NewERA

Annual Financial Review

2015
2016

Important Notice

This report (the "Report") has been prepared by the New Economy and Recovery Authority ("NewERA") for the purposes of providing an overview of the combined financial performance of the portfolio of designated bodies (as defined in the National Treasury Management Agency (Amendment) Act 2014 (the "NTMA Act") and listed individually below) (individually the "Designated Body" and collectively the "Designated Bodies" or the "Portfolio") for their latest respective reported financial year (the "Relevant Financial Year"). The Relevant Financial Year for each of the Designated Bodies for the purpose of this Report is the year ended on the following dates:

- Bord na Móna ("BnM") 30 March 2016;
- Coillte Teoranta ("Coillte") 31 December 2015;
- EirGrid plc ("EirGrid") 30 September 2015;
- Ervia 31 December 2015;
- The Electricity Supply Board ("ESB") 31 December 2015; and
- Irish Water ("IW") 31 December 2015.

This Report is issued by NewERA for information purposes. The contents of this Report do not constitute investment, legal, business or tax advice and should not be read as such.

This Report has been prepared by NewERA on the basis of publicly available information relating to the Designated Bodies including, without limitation, their respective most recently published annual reports. With respect to each Designated Body, this Report does not include any financial information relating to periods after, or, save as expressly stated otherwise in this Report, take account of any developments subsequent to, the last day of the Relevant Financial Year of each of the relevant Designated Bodies. Financial performance measures utilised by NewERA and presented in this Report (see Appendix B) have been applied by NewERA on a standardised basis across each of the Designated Bodies; the financial performance measures applied by each entity for its own purposes may differ.

This Report also includes some general and non-exhaustive observations by NewERA arising out of its work with the Designated Bodies which may be of relevance to the historical and future performance of the Designated Bodies. These observations are made from a financial/commercial perspective only; any legal, regulatory and/or policy implications which may also be relevant to these observations are not addressed in this Report.

Under the NTMA Act, NewERA may also provide financial and commercial advice in relation to other State bodies when it is requested to so by Government Ministers; any such bodies are not Designated Bodies for the purposes of the NTMA Act and this Report does not cover any such body.

The accuracy and completeness of the information on which this Report is based has not been independently audited, tested or verified by NewERA and no undertaking, representation or warranty (express or implied) is given as to, and no responsibility or liability, whether in negligence or otherwise howsoever, is accepted by NewERA in respect of, the fairness, reasonableness, adequacy, accuracy, completeness, fitness for use or use of the consents of this Report. Furthermore, NewERA makes no representation that use of this Report or any of its content would not infringe other proprietary rights.

12 December 2016

Glossary of Terms

BnM	Bord na Móna
CCGT	Combined Cycle Gas Turbine
CER	Commission for Energy Regulation
Coillte	Coillte Teoranta
EBIT	Earnings before interest and taxation
EBITDA	Earnings before interest, taxation, depreciation and amortisation
EirGrid	EirGrid plc
ESB	The Electricity Supply Board
ESOP	Employee Share Ownership Plan
EU	European Union
EWIC	East West Interconnector
FFO	Funds from Operations
GAAP	Generally Accepted Accounting Principles
GNI	Gas Networks Ireland
GW	Gigawatt
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
I-SEM	Integrated single electricity market
IW	Irish Water

JV	Joint Venture
MDF	Medium-density fibreboard
MW	Megawatt
NI	Northern Ireland
OECD	Organisation for Economic Co-operation and Development
OSB	Oriented Strand Board
PAT	Profit after Taxation
PBT	Profit before Taxation
PSO	Public Service Obligation
ROIC	Return on Invested Capital
SEM	Single Electricity Market
SEMO	Single Electricity Market Operator
SONI	System Operator for Northern Ireland
T&D	Transmission and Distribution Network
TSO	Transmission System Operator
UK	United Kingdom
URegNI	Utility Regulator Northern Ireland
WACC	Weighted Average Cost of Capital

Contents

1. Introduction

1.1 BACKGROUND

The role of State-Owned Enterprises ("SOEs") in the world economy is significant and growing – a trend underpinned by growth in emerging economies. In the international arena, SOEs now operate in a wide range of key economic sectors including public utilities, manufacturing, metals and petroleum and 22 of the world's top 100 companies are state-owned (Organisation for Economic Co-operation and Development ("OECD"), 2016). In Ireland, SOEs also play a significant role in the economy with substantial State capital deployed across a range of critical sectors including energy, forestry, water, ports and airports. According to the OECD, *"the way in which state bodies are governed or managed has a significant impact on their performance and value, as well as on public finances, domestic economic growth, investor confidence, and market competitiveness"*. In many developed countries, centralised ownership entities have been set up to provide government with specialised financial advice in respect of SOEs.

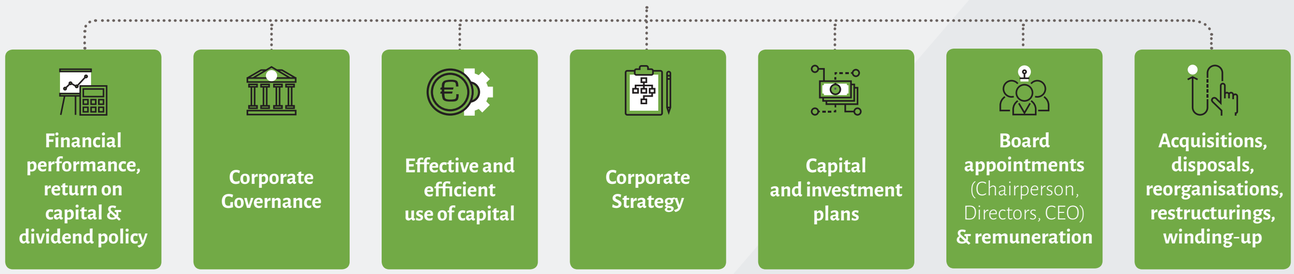
1.2 NewERA's ROLE

In September 2011 the Government announced the establishment of NewERA within the National Treasury Management Agency (the "NTMA"), to provide specialist financial services to it in respect of SOEs. The provision of such services is consistent with the practice in other OECD developed countries. NewERA's core role is to provide financial and commercial advice to Government Ministers in relation to their functions with respect to, and shareholdings/stockholdings in, Bord na Móna, Coillte, EirGrid, Ervia, ESB and Irish Water (the "Portfolio"). This Report has been prepared by NewERA for the purposes of providing an overview of the combined financial performance of the Portfolio along with some general observations by NewERA arising out of its work with these entities.

Where specifically requested by the relevant Government Ministers, NewERA's role also extends to other State Bodies or assets. Since establishment, NewERA has also provided financial advisory services in respect of An Post, RTÉ, Córas Iompair Éireann, daa plc, Irish Aviation Authority, Dublin Port Company, the Port of Cork and the disposal and restructuring of State assets. As these entities are not part of the Portfolio, they do not form part of this Report.

As a dedicated centre of financial expertise NewERA can bring a greater commercial focus to the oversight of SOEs with an emphasis on shareholder return, where appropriate. A summary of NewERA's advisory functions[1] is set out graphically below:

NewERA Advisory Functions



The period immediately post establishment of NewERA was focused primarily on providing financial and commercial advisory services in relation to the State asset disposal programme that was agreed as part of the EU/IMF Programme announced in February 2012. NewERA played a central role in providing financial and commercial advice to Government Ministers in relation to disposals including, Bord Gáis Energy and some of ESB's international power generation capacity. In 2015 NewERA also provided key financial and commercial advisory services to the relevant Government Ministers in relation to the sale of the Government's remaining stake in Aer Lingus.

Over the same period NewERA has sought to facilitate an enhanced level of active ownership by the State as shareholder in the Portfolio and in this context the Shareholder Expectations Framework was developed with the aim of providing formal clarity and guidance to the Board of each of the entities in the Portfolio in relation to the Government's strategic priorities, policy objectives, financial performance and reporting requirements. This enhanced level of active ownership is particularly important given the crucial role the Portfolio entities play in the economy through investment in enabling infrastructure, such as energy and water networks.

1 In December 2014, NewERA's functions were put on a statutory footing pursuant to the National Treasury Management Agency (Amendment) Act 2014 (the "NTMA Act").

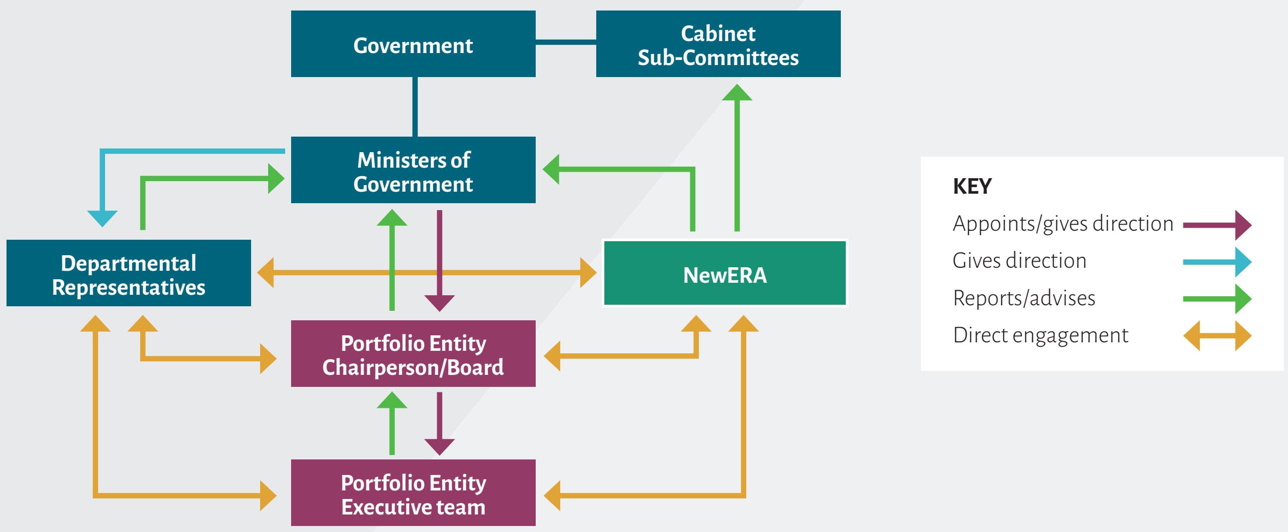
Investment to ensure quality infrastructure is critical in attracting multinationals to locate and invest in Ireland, maintaining Ireland's competitive position globally and ensuring a strong environment for job creation. On a combined basis for the latest year [2], the Portfolio generated €6.1 billion in revenues, employed invested capital of some €15.5 billion and undertook gross capital expenditure of some €1.6 billion supported by a workforce of some 12,000 employees, underlining its importance to the economy.

1.3 OVERSIGHT ARRANGEMENTS

In the main, the principal relationship and governance arrangements between the relevant Government Ministers and the Portfolio are set out in the governing legislation of each of the entities in the Portfolio (for the most part primary legislation). Generally, the Minister of a line Department and the Minister for Public Expenditure and Reform (and in certain cases, the Minister for Finance) are given various functions in relation to the entity in the Portfolio under statute (for example, items for which Ministerial consent must be sought by the entity in the Portfolio, such as borrowings and capital investment).

Aside from the respective legislation governing each entity in the Portfolio, other key elements of relevance to governance arrangements for the Portfolio include the Code of Practice for the Governance of State Bodies (the "Code", updated version published in August 2016), relevant national and EU law, and for those entities in the Portfolio which are companies, the Companies Act 2014 and their Constitution[3].

Governance Framework for the Portfolio Entities



Source: NewERA

> "High standards of corporate governance in State bodies, whether in the commercial or non-commercial sphere, are critical to ensuring a positive contribution to the State's overall economic efficiency, competitiveness, social cohesion and regional development".
>
> **The Code of Practice for the Governance of State Bodies, August 2016**

2 The latest year refers to the Relevant Financial Year.
3 Most of the entities in the Portfolio are companies incorporated under the Companies Acts with a written constitution. ESB and Ervia are statutory corporations which are not established under the Companies Acts although ESB has regulations which are similar in some respects to the written constitution of a Companies Act company.

2. The Portfolio at a Glance

2.1 PORTFOLIO GENERAL OVERVIEW

KEY ASSETS

REGULATED NETWORK ASSETS

227,000km
of electricity lines including the interconnector to the UK

62,000km
of water pipelines

25,000km
of wastewater pipelines

14,000km
of gas pipelines including the interconnectors to the UK

INSTALLED GENERATION CAPACITY

5,200MW

11% of this comprises renewable generation (wind, biomass, landfill gas). The Portfolio's installed wind capacity can power the equivalent of approximately 275,000 average EU homes

LAND MANAGEMENT

520,000 ha.
of forest and peatlands under management, equivalent to c. 7.5% of the land cover of Ireland

EMPLOYEE NUMBERS

AVERAGE EMPLOYEE NUMBERS

12,023

employed across the Portfolio

KEY FINANCIALS

OPERATING PROFIT

€1.0bn

of operating profit generated by the Portfolio in 2015/16 with an operating profit margin of 17%

INVESTED CAPITAL

€15.5bn

in debt and equity capital invested in the Portfolio with a return on invested capital of 6.1% in 2015/16

EQUITY VALUATION

€10.2bn

is the combined indicative commercial equity value of the Portfolio (excluding IW and including employee shares of ESB and BnM) on an ongoing trading basis

DIVIDENDS

€0.44bn

of combined dividends paid by the Portfolio in 2015/16, €0.43bn of that to the Exchequer. Over the past 5 years €1.35bn of combined dividends have been paid by the Portfolio, €1.3bn of that to the Exchequer

GROSS CAPEX

€1.6bn

of capital investment spend in 2015/16, three quarters of that on regulated energy and water network assets

BOARD COMPOSITION

GENDER BALANCE

72%: 28%

ratio of male to female Board members on a combined Portfolio basis

2. The Portfolio at a Glance (continued)

2.2 BRIEF OVERVIEW OF THE PORTFOLIO ENTITIES

BORD NA MÓNA

KEY ACTIVITIES

- Management of peatlands and peat supply. Peat primarily located in Ireland's midlands (80,000 hectares)
- Electricity generation capacity in the all-island market (windfarms, peat power stations, peaking plant and landfill gas)
- Other activities include BnM's waste activities and retail supply of peat products

KEY FIGURES

Turnover: **€433m**

Operating profit: **€59m**

Net debt: **€173m**

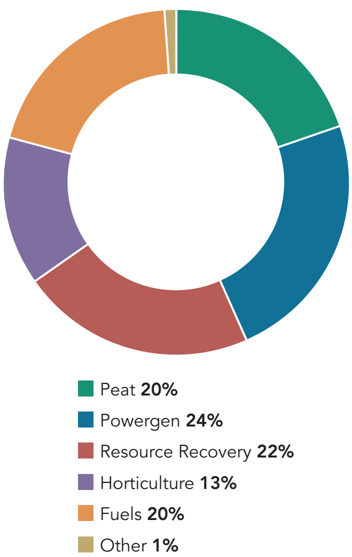
Gross capex: **€72m**

Pension liabilities: **€34m**

Total dividends paid : **€10m**

Average employee numbers: **1,937**

TURNOVER BY ACTIVITY



coillte

KEY ACTIVITIES

- Forestry estate covers over 6% of the land mass in Ireland (440,000 hectares)
- Sells and leases property for windfarm development. Pipeline of wind development projects. Other activities include land sales and development, biomass and tourism and recreation
- Manufactures Oriented Strand Board ("OSB") under the SmartPly brand and Medium Density Fibreboard ("MDF") under the Medite brand – supplies the Irish, UK and European markets

KEY FIGURES

Turnover: **€283m**

Operating profit: **€79m**

Net debt: **€154m**

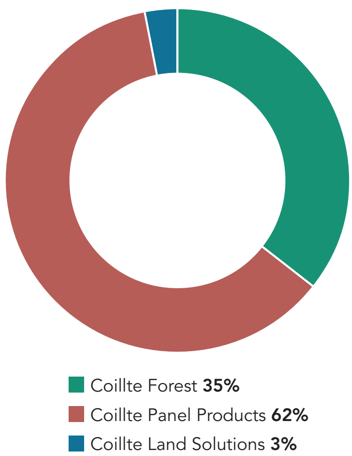
Gross capex: **€79m**

Pension liabilities: **€78m**

Total dividends paid: **€4m**

Average employee numbers: **897**

TURNOVER BY ACTIVITY



EIRGRID GROUP

KEY ACTIVITIES

- Transmission System Operator ("TSO") for Ireland ("EirGrid TSO") and for Northern Ireland ("SONI TSO") and operator of the all-island Single Electricity Market ("SEMO")
- Owns and operates the 500MW East West Interconnector ("EWIC")

KEY FIGURES

Turnover: **€706m**

Operating profit: **€60m**

Net debt: **€207m**

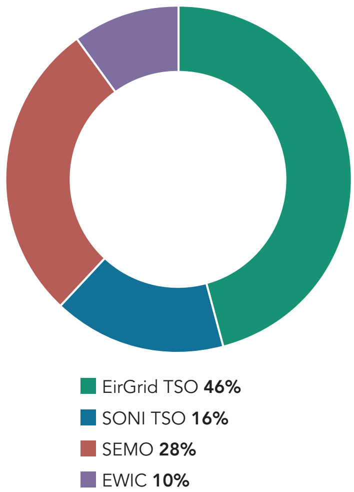
Gross capex: **€23m**

Pension liabilities: **€27m**

Total dividends paid: **€3m**

Average employee numbers: **480**

TURNOVER BY ACTIVITY



ervia – Gas Networks Ireland

KEY ACTIVITIES

- Owner of natural gas Transmission and Distribution Network ("T&D") (Ireland), owner of gas interconnector pipelines (Ireland-Scotland) and gas transmission pipelines in Northern Ireland
- Provides wholesale telecom fibre services

KEY FIGURES

Turnover: **€491m**

Operating profit: **€182m**

Net debt: **€1,022m**

Gross capex: **€100m**

Pension liabilities: **€51m**

Total dividends paid: **€151m**

Average employee numbers: **909**

TURNOVER BY ACTIVITY

ervia – Uisce Éireann Irish Water

KEY ACTIVITIES

- Responsible for delivery of water and wastewater services to households and businesses, and strategic investment in Ireland's water infrastructure for the long term

KEY FIGURES

Turnover: **€851m**

Operating profit: **€29m**

Net debt: **€890m**

Gross capex: **€511m**

Pension liabilities: **€27m**

Total dividends paid: **nil**

Average employee numbers: **495**

TURNOVER BY ACTIVITY[4]

ESB – Energy for generations

KEY ACTIVITIES

- Owner of the electricity T&D network on the island of Ireland (ESB Networks and Northern Ireland Electricity Networks ("NIE"))
- Installed capacity 4.3GW in the Single Electricity Market ("SEM") and 0.5GW in the UK (ESB Generation & Wholesale Markets ("GWM"))
- Supplier of electricity and gas throughout island of Ireland
- Other activities include ESB International, Novusmodus fund, fibre-optic broadband joint venture, telecoms and eCars.

KEY FIGURES

Turnover: **€3,335m**

Operating profit: **€635m**

Net debt: **€4,975m**

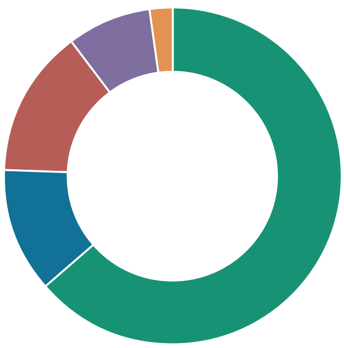
Gross capex: **€786m**

Pension & employee liabilities: **€936m**

Total dividends paid: **€273m**

Average employee numbers: **7,305**

TURNOVER BY ACTIVITY



Source: Annual Reports, NewERA Analysis

4 The Water Services (Amendment) Bill 2016 provides for the suspension of household water charges with an extensive deliberative process to be undertaken on the funding of household water services.

