Ervia macroeconomic update and economic outlook

Presentation to the Board of Directors of Ervia
23 October 2018

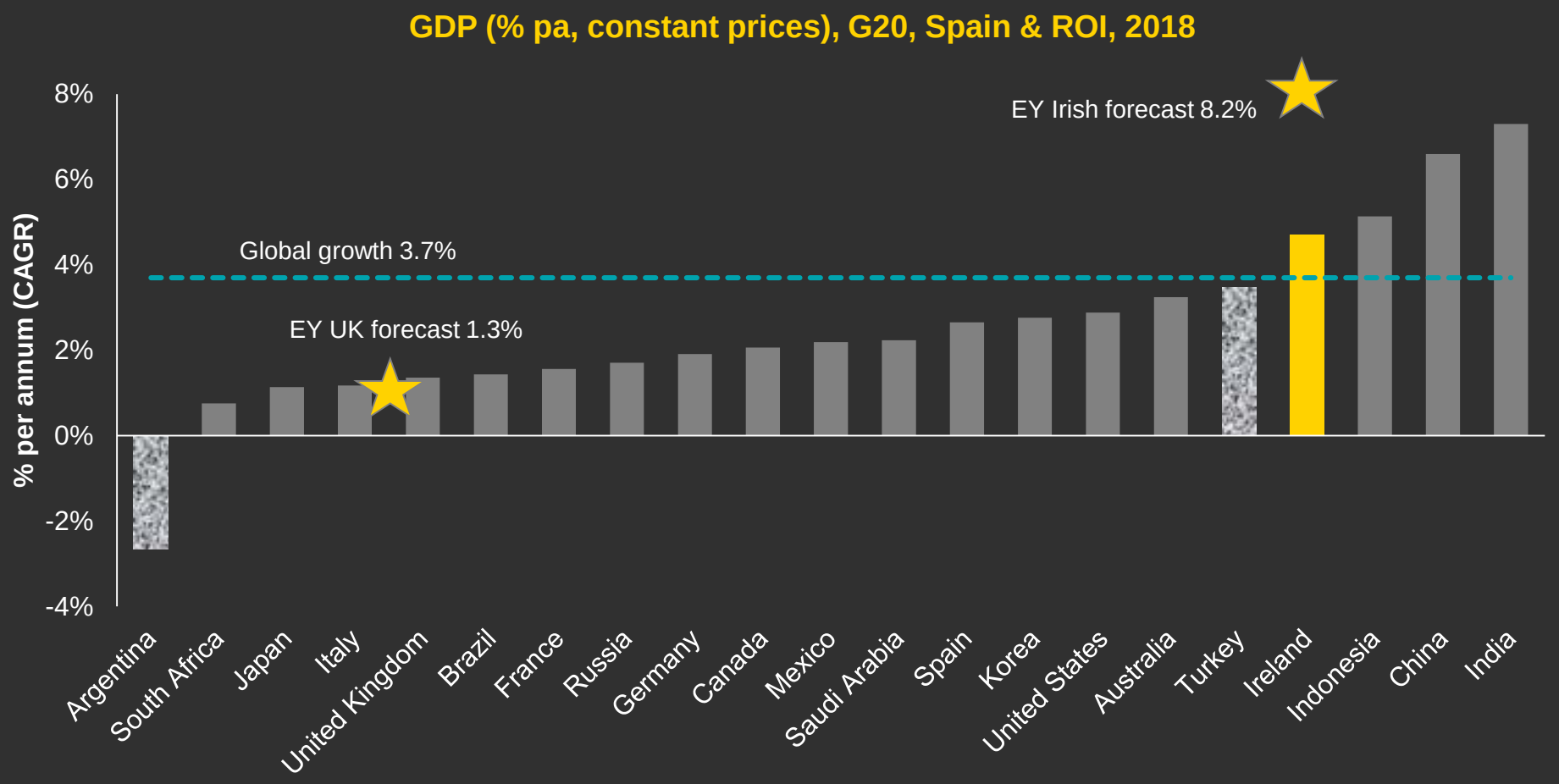
Reliance Restricted

Prof Neil Gibson Chief Economist | EY Ireland

EY DKM

Macroeconomic outlook

Synchronous growth already over, fault lines appearing



Source: IMF WEO October 2018

The outlook – is Ireland immune to the difficulties?

EY growth forecasts						
	2017	2018	2019	2020	2021	2022
UK	1.7%	1.3%	1.5%	1.7%	1.8%	2.0%
ROI	7.2%	8.2%	4.4%	4.0%	4.0%	3.7%
NI	1.8%	1.3%	0.9%	1.2%	1.7%	1.8%

