

# Electricity Supply Board



## Investor Update

September 3<sup>rd</sup> 2012



[www.esb.ie](http://www.esb.ie)

# Disclaimer

**Forward looking statements:** This presentation contains certain “forward-looking statements” with respect to ESB’s financial condition, results of operations and business and certain of ESB’s plans and objectives with respect to these items. By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to and depend upon future events and circumstances. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. All forward-looking statements in the presentation are expressly qualified in their entirety by such factors. ESB does not intend to update these forward-looking statements.

**No warranty as to accuracy:** Neither ESB nor any person acting on its behalf makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained within this presentation. Neither ESB nor any person acting on its behalf shall have any liability whatsoever for loss, howsoever arising, directly or indirectly, from use of the information contained within this presentation.

**No invitation to engage in investment activity:** This document is not an offer to sell, exchange or transfer any securities of ESB nor any of its subsidiaries and is not soliciting an offer to purchase, exchange or transfer such securities in any jurisdiction. This document is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.



# Context of Presentation

This presentation was given as an update to Eurobond holders/potential holders of ESB debt on September 3<sup>rd</sup> 2012. The information contained herein is relevant to the date of presentation.

Neither ESB nor any person acting on its behalf makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained within this presentation.



# Agenda

## 1. ESB Overview & Strategy

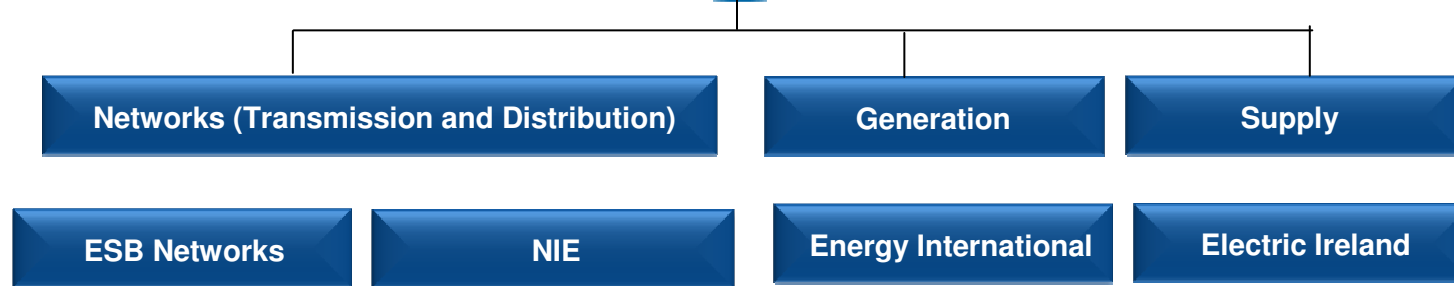
## 2. 2011 Review

- Business Environment
- Summary Financials
- Funding and Liquidity

## 3. Looking Forward

- Irish Economy
- ESB Business

# ESB Overview

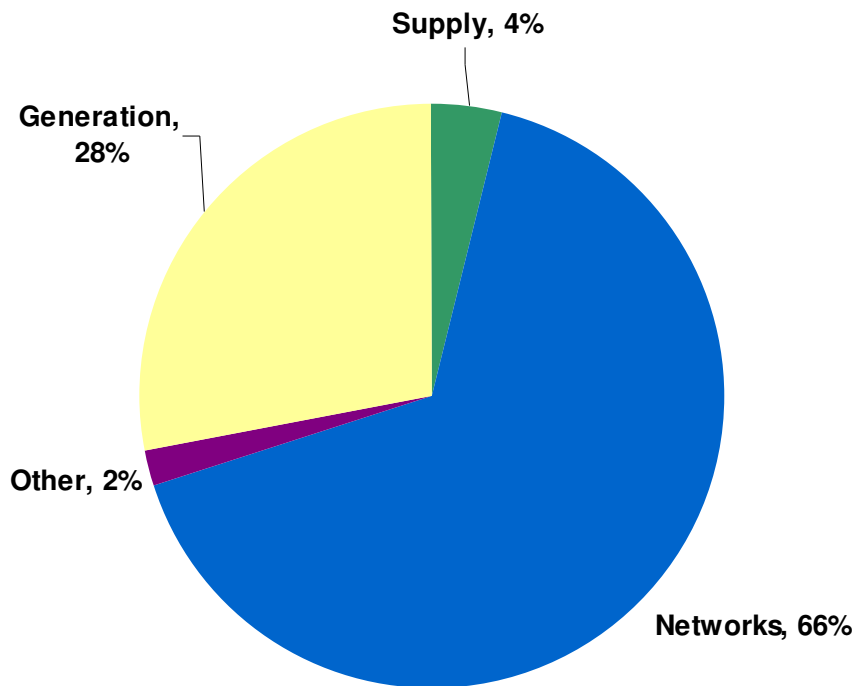


- **History:** Established 1927, Vertically Integrated, 95% owned by the Irish Government
- **Networks:** Owner of the Regulated Republic of Ireland T&D networks (RAB €6.4bn)  
Owner of the Regulated Northern Ireland T&D networks (RAB £1.2bn)
- **Generation:** All-Island Capacity of 4.4GW, GB Capacity of 1.2GW
- **Supply:** 1.4 million Customers served on an All-Island basis
- **International:** Strong Asset position in UK; Successful International Engineering Business



# ESB Asset Profile

## Assets by Business



TOTAL ASSETS: €12 Billion

## Key Points

- 66% of assets are fully regulated Transmission and Distribution network assets. ESB own 100% of T&D assets in ROI and NI
- Stable, established and well understood regulatory environment
- Balanced Generation-Supply position. All-Island generation market share of 43% by capacity and 46% by volume. All-Island supply market share of 39%
- 28% of assets outside ROI