2. The Portfolio at a Glance (continued)

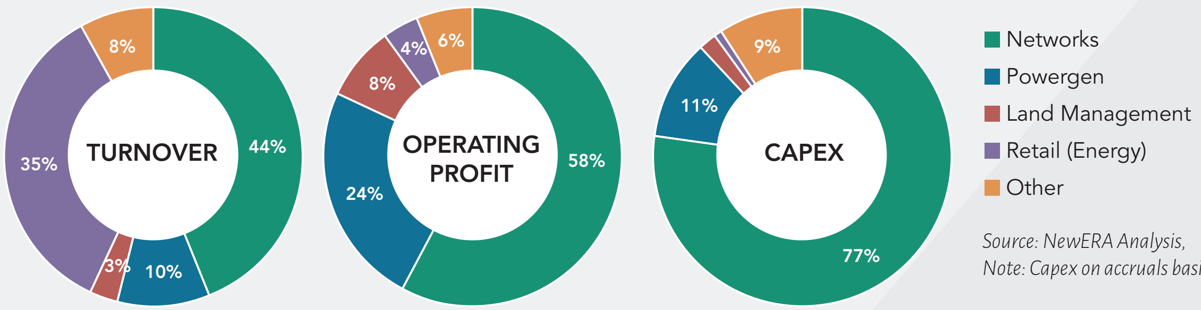
2.3 PORTFOLIO FINANCIALS OVERVIEW

FINANCIAL HIGHLIGHTS

	Unit	2015/16	2014/15	yoy Δ	5yr. avg.
Key Financial Information					
Turnover	€'m	6,100	5,812	+288	5,816
Operating Profit	€'m	1,044	813	+231	896
PAT (adjusted)	€'m	623	367	+256	503
Pension Liabilities	€'m	1,009	1,240	-232	1,150
Net Debt	€'m	7,421	6,582	+839	6,799
Net Assets	€'m	6,631	6,421	+210	6,692
Invested Capital	€'m	15,537	14,841	+696	15,499
Gross Capex	€'m	1,572	1,743	-172	1,406
Dividends Paid (total)	€'m	441	476	-35	270
Key Metrics					
Operating Profit margin	%	17%	14%	+3%	15%
PAT margin	%	10%	6%	+4%	9%
ROIC	%	6.1%	4.8%	+1.3%	5.1%
Net Gearing	%	53%	51%	+2%	50%

Source: Annual Reports, NewERA Analysis. Notes: See Appendix C for NewERA's standardised performance measures

FINANCIALS BY ACTIVITY



Source: NewERA Analysis,
Note: Capex on accruals basis

- Nearly 80% of Portfolio turnover relates to regulated networks (electricity, gas and water) and retail energy (Electric Ireland) activities with the majority of Portfolio operating profit derived from regulated network assets and power generation assets. As such, the key drivers of Portfolio profitability are the regulatory return on capital which the regulated networks are allowed to generate, energy demand and wholesale power prices/margins.
- Combined annual turnover growth of 5% in the latest period with turnover increasing to €6.1bn from €5.8bn. Over half of this growth relates to IW, which commenced the billing of domestic customers in 2015 (suspended in 2016).
- The combined operating profitability and net profitability of the Portfolio improved in 2015/16 mainly reflecting the growth at turnover level.
- Total net pension liability of €1.0bn in 2015/16, reducing on the prior period from €1.2bn and against the five-year average (€1.15bn); the majority of the combined liability (€0.8bn) relates to the ESB pension scheme.
- The net debt position of the Portfolio was €7.4bn in 2015/16, €0.8bn higher than 2014/15 mainly due to increased borrowings by IW and ESB arising from their respective capital investment programmes and, in the case of ESB, the payment of the final instalment of the special dividend relating to its generation asset portfolio. Minimal increase in gearing given increase in net assets.
- Invested capital increased by €0.6bn to €15.5bn versus 2014/15 (€14.8bn). The return on invested capital ("ROIC") increased to 6.1% in FY15 reflecting the improved operating profitability of the Portfolio.
- Reduced capex spend on a combined basis in 2015/16. A significant proportion of the total Portfolio capex of €1.6bn relates to regulated network assets (electricity, gas and water).
- Similar level of total dividends paid in 2015/16 versus 2014/15 with the payment of a special dividend by Ervia (related to the sale of Bord Gáis Energy) and ESB (as referred to above).
- Excluding special dividends, normal dividends in the latest period amounted to €127m (2014/15: €114m).

2.4 THE PORTFOLIO AND THE ECONOMY

Measuring its economic impact and significance in the economy – capital investment

The Portfolio plays an important role in the economy through investment in enabling infrastructure, such as energy and water networks. The tables below set out certain metrics which indicate the scale and importance of their collective investment relative to the spend by Government Departments (noting that, in the case of the Portfolio, the figures do not form part of, but rather are in addition to, the expenditure by Government Departments).

❶ CAPITAL INVESTMENT	Unit	2011	2012	2013	2014	2015	Total
Gross capital expenditure by Government Departments	€bn	4.5	3.8	3.4	3.6	3.7	19.0
Gross capital expenditure by Portfolio	€bn	1.3	1.3	1.2	1.7	1.6	7.0

Source: Public Expenditure Databank December 2016 (DPER), NewERA Analysis

Note: gross capital expenditure by the Portfolio predominantly relates to Ireland but does include spend outside the State - of the gross capital expenditure of €1.6bn by the entities in their respective latest financial years, approximately €0.2bn related to Northern Ireland and the UK.

❷ EXCHEQUER CAPITAL ENVELOPE	Unit	2016	2017	2018	2019	2020	Total
Gross capital envelope for Government Departments	€bn	3.8	4.0	4.2	4.6	5.0	21.6
Estimated projected capital investment by Portfolio	€bn	2.3	2.1	2.1	2.4	2.2	11.2

Source: Building on Recovery: Infrastructure and Capital Investments (DPER), NewERA Analysis

Note: the estimated projected capital investment by the Portfolio predominantly relates to Ireland but does include spend outside the State.

❶ The level of historical gross capital expenditure by the Portfolio is significant when considered against the gross capital spend by Government Departments (€7 billion versus €19 billion over the past five years).

❷ This is projected to continue based on the projected spend levels by the Portfolio and Government Departments for the coming five years (€11.2 billion versus €21.6 billion). It is noted that, of the €11.2 billion projected Portfolio capital spend, 85% relates to ESB and IW.

3. Shareholder Context

3.1 NEWERA APPROACH TO THE PORTFOLIO: ACTIVE OWNERSHIP VIA THE SHAREHOLDER EXPECTATIONS FRAMEWORK

3.1.1 OVERVIEW

NewERA's approach is to facilitate an enhanced level of active ownership by the State as shareholder in the entities in the Portfolio via the Shareholder Expectations Framework (the "Framework").

The purpose of the Framework developed by NewERA is to provide formal clarity and guidance to the Chairperson and Board of each of the entities in the Portfolio in relation to the Government's strategic priorities, policy objectives, financial performance and reporting requirements. These are communicated to the Chairperson and Board of each of the entities in the Portfolio by way of annual/biennial letters ("Framework Letters") from the relevant Government Ministers.

This Framework has also been adopted, or is intended to be adopted, by Government Departments in respect of other commercial semi-State entities for which they have responsibility but which are not entities in the Portfolio. In this regard, the Framework and the use of Framework Letters is now included in the Code which states that *"Clear accountability underpins effective relations between Government Departments and the State bodies under their aegis"* and sets out that *"For commercial State bodies the oversight agreement is the Shareholder Letter of Expectation"*.

3.1.2 FINANCIAL PERFORMANCE – AREAS OF FOCUS

In the Framework Letters issued to date the three primary areas of focus for NewERA from a financial performance perspective have been:

1. **Financial performance measurement:** setting out the NewERA methodology that will be applied by NewERA in augmenting measurement and monitoring of financial performance of the Portfolio by the State in its role as shareholder. See Appendix C for further detail.

2. **Commercial equity valuations:** to facilitate the measurement of shareholder returns the Framework includes a requirement for the relevant entities in the Portfolio to undertake a commercial equity valuation on an annual basis.

3. **Financial targets:** formulating financial targets in conjunction with the relevant entities in the Portfolio with the objective of ensuring that the targets should be: (i) used to assist in balancing value creation and maintenance of financial risks at a reasonable level, without incentivising increased business risk; (ii) high-quality targets that are ambitious but realistic; and (iii) well defined and clear and thus capable of being monitored on an ongoing basis.

During 2015/16 work on further enhancing the Framework has focused on developing formal financial targets for the Portfolio, where appropriate. These would typically include a:

- Capital structure target, reflecting the underlying business mix (targets agreed with two entities to date);
- Profitability target, reflecting the risk profile of the expected business mix (targets agreed with two entities to date); and
- Dividend target (targets agreed with three entities to date).

NewERA considers that ROIC is one of the most appropriate metrics to use from a shareholder/investor perspective. If ROIC is greater than the weighted average cost of capital ("WACC") then this will assist in creating shareholder value over time. During 2015/16 NewERA developed methodologies to calculate both ROIC and WACC on a consistent basis across the Portfolio.

3.2 SHAREHOLDER CONSIDERATIONS IN RELATION TO THE PORTFOLIO

3.2.1 STRATEGIC, BUSINESS AND FINANCIAL PLANS

In the context of the corporate plans of the entities in the Portfolio, NewERA has identified a selection of common areas or themes which we consider are of relevance from a shareholder perspective in the current market environment. These include:

- the **deployment of State capital**;
- **market and technological change** in the energy market;
- the **implications of Brexit** for the Portfolio; and
- **pension related issues**.

Extracts from the Code which set out the requirements in relation to strategic plans and business and financial plans (corporate plans) are set out below:

EXTRACT FROM THE CODE – STATEMENT OF STRATEGY

- **Strategic Plan:** The preparation and adoption of a strategic plan is a primary responsibility of the Board of a State body. Such plans should set appropriate objectives and goals and identify relevant indicators and targets against which performance can be clearly measured. All State bodies, whether they are commercial, non-commercial or, for example, regulatory bodies, should have a formal process in place for setting strategy.
- **Commercial State Body:** The Board of a commercial State body should within the first six months of each financial year approve the submission of a draft annual rolling five-year business and financial plan, encompassing strategy (taking account of general sectoral policy as determined by the relevant Minister), planned investment and appropriate financial targets to the relevant Minister and, where appropriate, the Minister for Public Expenditure and Reform and NewERA (see Ministerial Views below).
- **Ministerial Views:** A copy of the draft strategic plan (including, where relevant, plans for levy setting or own income generation) and the draft annual rolling five-year business and financial plan should be sent to the relevant Minister, and, where appropriate, the Minister for Public Expenditure and Reform and NewERA before the plan(s) are/is finalised and adopted by the Board. While final responsibility for the content of the plan rests with the Board in each case, the views of the Ministers and consideration of the public interest should be carefully weighed by the Board.
- **Implementation:** Implementation of the strategy by the management of each State body should be supported through an annual planning and budgeting cycle. The Board of each State body should approve an annual plan and/or budget and should formally undertake an evaluation of actual performance by reference to the plan and/or budget on an annual basis.

3.2.2 DEPLOYMENT OF STATE CAPITAL

As noted in Section 1, the State has considerable capital invested through State-owned bodies and this, viewed in the context of its available capital, needs to be effectively and efficiently deployed in areas of priority identified by Government. In this context, it may be helpful for the State to develop an overarching framework of principles through which to consider on a consistent basis ownership of and investment by State-owned bodies.

3. Shareholder Context (continued)

Some possible criteria for consideration in such a framework could include the following (noting that these could be assessed on both a qualitative and quantitative basis and that the criteria presented do not constitute a definitive list):

POSSIBLE CRITERIA	SAMPLE CONSIDERATIONS FOR EACH CRITERIA
Strategic national significance	Are the State-owned bodies invested or investing in assets or services that are of a critical nature to the State such that they are, for example: ▶ essential to the proper working of the State (for example, Ireland's electricity, gas and water networks, certain transport assets etc.); ▶ required to deliver public services to an appropriate standard (for example, in the areas of transport and cultural heritage); and/or ▶ providing a service that can influence national competitiveness (for instance, the cost of energy provision can enhance or decrease a nation's competitiveness relative to another).
Socio-economic implications	Socio-economic considerations are broad in nature. A factor that could be considered here, for example, is whether the investment is a necessary conduit for implementing public policy, or beneficial for society as a whole, in relation to areas such as health, education, transport etc.
Effective and efficient use of State resources	Consideration of whether the capital invested in, or to be invested by, the State-owned body represents the best use of those resources having regard to balancing: (i) the delivery of value for the State through an effective and efficient allocation of resources; and (ii) Government policy objectives.
Market presence	The degree of competition in the markets in which the State-owned body is involved could be considered. If competition exists in a market such that Government ownership confers no overall advantage to the State from a policy perspective then continued involvement in that market is for the purposes of commercial endeavour only.

In addition, we note the following items which merit further consideration in the context of the deployment of State capital:

- **Geographical focus of investment** – expansion overseas by some of the entities in the Portfolio which may involve deployment of capital outside the State. Consideration of this matter should have regard to the policy environment in which many of the energy companies operate, for example the operation of and participation in the SEM, along with strategic/market industry factors; and
- **Investment in non-core activities** – similarly proposals for investment in activities that might be perceived by the shareholder to be non-core also remain on the agenda of some of the entities in the Portfolio.

While each investment proposal from an entity in the Portfolio is assessed on a case by case basis, greater clarity on the State's overall position on the geographical focus of investment and the deployment of State capital in non-core activity areas could usefully inform such assessments.

3.2.3 MARKET AND TECHNOLOGICAL CHANGE IN THE ENERGY MARKET

- The energy sector, which is the sector in which the majority of the entities in the Portfolio operate, is currently experiencing considerable change (e.g. integration of EU energy markets, the move towards a de-carbonised society, growth in unconventional fuel sources, evolution of technologies to be employed to assist in this move, energy efficiency obligations etc.). There is already some evidence of structural change in the energy market as the correlation between energy demand and economic growth is not as strong as was the case historically. This may, amongst other factors, be due to increased energy efficiency measures impacting demand, and growth occurring in sectors of the economy that are not as energy intensive.
- This is expected to give rise to considerable challenges for some of the entities in the Portfolio. For example, policy decisions continue to drive large investment requirements in infrastructure (e.g. renewable targets requiring deep electricity network reinforcement) the funding of which is recovered under the present regulatory model. If demand is not sufficient to recover this investment, then there may be upward pressure on unit prices and ultimately on customers' bills. The long term challenge is to balance energy affordability with the recovery of investment in regulated network assets.

- Change also means that investment in technology and innovation is required. From the State's perspective, investment in technology and innovation should be made, insofar as possible, in a manner which represents an effective and focused application of State resources into areas of innovation, minimising duplication of effort and spend.
- Given the linkages between the Irish and UK energy markets the implications of Brexit may also give rise to potential impacts (see next section).

3.2.4 BREXIT

While the ultimate economic impact of Brexit is unknown at this point and will depend on the nature of the withdrawal agreements between the UK and the EU, Brexit is likely to impact the Portfolio given the concentration of the Portfolio entities operating in the energy sector, the range of Portfolio investments in the UK (existing and planned) and the extent of the Portfolio bilateral trade with the UK.

An overview of Portfolio revenue generated in the UK, the book value of Portfolio assets in the UK and associated sterling denominated debt is set out below along with a summary outline of the major UK assets held by certain of the entities in the Portfolio:

UK revenue, fixed assets and debt (€m) – Relevant Financial Year

	BnM	Coillte	EirGrid	Ervia (GNI)	ESB
Revenue					
UK revenue	nd	113	165	39	528
Total group revenue	433	316	706	491	3,335
UK proportion	nd	36%	23%	8%	16%
UK fixed assets					
UK fixed assets	na	na	29	324	3,717
Total group fixed assets	444	1,400	601	2,583	11,953
UK proportion	na	na	5%	13%	31%
Sterling denominated debt					
Sterling denominated debt	-	-	-	136	2,160
Total debt	271	188	367	1,176	5,109
Sterling denominated proportion	-	-	-	12%	42%

Source: Annual Reports, na= not applicable, nd=not disclosed

Major UK assets held by Portfolio

EirGrid	Ervia	ESB
▶ Electricity transmission system operator in NI ▶ Electricity interconnector between Ireland and the UK	▶ Two gas interconnectors between Ireland and the UK ▶ Gas transmission network in NI	▶ Electricity transmission network in NI ▶ Electricity distribution network in NI ▶ 2 thermal power plants ▶ 1 biomass power plant ▶ 3 wind farms

Source: Annual Reports

3. Shareholder Context (continued)

Of the entities in the Portfolio who reported the geographic source of revenue, Coillte generated the largest share of revenue from the UK. ESB has the largest proportion of its fixed assets in the UK with these assets primarily consisting of the T&D electricity network in Northern Ireland, two thermal power plants and three wind farms. As set out in its latest annual report ESB's conclusion, based on its review of possible scenarios, is that these investments would not be significantly impacted in the short-to-medium term. ESB's UK investments are funded with sterling debt which will be repaid from sterling earnings – the effect of ESB's financial management policies is that, taken together, the offsetting effects of lower reported earnings and lower reported debt have protected key credit rating metrics to date.

There are the obvious macroeconomic implications which will affect all entities which are exposed to the UK, including currency and economic growth implications. We do not address these in this Report. However, given the concentration of the Portfolio in the energy sector, there are a number of issues arising from Brexit of particular note:

Energy supply and interconnection

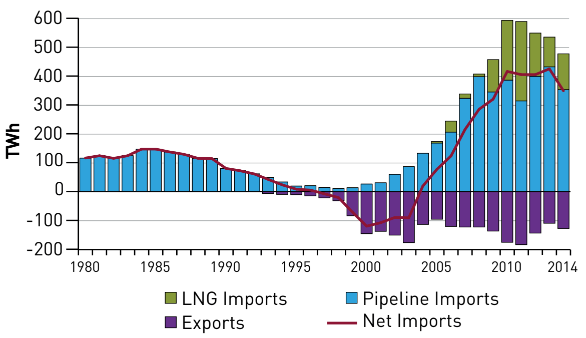
Ireland is a net importer of gas and electricity although, as a result of indigenous gas from the Corrib field, it is expected that Ireland's dependency on gas imports will reduce in the short-term. The imports come almost exclusively from the UK, delivered by the following interconnections:

- Ireland and NI interconnected electricity grid (ESB);
- Electricity interconnectors Ireland/UK (EirGrid) and NI/UK (not owned by ESB); and
- Gas interconnectors Ireland/UK (GNI) and NI/UK (not owned by GNI).

The SEM is the wholesale electricity market for the island of Ireland meaning the electricity market in Ireland is fundamentally integrated with a part of the UK. The SEM is undergoing significant change and, thus far, EU legislation has been driving the coming together of energy markets across Europe with the aim of creating a fully liberalised internal electricity market. The new wholesale market will be known as the Integrated Single Electricity Market ("I-SEM") and is targeted to be in place by mid-2018. It is unclear at this point whether, or the extent to which, Brexit will impact on this process.

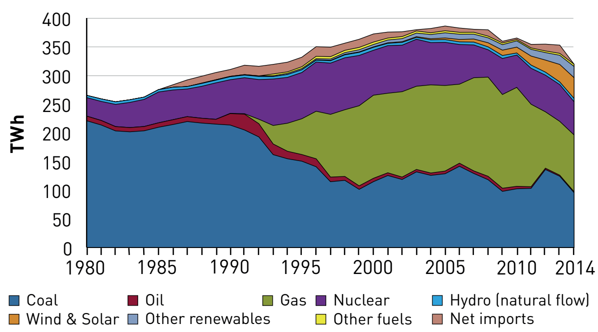
The UK itself is a net-importer of gas and electricity (see charts below) and interconnection between the UK and the EU is already high. It is not clear what impact Brexit will have, however, if the UK continues to need to import energy from the EU, it seems unlikely that the UK would restrict the flow of gas and electricity to another EU country.

UK trade in natural gas:
The UK is a net importer of gas…



Source: UK Energy in Brief 2015,
UK Department of Energy and Climate Change

UK electricity supplied by fuel type:
…And a small net importer of electricity



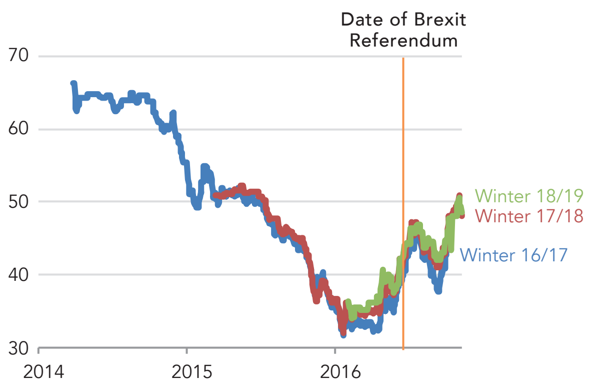
Source: UK Energy in Brief 2015,
UK Department of Energy and Climate Change

Electricity Prices

Given electricity and gas prices in Ireland are highly correlated with UK prices, movements in UK power prices as a result of Brexit will have an impact in Ireland but the extent to which Brexit will impact on energy costs is currently uncertain.

