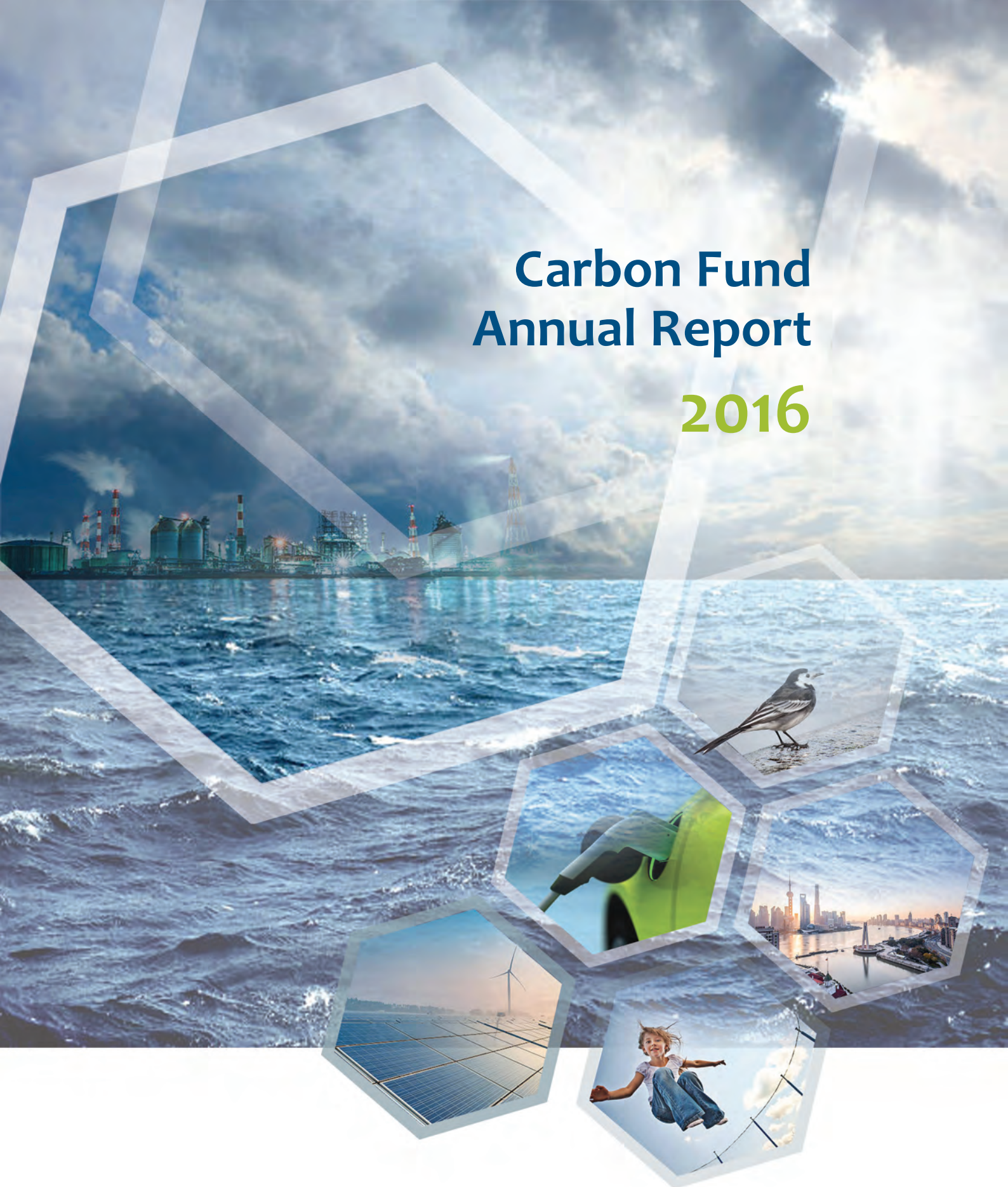


Carbon Fund Annual Report 2016



National Treasury Management Agency

REPORT AND ACCOUNTS OF THE CARBON FUND FOR THE YEAR ENDED 31 DECEMBER 2016



Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

23 May 2017

Mr Denis Naughten TD
Minister for Communications, Climate Action
and Environment
29-31 Adelaide Road
Dublin
D02 X285

Dear Minister

Please find enclosed the Report and Accounts of the Carbon Fund for the year ended 31 December 2016.

