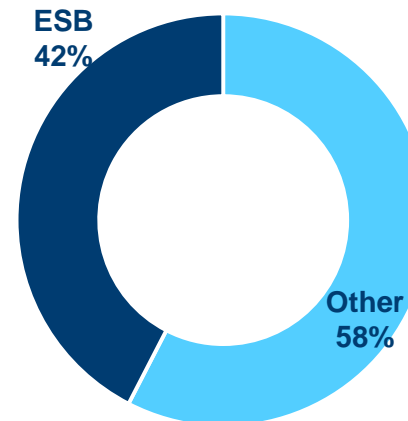
# Generation & Trading (G&T)

## Business Description

- ~26% of Group EBITDA and 20% Group Assets
- 5.8 GW: 4.4 GW All-Island and 1.4 GW in GB
- All-Island ISEM<sup>1</sup> market share 42% by volume
- ISEM<sup>1</sup> revenue includes capacity & regulatory supports
- Thermal plants now competing for capacity revenue
- 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 thermal & renewable generation
- **Strategy:** Transition to low carbon energy
- **Focus:** Integrated Single Electricity Market & Renewable Investment



ISEM Market Share

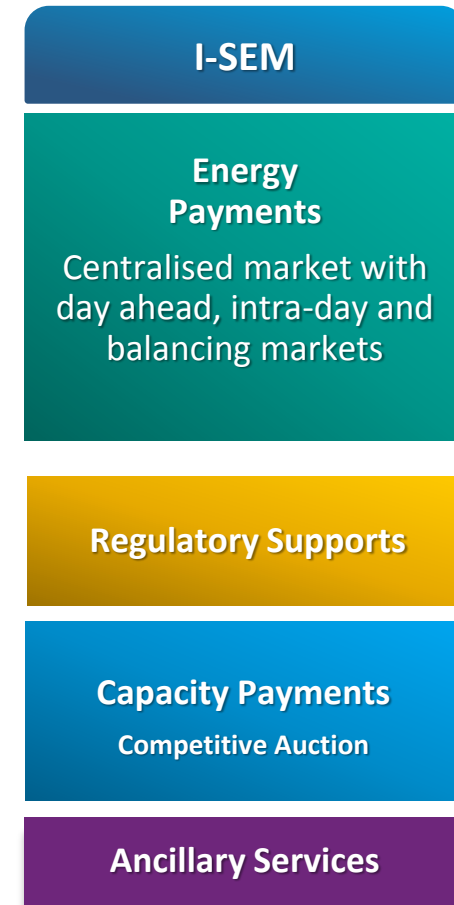


Generation Output by Fuel Type

<sup>1</sup> ISEM = Republic of Ireland and Northern Ireland

# Integrated Single Electricity Market

- EU Internal Energy Market compliance to align energy trading more closely with EU – went “live” on 1<sup>st</sup> October 2018
- Capacity payments remain but are now secured by way of competitive auction
  - 91% of G&T plant 3,295 MW secured contracts
  - Market average price €41.80/kW/pa
  - T-1 auction in Dec 2018 – positive initial results
- Ancillary services market revenue cap increasing from €75m in 2016 to a cap of €235m by 2020
- Market operating effectively with +90% of demand being traded through Day Ahead Market with prices similar to old SEM market



# Customer Solutions

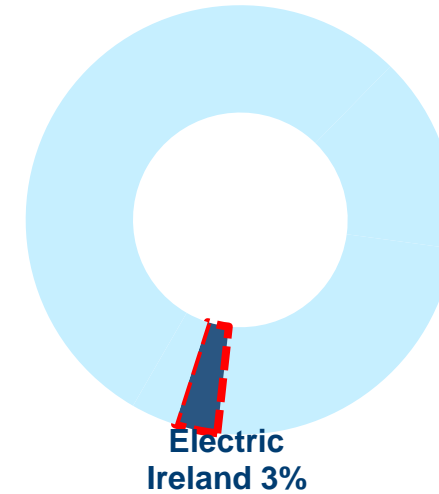
## Business Description

- ~3% 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 share<sup>1</sup> 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