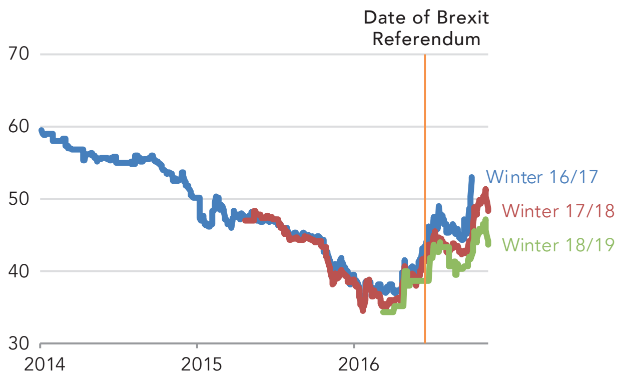
Unlike in currency markets, so far the impact of Brexit on energy prices appears to have been relatively benign (see charts below). In the context of energy prices, and particularly UK energy prices, Brexit is just one factor in a complex system. The global oil price, renewable requirements, new nuclear and wider energy policy all potentially impact energy prices more.

UK winter gas forwards (£p/Therm)



Underlying data source: public market information, Analysis: NewERA

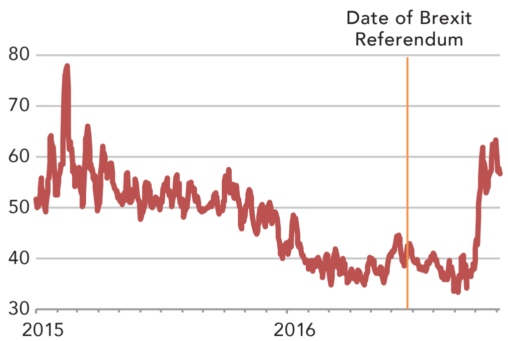
UK winter electricity forwards (£/MWh)



Underlying data source: public market information, Analysis: NewERA

The picture is slightly different for Irish electricity prices in the SEM, which did not rise on the back of Brexit – a consequence of sterling weakening as electricity prices in sterling went up. Prices have increased more recently for general market reasons with the constrained capacity margin in the UK and increases in euro denominated oil prices being factors.

Irish SMP (€/MWh): prices did not react meaningfully to the Brexit decision



Underlying data source: SEMO, Analysis: NewERA

3. Shareholder Context (continued)

3.2.5 PENSIONS

Each entity in the Portfolio operates defined benefit pension schemes (individually referred to as a "DB Scheme" and collectively as "DB Schemes") noting that, in all cases, these are closed to new entrants and that, in the case of ESB, although its pension scheme is registered as a DB scheme with the Pensions Authority the ESB's annual report notes that it is not a typical 'balance of costs' DB scheme (where the employer is liable to pay the balance of contributions required to fund benefits).

The combined net pension liabilities in respect of these DB Schemes for 2015/16 was €1.0bn which has reduced compared to 2014/15 (€1.2bn) and is below the five-year average of €1.15bn. The majority of the combined Portfolio net pension liability relates to ESB's Scheme (€0.8bn).

SUMMARY OF NET PENSION LIABILITIES

	Unit	2015/16	2014/15	2013/14	2013/12	2012/11
BnM	€'m	(34)	(67)	(43)	(59)	(47)
Coillte	€'m	(78)	(142)	(130)	(161)	(135)
EirGrid	€'m	(27)	(18)	(10)	(22)	(16)
Ervia	€'m	(51)	(85)	(49)	(39)	(37)
ESB	€'m	(790)	(895)	(876)	(947)	(926)
IW	€'m	(27)	(33)	-	-	-
Total	**€'m**	**(1,009)**	**(1,240)**	**(1,109)**	**(1,229)**	**(1,161)**

In relation to each of the entities in the Portfolio:

- **BnM**: has funding proposals in place to meet the minimum funding standard for each of its DB Schemes, one of which runs until 2020 and the other until 2023.
- **Coillte**: has funding proposals in place to meet the minimum funding standard for each of its DB Schemes, one of which runs until 2020 and the other until 2023.
- **EirGrid**: its Irish DB Scheme met the minimum funding standard as at the most recent actuarial valuation date and accordingly no funding proposal is required. We note that EirGrid also has a UK pension plan which is subject to UK regulation.
- **Ervia**: its Irish DB Scheme met the minimum funding standard as at the most recent actuarial valuation date and accordingly no funding proposal is required.
- **ESB**: has a funding proposal in place to meet the minimum funding standard for its DB Scheme which runs until 2018. As outlined above, ESB's pension scheme is not a typical 'balance of cost' DB.
- **IW**: its DB Scheme is recently established (2015) and, as a newly established scheme, its statutory valuation has not been undertaken yet.

A challenge in relation to defined benefit pension schemes, which is of relevance for the DB Schemes, is the low interest rate environment. The trend since 2010 has been a continual decline in yields, which increases the current value of liabilities. Any future rise in interest rates will accordingly reduce the current value of liabilities.

4. The Portfolio

Key Developments, Opportunities & Challenges

4.1 KEY PORTFOLIO DEVELOPMENTS 2015/16

BORD NA MÓNA

Peat	▶ 2015 peat harvest reached 94% of the target at 3.4 million tonnes. ▶ BnM published its "*Sustainability 2030*" report in October 2015 in which it committed to ceasing production of peat for energy generation by 2030. ▶ Shortly after financial year end, BnM launched its Biodiversity Action Plan for 2016-2021 relating to the rehabilitation of BnM's entire peatlands area (80,000ha), of which 12,000ha has been rehabilitated to date.
Biomass	▶ Biomass established as a separate business unit in 2015/16 as part of the strategic transition away from peat based energy supply with the aim of securing increased domestic and international biomass supply.
Power Generation	▶ Existing Assets: – Public Service Obligation ("PSO") support mechanism in respect of supply of peat to Edenderry Power Ltd expired in December 2015. Edenderry is currently operating under a temporary High Court stay until February 2017 pending a decision by An Bord Pleanála in respect of BnM's application to extend planning permission for the plant until 2030. – BnM reports ongoing engagement with ESB in relation to securing the future of the ESB peat plants following expiry of the PSO for those plants in 2019. – Edenderry co-fired with biomass at a rate of 37% during 2015/16. – First full year of operations at Mount Lucas and Bruckana wind farms. ▶ Generation asset development: – Planning permission obtained for a 172MW wind farm in Oweninny (joint venture ("JV") with ESB). – BnM entered into a JV arrangement with Coillte for the development of the 64MW Sliabh Bawn wind farm.
Fuels	▶ Awaiting final planning permission for the construction of a smokeless coal facility at Foynes.
Horticulture	▶ BnM secured a three-year contract to supply growing media products to the largest garden centre group in the UK.
Resource Recovery	▶ Preparation during 2015/16 for the introduction of pay-by-weight for domestic customers which has since been deferred.
Other	▶ BnM reached agreement in 2015/16 with employees on a cost transformation programme covering the period to 2019 (primarily focused on the peat division). ▶ BnM also refreshed and relaunched its Group brand. ▶ BnM transitioned from old Generally Accepted Accounting Principles ("GAAP") to International Financial Reporting Standards ("IFRS") during 2015/16.

4. The Portfolio (continued) Key Developments, Opportunities & Challenges

coillte

Forests	▶ In October 2015, Coillte completed the installation of a new timber sales system which is designed to give greater certainty of supply to Coillte's sawmill customers and to reduce log price volatility. ▶ The first annual sales event took place in October 2015 and, over the course of two days, Coillte sold in excess of 900,000m^3 of roundwood which is significant, noting that Coillte reports that its annual log sales to the sawmills totalled 1.34m^3 in 2015.
Panels	▶ During 2015 the €59 million upgrade of the SmartPly facility continued and was completed in early 2016. The division also extended its range of fire retardant MDF and OSB.
Land Solutions	▶ Renewable energy – Coillte achieved financial close on three JV renewable wind energy projects with a total output of 204MW – these included the 35MW Raheenleagh wind farm (JV with ESB), the 105MW Cloosh wind farm (JV with SSE) and the 64MW Sliabh Bawn wind farm (JV with BnM). ▶ Land – In 2015 Coillte completed 49 land transactions – this included the sale of land in Co. Cork to Irish Distillers Limited to facilitate the next phase of its industrial development in that area. In 2015 Coillte also reached agreement in relation to the sale of land in Co. Galway to the Industrial Development Authority on which an Apple data centre is planned to be located and the sale of land in Co. Longford to facilitate the proposed Center Parcs holiday resort development. ▶ Telecoms – In July 2015, Coillte sold its telecommunications mast business to Infravia, a French infrastructure fund, for circa €70m as part of the structured deleveraging of the Group.
Other	▶ A funding proposal in respect of the Medite Europe Limited Scheme was approved by the Pensions Authority in July 2015. ▶ The Group transitioned from old GAAP to FRS102 during 2015.

Following advice from NewERA, the Government announced in 2014 that the commercial operations of BnM and Coillte should be streamlined and refocused, via the establishment of joint ventures between the companies focusing on wind, biomass, support services and tourism and recreation activities. Key developments across certain of those areas are set out below:

BORD NA MÓNA coillte collaboration

Wind	▶ In December 2015 Coillte sold a 50% stake in its Sliabh Bawn wind farm project to BnM. The project is currently in the construction stage and is being managed as a JV between the two companies. ▶ Discussions between Coillte and BnM on other wind opportunities are ongoing.
Biomass	▶ The two entities continued to progress the examination of options to establish a biomass supply company to supply pulpwood from existing domestic sources and to stimulate private sector production.
Tourism and recreation	▶ Development plans relating to a midlands cycle network on BnM and Coillte lands in Co. Offaly were progressed during 2015/16.

TSO Activities	▶ During FY15 EirGrid continued to progress the DS3 programme which aims to develop and install systems necessary to accommodate safely up to 75% wind generation on the power system in order to meet the public policy objective of generating 40% of electricity from renewable resources by 2020. ▶ FY15 was the first full year in which SONI had responsibility for the transmission planning function in Northern Ireland and it progressed its first transmission reinforcement in Northern Ireland to the preconstruction phase.
Market operator activities	▶ During 2015, the SEMO has continued to work alongside the regulators in Ireland and Northern Ireland as part of the project to develop a new set of electricity trading arrangements which will facilitate the implementation of the I-SEM in Europe.
Market interconnection	▶ In addition to its ownership and operation of the EWIC: – EirGrid submitted a planning application for the North South Interconnector to An Bord Pleanála in June 2014 (FY15) – EirGrid identifies this interconnector as the single most important and most urgent infrastructure project on the island of Ireland as it will facilitate the optimal operation of the SEM and secure adequate supply of electricity in Northern Ireland. – EirGrid continues to work with Réseau de Transport d'Électricité, the French TSO, to explore the feasibility of increasing interconnection from Ireland to the wider European market via the Celtic Interconnector (which will link Ireland to France).
Other	▶ EirGrid published its report entitled "*Reviewing and Improving our Public Consultation*" which laid out how it would engage with the public and with communities in its development of grid projects. ▶ The Group also published its revised grid development strategy "*Your Grid, Your Views, Your Tomorrow*" which sets out its approach to upgrading the transmission grid.

4. The Portfolio (continued)
Key Developments, Opportunities & Challenges

ervia Gas Networks Ireland

Gas Networks	
	▶ In 2015 Ervia continued the process of significant internal restructuring to meet EU ownership unbundling requirements which included the incorporation of a new wholly owned subsidiary, Gas Networks Ireland ("GNI"), in January 2015 with all relevant assets, liabilities and responsibilities relating to the natural gas network transferred and integrated into GNI from 1 August 2015 as required by the Gas Regulation Act 2013. The rebrand of GNI was completed in 2015. ▶ Ervia reports that 93% of all gas requirements in the Republic of Ireland were imported through the UK in 2015, with the remaining gas supplied from indigenous reserves in Inch. At the end of 2015 GNI delivered gas from the Corrib field onto the Irish gas network for the first time and expects that this gas field will meet up to c.60% of Ireland's annual gas needs. ▶ In addition to ongoing investment in gas network infrastructure GNI also received approval from the Commission for Energy Regulation ("CER") for the pipeline twinning project which involves installing a second pipeline to create two separate and independent pipelines between Ireland and the UK.

ervia UISCE ÉIREANN : IRISH WATER

Water Networks	
	▶ IW published the first National 25 Year Water Services Strategic Plan in 2015. ▶ Supporting the Water Services Strategic Plan, IW published its Business Plan to 2021 with the primary objective of improving service to customers by 2021. ▶ IW also commenced the preparation of a mitigation plan in response to the launch of the national strategy to reduce exposure to lead in drinking water. ▶ In 2015 IW developed Ireland's first national operating model for water services, instigating monthly reporting across the country with standardised key performance indicators and establishing a National Control Centre. ▶ A geographic information system mapping programme of all main water infrastructure assets was completed in 2015. Ervia reports that this, coupled with mains rehabilitation and data from domestic meters, has resulted in an increase in water supply headroom in the Greater Dublin Area from 2% towards 8% for the first time in a generation. ▶ In terms of capital investment 100 treatment plants were upgraded or under construction in 2015 and 319 contracts were signed for new projects to improve water supply and wastewater treatment with over 500km of leaking water pipes replaced. Plans have been developed for the 45 towns in Ireland without adequate wastewater treatment. ▶ In 2015, Ervia reports that IW continued to deliver against the CER's efficiency targets of the first price control period to end 2016, and planning has commenced for the interim revenue control period for 2017 and 2018. ▶ In 2015, IW commenced the billing of domestic customers and reported that cash collected from domestic charges in the first full year of billing was €144m. Domestic charges were suspended in 2016.

ESB

Electricity Networks	▶ PR4 was concluded by CER during 2015 which sets out the allowed revenues for ESB Networks over the period 2016-2020. The focus of network investment in 2015 has been on continuing the reinforcement of the transmission system to facilitate the connection of new renewable electricity generation and ongoing investment in the distribution system. ▶ The ESB/Vodafone JV in relation to the deployment of fibre infrastructure on certain distribution network assets came in to effect with the aim of bringing 1 gigabyte per second speed fibre broadband to 500,000 customers in fifty towns across Ireland.
Power Generation	▶ Generation asset delivery – During FY15, ESB continued to grow its portfolio of renewable generation with the commencement of commercial operations at Woodhouse, a 20MW onshore wind farm in Waterford, and over 500kW of rooftop solar projects have been built through a JV with Kingspan, primarily in Northern Ireland. ▶ Generation asset construction – 881 MW Carrington Combined Cycle Gas Turbine ("CCGT") plant near Manchester entered into the commissioning phase (commercial operation subsequently achieved in September 2016). – Construction commenced on the 40 MW Tilbury Green Power biomass plant located in Essex (JV with Green Investment Bank and a consortium comprising Scandinavian contractors BWSC & Aalborg Energie Technik) and the 35MW Raheenleagh wind farm (JV with Coillte).
Customer Supply	▶ ESB reports that Electric Ireland has a 38% share of SEM in 2015 from a customer supply perspective (2014: 37%). ▶ During the year, Electric Ireland entered the NI residential market and ESB introduced an electricity price reduction of 2% in Q4 2015 and announced a 2.5% reduction in gas unit prices, which came into effect in January 2016.
Other	▶ In June 2015 ESB issued a 12 year €500m fixed-rate bond at a coupon rate of 2.125%. The majority of the proceeds were used to buy back a portion of the 5 year €600m 6.25% bond issued in 2012. In May 2016, ESB issued a 15 year €600m fixed-rate bond at a coupon rate of 1.875%.

4. The Portfolio (continued) Key Developments, Opportunities & Challenges

4.2 KEY OPPORTUNITIES/CHALLENGES FOR THE PORTFOLIO

Decarbonisation and the decline of peat for energy purposes

- In the context of the decarbonisation agenda and the decline of peat use for energy purposes the building of a sustainable long-term commercial future continues to be the key challenge for BnM.
- The expiry of the PSO in 2019 relating to ESB's peat-fired power stations, coupled with the decarbonisation agenda, makes the continued use of peat for energy purposes extremely challenging in the long term for BnM and it formally signalled its intent to exit the harvesting of peat for energy generation by 2030 in its 'Sustainability 2030' report, which was published in 2015.
- BnM is currently pursuing a challenging diversification agenda which includes securing the medium-term operations of the peat division with REFIT supported biomass co-firing, further investment in renewable energy production (wind and solar) and growth across its other operating businesses (fuels, horticulture and resource recovery).
- In the context of securing the operations of the peat division beyond 2019 and continued renewable energy production, an immediate challenge for BnM will be for it to prove that the Edenderry power plant can be supplied and co-fired with peat and biomass on a commercial basis and to continue to explore opportunities which will assist in efforts to increase the supply of required volumes of suitable quality biomass on a cost effective basis.
- The continued development of the Oweninny (joint venture with ESB) and Cullenagh (planned joint venture with Coillte) pipeline projects, the ongoing construction of the Sliabh Bawn project (joint venture with Coillte) and the ongoing operation of Mount Lucas and Bruckana mean that BnM is and will continue to play a part in assisting Ireland with meeting its decarbonisation policy objectives through its wind activities.

Continued operations at Edenderry

- As at the date of the latest financial statements, considerable uncertainty existed on the extension of planning permission for the Edenderry power plant. It is operating under a temporary High Court stay until February 2017, pending a decision by An Bord Pleanála in respect of BnM's application to extend planning permission for the plant until 2030.
- Given the importance of that power plant to BnM's co-firing agenda, should the outcome of the planning process be a negative one, from a BnM perspective, it will present potentially material operating and financial implications for the Group as a whole.

BREXIT

- An immediate challenge for Coillte will be managing the potential impacts arising from Brexit. As outlined earlier in this Report, Coillte directly exports panel products and sawlog to the UK with sales to the UK accounting for 40% of total Group revenues in 2015. However, Coillte's reliance on the UK market is inherently greater with its Irish sawmill customers also exporting output to the UK.
- The key impacts identified which apply to Coillte include potential demand impacts arising should a possible slowdown in the UK economy materialise, potential exchange rate risk in respect of its sterling related trade and potential knock-on impacts in terms of employment given Coillte's exposure to the UK market.

Fundamental restructuring

- Prior to the Brexit referendum, Coillte had been separately pursuing a restructuring and streamlining of its business and this is a central tenet of its current strategy and also a risk mitigant to the potential impacts of Brexit.
- Its ability to deliver this restructuring will impact on its commercial performance over the short to medium term but this gives it the opportunity to increase and optimise financial returns on its core forestry business while at the same time balancing this with social and environmental responsibilities.

4. The Portfolio (continued)
Key Developments, Opportunities & Challenges

EIRGRID GROUP

Introduction of I-SEM

- EirGrid is working alongside the regulators in Ireland and Northern Ireland on the development of a new set of electricity trading arrangements relating to I-SEM, which it is intended will meet the requirements of the EU Target Model that is aimed at creating a single internal market for electricity for Europe.
- This complex project is of European and national importance and has significant implications for all electricity market participants.
- The continued development and eventual introduction of the new trading arrangements will be a key deliverable for EirGrid in the short to medium term.
- The impact of Brexit is relevant here and will ultimately depend on the nature of the withdrawal agreement negotiated between the UK and Europe. Although the impact of Brexit on this project is not known at this time it is possible that it could affect the timetable to deliver I-SEM.

Opportunities for further interconnection

- A key role which EirGrid fulfils is to explore opportunities for electricity interconnection with other countries with the objective of ensuring security of supply, driving down electricity prices through increased competition and facilitating increased penetration of renewable generation on the grid in the context of 2020 renewable energy targets.
- Ireland currently has no direct electricity interconnection to mainland Europe. EirGrid continues to work with Réseau de Transport d'Électricité (the French TSO) in relation to the potential 700MW capacity electricity interconnector which would link Ireland to France (known as the Celtic Interconnector). That project has proceeded to the initial design and pre-consultation phase and, should the project progress, EirGrid indicates that the interconnector would be targeting to go live in 2025.
- With Ireland's only electricity interconnection asset being directly linked with the UK, Brexit potentially gives greater urgency to the need for Ireland to have a direct interconnection to mainland Europe (see Brexit section for further detail).
- The complexity and scale of the Celtic Interconnector project if it proceeds will materially impact on EirGrid both from a financial and operational perspective.

Managing organisational change and delivering value

- Ervia is responsible for managing two key parts of the national infrastructure, namely the gas and water networks. It is Ervia's role to ensure that both IW and GNI deliver on their respective objectives and that Ervia adds value above what could be delivered by IW and GNI individually on a standalone basis.

Review of regulatory price control and long term gas consumption

- GNI's next regulatory price control will commence in October 2017 and managing any regulatory reset risk and delivering further operating efficiencies over the period of its next five-year price control will be the key immediate challenge facing GNI.
- GNI also faces the long term challenge of reduced gas consumption (particularly in the electricity generation sector) due to the growth in renewables, de-carbonisation and increased electricity interconnection. Under the present regulatory model, reduced gas consumption in the long-term would be expected to result in upward pressure on network tariffs (which ultimately impacts on customer bills and may present a longer term challenge of balancing energy affordability with the recovery of investment in regulated network assets).
- GNI has the opportunity to seek to develop new sources of demand for gas (such as rollout of the network to new towns and development of infrastructure to support the use of compressed natural gas for large transport users). Managing these growth opportunities, while continuing to focus on delivering operating efficiencies, will be the key long term challenge for GNI.