Yours sincerely

Willie Walsh
Chairperson



Report and Accounts of the Carbon Fund 2016

CONTENTS

| | |
|---|---|
| Summary | 3 |
| Background | 3 |
| Section One | 4 |
| Measuring Greenhouse Gas Emissions | 4 |
| Ireland's obligations under the 2020 EU Effort Sharing Decision | 4 |
| Ireland's progress in meeting its emissions targets | 5 |
| Section Two | 7 |
| Investments by Ireland | 7 |
| Financial Statements | 8 |

Report and Accounts of the Carbon Fund 2016

Summary

Following the 2015 final settlement of obligations under the Kyoto Protocol compliance period 2008-2012, there was no activity in the Fund in 2016. At year end there were 5,329,964 units remaining in the Fund, which have been carried forward towards Ireland's 2020 commitments under the European Union's 2020 Climate and Energy Package.

Section 6 of the Carbon Fund Act 2007 states: *"As soon as may be, but not later than 6 months after the end of each financial year of the Agency, the Agency shall make a report to the Minister of its activities in relation to the performance during the year concerned of the functions delegated to it under this Act, and the Minister shall cause copies of the report to be laid before each House of the Oireachtas."*

This report is the tenth report to the Minister for Communications, Climate Action and the Environment under the Carbon Fund Act, and covers the year ended 31 December 2016.

Background

The Carbon Fund was established in 2007 for the purchase of carbon units on behalf of the State. This was in order to meet Ireland's commitments under the Kyoto Protocol – an international climate change agreement. It was established under the Carbon Fund Act 2007, and the units purchased were intended to supplement domestic mitigation action.

Management of the Fund was delegated to the National Treasury Management Agency. The NTMA was also designated as the purchasing agent for the acquisition of the necessary credits. Carbon credits are referred to in the legislation as Kyoto Units.

Ireland's strategy for achieving its Kyoto target for reducing greenhouse gas emissions was set out in the *National Climate Change Strategy 2007-2012*, published in April 2007¹. It was originally estimated that the Government would need to purchase carbon credits to cover a projected 3.6 million tonnes of excess emissions in respect of each year of the 2008–2012 period. Following the rapid and severe deterioration in economic conditions and the lower rate of growth in the Irish economy over this period, the requirement to purchase credits was significantly reduced.

The final accounting transactions for the first commitment period (2008-2012) were carried out in 2015. The unused credits were carried over with the intention to use them to meet Ireland's commitments in the current period (2013-2020).

Ireland's obligations and projected progress relative to its emissions targets are described in Section One. In Section Two, Ireland's carbon-related investments to date are described.

¹ For details, see the full report published by the Department of the Environment, Heritage and Local Government (now the Department of Communications, Climate Action and Environment) available at <http://www.housing.gov.ie/sites/default/files/migrated-files/en/Publications/Environment/Atmosphere/FileDownload%2C1861%2Cen.pdf>

Section One

Measuring Greenhouse Gas Emissions

Carbon Dioxide (CO₂) is the most common greenhouse gas (GHG) and a tonne of CO₂ is used as the common unit of measure. Carbon Units therefore are each equivalent to a tonne of CO₂. Emissions of other GHGs are measured as equivalents of carbon dioxide (CO₂e) in terms of their Global Warming Potential (GWP) over a 100-year period. By definition, CO₂ has the GWP of 1. See table 1 for further details.

Table 1

| | GWP-100 |
|--|---------------|
| Carbon dioxide (CO ₂) | 1 |
| Methane (CH ₄) | 21 |
| Nitrous Oxide (N ₂ O _s) | 310 |
| Hydrofluorocarbons (HFCs) | 150 – 11,700 |
| Perfluorocarbons (PFCs) | 6,500 – 9,200 |
| Sulphur Hexafluoride (SF ₆) | 23,900 |

Ireland's obligations under the 2020 EU Effort Sharing Decision

Ireland's current targets are set by the EU 2020 Climate and Energy Package².

There are two key tools in place to ensure the EU meets these targets:

■ The European Union Emissions Trading System (EU ETS)

The industry emissions are covered by the European-wide “cap and trade” scheme for major polluters – the EU ETS. Under the system, 45% of the EU's GHG emissions are controlled in sectors including commercial aviation, aluminium production, extractive and chemical-intensive industries³. These bodies are given direct emissions targets and allowances to manage themselves. Over 100 Irish installations participate in the scheme.