Trade wars

US interest rates

Populism

Brexit

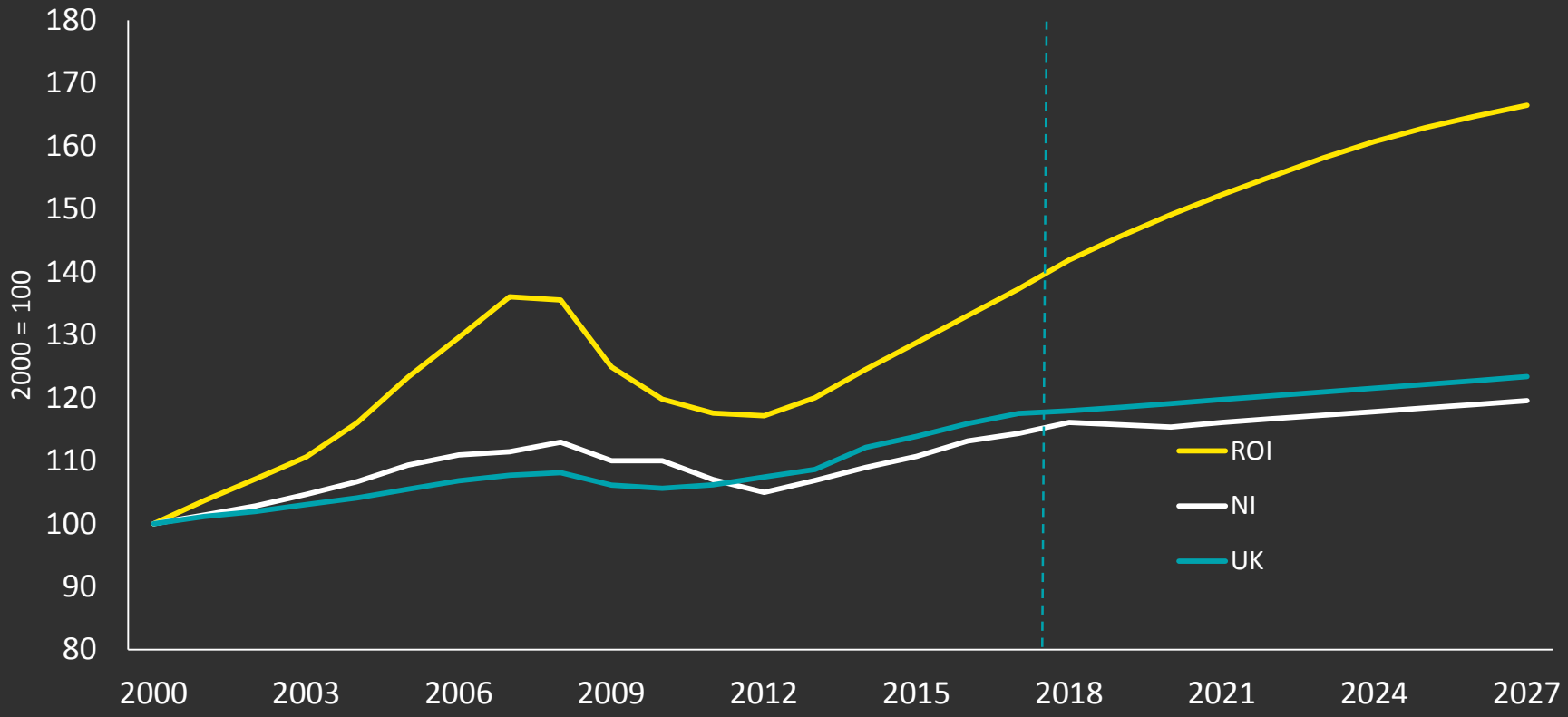
Consumer fears

Geopolitics

Source: EY UK ITEM, Economic Eye forecasts, October 2018

Labour market outlook – turning point ahead?