Review of funding model and delivery of business plan

- The outcome of the Expert Commission and Oireachtas review of domestic public water services may have implications for the funding model of Irish Water and the delivery of its business plan.
- IW is tasked with addressing the historical inefficiencies in the water industry in Ireland by reducing its cost base over time towards UK water industry benchmarks and delivering the significant level of capital investment needed in Ireland's dilapidated national water infrastructure as efficiently as possible.
- The outcome of the review will determine IW's ability to fund itself relative to its reliance on State funding and may impact on IW's ability to deliver its business plan targets as it competes with other State spending priorities.

4. The Portfolio (continued)
Key Developments, Opportunities & Challenges

Regulatory price control

- PR4 was concluded by CER during 2015 which sets out the allowed revenues for ESB Networks over the period 2016-2020. The continued high levels of investment in the networks over this period combined with the requirement to deliver further operating and capital efficiencies on the back of a lower regulatory return than PR3 (due to fall in interest rates) will be a challenge for the ESB.
- In respect of NIE Networks a draft determination from the Utility Regulator is expected in early 2017 for the next price control period in Northern Ireland which could lead to further downward pressure on the financial returns from NIE.

Market and technological challenges

- The utility sector faces significant change from a combination of energy technology (wind, solar etc.), IT led innovation, different business models, changing customer behaviours and expectations and the non-linear correlation between economic growth and electricity demand. The sources of change could be small scale and dispersed (e.g. distributed generation). These changes will impact ESB but also could be an opportunity as it is active in many areas of innovation.
- Policy decisions continue to drive a large investment requirement (e.g. renewable targets requiring deep electricity network reinforcement). At present, investment in the electricity network in the State is funded by ESB and with the drive also to increase energy efficiency there may be a challenge in the future to balance energy affordability with the recovery of investment by ESB in network assets (under the present regulatory model regulated revenue may have to be recovered from lower volumes which may result in increased unit tariffs and may place upward pressure on network tariffs ultimately impacting on customer bills). Furthermore, the technology and policy choices that are needed to arrive at a sustainable and secure energy system at a reasonable cost are complex nor is there any single or simple solution at present to achieving this.

Moneypoint

- Moneypoint which is owned by ESB is Ireland's only coal burning electricity generation station. It is also one of Ireland's largest generating stations with three units, each with a capacity of 305 MW, leading to a total capacity of 915 MW – around 7 million MW hours/year.
- The White Paper *("Ireland's Transition to a Low Carbon Energy Future 2015-2030")* published by the Department of Communications, Climate Action and Environment in 2015 notes: *"It is expected that coal will remain a significant element of our power generation mix for the next decade*. Before Moneypoint comes to the end of its operating life in its current configuration, in 2025, the most suitable replacement low-carbon generation technology will have to be identified. Key decisions on the future of Moneypoint will be taken before 2020". The nature of any decision will have a direct impact on ESB.

5. The Portfolio

Key Financial Information & Metrics

FINANCIAL PERFORMANCE OVERVIEW

In 2015/16 the combined adjusted profitability of the Portfolio entities increased reflecting underlying turnover growth. A significant proportion of operating profit continues to be derived from the Portfolio's regulated electricity and gas networks (2015/16: 58%, 2014/15: 60%) and power generation assets (2015/16: 24%, 2014/15: 17%). ROIC increased from 4.8% to 6.1% in 2015/16, indicative of the underlying growth in the profitability of the Portfolio.

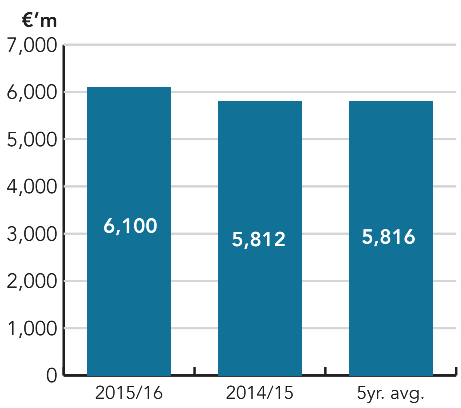
Certain entities in the Portfolio reported exceptional impairments relating to power generation assets totalling €127m (ESB: €104m, BnM: €23m) which arose for a number of reasons including adverse changes in projected wholesale electricity prices in the UK and the SEM (a fall in projected gas prices was a driver of the adverse change) and reduced running of a gas plant in the SEM (due to other technologies being more efficient than this plant and competition from similar gas plants).

The net gearing of the Portfolio increased from 51% in 2014/15 to 53% in 2015/16 reflecting continuing capital investment, a significant proportion of which relates to ESB and IW, and, in the case of ESB, the payment of the final instalment of the special dividend relating to its generation asset portfolio.

There was a reduction of €230m in the net pension liability of the Portfolio.

Total dividends of €441m were paid of which €427m was to the Exchequer with the balance paid to the employee share ownership plans of the relevant entities (ESB and BnM). Total dividends paid comprised special dividends of €314m (ESB and Ervia) and normal dividends of €127m.

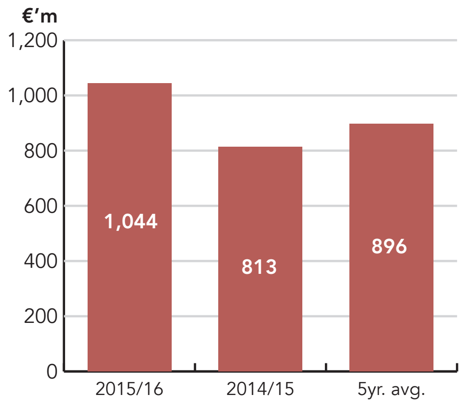
Turnover



Annual turnover growth of 5% in the latest period with turnover increasing from €5.8bn in 2014/15 to €6.1bn in 2015/16. Over half of this growth relates to IW, which commenced the billing of domestic customers in the Relevant Financial Year (suspended in 2016).

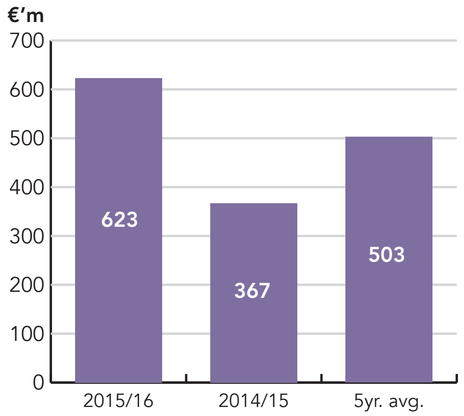
5. The Portfolio – Key Financial Information & Metrics (continued)

Operating Profit



The majority of the Portfolio's operating profit (as measured by adjusted EBIT) is derived from regulated network (2015/16: 58%) and power generation assets (2015/16: 24%) held by entities in the Portfolio. Increased operating profit in 2015/16 largely reflects the higher combined turnover position and improved margin. The increase is largely related to IW (introduction of domestic water charges and lower operating costs) and ESB (increased generation output offset by lower wholesale electricity prices and accounting treatment of impairment charges in 2015).

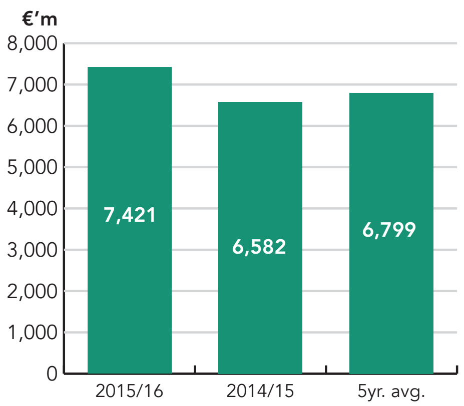
Adjusted PAT



Higher adjusted PAT due to increased operating profit (for reasons outlined above) and reduced net finance costs (excl. fair value gains/losses on financial instruments) offset by an increased tax charge.

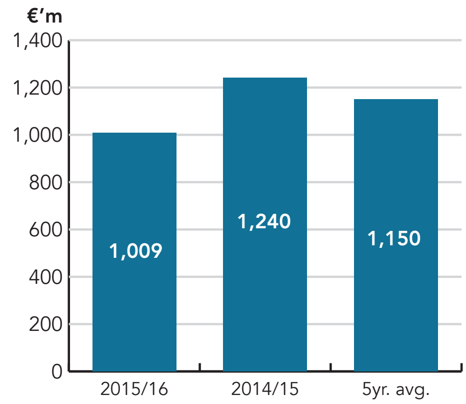
The reduced net finance costs are reflective of the current low interest rate environment. However, we would note that the reduction in the risk free rate (long term Government bonds, typically German bonds) over the past number of years will feed into reduced profitability for network owners (ESB, Ervia and IW) as the regulator reduces the allowed return on network assets. This will impact on the combined profitability of the Portfolio given the high percentage of operating profit derived from network assets.

Net Debt



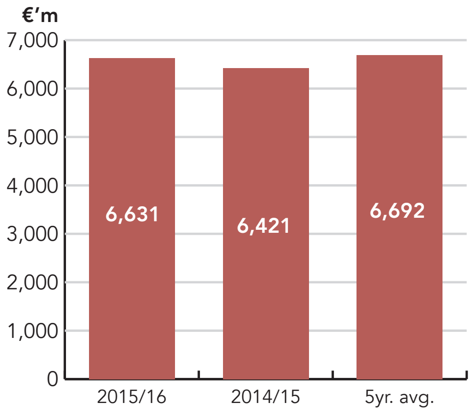
The net debt position of the Portfolio has increased by €0.8bn to €7.4bn in 2015/16 with higher combined gross borrowings (+€0.9bn) partly offset by an increased combined cash position (+€0.1bn). Most of the increase in gross debt relates to IW (-€0.6bn) and ESB (-€0.3bn) arising from their respective capital investment programmes and, in the case of ESB, the payment of the final instalment of the special dividend.

Pension Liabilities



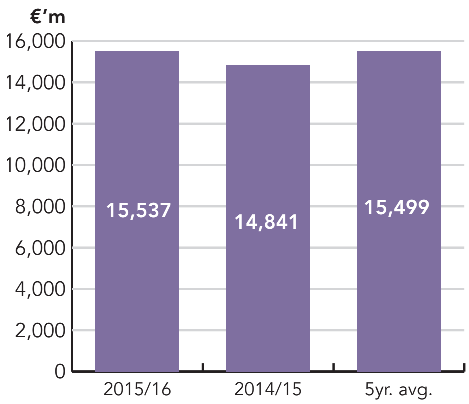
Combined pension liability of €1.0bn in 2015/16, reducing on prior period and against the five-year average. The majority of the combined net liability relates to the ESB pension scheme. The combined net liability has reduced from the 2014/2015 liability position of €1.2bn for a variety of reasons including, inter alia, changes in actuarial assumptions (asset fair values, discount rates, salary growth rates etc.) and, in the case of certain of the individual schemes, where employer contributions are in excess of the current service cost of those schemes.

Net Assets



Net assets have increased by €0.2bn in 2015/16 with the higher net debt position (-€0.8bn) offset primarily by increased non-current assets (+€0.7bn) and the reduced net pension liability (+€0.2bn). The increase in non-current assets is mostly due to an excess of fixed asset additions over depreciation charges in IW (+€0.5bn) and over depreciation and impairment charges in ESB (+0.2bn).

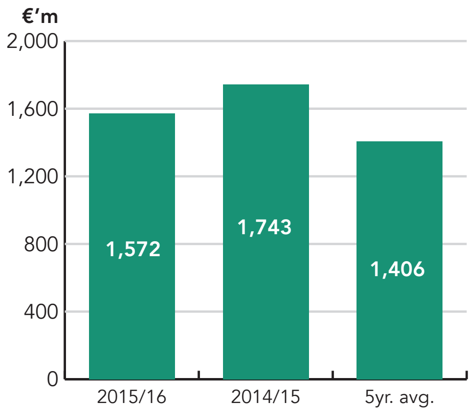
Invested Capital



The combined total invested capital in the Portfolio increased by €0.7bn versus 2014/15 with a higher level of adjusted debt and adjusted equity.

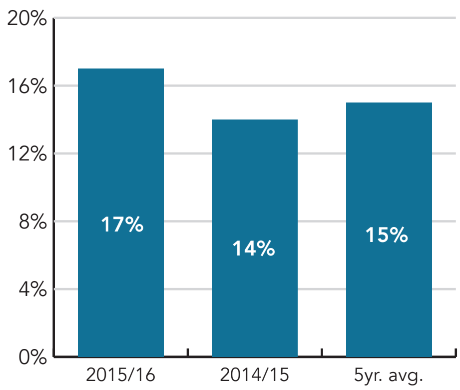
5. The Portfolio – Key Financial Information & Metrics (continued)

Gross Capital Expenditure



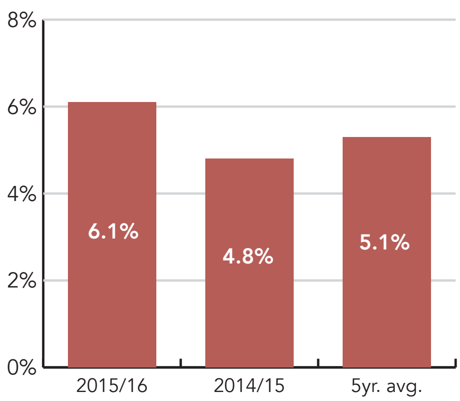
The reduced level of gross capex in 2015/16 is mostly due to a reduced level of spend by ESB (Carrington CCGT plant in the UK was nearing completion by the end of 2015). A significant proportion of total Portfolio gross capex relates to its regulated electricity, gas and water networks (c. 77% on an accruals basis).

Operating Profit Margin



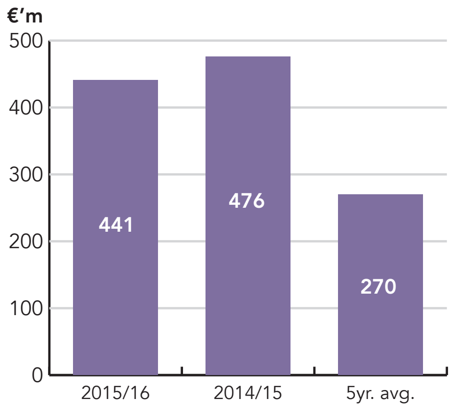
Increased operating profit margin reflecting the improved operating profitability of the Portfolio. Ahead of five-year average.

ROIC



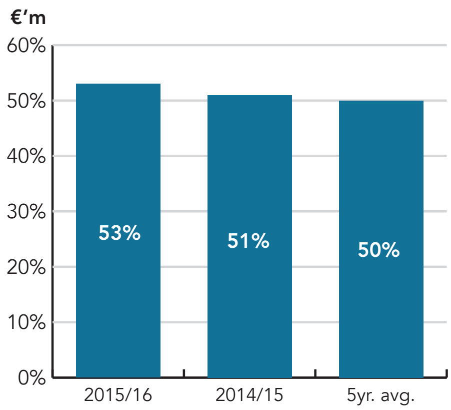
ROIC has increased from 4.8% in 2014/15 to 6.1% in 2015/16 reflecting the improved operating profitability of the Portfolio.

Dividends Paid (Total)



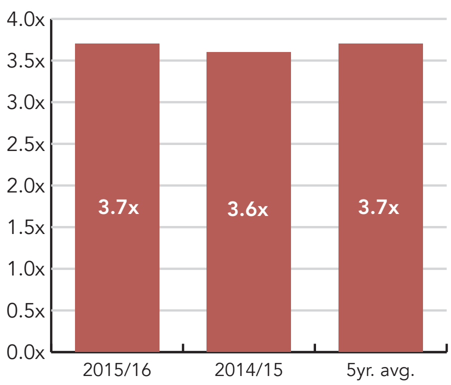
Total combined dividends (comprising special and normal dividends) paid in 2015/16 reduced slightly versus 2014/15. Special dividends paid in 2015/16 comprise a payment from Ervia (related to the sale of Bord Gáis Energy) and ESB (related to its generation asset sale programme).

Net Gearing (Excl. Pension & Employee Related Liabilities)



Net gearing is up marginally on 2015/16 (+2%) due to the impact of the increase in gross borrowings.

Net Debt/EBITDA



Net Debt/EBITDA for 2015/16 is in line with the five-year average and has increased marginally on 2014/15.

5. The Portfolio – Key Financial Information & Metrics (continued)

Definitions of NewERA's standardised performance measures are set out in Appendix B. Detailed combined five-year historical financial information for the Portfolio is provided in Appendix C. In Section 6 the financial performance of the individual Portfolio entities is considered, noting that the financial performance measures presented are applied by NewERA on a standardised basis across each of the entities in the Portfolio. It is recognised by NewERA that the financial performance measures applied by each entity for their own purposes may differ. Detailed five-year historical financial information for the entities in the Portfolio is set out in Appendix D.

6. The Portfolio

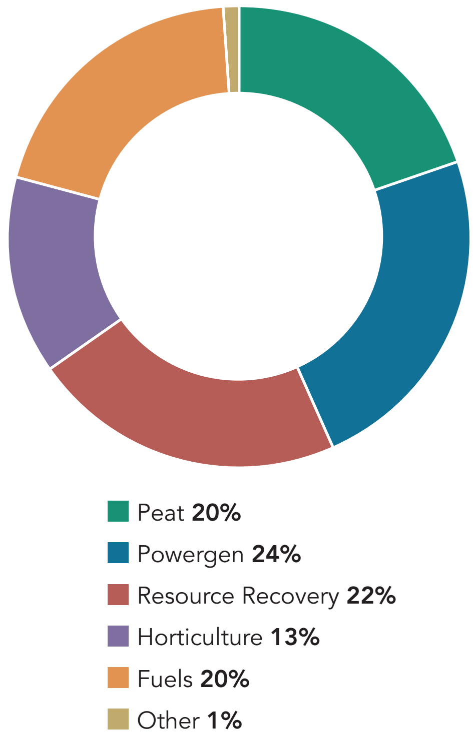
Financial Performance of the Portfolio Entities

BORD NA MÓNA

KEY ACTIVITIES

- **PEAT** division harvests and transports peat from BnM's bogs. It supplies milled peat to Powergen for the generation of electricity at BnM's Edenderry Power station and to the two ESB power stations. Peat is also supplied to the Horticulture and Fuels divisions.
- **BIOMASS** division was established as a separate business unit in 2015/16 and is responsible for the development of the biomass supply chain sourcing supply both domestically and internationally. Similar to the Peat division, this division supplies biomass materials to Powergen, Fuels and Horticulture and to the ESB power stations.
- **POWERGEN** division manages and operates BnM's power generation assets (Edenderry, Cushaling peaking plant, the Drehid landfill gas facility and a number of wind farms). There are a number of power generation projects at various stages of development.
- **RESOURCE RECOVERY** division provides domestic and commercial non-hazardous waste collection and disposal services and operates BnM's landfill facility at Drehid in Kildare.
- **HORTICULTURE** division sells growing media and other horticultural products to Irish and UK retail markets and professional markets primarily in Ireland, the UK and Europe.
- **FUELS** division manufactures and distributes solid fuel products within the residential heating market in Ireland.

TURNOVER BY ACTIVITY 2015/16



OPERATING PROFIT BY ACTIVITY 2015/16

Operating profit not disclosed by activity in the annual report

6. The Portfolio (continued) Financial Performance of the Portfolio Entities

FINANCIAL PERFORMANCE

BnM had a challenging year in FY16 with its Edenderry peat plant exiting the PSO in Q3 2016, a planning decision outstanding on the operations of that plant as at year end[5], a period of low wholesale prices and a mild winter which had an adverse effect on BnM's fuel sales. Although turnover growth was reported across almost all operating divisions (FY16: €433m, FY15: €407m), BnM delivered a lower level of adjusted operating profit (FY16: €59m, FY15: €70m) and PAT (FY16: €36m, FY15: €43m) in FY16 which resulted in a 3% reduction in the adjusted operating profit margin and in ROIC.

In FY16 BnM reported exceptional costs of €21m which comprised asset impairment and pension restructuring costs. Asset impairments mainly related to BnM's thermal power stations at Edenderry (Edenderry and Cushaling) as a result of a number of risks to future performance (prices and market changes).

Net debt levels remain largely unchanged in FY16 however it is noted that nearly one third of the outstanding US PP loan notes balance of €241m falls due for repayment in the first half of FY17.

Reduction of €33m in the net pension deficit for a number of reasons including a change in actuarial assumptions and employer cash contributions.