■ The Effort-Sharing Decision⁴/National emission reduction targets

This covers sectors not in the EU ETS, such as housing, agriculture and waste. Each country in the EU has an individual reduction target. By 2020, Ireland's target is a reduction of 20% of non-Emissions Trading System (non-ETS) sector emissions compared to 2005 levels, with annual binding limits set for each year over the period 2013-2020. Table 2 describes the minimum targets for each country.

² https://ec.europa.eu/clima/policies/strategies/2020_en

³ https://ec.europa.eu/clima/policies/ets_en

⁴ https://ec.europa.eu/clima/policies/effort_en

Section One

Table 2

Member State GHG emission limits in 2020 compared to 2005 GHG emissions levels

| | |
|----------------|-------------|
| Denmark | -20% |
| Ireland | -20% |
| Luxembourg | -20% |
| Sweden | -17% |
| Netherlands | -16% |
| Austria | -16% |
| Finland | -16% |
| United Kingdom | -16% |
| Belgium | -15% |
| Germany | -14% |
| France | -14% |
| Italy | -13% |
| Spain | -10% |
| Cyprus | -5% |
| Greece | -4% |
| Portugal | 1% |
| Slovenia | 4% |
| Malta | 5% |
| Czech Republic | 9% |
| Hungary | 10% |
| Estonia | 11% |
| Slovakia | 13% |
| Poland | 14% |
| Lithuania | 15% |
| Latvia | 17% |
| Romania | 19% |
| Bulgaria | 20% |

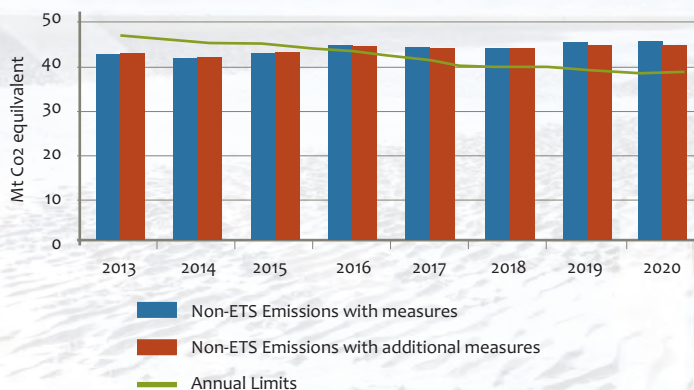
Ireland's progress in meeting its emissions targets

The most recent Environmental Protection Agency (EPA) bulletin⁵, published in April 2017, describes Ireland's progress towards achieving its emissions targets. Estimates of the annual binding limits were set out in the 2015 publication. The EPA found that Ireland is projected to exceed its annual binding limits for each year between 2016 and 2020, as shown in Figure 1. The "With Measures" scenario assumes policies in place by end-2015 are implemented for the projection horizon, whereas the "With Additional Measures" scenario includes further achievement of Government renewable energy efficiency targets for 2020.

5 <https://www.epa.ie/pubs/reports/air/airemissions/ghgprojections/>

Section One

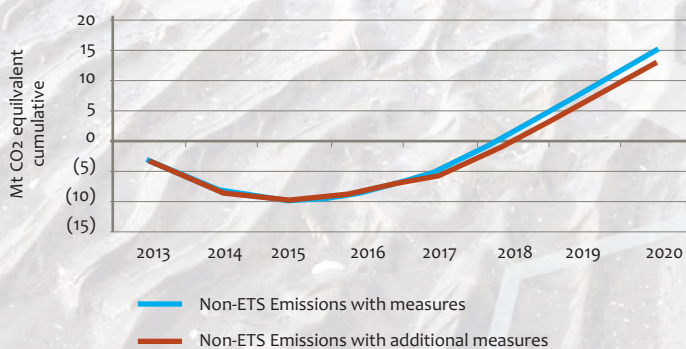
Figure 1



Source: Environmental Protection Agency

Further actions reflected in the “With Additional Measures” scenario are described in two documents⁶ published by the Department of Communications, Climate Action and Environment. The cumulative shortfall relative to obligations is in a range of 11.5 – 13.7 Mt CO₂ equivalent by 2020, depending on the level of implementation of these further policies. It is anticipated that the units in the Carbon Fund will be used towards meeting this gap. The cumulative projections are shown in Figure 2.