Employment forecast: ROI, NI and UK, 2000-2027



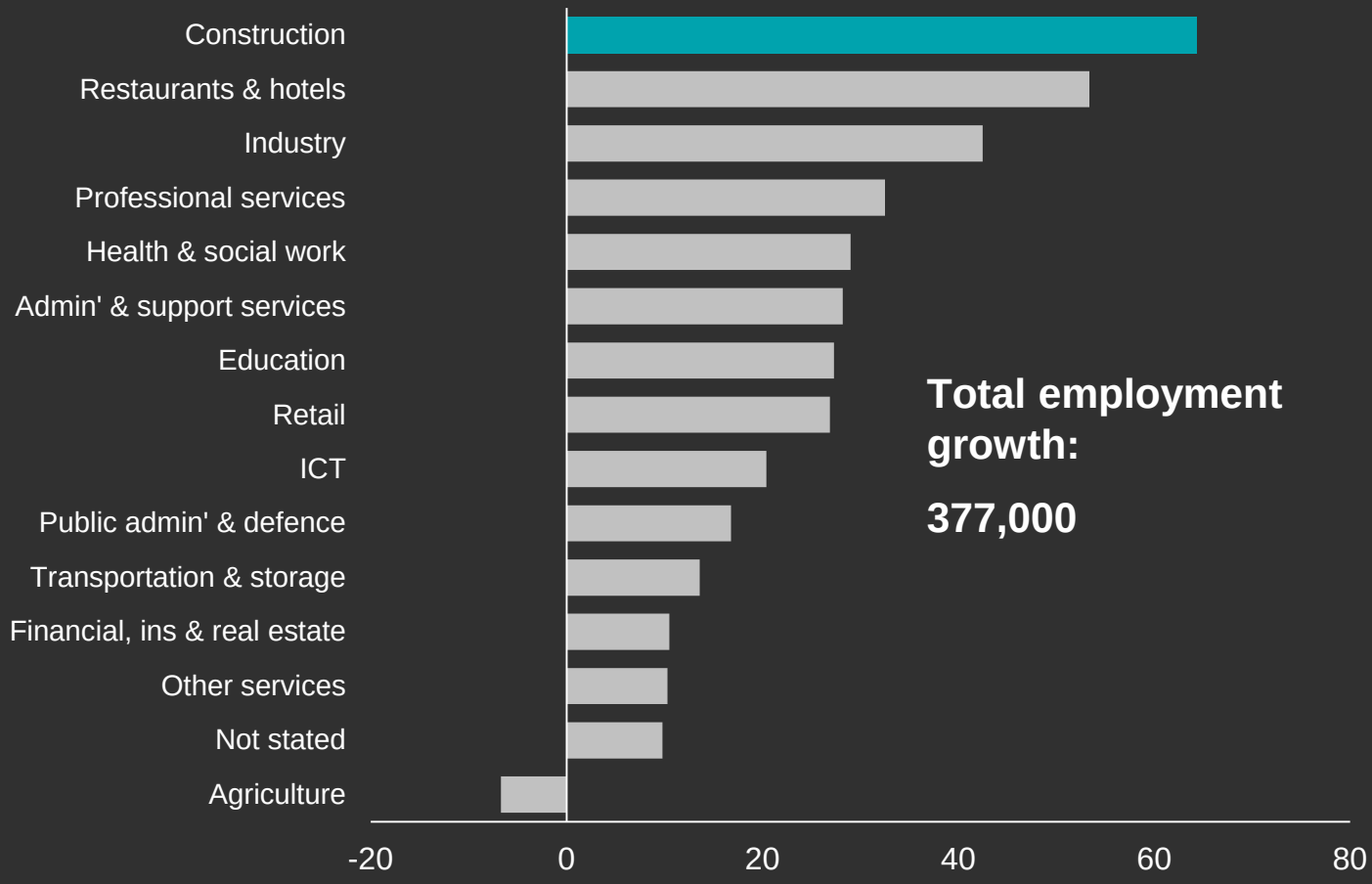
ROI job growth
Next 5 years:
+231,000

Next 10 years:
+370,000

Source: EY UK ITEM, Economic Eye forecasts, October 2018

Sectoral mix eclectic

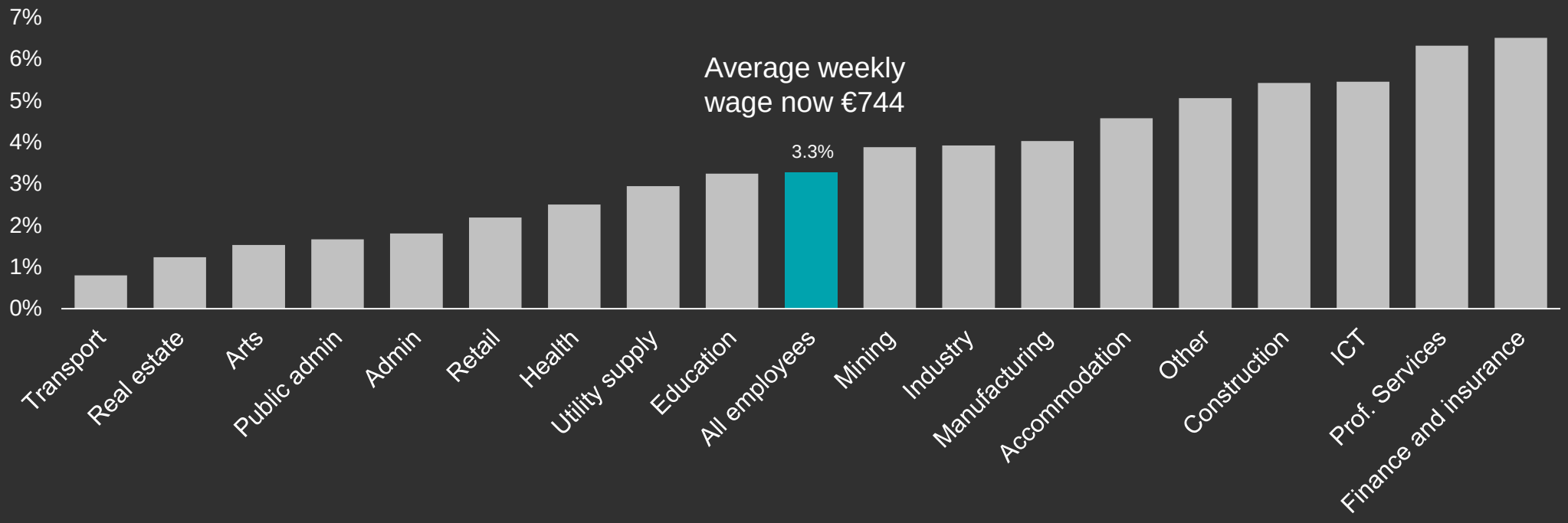
Employment by sector, ROI, Q2 2012 - Q2 2018



Source: CSO, unadjusted

Pay growth accelerating in Ireland – how high will it go?

Wage increases by sector, Ireland, year to Q2 2018



Average wage (%)							
	2017	2018	2019	2020	2021	2022	2023
UK	2.2%	2.7%	2.7%	2.9%	3.0%	3.1%	3.1%
ROI	1.9%	3.6%	3.6%	3.7%	3.4%	3.0%	2.7%
NI	2.0%	2.5%	2.7%	2.8%	3.0%	3.0%	3.0%