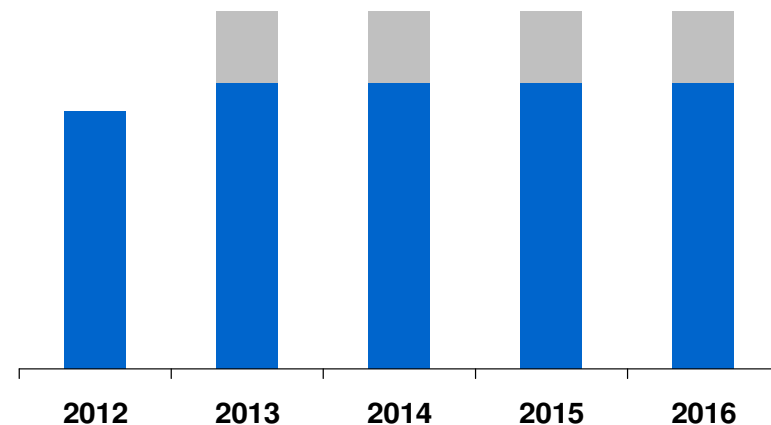
# ESB Strategy Summary

- Leading Irish Energy Utility competing successfully across the Value Chain
- Focussed on maintaining financial strength; Strong investment grade metrics
- All Island position on T&D Networks – growth through investment; leadership in performance and Smart Grid development
- Renewed, diversified Generation Portfolio positioned to compete strongly in the All Island and emerging All Islands Market; Growth in GB
- Rebranded and repositioned Supply business competing to serve Customers in Electricity, Gas and Energy Services

Capex €5bn to €6bn over 5 years

€0.9Bn

€1.0Bn to €1.25Bn p.a.



70% Capex on Regulated Networks Assets



# Supportive Government Policy

- Irish Government developing a strategic perspective on State Assets
- July 2011 – Government Decision on Transmission Asset Ownership in context of EU Third Energy Package:
  - **ESB to retain ownership of the Electricity Transmission assets**
- September 2011 - Establishment of NewERA - a new 'Shareholder Executive' function under the National Treasury Management Agency to manage the Government's shareholding in Commercial Semi-state companies
- September 2011 - Government decision to sell a minority stake in ESB as an integrated utility
  - **Maintain ESB as a Vertically Integrated Utility under State Control**
- February 2012 – Decision not to proceed with minority sale
  - Sale of only some non strategic generation assets
  - Government reaffirms its commitment to maintaining ESB as a Vertically Integrated Utility under State control





# Agenda

## 1. ESB Overview & Strategy

## 2. 2011 Review

- Business Environment
- Summary Financials
- Funding and Liquidity

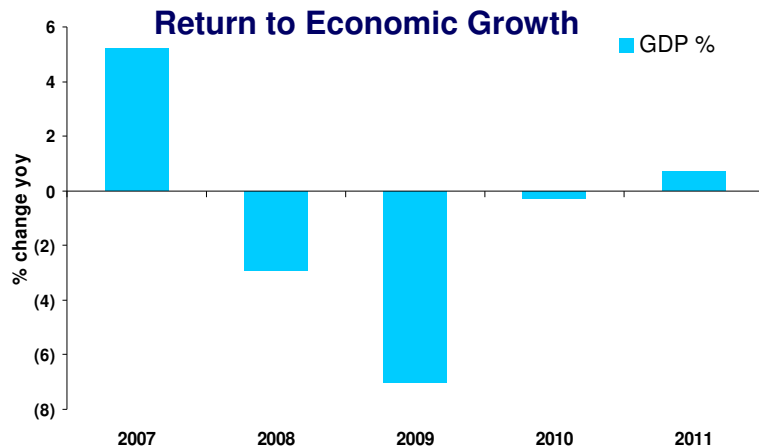
## 3. Looking Forward

- Irish Economy
- ESB Business

# Business Environment

## Ireland

- Strong export growth
- Balance of payments surplus
- Gradual recovery with positive GDP growth
- Troika targets met



Source: CSO

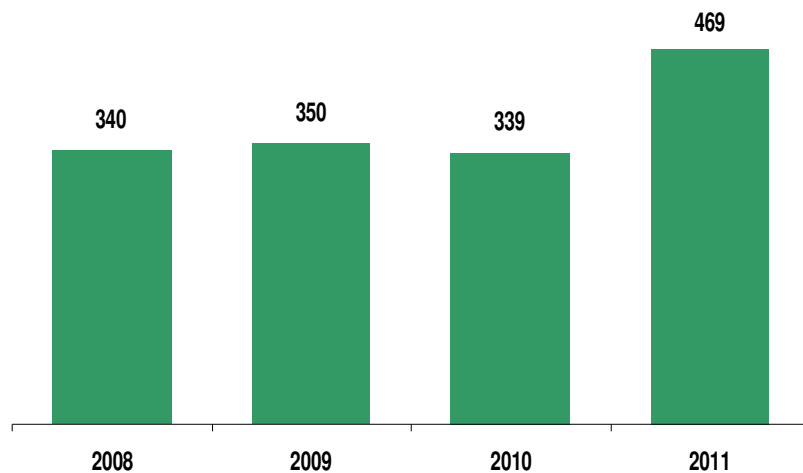
## ESB Highlights

- Strong 2011 financial performance
- Stable Regulated Networks income
- Cost reduction programme on target with €165m delivered to date
- Delivery of continued investment programme with Capex of €0.9bn
- Bad debts low and reducing to 0.8% of income
- Stabilised market share following full de-regulation of supply from April 1<sup>st</sup> 2011