Figure 2



Source: Environmental Protection Agency

⁶ <http://www.dccae.gov.ie/energy/en-ie/Renewable-Energy/Pages/Action-Plan.aspx> and [http://www.dccae.gov.ie/energy/en-ie/Energy-Efficiency/Pages/National-Energy-Efficiency-Action-Plan-\(NEEAP\).aspx](http://www.dccae.gov.ie/energy/en-ie/Energy-Efficiency/Pages/National-Energy-Efficiency-Action-Plan-(NEEAP).aspx)

Section Two

Investments by Ireland

Ireland's strategy to meet the carbon emission reduction requirements involved a number of investments to deliver carbon units. The Department of Communications, Climate Action and Environment undertook investments in three multilateral funds. These funds invest in projects to achieve carbon emissions reductions.

These are:

- The Multilateral Carbon Credit Fund (MCCF)⁷ of the European Bank for Reconstruction and Development;
- The World Bank Carbon Fund for Europe;
- The World Bank BioCarbon Fund.

In addition to these investments, the NTMA was mandated to purchase carbon units directly from the market. This was to supplement the units received through investments and meet the reductions targets. A total of 18 million tonnes were estimated as required in the period.

In total 21 trades were undertaken, in which Ireland purchased 5.255 million units. The average price was €14.03 (excluding VAT). These trades were undertaken during 2008 and 2009. The carbon purchasing programme was suspended in February 2009, following a decision by the Department of the Environment, Community and Local Government.

At end-2016 these 5.255 million units were carried over to meet Ireland's commitments under the European Union's 2020 Climate and Energy Package. Additional units from the investment projects outlined above were also carried forward. In all, 5,329,964⁸ Carbon Credits remain in the Fund for the current compliance period. The Department of Communications, Climate Action and Environment will instruct the NTMA with regard to usage of these units in order to meet upcoming emissions targets.

While the NTMA has made no further trades, the Agency has assisted the Department in processing outstanding payments on the State's investments in funds. The Carbon Fund made a payment of €422,750 (\$469,236) to the BioCarbon Fund in August 2015. This was undertaken following an instruction from the Department. This relates to a commitment under the Participation Agreement between Ireland and the IBRD as Trustee of the BioCarbon Fund. This brought Ireland's investment in the fund to €6.03m out of a commitment of \$10.08m.

⁷ The European Investment Bank is partnering with the EBRD in managing the MCCF; Ireland's agreement is only with the EBRD.

⁸ This consists of 5,255,000 Certified Emissions Reductions "CERs" and 74,964 Emissions Reductions Units "ERUs"

Report and Accounts of the Carbon Fund 2016

CONTENTS

| | |
|--|-----------|
| Statement of Agency's Responsibilities | 9 |
| Statement on Internal Financial Control | 10 |
| Report of the Comptroller and Auditor General | 12 |
| Fund Account | 13 |
| Statement of Financial Position | 14 |
| Notes to the Financial Statements | 15 |

Report and Accounts of the Carbon Fund 2016

Statement of Agency's Responsibilities

The National Treasury Management Agency (the "Agency") is required by the Carbon Fund Act 2007 (as amended) (the "Act") to prepare financial statements in respect of the operations of the Carbon Fund for each financial year.

In preparing those statements, the Agency:

- selects suitable accounting policies and then applies them consistently;
- makes judgements and estimates that are reasonable and prudent;
- prepares the financial statements on a going concern basis unless it is inappropriate to do so;
- discloses and explains any material departure from applicable accounting standards.

The Agency is responsible for keeping in such form as prescribed under Section 5 of the Act, all proper and usual accounts in relation to the performance by it of the functions delegated or granted to it under the Act. The Agency shall whenever requested to do so in accordance with the Act, provide such financial statements and such information in relation to such financial statements as is required under legislation

The Agency is also responsible for safeguarding assets under its control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Agency



Conor O'Kelly, Chief Executive
National Treasury Management Agency



Willie Walsh, Chairperson
National Treasury Management Agency

8 May 2017



Report and Accounts of the Carbon Fund 2016

Statement on Internal Financial Control

The National Treasury Management Agency (the “Agency”) is the manager of the Carbon Fund (the “Fund”). The Agency system of internal financial control is detailed below.

Responsibility for the System of Internal Financial Control

We acknowledge the responsibility for ensuring that an effective system of internal financial control is maintained and operated.

The system can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

Key Control Procedures

We have taken steps to ensure an appropriate control environment by:


- establishing appropriate governance structures with clearly defined management responsibilities;
- establishing formal procedures for reporting significant control failures and ensuring appropriate corrective action;
- establishing an Audit and Risk Committee to advise us on discharging our responsibilities for the internal financial control system.