Source: CSO, EY Economic Eye, EY ITEM Club

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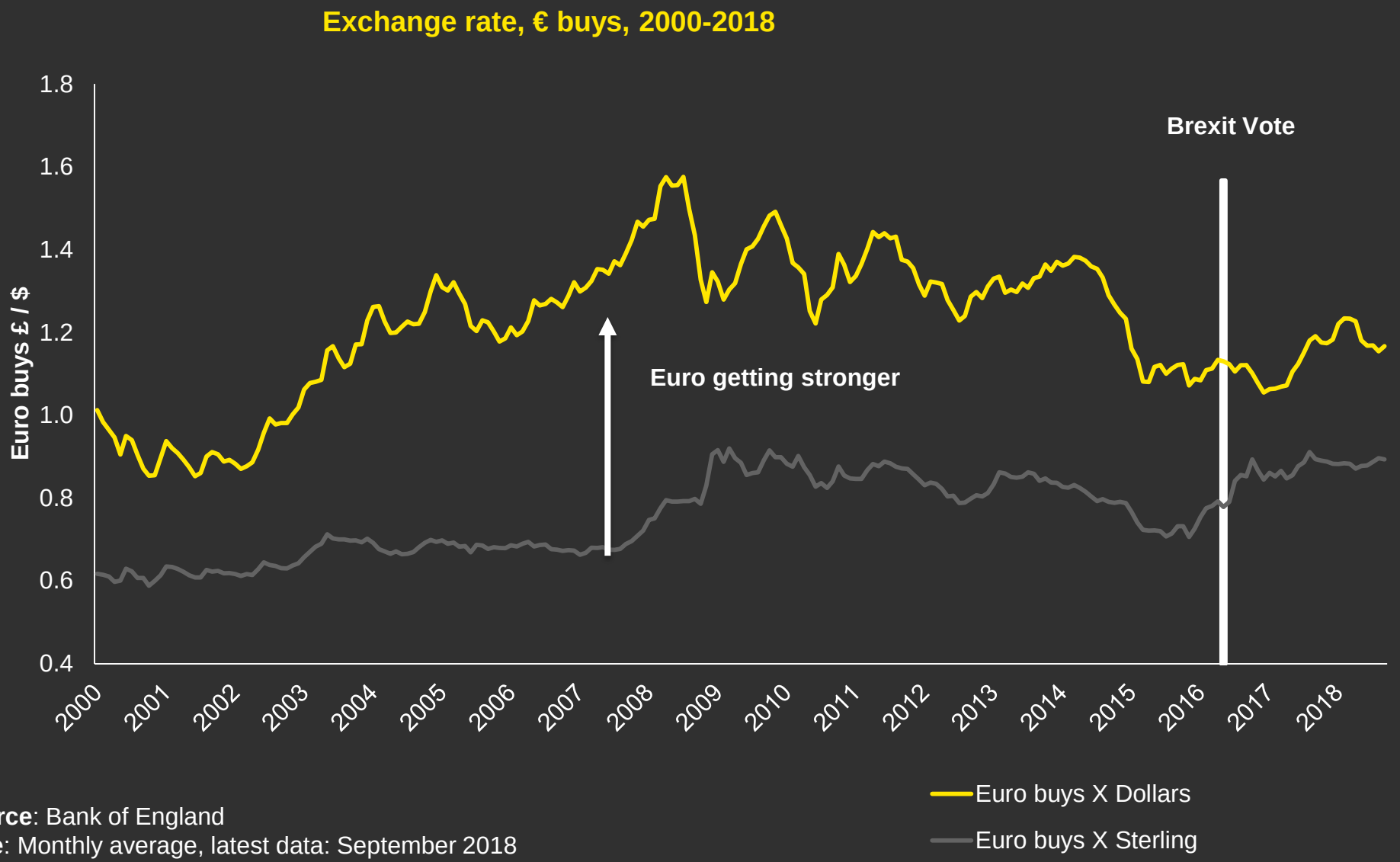
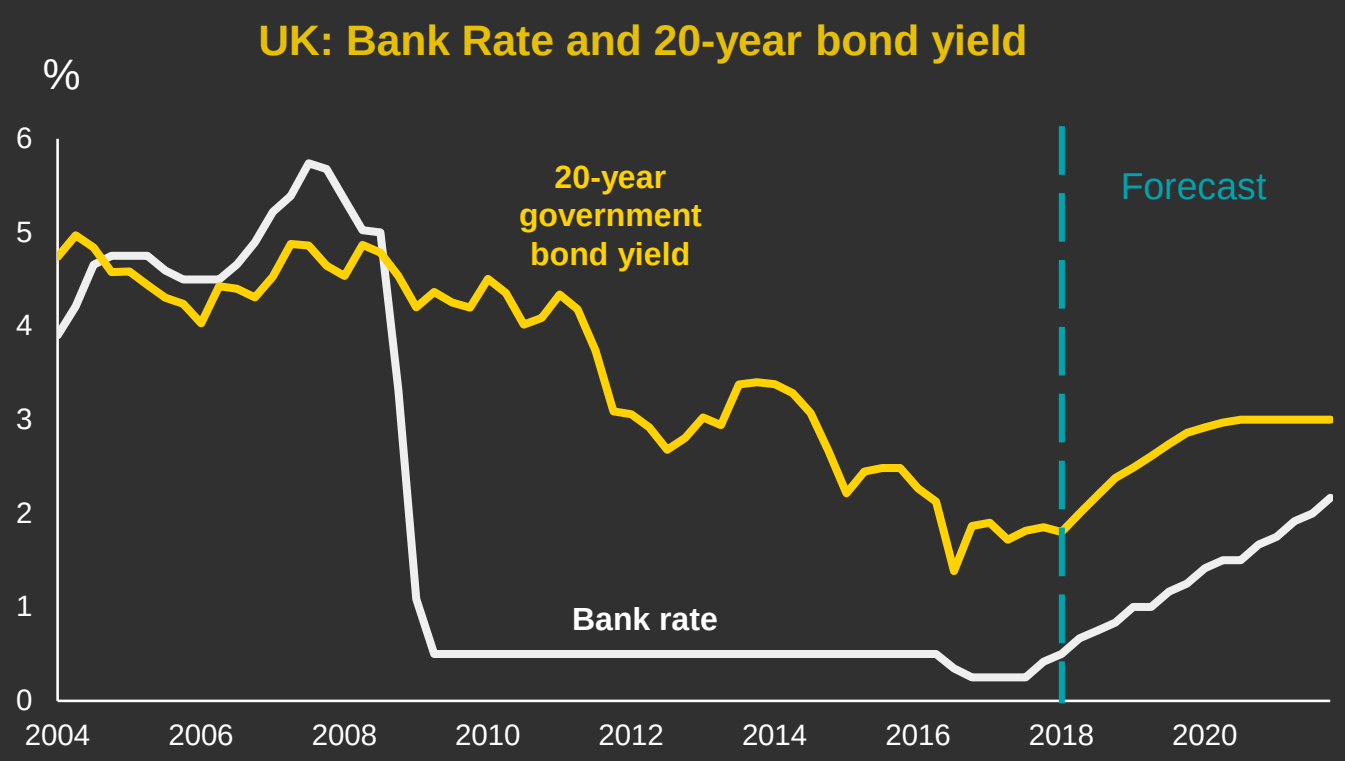
Exchange rates, on the front line of Brexit



Source: Bank of England
Note: Monthly average, latest data: September 2018

Interest rates heading one way (but how quickly?)



UK

- Rate has risen twice in past 2 years, now at highest rate since 2009
- Balance between Brexit worries and inflation (labour market key)
- Modest increases expected

ECB

- Market expects no rise in 2018
- Ending QE, but strengthening growth could mean rises

US

- 2 rises have already been implemented this year, with a further one expected
- In recent months the weakening dollar has risen again against the € and £

Source: EY ITEM Club

Brexit possible scenarios – still a guessing game

Potential Brexit scenarios

	Current outlook	More/less likely since
	Oct '18	**July '18**
WTO	30%	↑
Customs union	30%	↓
FTA	30%	=
EU	5%	=
EEA	5%	=

Source: EY Brexit Strategy Team, October 2018

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Risks not confined to Brexit