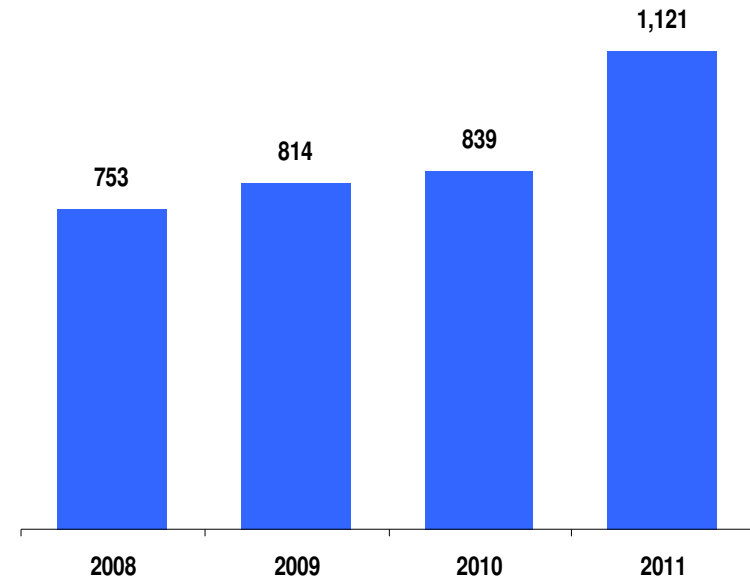
# Summary ESB 2011 Financials

## Operating Profit (€m)



■ Operating Profit (adjusted\*) up 38% on 2010 at €469m

## EBITDA (€m)



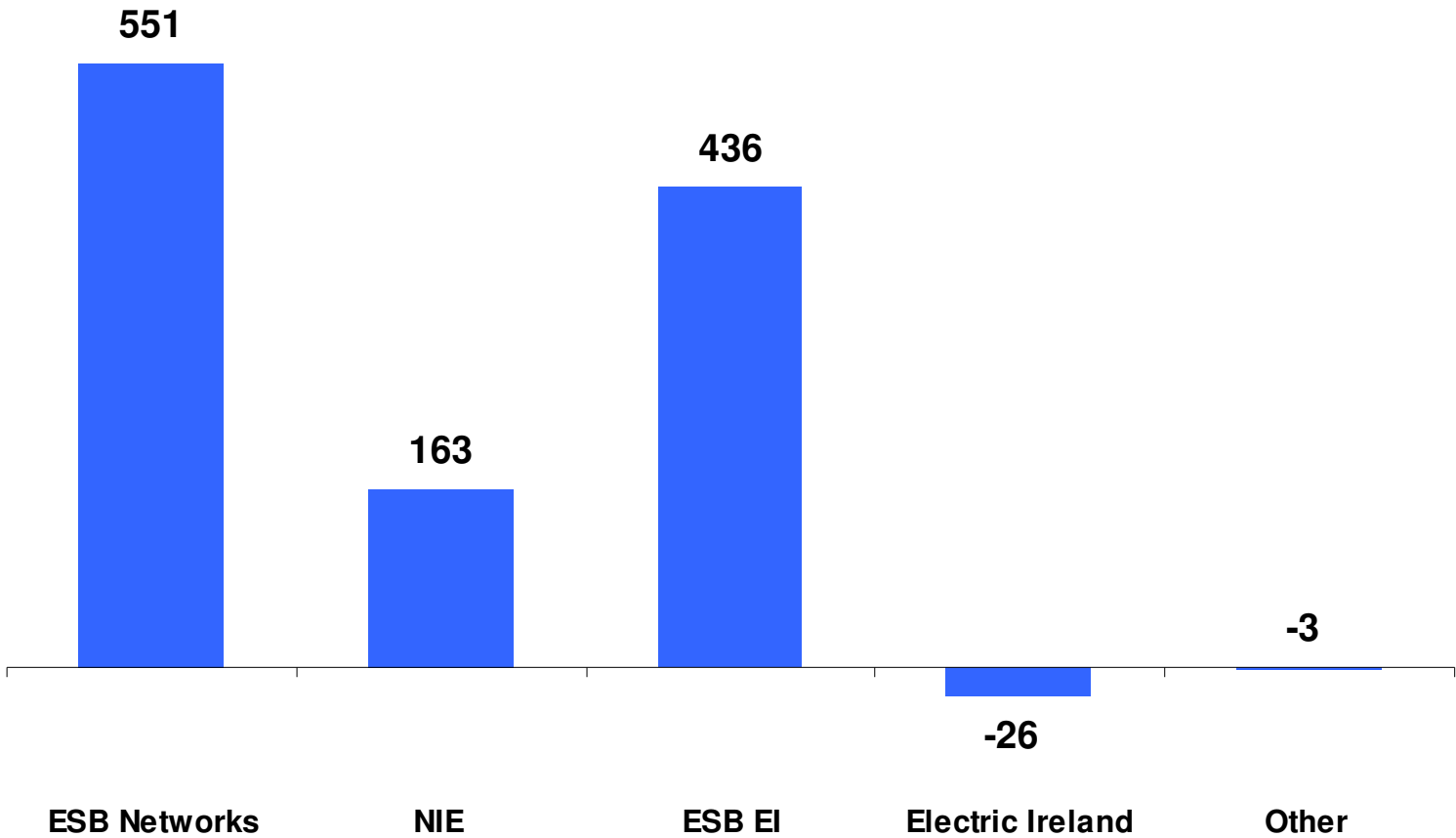
■ EBITDA up 34% on 2010 at €1.12bn

\* 2010 excludes the impact of an exceptional pension charge (€330 million). 2009 excludes the impact of an exceptional profit on disposal (€265 million)