The National Treasury Management Agency (“the Agency”) has established processes to identify and evaluate business risks by:

- identifying the nature, extent and financial implication of risks facing the organisation;
- assessing the likelihood of identified risks occurring;
- assessing the organisation’s ability to manage and mitigate the risks that do occur;
- assessing the costs of operating particular controls relative to the benefit obtained.

The system of internal financial control is based on a framework of regular management information, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes:

- a comprehensive budgeting system with an annual budget which is reviewed and approved by the Agency Members and submitted to the Minister for Finance;
- regular reviews of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines;
- formal project management disciplines;
- adaption of an Anti-Fraud policy and the Reporting of ‘Relevant Wrongdoing’ and Protected Disclosures Policy (formerly the Good Faith Reporting Policy)



Report and Accounts of the Carbon Fund 2016

Statement on Internal Financial Control (continued)

The Agency has an Audit and Risk Committee which operates in accordance with the principles in the Code of Practice for the Governance of State Bodies. The Agency's internal audit function is overseen by this Audit and Risk Committee. The work of the internal audit function is informed by an analysis of the risks to which the Agency is exposed, and annual internal audit plans are based on this analysis. These risk-based internal audit plans are agreed with the Chief Executive and management of the Agency and approved by the Agency's Audit and Risk Committee. On a regular basis, the internal audit function provides the management of the Agency and the Agency's Audit and Risk Committee with reports of internal audit activity. These reports outline any findings and recommendations in relation to internal controls that have been reviewed. Progress against recommendations is monitored and reported to the Audit and Risk Committee.

The Agency has a Code of Practice on Confidentiality and Professional Conduct which sets out the agreed standards of principles and practice in relation to confidentiality, conflicts of interest, insider dealing, market manipulation and personal account transactions.

The Agency has put in place an appropriate framework to ensure that it complies with the Data Protection Acts. As part of this framework, the Agency has implemented systems and controls to restrict the access to confidential data. Under the framework, where the Agency becomes aware of breaches or alleged breaches of confidential data, these are fully investigated and where necessary reported to the appropriate authorities.

The Agency's monitoring and review of the effectiveness of the system of internal financial control is informed by the management within the Agency who have responsibility for the development and maintenance of the financial control framework, the findings from the work of the internal audit function and comments made by the Office of the Comptroller and Auditor General in management letters or other reports.

Annual Review of Controls

We confirm that, in respect of the year ended 31 December 2016, the Agency members, having taken advice from the Agency's Audit Committee and Risk Committee, conducted a review of the effectiveness of the system of internal financial control.

On behalf of the Agency members




Willie Walsh, Chairperson
National Treasury Management Agency

8 May 2017



Martin Murphy, Chairperson, Audit Committee
National Treasury Management Agency



Report and Accounts of the Carbon Fund 2016

Comptroller and Auditor General Report for presentation to the Houses of the Oireachtas

Carbon Fund

I have audited the financial statements of the Carbon Fund for the year ended 31 December 2016 under the Carbon Fund Act 2007. The financial statements comprise the fund account, the statement of financial position and the related notes. The financial statements have been prepared in the form prescribed under section 5 of the Carbon Fund Act 2007.

Responsibilities of National Treasury Management Agency

The National Treasury Management Agency (the Agency) is responsible for the preparation of the financial statements in the specified format and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General

My responsibility is to audit the financial statements and report on them in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation.

My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the Fund's circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of audit.

In addition, I read the annual report on the Fund to identify if there are any material inconsistencies with the audited financial statements and to identify if there is any information that is apparently materially incorrect or inconsistent based on the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the financial statements

In my opinion, the financial statements, which have been properly prepared in accordance with the Carbon Fund Act 2007 properly present the state of the Fund's affairs at 31 December 2016 and its transactions for 2016.

In my opinion, the accounting records of the Agency in relation to the Fund were sufficient to permit the financial statements to be readily and properly audited. The financial statements are in agreement with the accounting records.

Matters on which I report by exception

I report by exception if I have not received all the information and explanations I required for my audit, or if I find

- any material instance where public money has not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information in the Fund's annual report is not consistent with the related financial statements or with the knowledge acquired by me in the course of performing the audit, or
- the statement on internal financial control does not reflect the Agency's compliance with the Code of Practice for the Governance of State Bodies in relation to the Fund, or
- there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to those matters upon which reporting is by exception.