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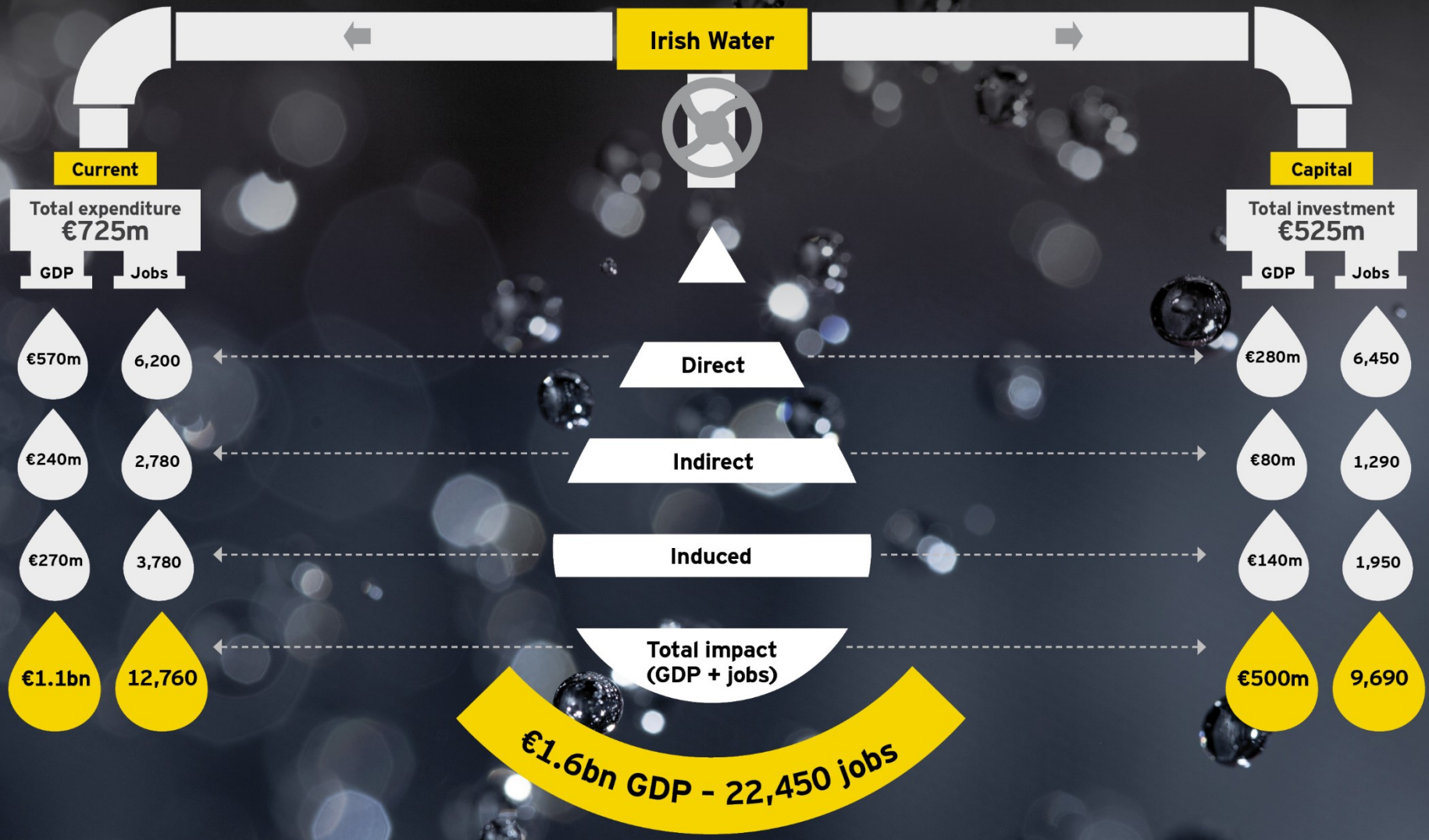
The policy environment is pro-infrastructure (but will this survive a slow-down?

Key budget measures October 19:

- €110m set aside for Brexit-related measures
- More spending on infrastructure
- €6.6bn dedicated to housing over the next 4 years
- VAT rate for tourism and hospitality rose to 13.5%
- Extra capital spend on transport
- Corporation tax rate unchanged at 12.5%
- A surplus planned for 2019
- Meeting the health service needs a fiscal challenge

Economic impacts of Ervia

Irish Water: 2017 Economic impact



* Irish Water figures presented include proportional shares of Group and Shared Services costs and staff. Figures have been rounded to the nearest 10.

- For **every €1** Irish Water spent in 2017, **€1.26 in GDP** was generated in the Irish economy.
- For **every 100 people** Irish Water employed in 2017 in Ireland (direct and contractors), **80 additional jobs** were supported in the economy.
- For **every €100m** spent by Irish Water in 2017, **1,790 jobs** were supported in the Irish economy.

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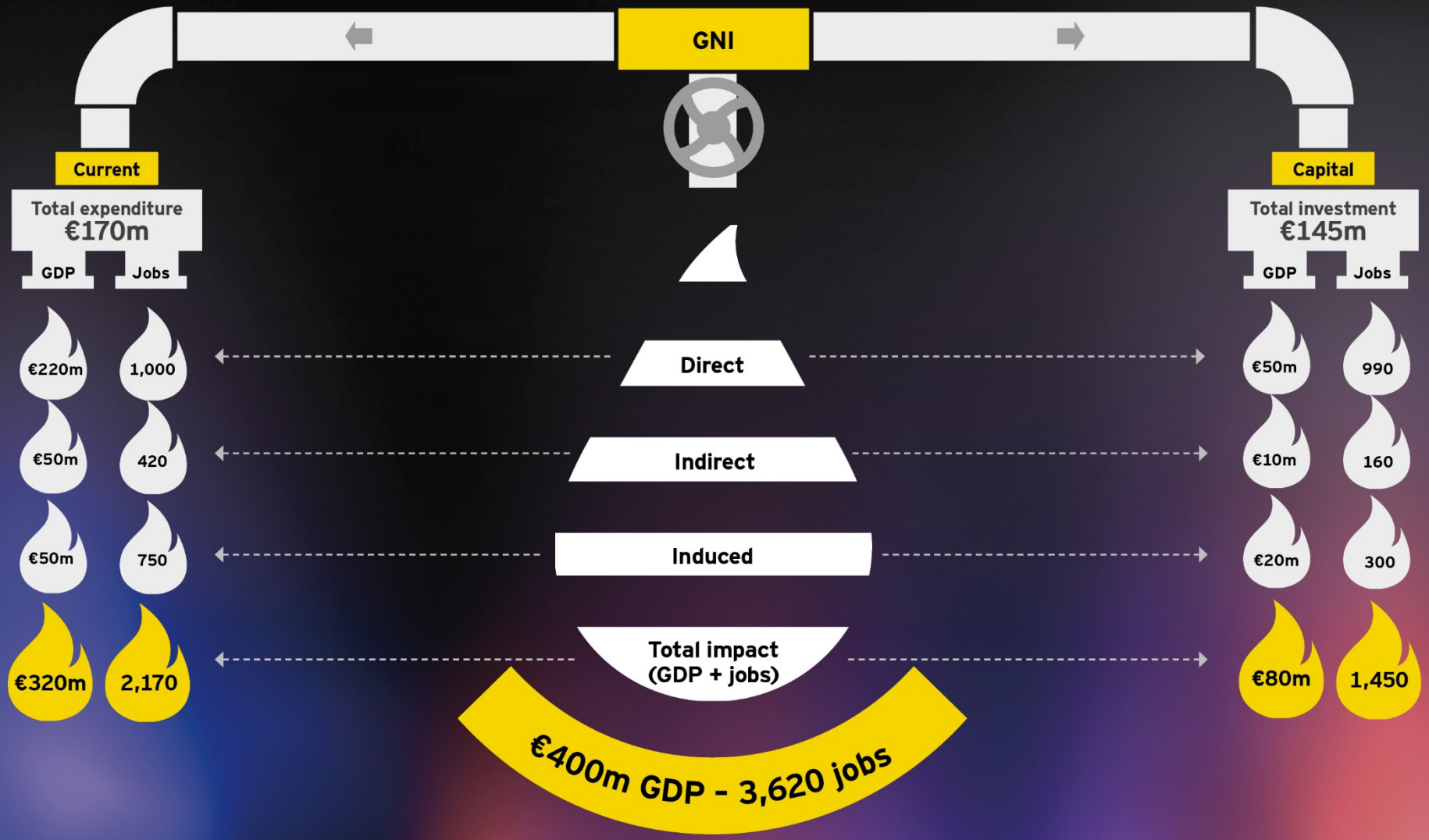
Gas Networks Ireland: 2017 Economic impact