\*\* Numbers are based on IFRS accounting



# EBITDA by Business (€m)

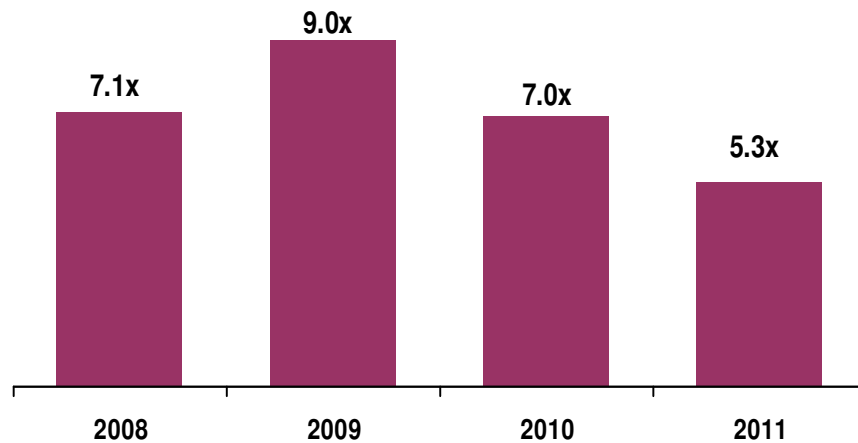


\* Networks business accounts for 64 per cent of EBITDA



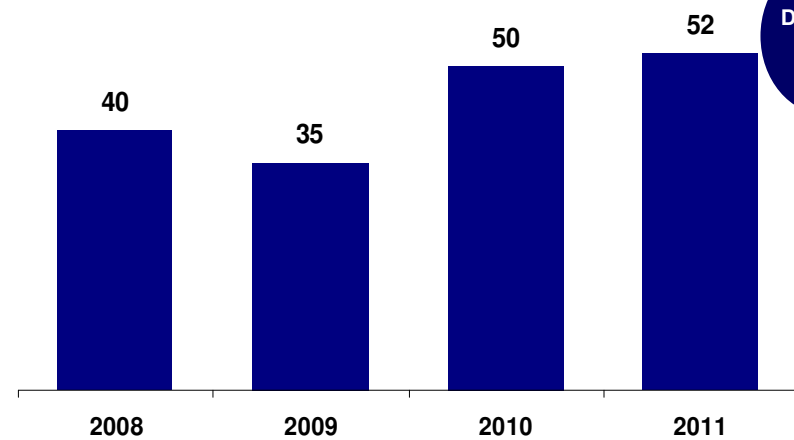
# 2011 Interest Cover & Gearing

## Interest Cover (IFRS)



■ Interest cover of 5.3x

## Gearing % (IFRS)

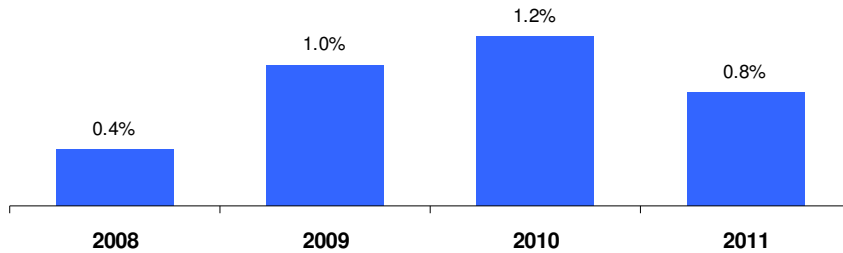


■ Gearing of 52%

Debt/RAB  
~ 60%

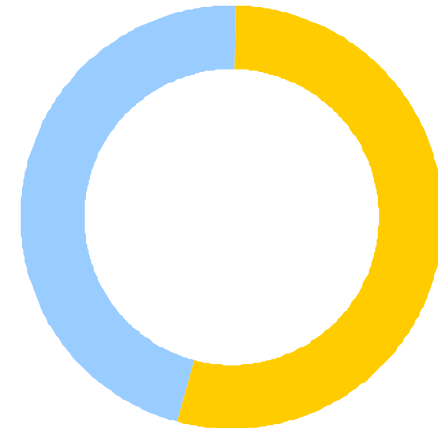
# Other Key Metrics

Group Bad Debts as a % of Revenue



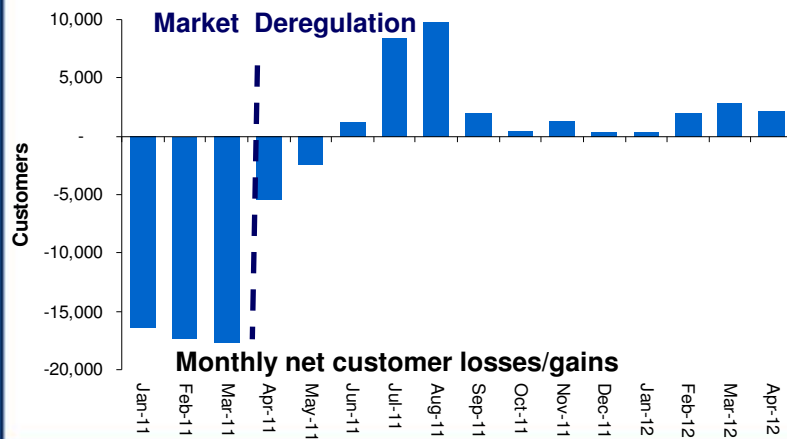
Generation 2011 Market Share

ESB Energy International  
46%



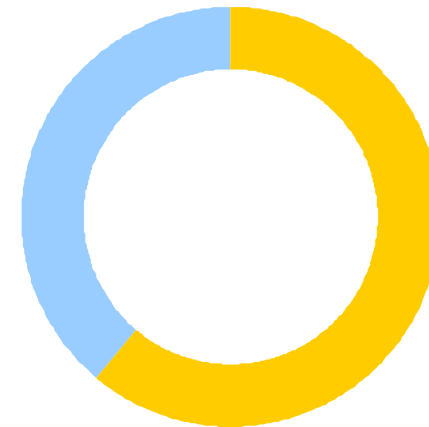
Independent power producers  
54%

Attracting new customers



Supply 2011 Market Share

ESB Electric Ireland  
39%



Independent energy suppliers  
61%



# Reducing Cost Base

- Target €280m annual cost reductions between 2010 and 2015 (equates to an overall reduction of 25%)
- €165m annual achieved to date
- Substantial headcount reductions have already been achieved and further targeted as part of Pay Agreement negotiated in 2011
- ESB reached agreement on restructuring its pension scheme in 2010, resolving a €2bn actuarial deficit
- April 2012 – ESB staff accept proposals for c. 1,000 staff reductions and €140m p.a. in overall payroll cost reductions

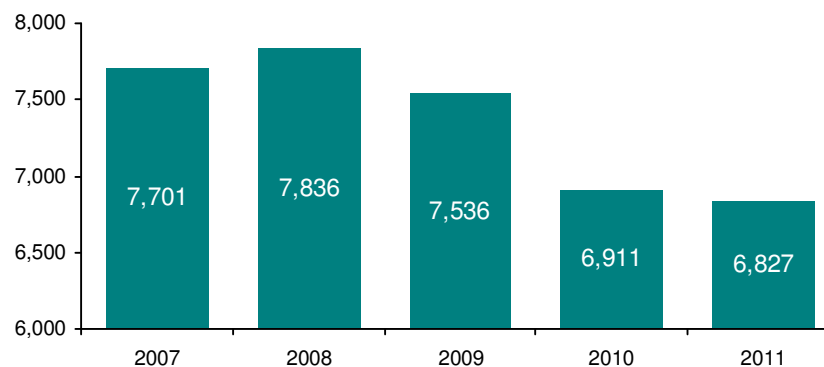
## Cost Savings (€m)

|                              | Target     | Achieved to date |