Seamus McCarthy
Comptroller and Auditor General
12 May 2017

Report and Accounts of the Carbon Fund 2016

Fund Account For Year Ended 31 December 2016

| | | 2016 | 2015 |
|--|------|-------------------|-------------------|
| | Note | € | € |
| Income | 4 | - | 422,750 |
| Asset surrender | 5 | - | (9,392,193) |
| Movement in Fund | | - | (8,969,443) |
| Net assets of Fund at 1 January | | 90,314,695 | 99,284,138 |
| Net assets of Fund at 31 December | | 90,314,695 | 90,314,695 |

The accompanying notes form an integral part of the financial statements.

On behalf of the Agency



Conor O'Kelly, Chief Executive
National Treasury Management Agency



Willie Walsh, Chairperson
National Treasury Management Agency

8 May 2017

Report and Accounts of the Carbon Fund 2016

Statement of Financial Position As at 31 December 2016

| | | 2016 | 2015 |
|--------------------|------|-------------------|-------------------|
| | Note | € | € |
| Carbon Fund assets | 7 | 90,314,695 | 90,314,695 |
| Receivables | 9 | - | 422,750 |
| Other liabilities | 10 | - | (422,750) |
| Net assets of Fund | | <u>90,314,695</u> | <u>90,314,695</u> |

The accompanying notes form an integral part of the financial statements.

On behalf of the Agency




Conor O'Kelly, Chief Executive
National Treasury Management Agency



Willie Walsh, Chairperson
National Treasury Management Agency

8 May 2017



Report and Accounts of the Carbon Fund 2016

Notes to the Financial Statements

1. Background

The Carbon Fund was established under the Carbon Fund Act 2007 for the acquisition of Kyoto Units¹ and any other such instruments or assets on behalf of the State to meet international climate change obligations under the 1992 United Nations Framework Convention on Climate Change, the 1997 Kyoto Protocol to that Convention and the Paris Agreement. The National Treasury Management Agency (the “Agency”) has been designated as the purchasing agent on behalf of the State and administers and manages purchases of Kyoto Units.

The Agency may use the following mechanisms to purchase Kyoto Units:

- direct purchase of Kyoto Units from other Kyoto Protocol parties
- direct investment in Joint Implementation and Clean Development Mechanism projects
- investment in managed funds
- direct market purchases of Kyoto Units
- or a combination of some or all of these.

Any surplus Kyoto Units held by the State at the end of the 2008-2012 commitment period can be used in a subsequent commitment period of the Kyoto Protocol or any successor treaty. The final accounting transactions for the first commitment period of the Kyoto Protocol (2008-2012) were carried out in 2015. The unused credits were carried over with the intention to use them to meet Ireland's 2020 commitments under the European Union's 2020 Climate and Energy Package.

The functions of the Minister for Finance under the Carbon Fund Act 2007 were transferred to the Minister for Public Expenditure and Reform on 29 July 2011. The functions of the Minister for the Environment, Community and Local Government under the Carbon Fund Act 2007 were transferred to the Minister for Communications, Climate Action and Environment on 22 July 2016.

2. Basis of Preparation

The financial statements have been prepared in accordance with section 5(1)(a) of the Carbon Fund Act 2007 in a format that was approved by the Minister for the Environment, Heritage and Local Government, with the consent of the Minister for Finance.

The reporting currency is the euro which is denoted by the symbol €. Where used, €m denotes million.

¹ A Kyoto Unit is defined in the Carbon Fund Act 2007 as “a unit, equivalent to one metric tonne of carbon dioxide, issued pursuant to the Kyoto Protocol and the decisions adopted pursuant to the Convention and the Kyoto Protocol”. Kyoto Units are generally referred to as carbon credits. The legislation allows for the disposal of Kyoto Units only with the consent of the Minister for Communications, Climate Action and Environment and the Minister for Public Expenditure and Reform and on such terms as they may specify.



Report and Accounts of the Carbon Fund 2016

Notes to the Financial Statements (continued)

3. Accounting Policies

3.1 Carbon Fund Assets

Carbon Fund assets represent investments in the following:

Direct Holdings

Kyoto Units purchased are recorded on delivery at cost of acquisition. The cost of acquisition includes Value Added Tax paid and payable in respect of the purchase of the Kyoto Units.

Indirect Kyoto Units

Investments in indirect units are made in managed funds. Investments in these funds are recorded at investment cost. Such investments relate to carbon reducing projects that may or may not produce Kyoto Units. The total number of units, if any, will not be known until a future date when the projects are complete.