* GNI figures presented include Aurora Telecom and proportional shares of Group and Shared Services costs and staff. Figures have been rounded to the nearest 10.

- For **every €1 GNI spent** in 2017, **€1.25 in GDP** was generated in the Irish economy.
- For **every 100 people** GNI employed in 2017 in Ireland (direct and contractors), **80 additional jobs** were supported in the economy.
- For **every €100m** spent by GNI in 2017, **1,140 jobs** were supported in the Irish economy.

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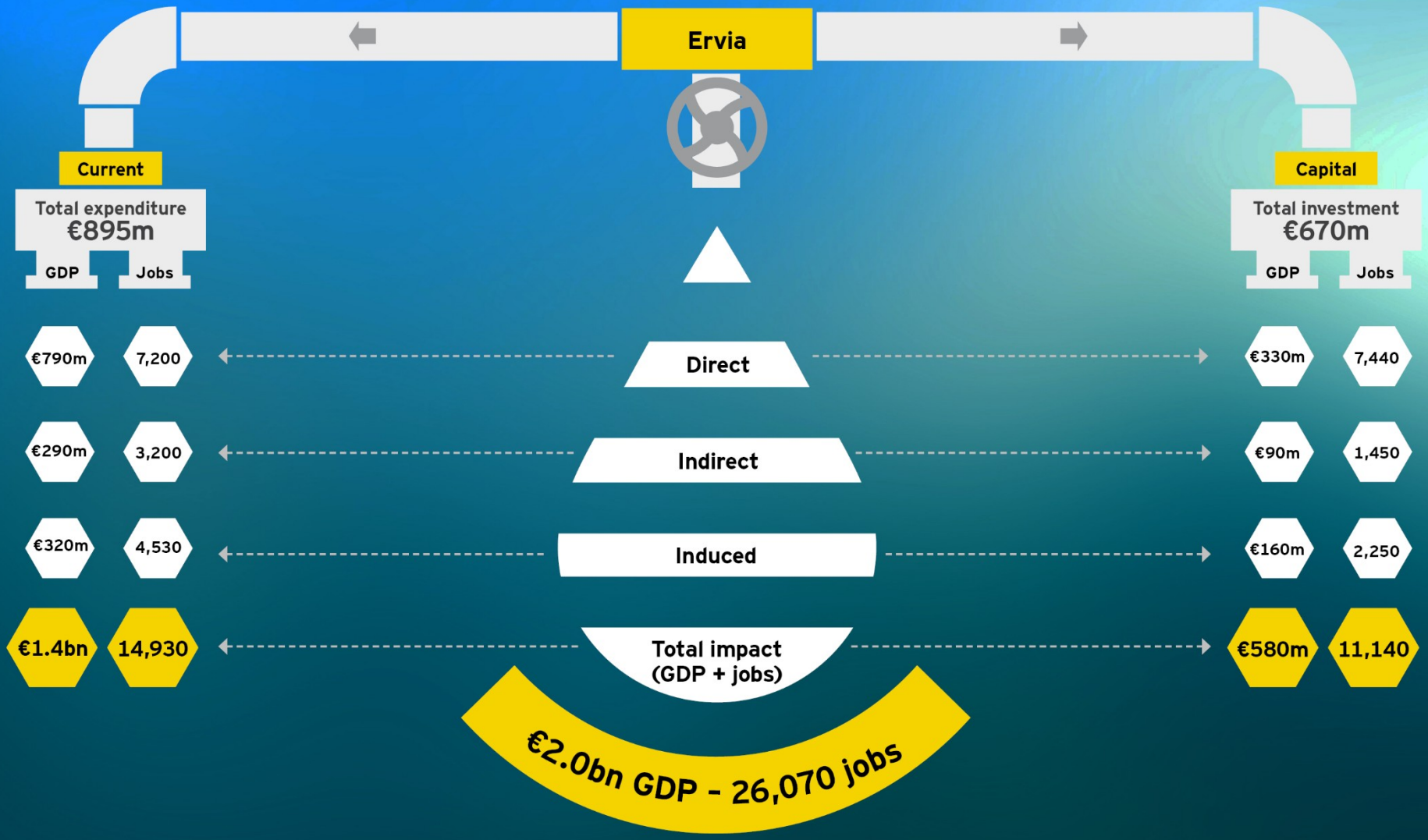
Ervia: 2017 Economic impact



* Ervia figures presented represent the entire Ervia group. Figures have been rounded to the nearest 10.

- For **every €1** Ervia spent in 2017, **€1.25 in GDP** was generated in the Irish economy.
- For **every 100 people** Ervia employed in 2017 in Ireland (direct and contractors), **80 additional jobs** were supported in the economy.
- For **every €100m** spent by Ervia in 2017, **1,660 jobs** were supported in the Irish economy.