|------------------------------|------------|------------------|
| <b>5 Year Savings Target</b> | 280        |                  |
| - Savings 2010               |            | 95               |
| - Savings 2011               |            | 70               |
|                              | <b>280</b> | <b>165</b>       |

### Pay Agreement negotiated in 2011:

**Target:** 1,000 exits by 2015 (700 on Voluntary Severance)

## ESB Group Headcount



Note: 2011 excludes staff numbers for NIE of c. 1,400



# Agenda

## 1. ESB Overview & Strategy

## 2. 2011 Review

- Business Environment
- Summary Financials
- Funding and Liquidity

## 3. Looking Forward

- Irish Economy
- ESB Business



# ESB Continues to Fund Successfully

€1.3bn new Funding  
Raised in 2011

|                             |       |
|-----------------------------|-------|
| ■ NIE 15 Year Bond          | £400m |
| ■ Bank Syndicated Term Loan | £308m |
| ■ EIB Loan                  | €235m |
| ■ Carbon sale/buyback       | €145m |
| ■ Bank Bilateral Loans      | €125m |

4.5%  
8.5 Years

£810m NIE  
Acquisition loan  
repaid

Full repayment of NIE acquisition facility of £810m  
without exercising optional extension

Prudent Capital  
Planning

Prudent management of capital expenditure levels:

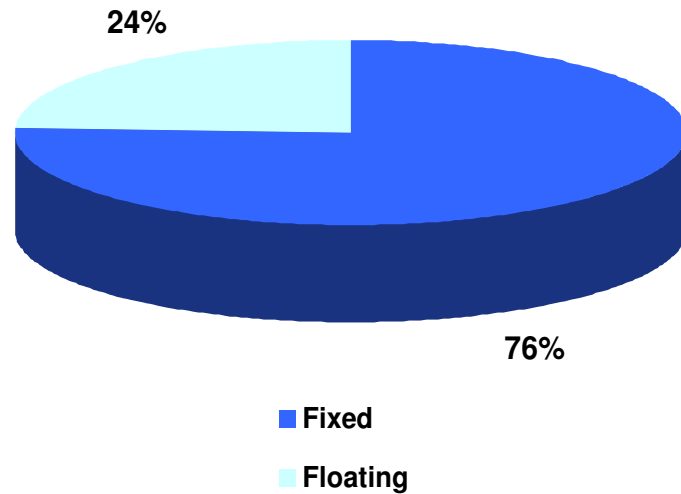
- Reduction of €0.7Bn in 2012/13 capex  
approved by the ESB Board