The Minister for the Environment, Heritage and Local Government invested €20 million in 2006 in a Multilateral Carbon Credit Fund established by the European Bank for Reconstruction and Development. That investment does not form part of the Fund but the units produced by projects undertaken are included herein as explained in Note 7(d).

3.2 Gains and Losses on Carbon Fund Assets

The Kyoto Units were acquired with the intention to meet Ireland's obligation under the Kyoto Protocol, in the commitment period 2008 to 2012. The final accounting transactions for the first commitment period of the Kyoto Protocol (2008-2012) were carried out in 2015. On 20 December 2016 the unused credits were carried over with the intention to use them to meet Ireland's 2020 commitments under the European Union's 2020 *Climate and Energy Package*. No realised gains or losses will arise as a consequence of the surrender of the assets referred to in Note 5 or the carry over to the next commitment period.

3.3 Fund Account

The Fund Account records the accumulated income received or receivable from the relevant Department. Investments are funded initially through repayable advances from the Central Fund under section 3 of the Carbon Fund Act 2007 pending receipt of this income.

3.4 Foreign Currencies

All transactions in foreign currencies are translated into euro at the rates of exchange prevailing at the date of such transactions. Unfunded commitments to non-euro investments are translated into euro using the foreign exchange rates prevailing at the year end date.

3.5 Taxation

The income and profits of the Carbon Fund are exempt from Irish corporation tax. The purchases of Kyoto Units by the Carbon Fund are liable to Value Added Tax as such transactions are regarded as a supply of a service, as defined by Section 5(1) Value Added Tax Act 1972. VAT incurred is included in the cost of acquisition of the Carbon Fund assets.

3.6 Asset Surrender/Carry Over to Next Commitment Period

Direct holdings of Kyoto units are surrendered at the average cost of the direct holdings at the date of surrender.

Indirect Kyoto units are surrendered at the average cost of the investment in the relevant managed fund at the date of surrender.

Direct and indirect Kyoto units are carried over to the next commitment period at cost.

Report and Accounts of the Carbon Fund 2016

Notes to the Financial Statements (continued)

4. Income

| | Year Ended 31 December 2016 | Year Ended 31 December 2015 |
|---------------------------------|--------------------------------|--------------------------------|
| | € | € |
| Income from Relevant Department | - | 422,750 |

The Carbon Fund receives income in the form of reimbursement to meet expenditure incurred in the year. As there was no expenditure during 2016, no reimbursement is necessary. During 2015, there was a call on payments under the BioCarbon Fund to the value of €422,750. In 2015, the Carbon Fund income represented the reimbursement due from the Department of the Environment, Community and Local Government.

5. Asset Surrender

The units held in the Carbon Fund are held at historical prices as these units are not held for trading purposes but to be submitted as part of Ireland's Compliance under the Kyoto Protocol, its successors and Ireland's obligations under European Union legislation in this regard (such as the Effort Sharing Decision (Decision 406/2009/EC)) and the 2020 *Climate and Energy Package*. The final accounting transactions for the first commitment period of the Kyoto Protocol (2008-2012) were carried out in 2015, during which time 3,052,416 units from the Fund were surrendered. This surrender of units was required to fulfil Ireland's obligations under the Kyoto Protocol. No transactions occurred in 2016. On 20 December 2016 5,255,000 Certified Emissions Reductions "CERs" and 74,964 Emissions Reductions Units "ERUs" were carried over to meet Ireland's commitments under the European Union's 2020 *Climate and Energy Package*.

6. Operating Expenses

The operating expenses of the Carbon Fund are charged to the Agency's Administration Account and are paid out of the Central Fund.

7. Carbon Fund Assets

(a) Summary of Assets

| | 2016 € | 2015 € |
|-------------------|-------------------|-------------------|
| Direct Holdings | 89,573,025 | 89,573,025 |
| Indirect Holdings | 741,670 | 741,670 |
| | <u>90,314,695</u> | <u>90,314,695</u> |



Report and Accounts of the Carbon Fund 2016

Notes to the Financial Statements (continued)

7. Carbon Fund Assets (continued)

| | 2016 € | 2015 € |
|---|------------|------------|
| (b) Analysis by Currency of Acquisition | | |
| Euro | 90,314,695 | 90,314,695 |
| (c) Indirect Holdings: | | |
| | 2016 € | 2015 € |
| World Bank – Carbon Fund for Europe | 741,670 | 741,670 |

(d) Credits Delivered and Held:

The number of carbon credits delivered and held with the Union Registry of the European Commission at 31 December:

| | 2016 | 2015 |
|--------------------------------|-----------|-----------|
| Purchased Directly | 5,255,000 | 5,255,000 |
| Acquired Via Indirect Holdings | 74,964 | 74,964 |
| | 5,329,964 | 5,329,964 |

During the year no units (2015: 3,052,416) were surrendered and the Fund received no units (2015: 28,360). At 31 December 2016, 30,795 units (2015: 30,795) of the 5,329,964 units (2015: 5,329,964) relate to credits acquired through investments made by the Department of the Environment, Community and Local Government prior to the establishment of the Carbon Fund.