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Ervia: 2017 Regional impact

Connacht/Ulster

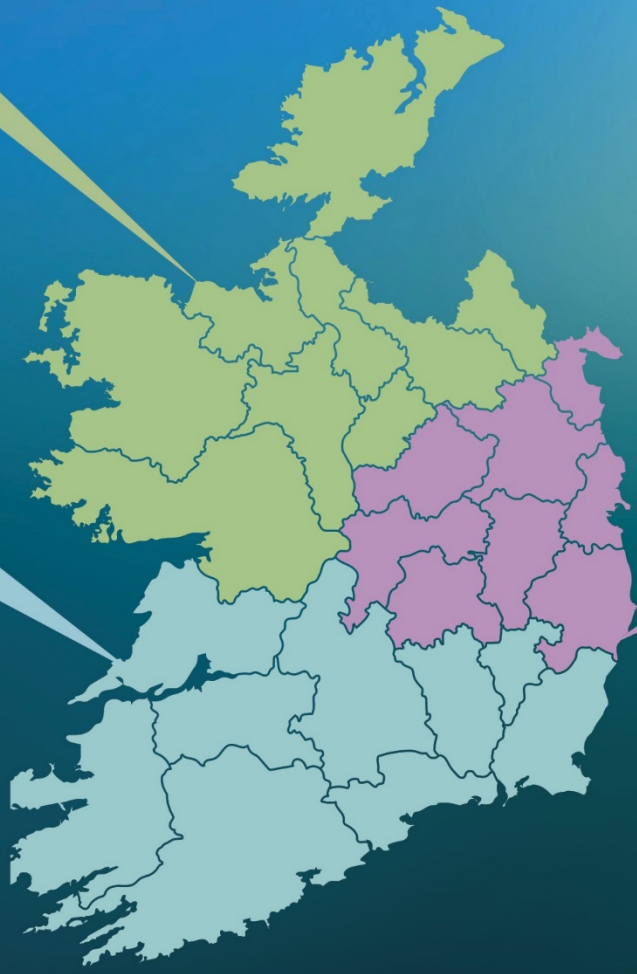
	Spend	GDP	Jobs
IW	€260m	€300m	4,440
GNI	€5m	€10m	100
Ervia	**€265m**	**€310m**	**4,540**

€270 spend per capita

Southern

	Spend	GDP	Jobs
IW	€470m	€590m	8,100
GNI	€95m	€180m	1,750
Ervia	**€565m**	**€770m**	**9,850**

€360 spend per capita



Total spending for 2017: **€1.6bn**

Total spending in Ireland: *€1.5bn*

Total GDP generated: **€2.0bn**

Total jobs supported: **26,070**

Eastern/Midlands

	Spend	GDP	Jobs
IW	€495m	€690m	9,910
GNI	€125m	€210m	1,770
Ervia	**€620m**	**€900m**	**11,680**

€280 spend per capita

* The Ervia figures presented represent both the current and capital Irish spending of Ervia for 2017. Figures have been rounded to the nearest 10.

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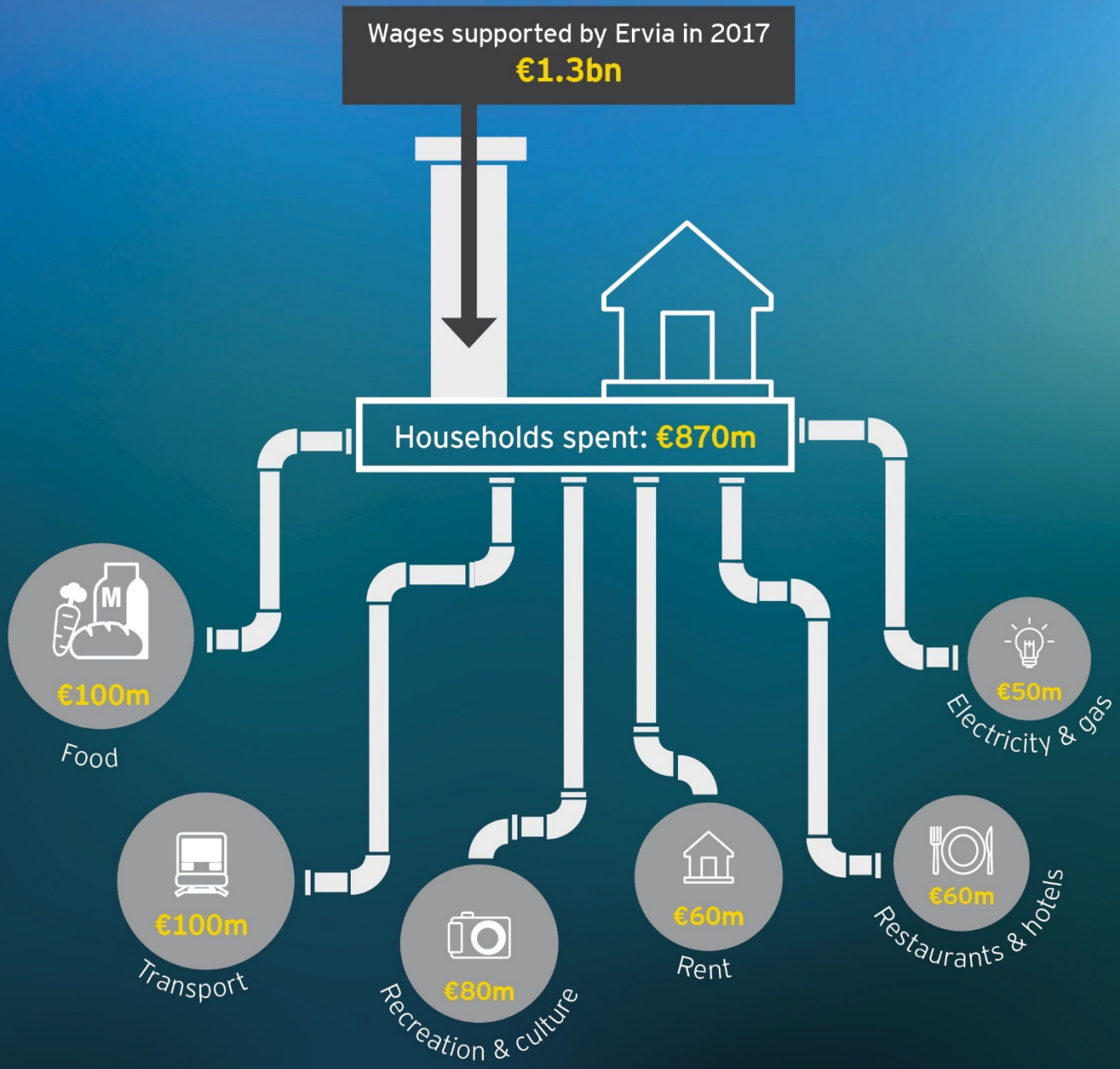
Ervia: 2017 Spending supported and Exchequer income generated