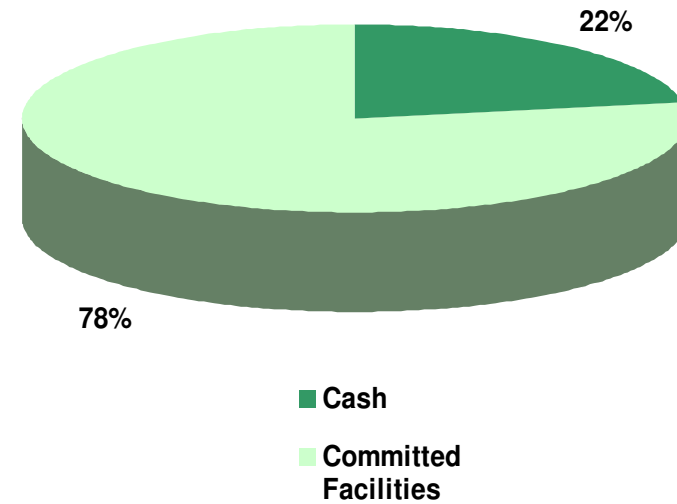
# Debt & Liquidity

December 2011

Group Debt €4.6Bn



Available Liquidity €1.2Bn

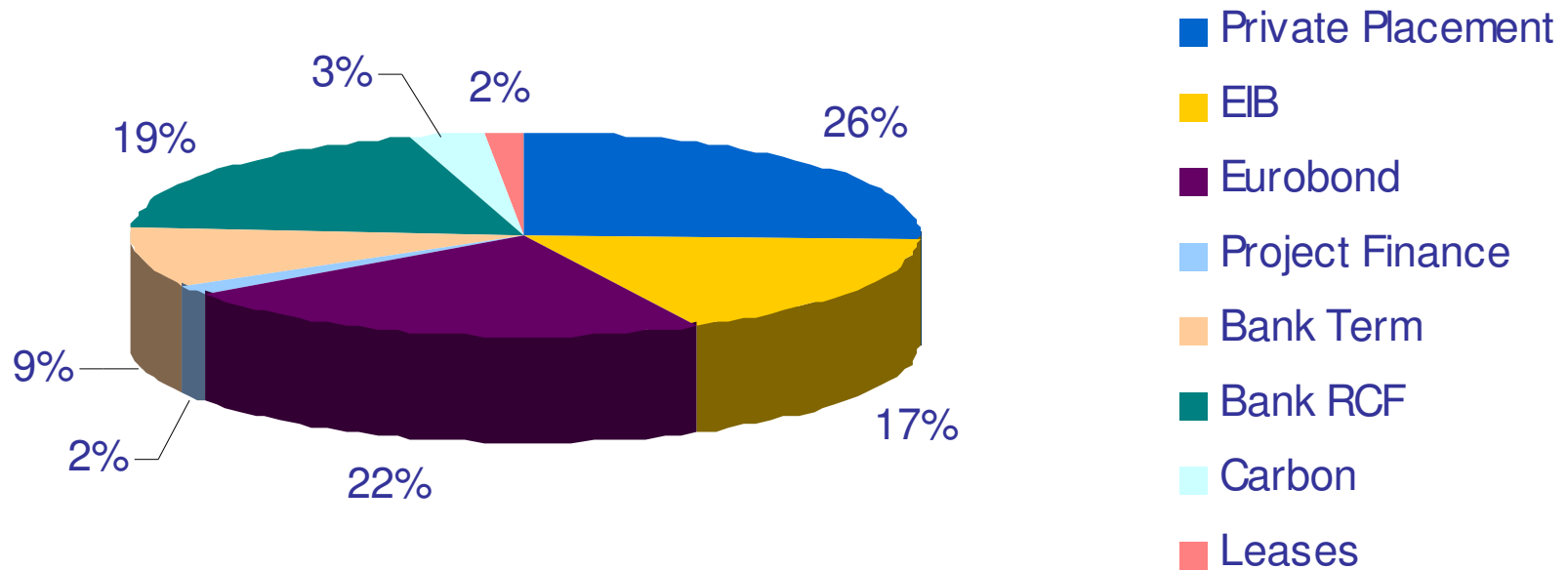


**€1.2Bn in undrawn committed facilities (incl cash) at end 2011, of which €960m is immediately available.**

Note. Group includes Subsidiaries & excludes JV's. Fixed includes Inflation Linked.