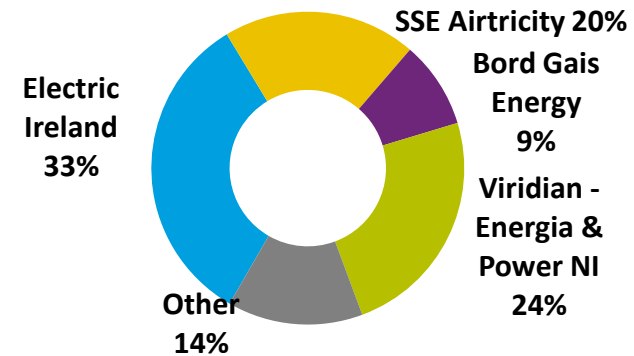
H1 2018 EBITDA - €620m



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## SEM Retail Market Share (MWh)



<sup>1</sup> Irish= Republic of Ireland and Northern Ireland



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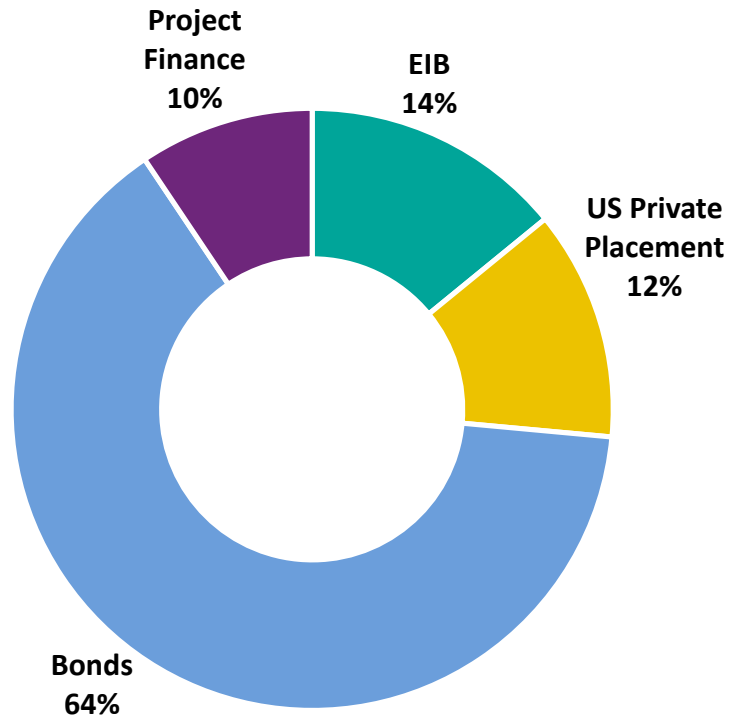
# Funding & Liquidity



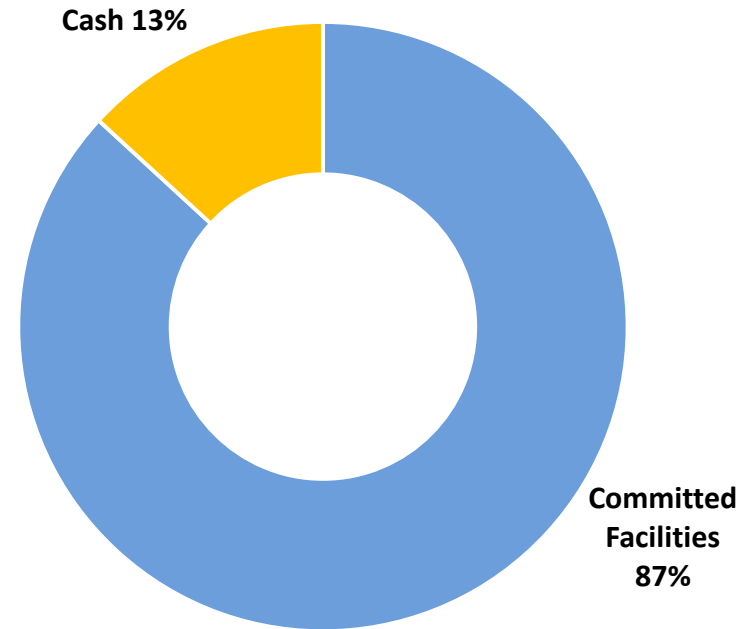
# ESB Group Debt – Diversified Funding and Strong Liquidity