The total Exchequer income generated by Ervia and its activities in the supply chain in 2017 was:

€795m

	IW	GNI	Ervia
Payroll taxes	€320m	€55m	€375m
Corporation tax	€35m	€25m	€60m
Consumption taxes	€195m	€15m	€210m
Dividend to State	-	€150m*	€150m
Total taxes generated	€550m	€245m	€795m

*Includes a special dividend of €100m relating to the sale of the Energy business.

Figures have been rounded to the nearest 5 and may not sum due to rounding.

- For **every €1 IW** spends, **€0.44** is generated directly and indirectly in Exchequer income.
- For **every €1 GNI** spends, **€0.76** is generated directly and indirectly in Exchequer income.
- For **every €1 Ervia** spends in the economy, **€0.50** is generated for the Exchequer through direct taxation and activities in the supply chain.

- For **every €1 in Government subvention income** Irish Water receives, it generates **€0.73 in Exchequer income** through its direct purchases and wages, and supply chain activities.

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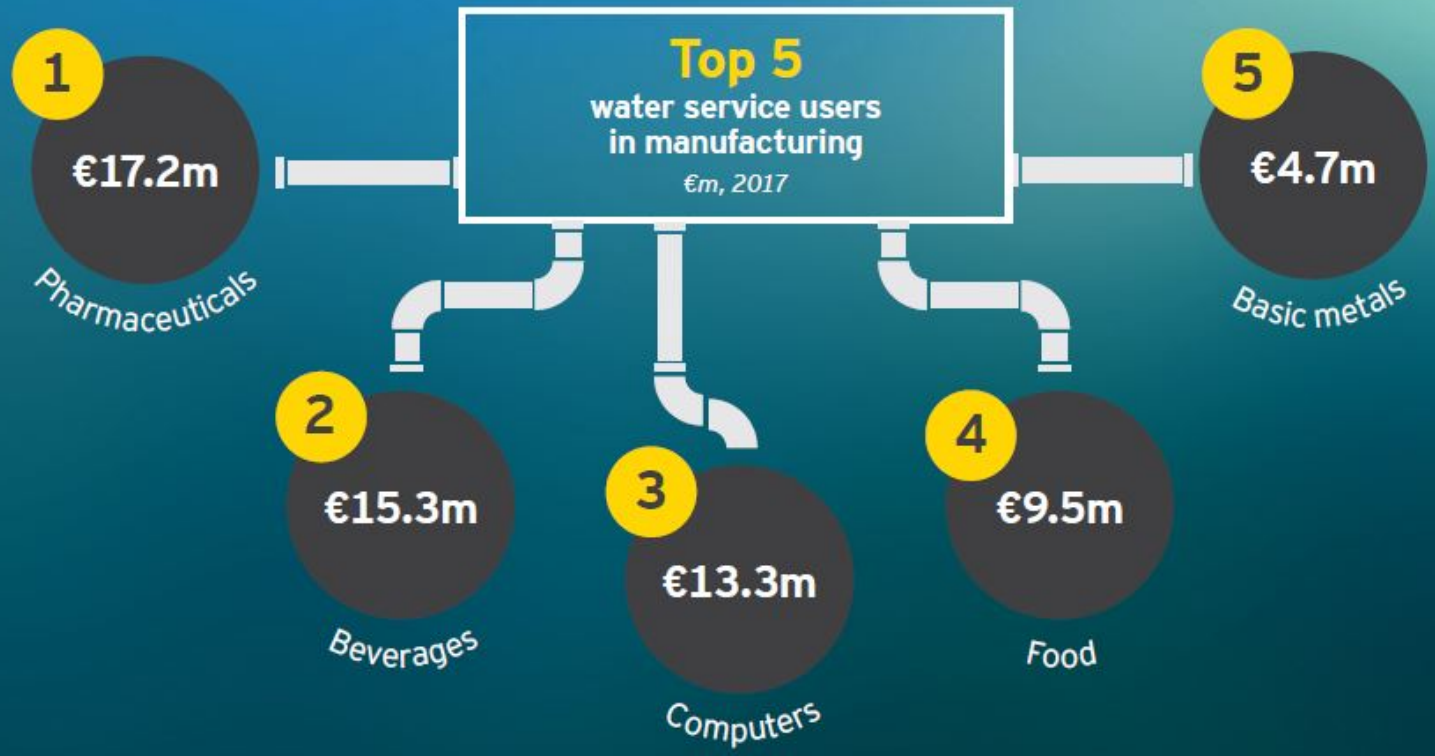
Ervia: Strategic Importance of Water

Services provided by Irish water to

1.5 million

households and almost 200,000 non-residential customers annually



"Businesses see the creation of Ervia (Irish Water) as a positive move providing a better service and better utilisation of asset stock"
Industry Representative Body

"The Shannon Project is critical. There will be no scope to miss deadlines and it will benefit all towns along the route."
Industry Representative Body

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Ervia: 2017 Corporate Responsibility

GNI

37,559 hours
that students spent learning on GNI supported programmes

92
number of **community projects** in which GNI supported

5,216 students
that took part in **"Our Universe"** programme learning STEM skills

4,890 hours
students spent **learning** with GNI's volunteers

1 in 4
GNI employees volunteered on CR programmes

Irish Water

97,573 students
students participated in **green schools programme** sponsored by Irish Water

460
million litres saved by schools participating in the Irish Water sponsored green schools programme

110
number completing Irish Water's **behavioural safety programme** in 2017

9.7%
energy savings by Irish Water between 2009-2016

33%
energy saving target set by Irish Water for year 2020

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