# ESB Funding Sources



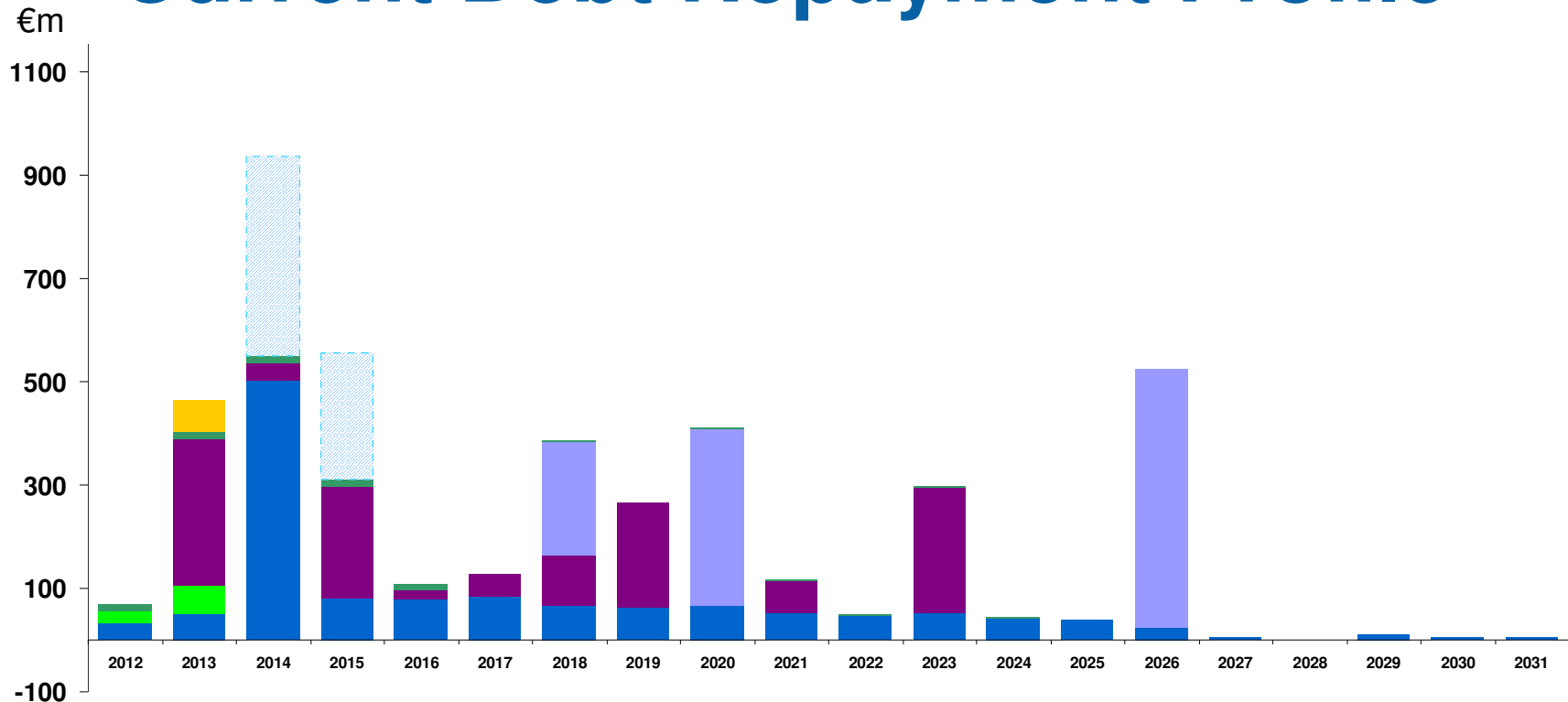
**Total ESB Group Debt €4.6bn\***

**ESB Sources Finance From A Diverse Range Of Sources**

Group includes subsidiaries, excludes JVs.



# Current Debt Repayment Profile



■ Bank   
 ■ LEASES   
 ■ Private Placement   
 ■ Bonds   
 ■ Projects   
 ■ RCF   
 ■ Carbon

- Profile is very manageable: €1.2Bn existing liquidity and EBITDA > €1Bn p.a.
- Funding will be used primarily to refinance debt maturing in 2013 & 2014
- Plan to renew Bank RCF Facility in 2013 – well in advance of maturity



# ESB Credit Ratings: BBB+/Baa3/BBB+

## **S&P – BBB+ (neg.)** *(Re-affirmed 21 August 2012)*

- “Strong business risk profile underpinned by leading market position in the Irish electricity market”
- “Significant proportion of stable and predictable cash flows from its low-risk regulated electricity transmission and distribution network operations”
- “Its cost-saving program is aiding profitability.....its cash flow coverage of debt ratios could strengthen from 2012”
- “ESB has integrated and well-balanced power generation and supply operations”
- “About 70% of capex is being invested in regulated assets, which will boost earnings”
- 'We believe that the consolidated ESB group will maintain adjusted consolidated FFO-to-debt ratios of 15%-20% through 2015, in line with our guidance for the rating'

## **Moodys – Baa3 (neg.)** *(Re-affirmed 17 Oct 2011)*

- “Despite ESB’s currently solid standalone financial position, its ratings are constrained by that of Ireland”
- “A one notch differential between ESB and Ireland is considered appropriate”
- “Significant improvement in ESB’s liquidity position due to the recent refinancing of short-term debt and the Group’s intention to re-phase or defer capital expenditure”
- “High proportion of earnings arising from the company’s transmission and distribution operations in the Republic of Ireland and Northern Ireland”
- “Low business risk profile and stable returns under well-established and transparent regulatory frameworks”
- “ESB’s networks business is complemented by a well balanced generation and supply operation”
- “Well diversified portfolio of generating assets, with a mix of fuel types and base load and peaking capacity”

## **Fitch – BBB+ (neg.)** *(Re-affirmed 10 May 2012)*

- “Improved liquidity position after it raised EUR1.4bn of new debt (with an average cost of 4.5%) during 2011”
- “Around 65% of the expected earnings...over the next four years will derive from the regulated network businesses, compared with up to about one-third for most peers.”