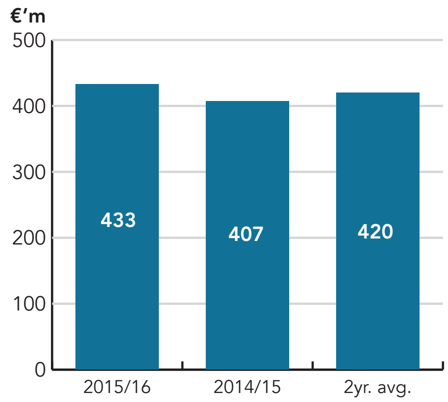
Reduced level of capital investment in FY16 as the Mount Lucas and Bruckana wind farms were completed in FY15. This reduced spend is partly offset by increased investment in JV wind projects with other semi-State entities (Coillte and ESB).

BnM paid €10m in dividends in FY16 which is marginally lower than FY15 (€11m) driven by a slight reduction in normalised PAT for dividend purposes with the underlying dividend payout rate remaining unchanged at 33%. Of this, €9.6m was paid to the State and €0.5m was paid to the Employee Share Ownership Plan ("ESOP").

BnM prepared its financial statements in accordance with IFRS for the first time in FY16 and restated the FY15 balances accordingly. Consequently, we present a two-year average for comparability purposes.

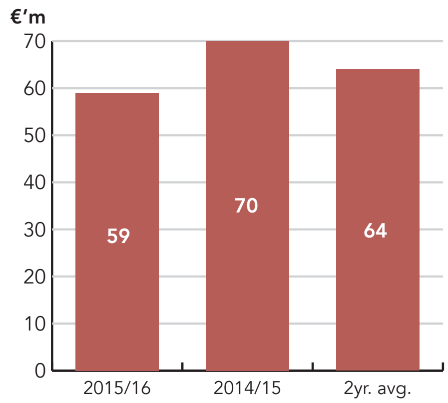
5 We note that, on 14 October 2016, BnM received a High Court stay on operations at Edenderry until February 2017.

Turnover



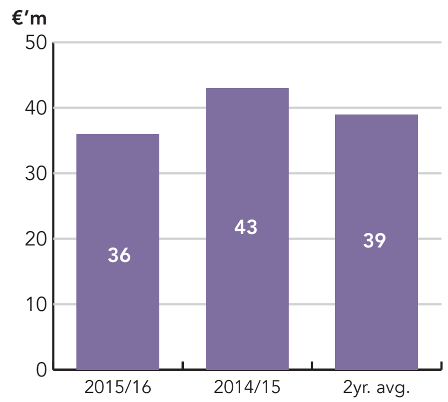
Turnover growth in FY16 across all divisions particularly Powergen (first full year of operations at Mount Lucas and Bruckana wind farms) and Resource Recovery (from both collection and treatment activities) but noting reduced turnover in Fuels (reduced coal and briquette sales due to the mild winter and impact of lower oil price and increased competition in the fuels market).

Operating Profit



Turnover growth offset at operating profit level due to increased cost of sales, operating costs and depreciation and amortisation costs along with a lower revaluation gain on the investment property owned by the Group than that which applied in FY15.

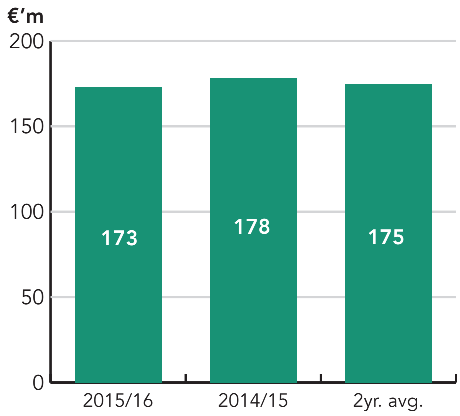
Adjusted PAT



Operating profit reduction is reflected in the reduction at adjusted PAT level but this was partly offset by a reduced tax charge (lower taxable profits in FY16) and higher deferred tax on derivatives in FY15.

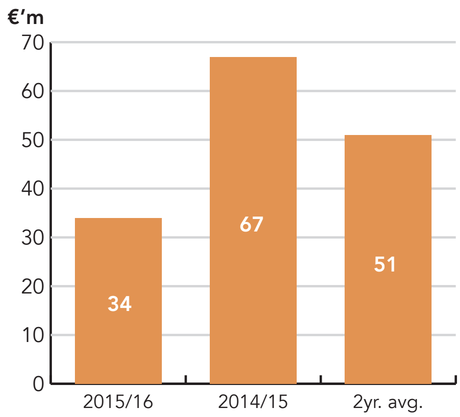
6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

Net Debt



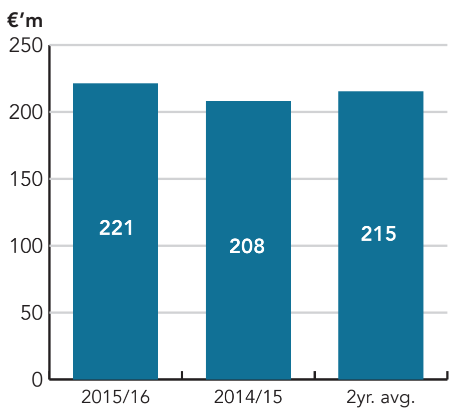
Net debt for FY16 was €5m lower than FY15 due to a foreign exchange gain on US private placement loan notes. The US private placement debt is repayable across FY17 (31%), FY18 (16%), FY19 (24%) and FY20 (29%).

Pension Liabilities



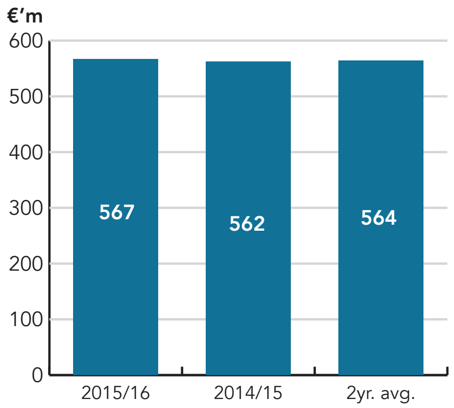
Pension liabilities reduced in FY16 arising from the implementation of the funding proposals it has in place to meet the minimum funding standard for each of its DB Schemes.

Net Assets



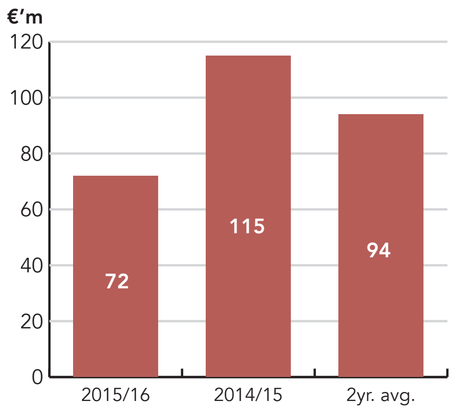
The increase in net assets in FY16 was driven largely by the reduction in pension and employee liabilities. We note that although there were fixed asset impairments recognised in FY16 (exceptional costs, mostly related to BnM's thermal plants at Edenderry arising from lower forecasted electricity prices and further market changes expected from the introduction of I-SEM in 2018) these were mostly offset by an increased level of investment in wind project JV's with other Portfolio entities (ESB and Coillte) and increased intangible assets.

Invested Capital



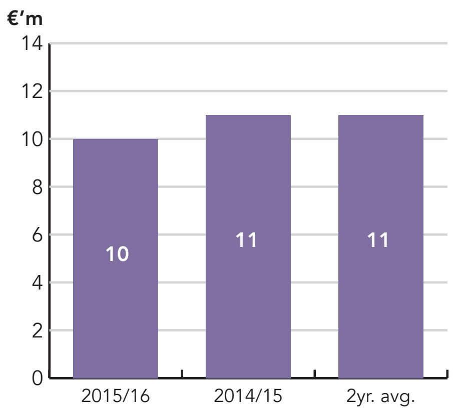
Invested Capital has increased marginally in FY16 with a net reduction in debt and other liabilities offset by increased shareholder equity (higher retained earnings) and a lower level of adjustment to invested capital in respect of the reported net derivative asset position.

Gross Capital Expenditure



Capital expenditure declined in FY16 as the prior year included the completion of Mount Lucas and Bruckana wind farms. This reduction was partly offset by the increased investment in JV's (wind).

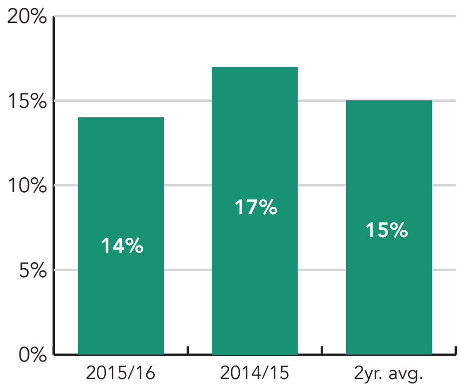
Dividends Paid (Total)



Marginally lower dividend paid in FY16 relative to prior year (dividend payout remains at 33% of adjusted prior year PAT).

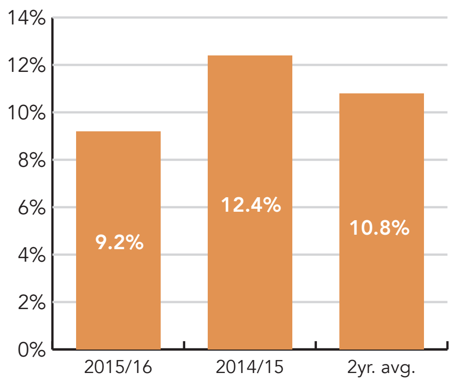
6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

Operating Profit Margin



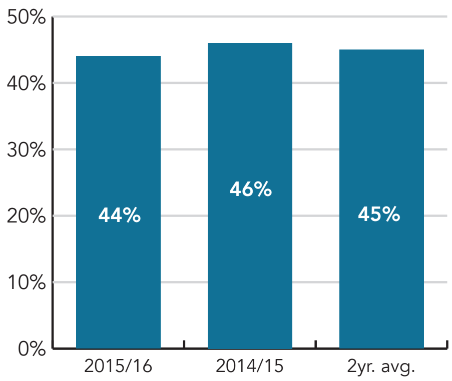
Reduced operating profit margin due to lower operating profit relative to an increased level of turnover.

ROIC



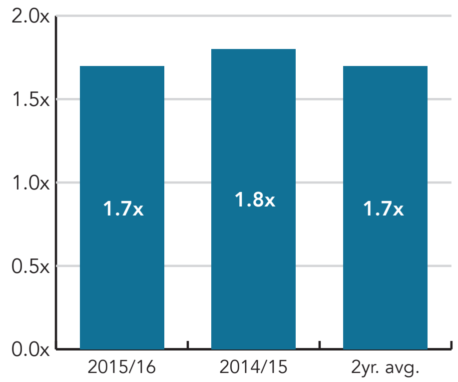
Lower operating profits coupled with a higher level of invested capital resulted in a reduction in ROIC from 12.4% in FY15 to 9.2% in FY16. In due course, NewERA will be comparing the ROIC metric to the underlying WACC for each Portfolio entity (with the WACC to be calculated by NewERA in accordance with NewERA methodology).

Net Gearing (Excl. Pension & Employee Related Liabilities)



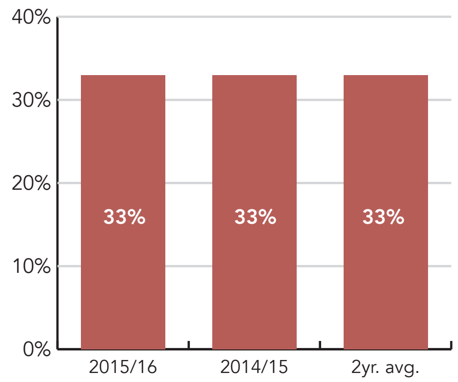
Net gearing reduced from 46% in FY15 to 44% in FY16 reflecting the lower net debt and increased net asset position of BnM.

Net Debt / EBITDA



Net Debt/ EBITDA ratio has remained at broadly similar levels to FY15.

Dividend Payout (Normal Dividends)



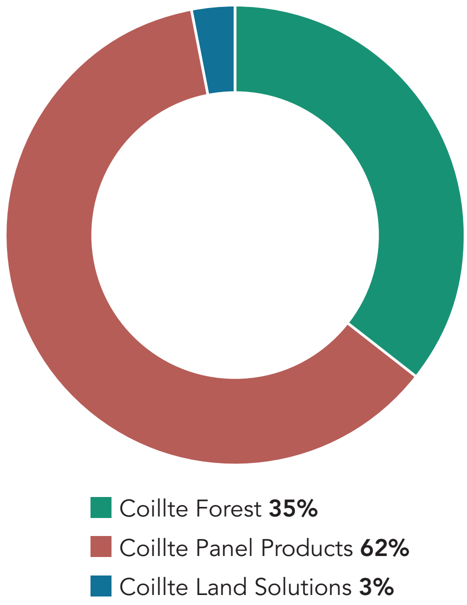
Dividend payout for normal dividends is unchanged at 33% of prior-year adjusted PAT.

6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

KEY ACTIVITIES

- **COILLTE FOREST** is responsible for all aspects of Coillte's forestry business including the establishment, management and protection of Coillte forests. It supplies sawlog primarily to the Irish and UK markets and pulpwood primarily to the Panel Products division.
- **COILLTE PANEL PRODUCTS** manufactures OSB under the SmartPly brand in Waterford, and MDF under the Medite brand in Clonmel and supplies the Irish, UK and European markets.
- **COILLTE LAND SOLUTIONS** is responsible for optimising the land resource through renewable energy (Wind and Biomass) and land sales and development.

TURNOVER BY ACTIVITY 2015/16



OPERATING PROFIT BY ACTIVITY 2015/16

Operating profit not disclosed by activity in the annual report

FINANCIAL PERFORMANCE

Solid financial performance in 2015, noting that the improvement in adjusted operating profit (FY15: €79m, FY14: €54m) was mainly due to contribution from the disposal of fixed assets (50% stake in Sliabh Bawn wind farm project to BnM and Coillte Telecoms' income streams) and a revaluation gain relating to investment property assets (land rented on long term leases to joint venture or third party wind farm operators). Coillte's ROIC improved on 2014 levels (FY15: 5.2%, FY14: 3.7%) reflecting underlying profitability.

Net debt decreased by €22m to €154m in 2015 with increased borrowings offset by a greater level of increase in cash balance reflecting, inter alia, the proceeds from the disposal of fixed assets during the year. Net gearing reduced from 15% in 2014 to 12% in 2015 due to the reduction in net debt and the increase in overall net assets (mainly due to net debt reduction and a reduction in Coillte's net pension liability).

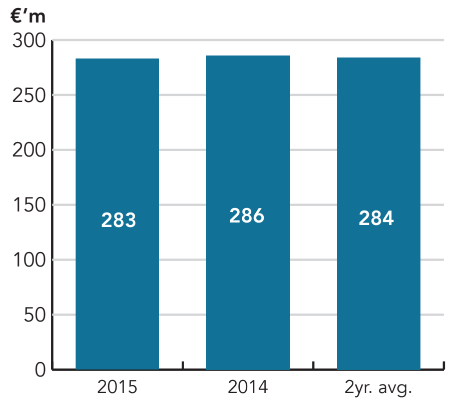
Capital expenditure for 2015 was 60% higher than prior year spend mainly resulting from the investment in a new OSB line at Coillte's SmartPly manufacturing facility. Nearly a third of annual capex in 2015 related to Coillte's forest asset.

An interim dividend of €4m was paid during 2015 with a final dividend in respect of 2015 of €1m paid post year end.

Coillte prepared its Financial Statements in accordance with FRS102 for the first time in 2015 and restated the 2014 balances accordingly. Consequently, we present a two-year average for comparability purposes.

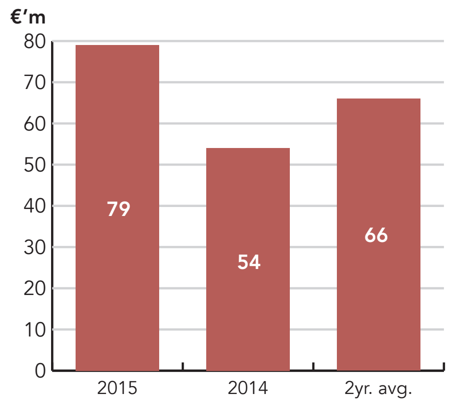
6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

Turnover



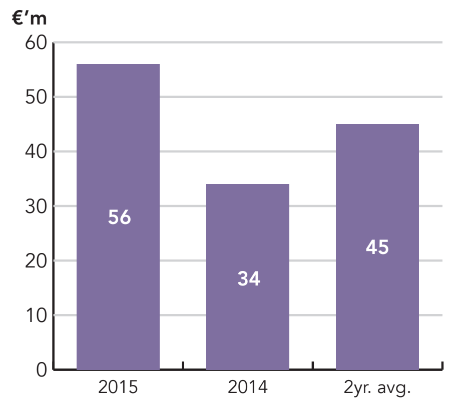
Turnover declined marginally in 2015 with lower turnover reported in the Forest division (reduced log prices and reduced sawmill demand) and Land Solutions division (resulting from the sale of Coillte Telecoms' income streams during 2015) partly offset by turnover growth in the Panel Products division (increased MDF prices).

Operating Profit



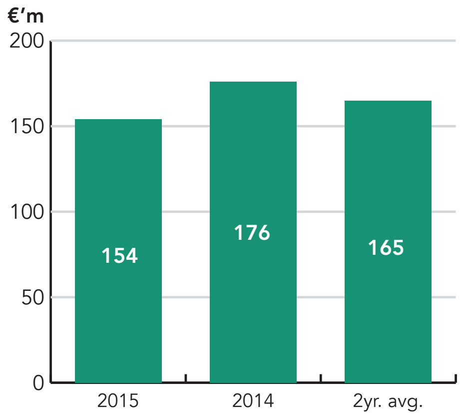
Operating profit improved by €25m year-on-year resulting from contribution on the disposal of fixed assets and a revaluation gain relating to investment property assets (land rented on long term leases to joint venture or third party wind farm operators).

Adjusted PAT



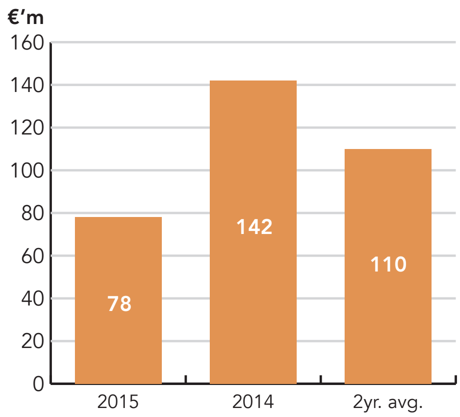
Improved operating profitability reflected in the increase in PAT (adjusted).

Net Debt



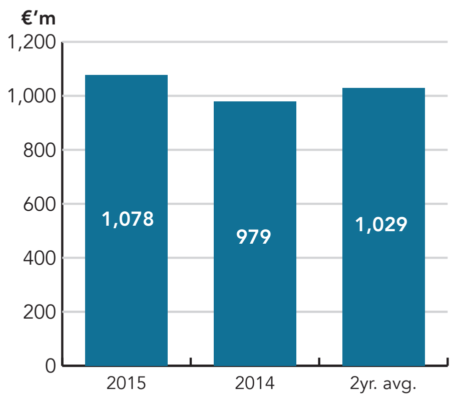
Net debt for 2015 decreased by €22m to €154m with increased borrowings offset by a greater level of increase in cash balances (investment spend offset by proceeds from the sale of the Telecoms' income streams (exceptional item) and proceeds from the disposal of fixed assets).

Pension Liabilities



Pension liabilities reduced from €142m in 2014 to €78m in 2015 for a variety of reasons including changes in underlying actuarial assumptions including discount rate and salary/pension levels.

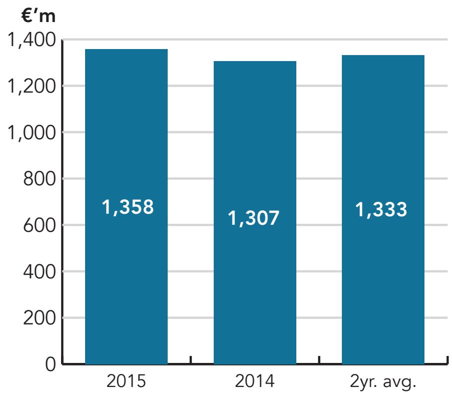
Net Assets



The increase in net assets in 2015 mainly reflects the changes in the net debt and net pension liability positions.