Group Debt 30 June 2018 - €4.8bn

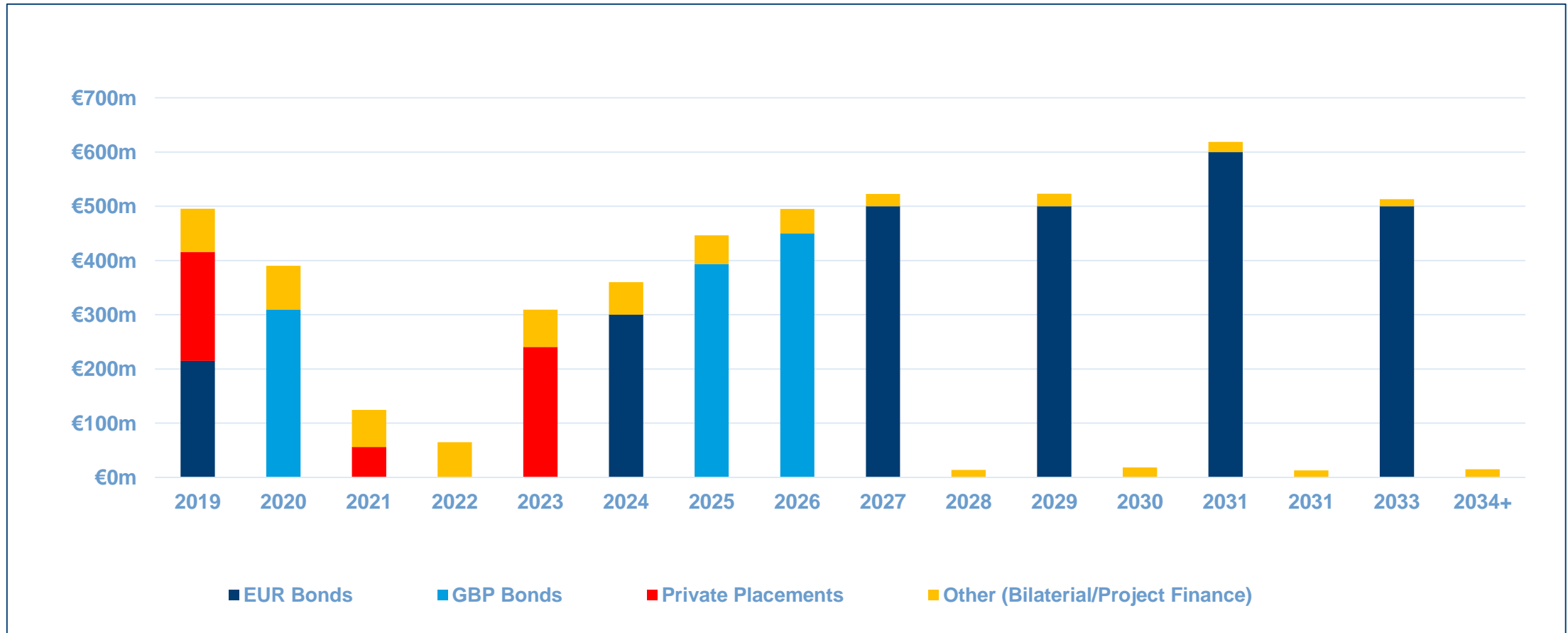


Available Liquidity - €1.8bn



NIE Networks £350m bond issued September 2018. Maturity October 2025 with 2.5% coupon  
Euro Bond €500m issued October 2018. Maturity 2033 with a coupon of 2.125%

# Debt Repayment Profile



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

**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



# Dividend Policy & Pensions - ?

<b>Dividend Policy</b>	<ul style="list-style-type: none"><li>● Dividend Policy agreed in 2013 with Irish Government (95% Shareholder)</li><li>● Target dividend pay-out ratio of 40% of normalised profits after tax</li><li>● Irish Government agreed that sustaining a minimum BBB+ Credit Rating is key ESB policy objective</li></ul>
<b>Pensions</b>	<ul style="list-style-type: none"><li>● ESB DB Pension Scheme does not have a deficit on an ongoing actuarial basis at end 2017</li><li>● 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</li></ul>



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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



- 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 34% share of supply in 2017

## Stable Business Profile



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## Consistent Financial Performance



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- Diversified funding and strong liquidity position
- Credit ratings of A- and A3

# Contacts



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