# Agenda

## 1. ESB Overview & Strategy

## 2. 2011 Review

- Business Environment
- Summary Financials
- Funding and Liquidity

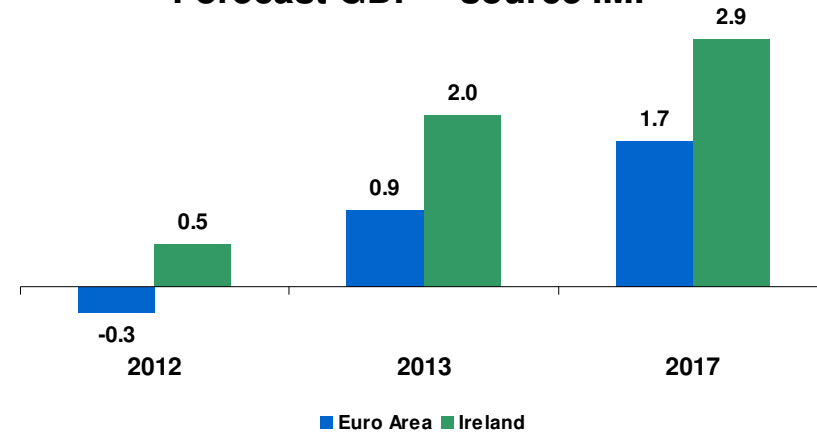
## 3. Looking Forward

- Irish Economy
- ESB Business

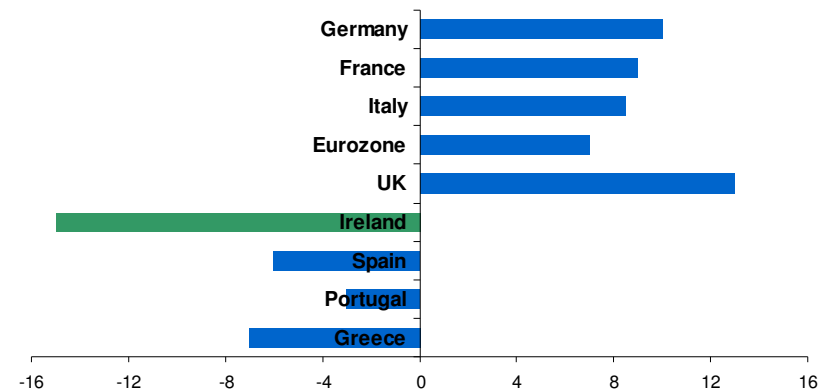
# Ireland's Progress

- GDP expected to grow by 2.0 to 2.5 per cent on average over the next 5 years
- Strong export growth expected to continue; exports total c. 100% of GDP
- Ireland Ranked second for Inward Investment per Capita (Source: IBM's 2011 Global Location Trends report)
- Significant correction in unit labour costs with a reduction of c. 15% expected by 2013
- Yields on Irish Government bonds have fallen significantly over the past year

Forecast GDP – source IMF



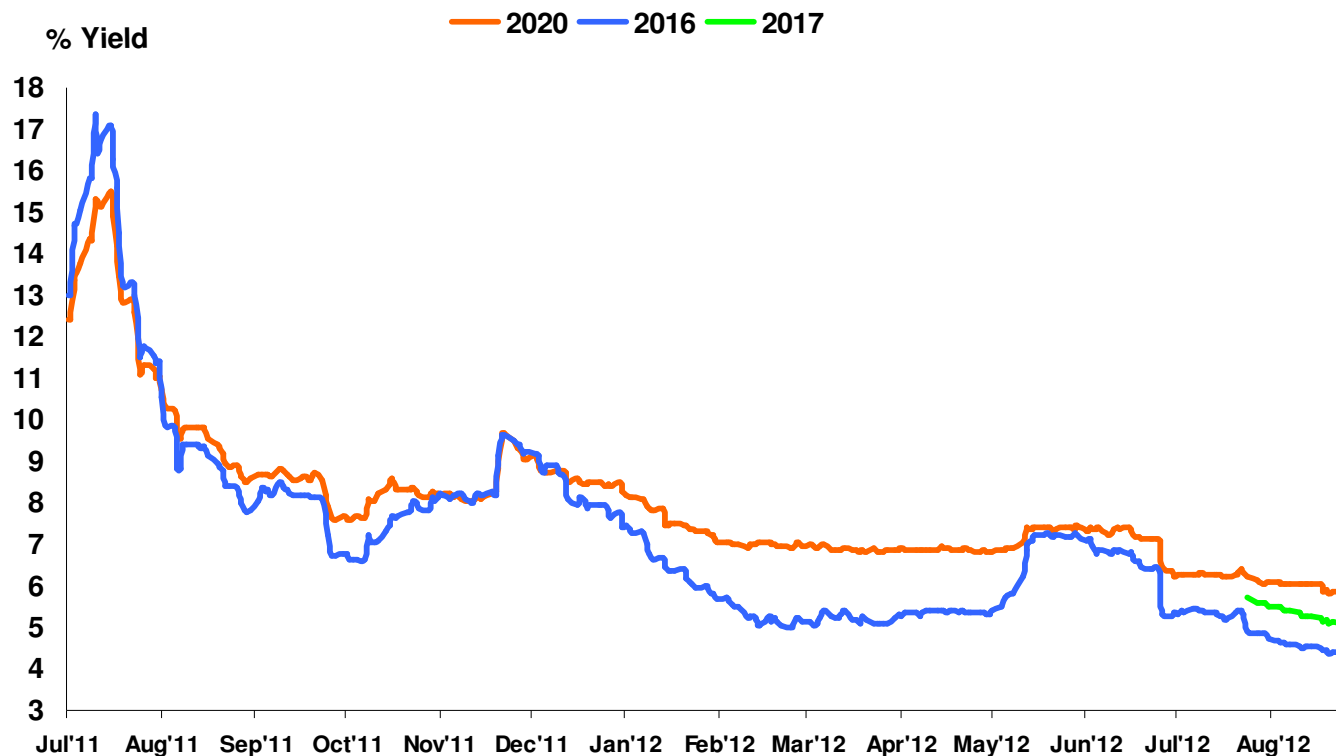
Unit Labour Costs 2009-2013 (%Change)



Source: EU Commission May 2012

# Sovereign Bond Yields

## Ireland 2016 & 2020 Bonds



- Ireland has demonstrated access to public markets in 2012 with the €5.2bn launch of the 2017 bond and tap of 2020 bond, €3.5bn bond switch from 2014 to 2015 and a €1bn amortising bond

Source: Bloomberg



# ESB 2012 & Beyond

- ESB to remain a strong State owned Vertically Integrated Utility
- Further delivery of cost reduction programme with expected savings of €280m per annum by 2015 (60 per cent delivered to date)
- Continued significant investment in Regulated Electricity Networks Assets in Ireland (ROI and NI), in accordance with Regulatory Price Controls
- Generation investment focussed in the UK - Financial close of the 860MW Carrington Power Limited project (85% owned subsidiary of ESB) may be achieved in the near future
  - Based on non-recourse finance with a 70/30 debt-equity structure
  - Tolling agreement with ESB Independent Generation Trading Ltd (wholly owned subsidiary of ESB) who will trade the output of the plant as part of ESB's overall generation and trading position
- Continued strong financial performance remains top priority