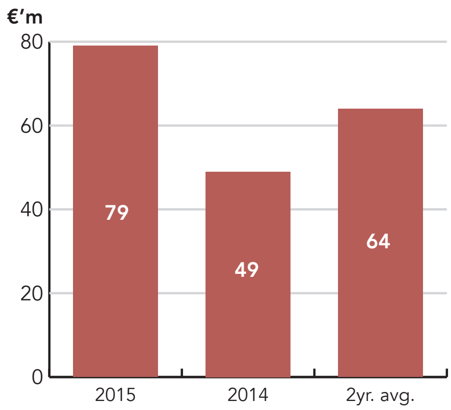
6. The Portfolio (continued) Financial Performance of the Portfolio Entities

Invested Capital



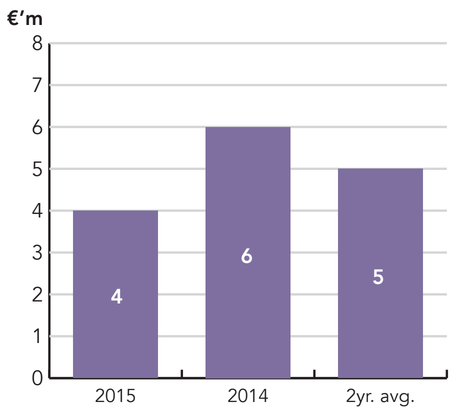
Invested Capital has increased marginally relative to the prior year with the lower net pension liability (which forms part of debt for the purposes of Invested Capital) offset by a higher level of shareholder equity.

Gross Capital Expenditure



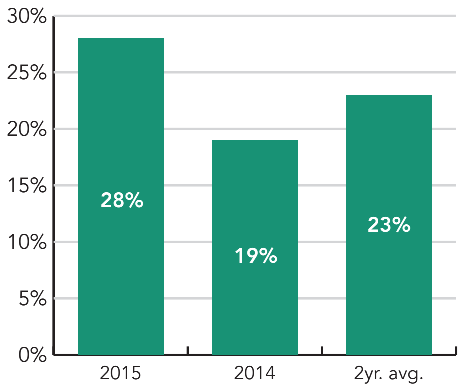
Capital expenditure for 2015 was 60% higher than prior year spend mainly resulting from the investment in a new OSB line at Coillte's SmartPly manufacturing facility. Nearly a third of annual capex in 2015 related to Coillte's forest asset.

Dividends Paid (Total)



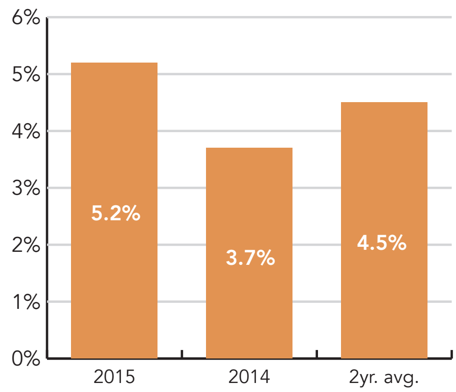
An interim dividend of €4m was paid during 2015 with a final dividend in respect of 2015 of €1m paid post year end. 2014 dividends included a €4m dividend relating to 2014 and a dividend of €2m relating to 2013.

Operating Profit Margin



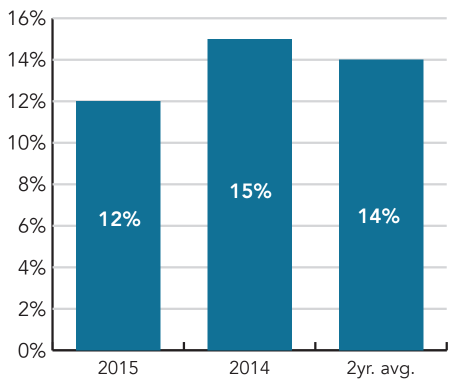
Improved operating profit margin in 2015 resulting from increased operating profit.

ROIC



Coillte's ROIC improved on 2014 levels reflecting growth in underlying operating profitability. In due course, NewERA will be comparing the ROIC metric to the underlying WACC for each Portfolio entity (with the WACC to be calculated by NewERA in accordance with NewERA methodology).

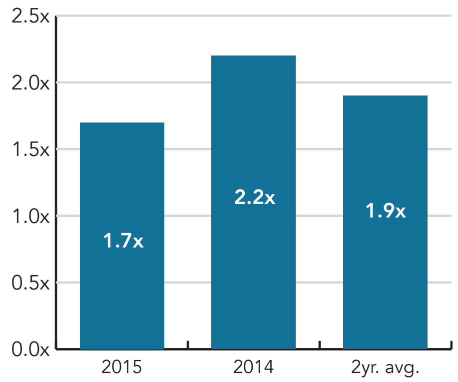
Net Gearing (Excl. Pension & Employee Related Liabilities)



Net gearing reduced from 15% in 2014 to 12% in 2015 due to the reduction in net debt and the increase in overall net assets.

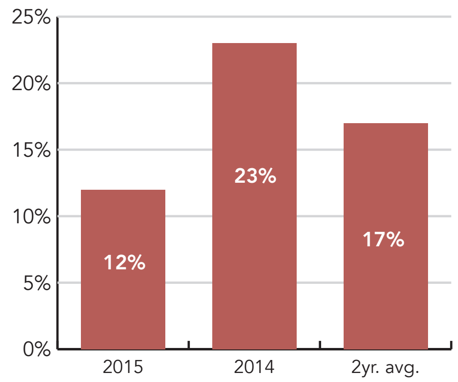
6. The Portfolio (continued) Financial Performance of the Portfolio Entities

Net Debt / EBITDA



Net Debt/EBITDA improved in 2015 falling to 1.7 times from 2.2 times. This was due to higher EBITDA and reduced net debt.

Dividend Payout (Normal Dividends)



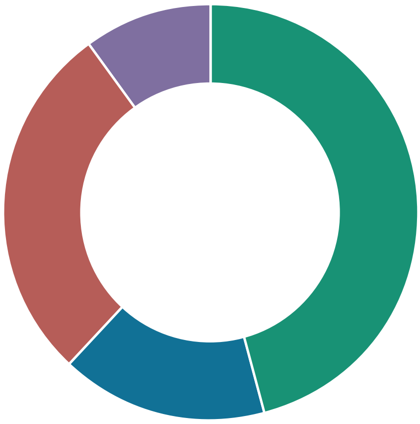
Dividend payout of 12% in 2015 which does not include the final dividend in respect of 2015 (paid post year-end).

EIRGRID GROUP

KEY ACTIVITIES

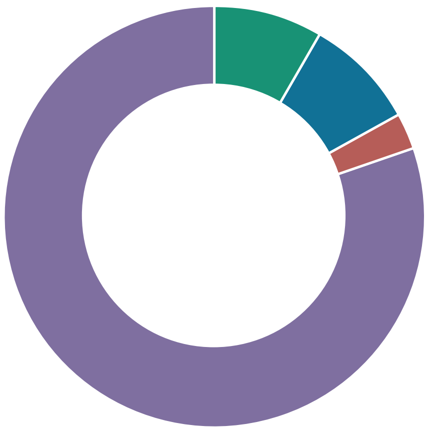
- **EIRGRID TSO** develops, manages and operates the high voltage electricity transmission grid in Ireland and is regulated by the CER.
- **SONI** develops, manages and operates the high voltage electricity transmission grid in Northern Ireland and is regulated by the Utility Regulator Northern Ireland ("URegNI").
- **SEMO** operates the SEM across Ireland and Northern Ireland and is regulated by the SEM Committee.
- **EWIC** owns and operates a high-voltage electricity link between Ireland and the UK selling capacity through auctions.
- **OTHER** EirGrid is also responsible for implementing the systems and process needed for the introduction of new market arrangements under I-SEM. In addition, the Group is working to help deliver on 2020 renewable electricity targets through the programme for Delivering a Secure and Sustainable Electricity System (known as DS3).

TURNOVER BY ACTIVITY 2015/16



- EirGrid TSO **46%**
- SONI TSO **16%**
- SEMO **28%**
- EWIC **10%**

OPERATING PROFIT BY ACTIVITY 2015



- EirGrid TSO **9%**
- SONI TSO **9%**
- SEMO **-3%**
- EWIC **85%**

6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

FINANCIAL PERFORMANCE

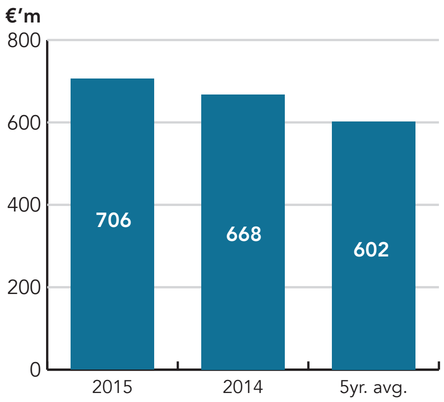
EirGrid's activities are predominantly regulated and its reported profits and returns can vary from year to year due to over and under-recoveries of regulatory income – in accordance with normal regulatory practice, over and under-recoveries of regulatory income are corrected for in future tariffs. Additionally, a significant element of its turnover is pass-through in nature as it comprises regulated tariffs which it collects on behalf of the transmission asset owners. These two factors make it difficult to fully assess the underlying operating performance of the entity. Management's reported estimate for underlying profit before tax was marginally lower in FY15 compared to prior year (€16.9m versus €18.0m).

Net debt levels reduced from €253m in FY14 to €207m in FY15 with ongoing repayment of EWIC related borrowings coupled with an increase in cash balances net of restricted cash balances (SEM collateral reserve accounts and amounts held on trust for SEM market participants).

Pension liabilities increased to €27m in FY15.

EirGrid paid a dividend of €3m in FY15 in respect of 2014. A dividend of €3.5m proposed for 2015 was paid post FY15 year end.

Turnover

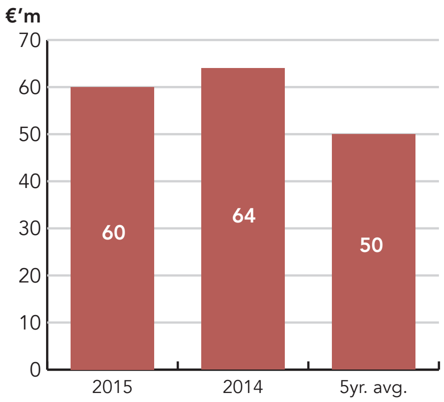


Turnover comprises regulated tariffs payable by users of the transmission system in Ireland and Northern Ireland (which are collected by EirGrid on behalf of the transmission asset owners) and auction receipts from the sale of capacity on the EWIC.

Turnover growth of 6% was reported in FY15 increasing from €668m in FY14 to €706m in FY15 mainly due to higher regulated tariffs (increased imperfections tariff due to higher constraint costs) partly offset by lower auction receipts relating to EWIC (carbon price floor reform in the UK and lower demand for import capacity).

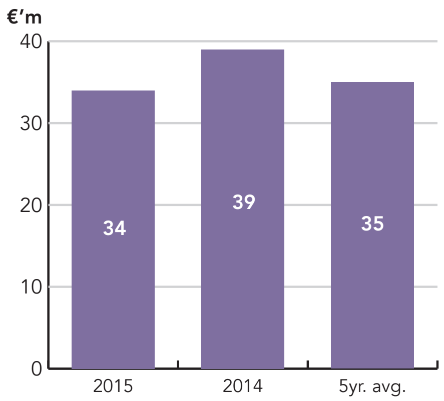
Of the total turnover of €706m (FY14: €668m), €202m/29% (FY14: €194m/29%) related to the transmission asset owner charge pursuant to an infrastructure agreement in place between EirGrid and ESB – this is pass-through in nature and forms part of EirGrid's direct costs.

Operating Profit



Operating profit decreased with increased contribution from EirGrid TSO and SONI TSO offset by reduced contribution from SEMO and EWIC activities.

Adjusted PAT

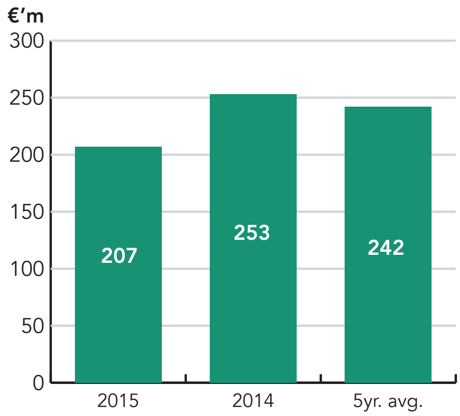


Adjusted PAT has similarly reduced noting that tax and interest charges were largely in line with prior year.

It should be noted that the profit figures presented here include regulatory over-recoveries which, in accordance with prescribed regulatory practice, will be corrected for in future tariffs returned to customers. Current accounting treatment does not permit results to be smoothed for these and so EirGrid's reported profits are inherently variable. Underlying net profits are not disclosed but EirGrid reports that, excluding the regulatory over-recoveries, underlying PBT for FY15 was €16.9m (FY14: €18.0m).

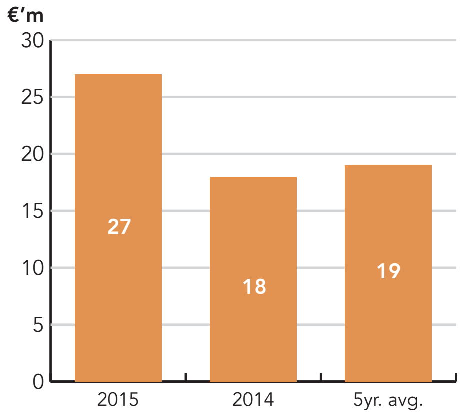
6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

Net Debt



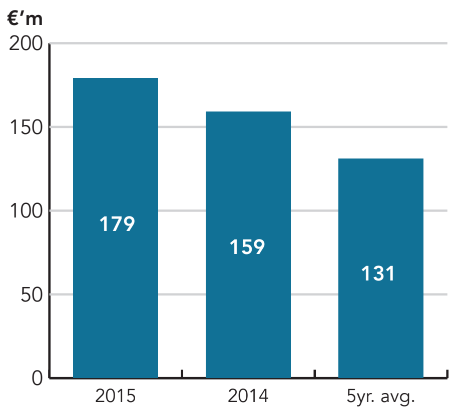
Net debt for FY15 reduced by €46m from FY14 levels as a result of reduced borrowings (EWIC related) coupled with an increase in cash balances.

Pension Liabilities



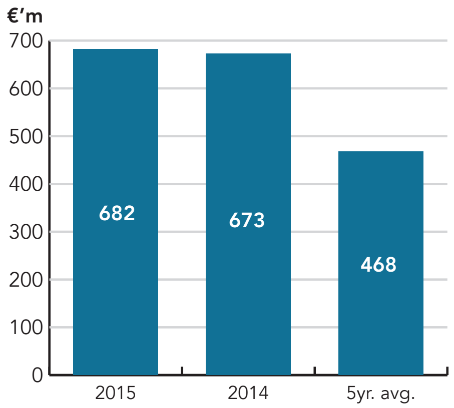
Pension liabilities increased in FY15 by 50% with an increase in the fair value of scheme assets (net interest income, employer and participant contributions) offset by a higher value attributed to the liabilities of the scheme due to current service costs and changes in actuarial assumptions.

Net Assets



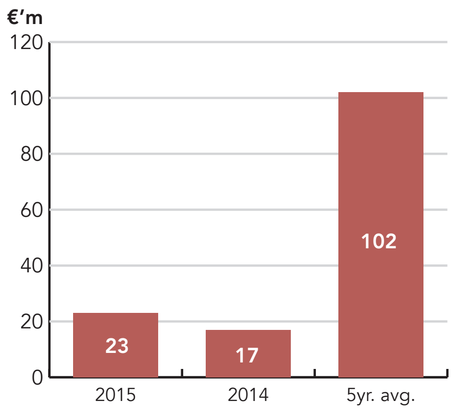
The increase in net assets in FY15 is driven mainly by the reduced net debt position.

Invested Capital



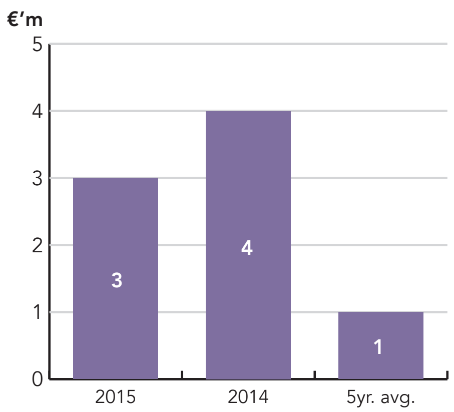
Invested Capital has increased marginally since FY14 (higher retained earnings) but is significantly higher than the five-year average. This reflects the increasing gross debt profile over the period which moved from €261m at FY11 to €367m by FY15, peaking at €427m in FY12, due to funding requirements associated with the investment in the EWIC.

Gross Capital Expenditure



Capital expenditure for FY15 was marginally higher than prior year but significantly below the five-year average reflecting the investment in EWIC in FY11 and FY12.

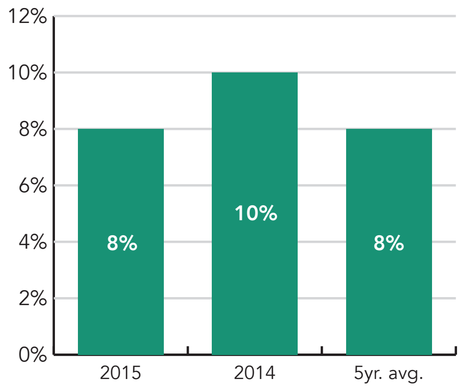
Dividends Paid (Total)



A dividend of €3m was paid in FY15 in respect of FY14. A dividend of €3.5m has been proposed for FY15. These are ahead of the average dividends paid as EirGrid only commenced the payment of a dividend for the first time in FY14 (the dividend in FY14 was a special dividend paid following a request for additional dividend income from the shareholder).

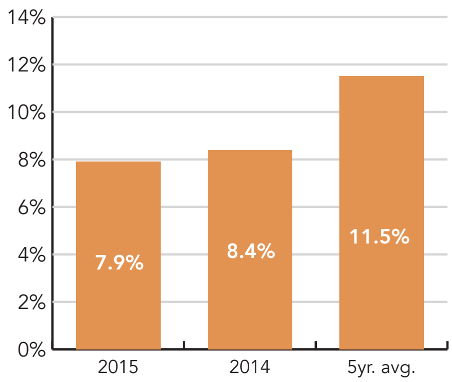
6. The Portfolio (continued) Financial Performance of the Portfolio Entities

Operating Profit Margin



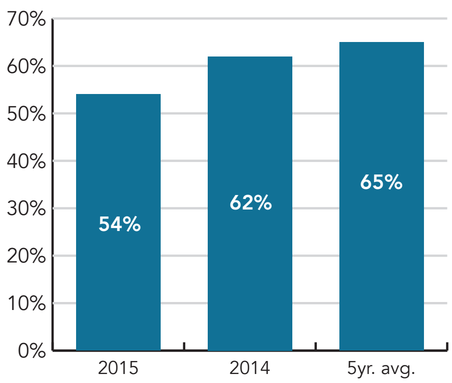
Lower operating profit margin reflected reduced operating profitability in FY15 noting that a significant proportion of turnover relates to transmission use of system charges collected by EirGrid on behalf of the transmission asset owners which are pass-through in nature (included in direct costs).

ROIC



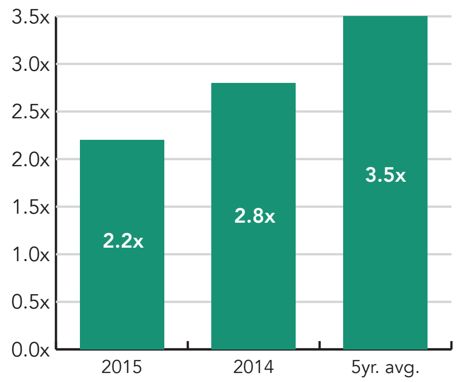
EirGrid's ROIC remained stable year-on-year. However, it is considerably lower than the five-year average reflecting the increased debt profile arising from EWIC and the lower level of adjustment for assets under construction in more recent periods due to the completion of EWIC (assets under construction are excluded from Invested Capital). In due course, NewERA will be comparing the ROIC metric to the underlying WACC for each Portfolio entity (with the WACC to be calculated by NewERA in accordance with NewERA methodology).

Net Gearing (Excl. Pension & Employee Related Liabilities)



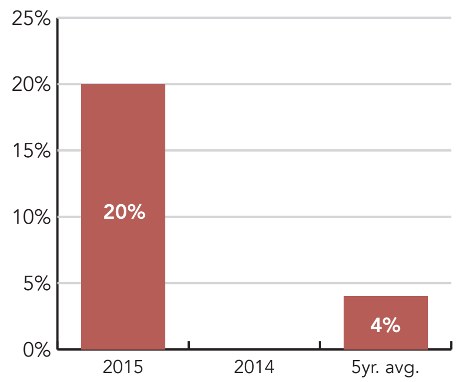
Net gearing levels reduced in FY15 reflecting the lower net debt and increased net asset positions.