Report and Accounts of the Carbon Fund 2016

Notes to the Financial Statements (continued)

8. Commitments

Carbon Fund Investments

The Agency administers payments on behalf of the Minister of Communications, Climate Action and Environment in respect of two World Bank funds. Investments in these funds relate to projects which may yield Kyoto Units but the total number of units will not be known until a future date when the projects complete.

At 31 December 2016, the uncalled commitments in respect of these investments amounted to:

| | Total Commitment of the State Local Currency | Euro equivalent | Paid to date | Unfunded Commitment |
|------------------------|--|--------------------|--------------|------------------------|
| World Bank Fund | | € | € | € |
| Carbon Fund for Europe | €4.26m | 4,263,000 | 4,100,000 | 163,000 |
| BioCarbon Fund | US\$10.08m | 7,790,497 | 6,033,863 | 1,756,634 |
| | | 12,053,497 | 10,133,863 | 1,919,634 |

At 31 December 2015, the uncalled commitments in respect of these investments amounted to:

| | Total Commitment of the State Local Currency | Euro equivalent | Paid to date | Unfunded Commitment |
|------------------------|--|--------------------|--------------|------------------------|
| World Bank Fund | | | | |
| Carbon Fund for Europe | €4.26m | 4,263,000 | 4,100,000 | 163,000 |
| BioCarbon Fund | US\$10.08m | 7,734,669 | 6,033,863 | 1,700,806 |
| | | 11,997,669 | 10,133,863 | 1,863,806 |


There was no call on funds, under the Carbon Fund for Europe or the BioCarbon Fund during 2016.

During 2015, there was a call on payments under the BioCarbon Fund to the value of €422,750. There was no call on funds under the Carbon Fund for Europe.

9. Receivables

| | 2016 € | 2015 € |
|-------------------------------------|-----------|-----------|
| Receivable from relevant Department | - | 422,750 |

The amounts owed to the Carbon Fund are due under Section 3 (4) of the Carbon Fund Act 2007. No amounts are owed to the Carbon Fund in respect of 2016. In 2015 amounts were owed from the Department of the Environment, Community and Local Government.



Report and Accounts of the Carbon Fund 2016

Notes to the Financial Statements (continued)

10. Other Liabilities

| | 2016 | 2015 |
|--------------|------|---------|
| | € | € |
| Central Fund | - | 422,750 |

In 2015, the liability to the Central Fund was in respect of advances made by the Central Fund to the Carbon Fund, and was repaid to the Central Fund when the Carbon Fund received funds from the relevant Department.

11. Contingent Liabilities

The Carbon Fund had no contingent liabilities at 31 December 2016.

12. Related Parties

(a) Minister for Public Expenditure and Reform

Under Section 3 of the Carbon Fund Act 2007, the Minister for Public Expenditure and Reform may advance monies to the Carbon Fund from the Central Fund which are reimbursed by the Carbon Fund out of monies made available by the Minister for Communications, Climate Action and Environment (following a transfer of functions from the Minister for the Environment, Community and Local Government on 22 July 2016). No advances were made to the Fund in 2016. See note 10 in relation to advances made in 2015.

(b) Minister for Communications, Climate Action and Environment

Under Section 2(3) of the Carbon Fund Act 2007, the Minister for Communications, Climate Action and Environment manages and controls the Carbon Fund (following a transfer of functions from the Minister for the Environment, Community and Local Government on 22 July 2016).

(c) National Treasury Management Agency

Under Section 2(4) of the Carbon Fund Act 2007, the management of the Carbon Fund is delegated to the Agency.

Under Section 8 of the Carbon Fund Act 2007, the Minister for Communications, Climate Action and Environment, following consultation with the Minister for Public Expenditure and Reform may give directions or guidelines to the Agency in relation to the performance by it of the functions delegated or granted to it under the Act.

13. Approval of Financial Statements

The financial statements were approved by the Agency on 8 May 2017.