Net Debt / EBITDA



Net debt/EBITDA improved in FY15 mostly due to the lower levels of net debt.

Dividend Payout (Normal Dividends)



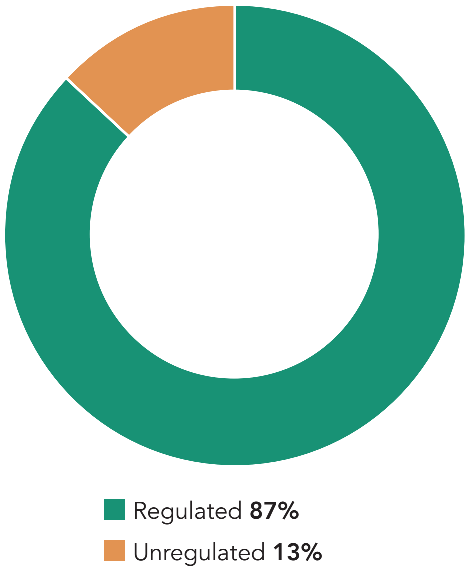
Dividend payout of 20% in 2015; the 2014 metric does not include the dividend paid in that period as this is classified as a "special dividend" by NewERA rather than as ordinary dividend income.

6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

ervia Gas Networks Ireland

KEY ACTIVITIES	TURNOVER BY ACTIVITY 2015

- **GAS NETWORKS IRELAND** provides gas transportation services, and invests in, operates and maintains the national gas network. Within GNI, Aurora Telecom is a wholesale, open-access service provider of dark fibre and managed bandwidth services.



OPERATING PROFIT BY ACTIVITY 2015

Operating profit relates substantially to GNI activities but is not split as between regulated and unregulated activities.

FINANCIAL PERFORMANCE

Ervia's reported profits and returns are derived substantially from GNI which is predominantly regulated and its results can vary from year to year due to over and under-recoveries in respect of allowable regulatory income. In 2015 it had a satisfactory performance noting that both revenue (FY15: €491m, FY14: €506m) and operating profit (FY15: €182m, FY14: €204m) declined mainly as over-recoveries in previous years were returned to customers with the decline in operating profitability reflected in reduced operating profit margins and ROIC. However, adjusted PAT increased (FY15: €116m, FY14: €111m) benefitting from lower finance costs as the average level of debt during the year decreased relative to prior year in addition to a lower tax expense.

Net debt remained stable at €1.0bn but we expect it will increase as the remaining BG Energy sales proceeds (c. €380m) are paid by Ervia to the Exchequer.

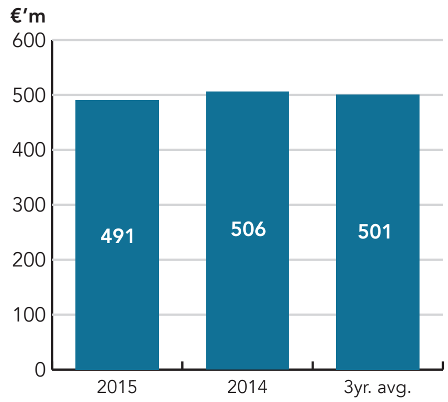
Net pension liabilities reduced in 2015, being €33m lower than 2014 (change in actuarial assumptions).

Broadly similar levels of capital expenditure in 2015 (€100m) versus prior year (€94m) and in line with the three-year average (€99m).

A dividend of €151m was paid to the Exchequer during the year (2014: €171m) which includes payment of a special dividend of €100m following the sale of the BG Energy business (2014: €150m). Other dividends of €51m relate to an ordinary dividend of €33m for the Relevant Financial Year and an ordinary dividend of €18m in respect of part of the prior year dividend which was deferred.

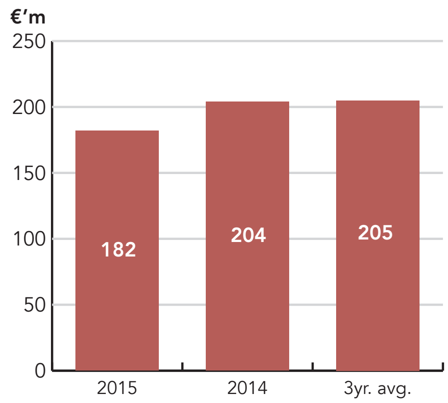
6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

Turnover



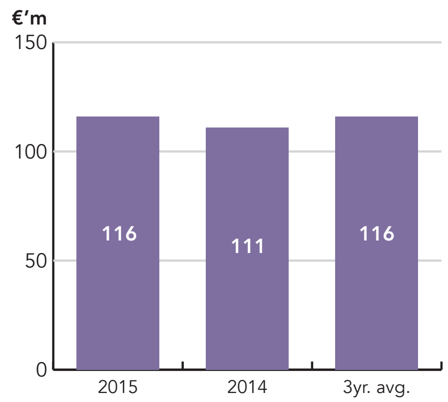
Turnover, principally derived from gas transportation services, decreased in 2015 primarily due to lower regulated revenue tariffs (arising from the return of over-recoveries in previous years), lower large connection revenues and lower contractual gas flows from Corrib.

Operating Profit



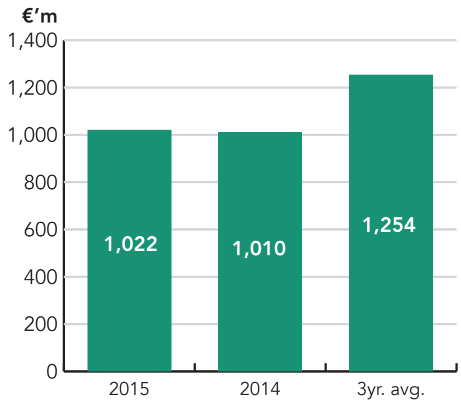
Reduced operating profit in 2015 due to lower revenues and higher operating costs in GNI partly offset by reduced depreciation and amortisation and €5m of Ervia parent costs which were not allocated to its subsidiaries (mainly pension costs).

Adjusted PAT



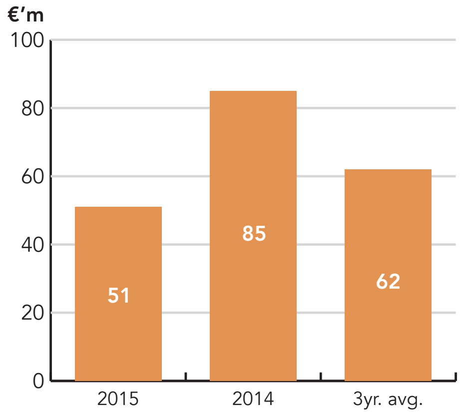
Despite a lower level of operating profit, PAT (adjusted) improved marginally in 2015 due to lower finance costs (reduced average debt profile in 2015 following the repayment of borrowings in 2014 temporarily utilising sales proceeds associated with the sale of the BG Energy business) and a lower tax charge.

Net Debt



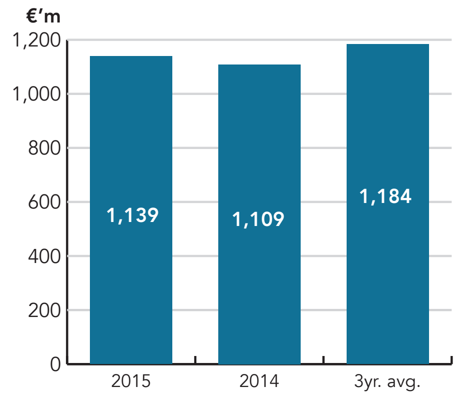
Net debt remained stable at €1.0bn as operating cashflows were sufficient to meet cash outflows in respect of capital investment and financing activities. Net debt should increase in the coming years as the remaining BG Energy sales proceeds are paid by Ervia to the Exchequer. In 2015, GNI entered into a new €450m five-year revolving credit facility with a group of banks. The next major debt maturing for GNI is its €500m bond in December 2017.

Pension Liabilities



Pension liabilities in 2015 were €33m lower than 2014; the main driver of the decrease was a change in actuarial assumptions relating to the discount rate applied to scheme liabilities, which reduced, reflecting improving international trends on long-term corporate bond yields.

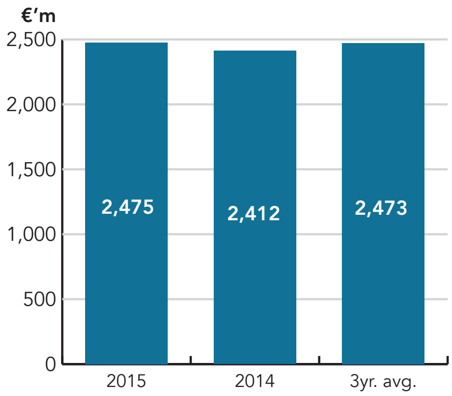
Net Assets



Net assets increased marginally on 2014 levels with, inter alia, the improved net pension and net derivative liability positions partly offset by the increased net debt position.

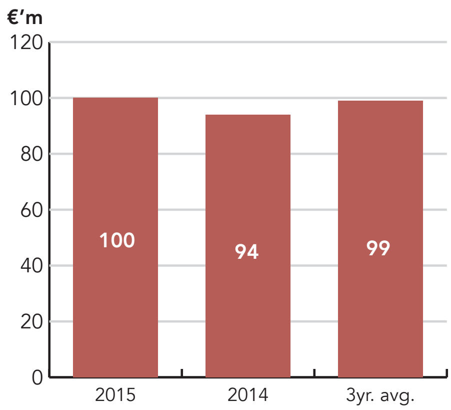
6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

Invested Capital



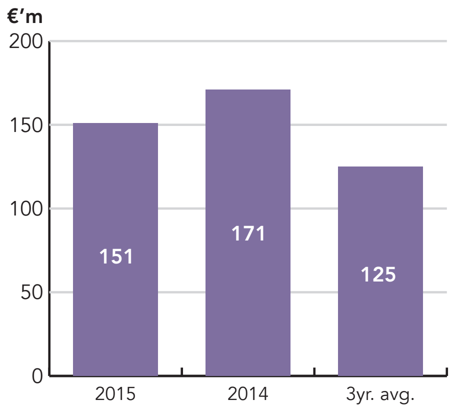
Invested Capital has increased marginally in 2015 due mainly to increased shareholder equity (higher retained earnings), a higher level of adjustment to invested capital in respect of the reported net derivative financial asset position and assets in construction.

Gross Capital Expenditure



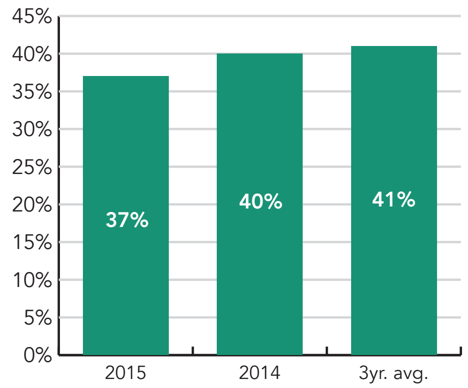
Similar levels of capital expenditure in 2015 versus prior year and in line with the three-year average and in 2015 included the build out of the network to c. 8,000 new homes and businesses.

Dividends Paid (Total)



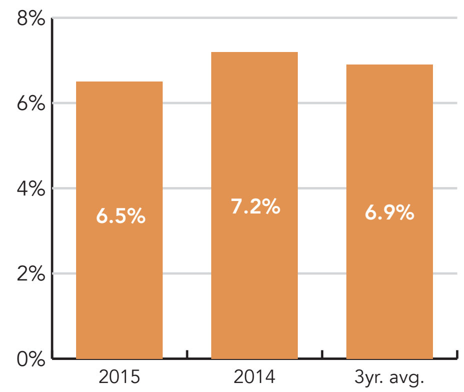
A dividend of €151m was paid to the Exchequer during the year (2014: €171m) which includes payment of a special dividend of €100m following the sale of the BG Energy business (2014: €150m), an ordinary dividend of €33m for the year and an €18m ordinary dividend for part of the prior year which had been deferred.

Operating Profit Margin



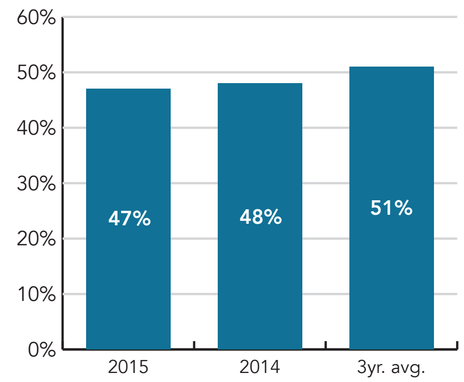
Decline in the operating profit margin reflecting the lower operating profit.

ROIC



ROIC reduced from 7.2% in 2014 to 6.5% in 2015 mainly due to the decline in operating profitability. In due course, NewERA will be comparing the ROIC metric to the underlying WACC for each Portfolio entity (with the WACC to be calculated by NewERA in accordance with NewERA methodology).

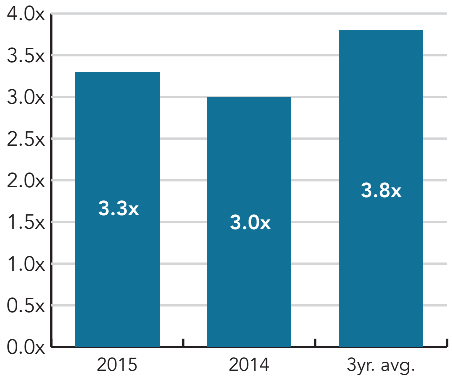
Net Gearing (Excl. Pension & Employee Related Liabilities)



Net gearing has declined relative to prior year and the three-year average.

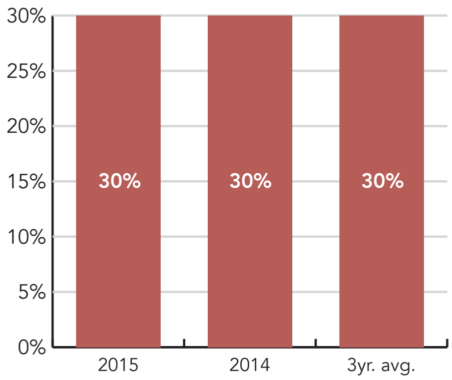
6. The Portfolio (continued) Financial Performance of the Portfolio Entities

Net Debt / EBITDA



Net debt/EBITDA increased to 3.3 times in 2015 from 2.0 times in 2014 mainly due to lower EBITDA. Net debt/EBITDA is expected to increase in the coming years as the remaining BG Energy sale proceeds are paid by Ervia to the Exchequer.

Dividend Payout (Normal Dividends)



Dividend payout rate at a constant 30% of adjusted PAT for dividend purposes in line with Ervia's existing dividend policy. This excludes special dividends relating to the sale of the BG Energy business. Ervia's dividend policy is currently under discussion as part of the Framework Letter.

Credit Rating

In order to facilitate the raising of finance Ervia has credit ratings attributed to it by the main credit rating agencies

S&P – August 2016 – stable outlook on GNI reflects the stable outlook on Ireland.

- "We base our rating on GNI on the Ervia consolidated group's credit profile (GCP) – excluding Irish Water, which we view as being sufficiently ring-fenced from the group. We see the group's ability to maintain S&P Global Ratings-adjusted funds from operations (FFO) to debt of more than 10% as commensurate with the GCP of 'bbb+'". "Our assessment of GNI's business risk profile as excellent is underpinned by the company's leading market position in the Irish natural gas market. It also reflects that a significant proportion of the company's cash flows are stable and predictable as they stem from its low-risk regulated gas transportation and distribution network operations. GNI's financial profile is currently at the higher end of its financial range, with FFO to debt expected to remain at or above 13% in the medium term, however, there are uncertainties on the group dividend policy which currently constrain GNI's overall SACP assessment".

Moody's – August 2016 – upgrade to A3 with stable outlook

- "GNI's A3 ratings reflect: (1) the low business risk profile of its gas transmission and distribution businesses, operating under a stable and predictable regulatory framework in the Republic of Ireland (A3, positive); (2) operating performance broadly in line with regulatory assumptions, with a mature asset base and modest level of capital expenditure; and (3) the company's moderate leverage with Net Debt to Regulated Asset Value expected to remain very comfortably below 60%".

Bond Performance

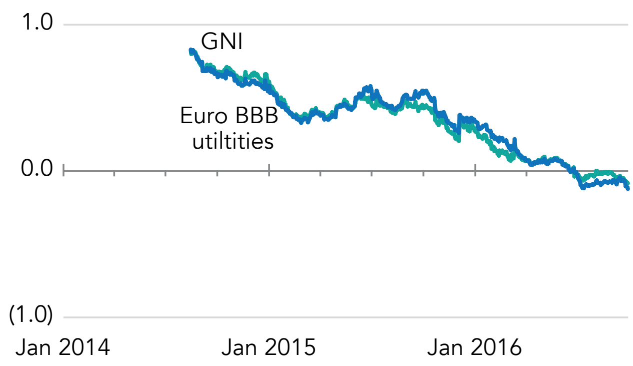
- Ervia's yield has fallen over the last 24 months in parallel with the yield reduction in Government bonds.
- In 2015 and 2016 (year to date), Ervia's yield has fallen in line with the yields of European utility BBB bonds (see graph below).

Issuer	Issued	Coupon %	Maturity Date	Issued Amount
Ervia	Dec-12	3.625	2017	€500m

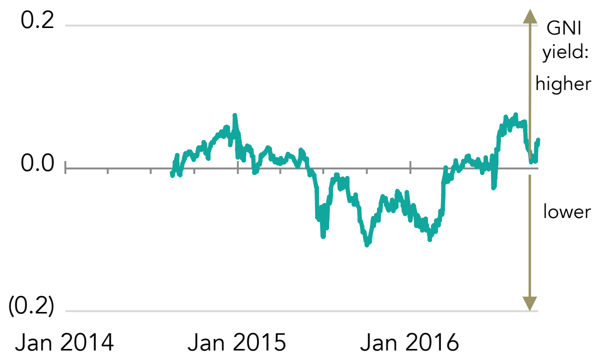
	S&P	Moody's
Ervia – Rating	A	A3
Ervia – Outlook	Stable	Stable

Source: public market information, Ervia

Yield: GNI 2017 bond and Euro Utilities BBB bond of same maturity



Yield spread: GNI 2017 bond versus Euro Utilities BBB bond of same maturity



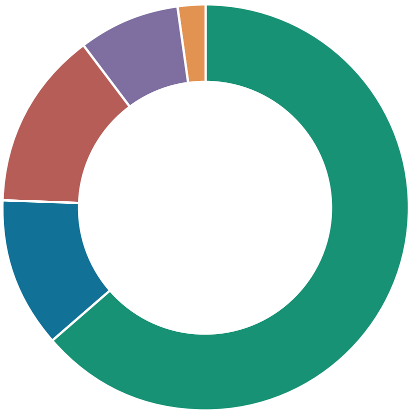
Underlying data source: public market information, Note: Euro Utilities BBB group comprises entities with a BBB+, BBB, BBB- credit rating
Analysis: NewERA

6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

KEY ACTIVITIES

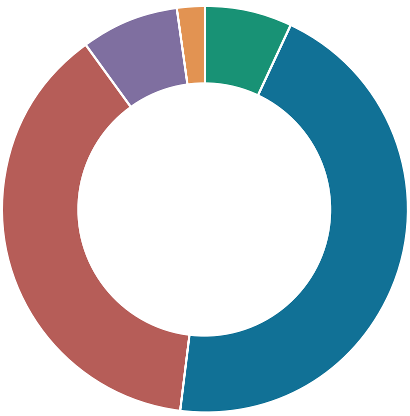
- **ESB NETWORKS** owns the electricity T&D system network in ROI and operates the electricity distribution system network in ROI. It is regulated by the CER.
- **ESB GENERATION & WHOLESALE MARKETS** comprises ESB's generation, trading and asset development activities in ROI and the UK.
- **NORTHERN IRELAND ELECTRICITY NETWORKS** owns the electricity T&D system network in NI and operates the electricity distribution system network in NI. It is regulated by URegNI.
- **ELECTRIC IRELAND** is the retail arm of the Group supplying electricity, gas and energy services to all market segments.
- **OTHER** includes internal services providers along with Innovation (which comprises ESB International, the Novusmodus fund, fibre-optic broadband joint venture, telecoms and eCars.

TURNOVER BY ACTIVITY 2015



- Electric Ireland **63%**
- ESB Networks **12%**
- ESB GWM **14%**
- NIE **8%**
- Other **3%**

OPERATING PROFIT BY ACTIVITY 2015



- Electric Ireland **7%**
- ESB Networks **45%**
- ESB GWM **38%**
- NIE **8%**
- Other **2%**

FINANCIAL PERFORMANCE

ESB delivered a solid trading performance in 2015 arising mainly from improved availability in its power generation fleet (increased from 88% in 2014 to 92% in 2015) and reduced operating costs, noting however that it recorded an impairment charge in relation to certain of its generation assets in 2015 which, due to the size of the impairment, was reported as an exceptional cost rather than as part of operating costs as was the case in 2014. The improved operating profitability (FY15: €635m, FY14: €552m) is reflected in a higher operating margin (FY15: 19%, FY14: 17%) and increased ROIC (FY15: 5.8%, FY14: 5.0%).

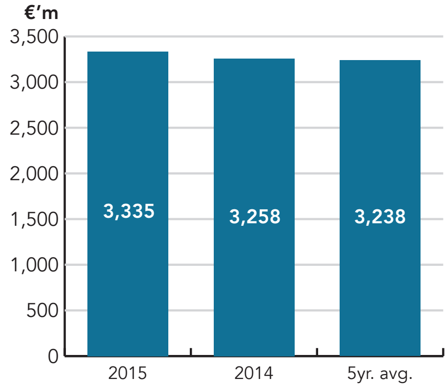
Net debt increased to €5.0bn in 2015 from €4.6bn mainly due to ESB's continued intensive capital investment programme and the payment of the final instalment of the special dividend relating to its generation asset portfolio.

ESB's net pension liability reduced from €0.9bn to €0.8bn due mainly to ongoing payments under pre-2012 voluntary severance schemes and the 2010 Pension Agreement.

Dividends of €272m were paid in 2015 including the final instalment of special dividends of €214m relating to ESB's generation assets, a €10m final dividend for 2014 and a €48m interim dividend in relation to 2015. Dividend pay-out for normal dividends was 35% which is in line with ESB's revised dividend policy which is being increased gradually such that, by 2017, a target pay-out ratio of 40% of normalised profits after tax will apply.

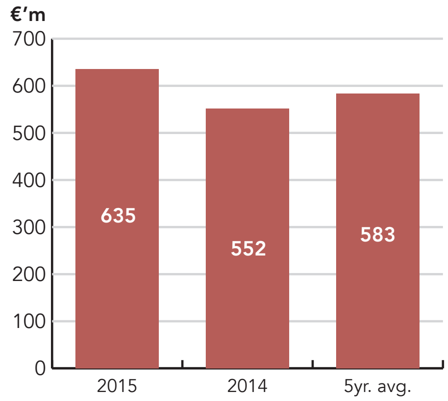
6. The Portfolio (continued) Financial Performance of the Portfolio Entities

Turnover



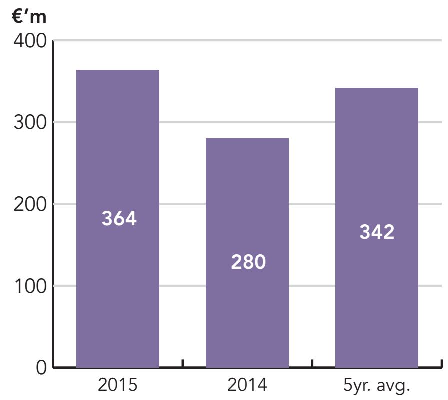
Turnover growth of 2% in 2015 versus 2014 with the increase arising from the improved availability of ESB's power generation fleet (increased from 88% to 92%) and new large contracts reported in Electric Ireland.

Operating Profit



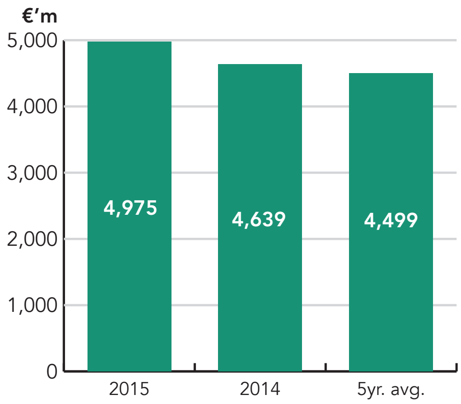
Operating profits improved by €83m as a result of the increase in turnover coupled with a net reduction in operating costs (the impairment charge for 2015 was included as an exceptional item rather than as part of operating costs as was the case in 2014). If operating profit in 2014 is adjusted on a similar basis to exclude impairment charges, it was €602m which indicates an improvement in underlying operating performance in 2015.

Adjusted PAT



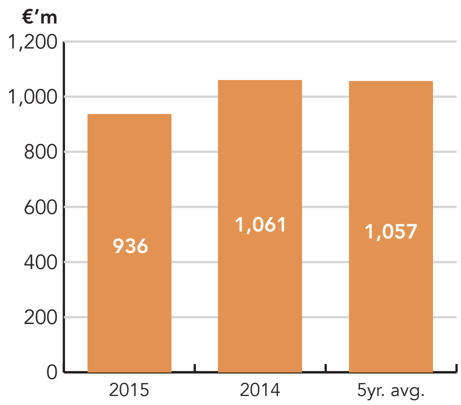
Improvement at PAT level mostly due to improved operating profits.

Net Debt



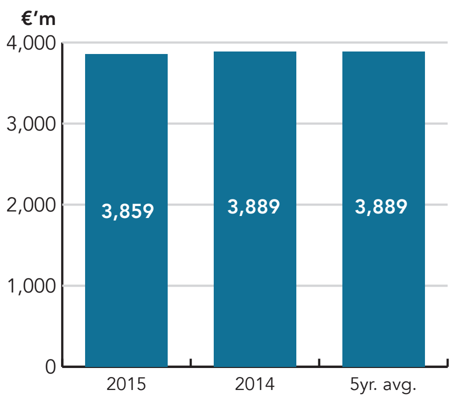
Net debt increased to €5.0bn in 2015 from €4.6bn mainly due to ESB's continued capital investment programme and the payment of the final instalment of the special dividend relating to its generation asset portfolio.

Pension & Employee Related Liabilities



Pension liabilities and employee related liabilities decreased in 2015 due mainly to ongoing payments under pre-2012 voluntary severance schemes and the 2010 Pension Agreement.

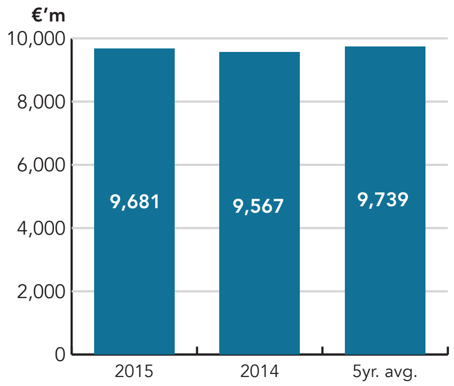
Net Assets



Net Assets were similar to 2014 with the increased borrowings offset by an increase in the value of tangible fixed assets and the reduction in the pension deficit.

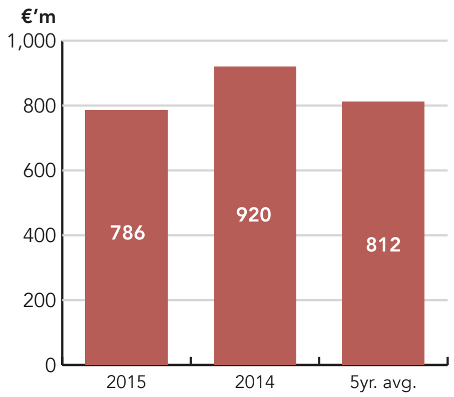
6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

Invested Capital



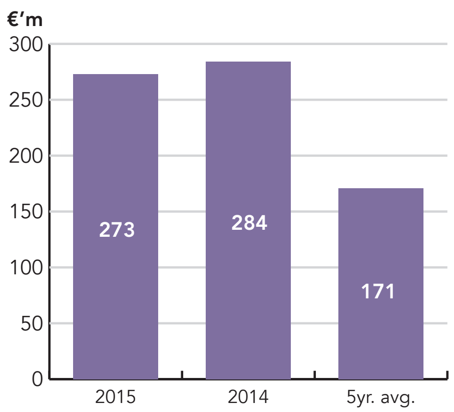
Invested Capital remained broadly in line with 2014 and the five-year average.

Gross Capital Expenditure



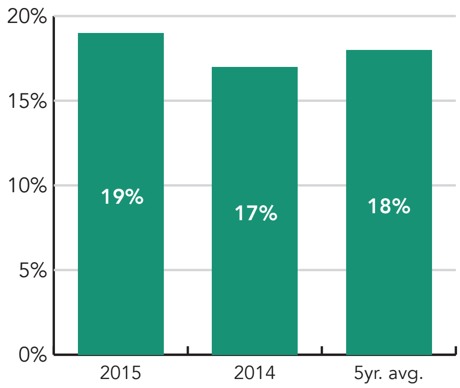
Gross capital expenditure for the Group was down on 2014 levels mainly due to a reduction in spend on the Carrington CCGT project as it neared completion (Carrington entered into commercial operations in 2016).

Dividends Paid (Total)



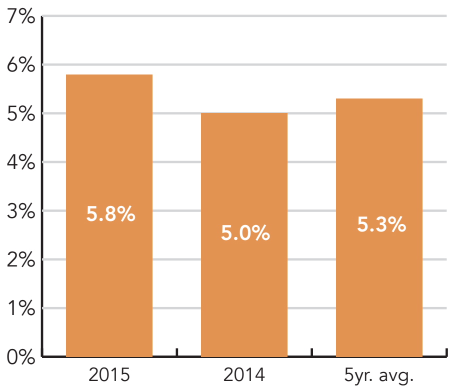
Dividends of €272m were paid in 2015 including the final instalment of special dividends of €214m, a €10m final dividend for 2014 and a €48m interim dividend in relation to 2015.

Operating Profit Margin



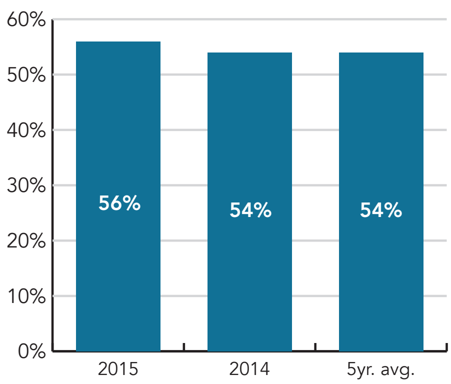
The operating profit margin has increased by 2% versus 2014 mainly due to the treatment of the impairment charge in FY15 (€104m) which was treated as an exceptional item due to its quantum. If the FY14 impairment charge is treated on a similar basis, the operating profit margin increased by c.1%.

ROIC



ESB's ROIC improved marginally in 2015 due to increased operating profitability.

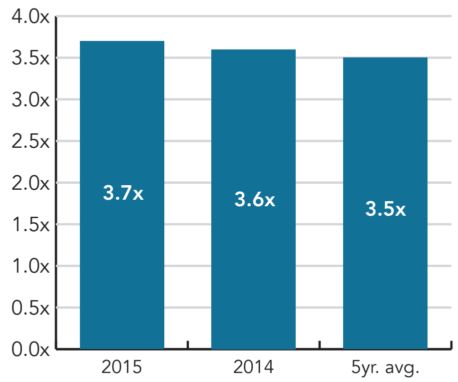
Net Gearing (Excl. Pension & Employee Related Liabilities)



Net gearing levels increased in 2015 mainly reflecting the increased level of net debt.

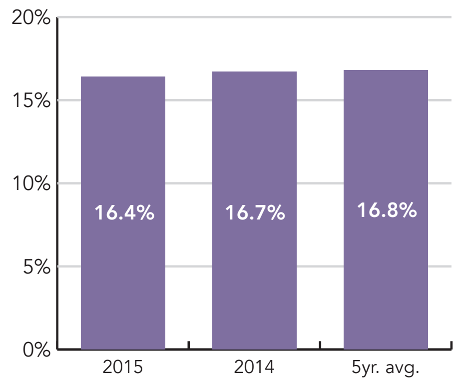
6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

Net Debt / EBITDA



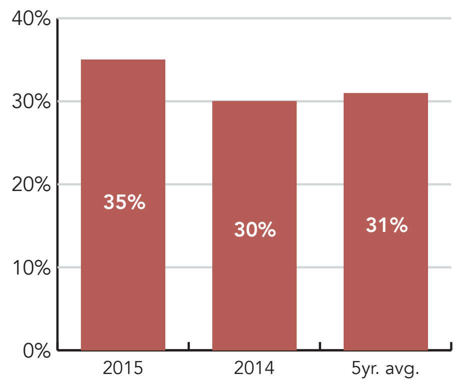
Net debt/EBITDA increased resulting from the higher levels of overall borrowings.

FFO/Debt



Decrease in FFO/Debt in 2015 but it remains within the credit rating requirements set out by the rating agencies for ESB.

Dividend Payout (Normal Dividends)



Dividend payout for normal dividends was 35% in 2015 in line with ESB's revised dividend policy which is being increased gradually such that, by 2017, a target pay-out ratio of 40% of normalised profits after tax will be achieved.

Credit Rating

In order to facilitate the raising of finance ESB has credit ratings attributed to it by the main credit rating agencies

S&P – 24 May 2016 – Maintained A- (stable outlook)

- "The stable outlook on Irish 95% state-owned utility Electricity Supply Board (ESB) reflects the stable outlook on Ireland. It also reflects S&P Global Ratings' view that ESB's funds from operations (FFO) to debt will remain securely in the 15%-20% range over the medium term, which is in line with our guidance for the current stand-alone credit profile (SACP) of 'BBB+".

Moody's – 19 August 2016 – Affirmation of ESB at Baa1

- "ESB's Baa1 ratings reflect (1) the significant proportion of the company's earnings generated through its regulated transmission and distribution operations in the Ireland; (2) the low business risk profile of these businesses; and (3) the company's strong liquidity and access to a diversified range of funding sources."

ESB Bond Performance

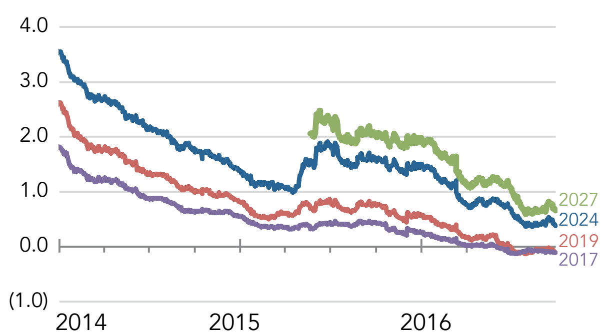
- ESB's yield has fallen over the last 24 months in parallel with the yield reduction on Government bonds.
- In 2014 ESB's bonds had a higher yield than the yields of European utility BBB bonds. The differential has gone with ESB's yield now below the peer grouping (see charts below).

Issuer	Issued	Coupon %	Maturity	Issued Amount
ESB Finance Ltd.	May-16	1.875	2031	€600m
ESB Finance Ltd.	May-15	2.125	2027	€500m
ESB Finance Ltd.	Nov-13	3.494	2024	€300m
ESB Finance Ltd.	Nov-12	4.375	2019	€500m
ESB Finance Ltd.	Sep-12	6.250	2017	€600m
NIE Finance Plc	Jun-11	6.375	2026	£400m
ESB Finance Ltd.	Mar-10	6.500	2020	£275m
NIE Ltd.	Mar-98	6.875	2018	£175m

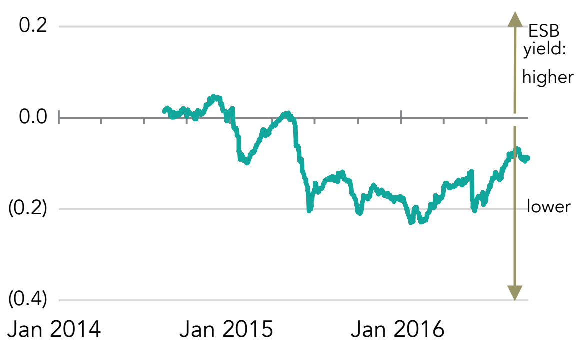
	S&P	Fitch	Moody's
ESB – rating	A-	BBB+	Baa1
ESB – outlook	Stable	Stable	Positive

Source: public market information, ESB

Yield: All active ESB bonds (%)



Yield spread: ESB 2019 bond versus Euro Utilities BBB bond of same maturity



Underlying data source: public market information, Note: Euro Utilities BBB group comprises entities with a BBB+, BBB, BBB- credit rating
Analysis: NewERA

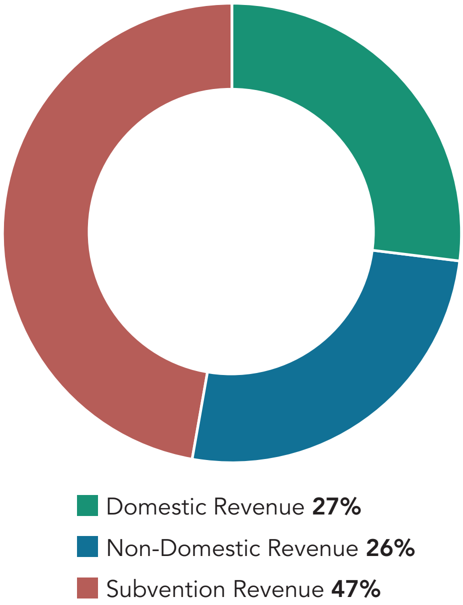
6. The Portfolio (continued) Financial Performance of the Portfolio Entities

ervia UISCE ÉIREANN : IRISH WATER

KEY ACTIVITIES

- **IRISH WATER** is Ireland's national water utility, responsible for the delivery of all public water services including the supply of drinking water and the collection, treatment and disposal of waste water.

TURNOVER BY ACTIVITY 2015/16



FINANCIAL PERFORMANCE

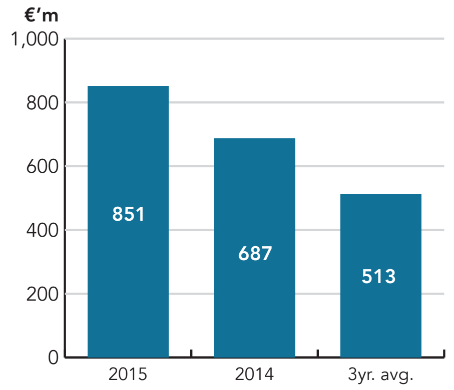
The change in financial performance in 2015 relative to 2014 was largely due to the commencement of billing of domestic customers in 2015 (suspended in 2016) with turnover increasing from €687m in FY14 to €851m in FY15. Prior to 2015 turnover comprised non-domestic revenue and subvention revenue only.

Net debt increased by €565m in 2015 arising from additional borrowings required to fund IW's significant investment in assets/infrastructure and to meet operational and working capital requirements.

IW is highly capital intensive with a total estimated capital investment programme for the period 2014-2021 of €5.5bn, noting that IW has indicated in its Water Services Strategic Plan that a multi-billion euro programme will continue through several successive investment cycles. In 2015, gross capital expenditure was €511m, a slight decrease on 2014.

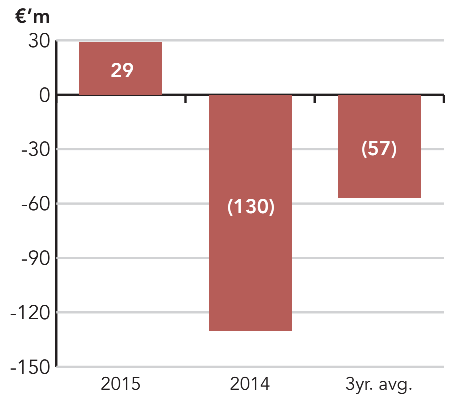
6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

Turnover



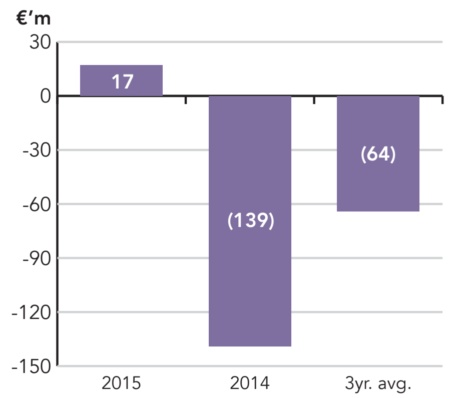
Turnover increased in 2015 due to the commencement of domestic billing for water supply and services at the start of the year (revenue of €232m recognised by IW). A total of 64% of customers (975,000 customers) had paid water charges relating to 2015 by the end of Q1 2016 with IW reporting total cash collected of €144m in respect of the first full year of billing. The contribution of domestic revenue is partially offset by a reduction in State subvention (€399m in 2015, €439m in 2014) and lower connection revenue/ development levies.

Operating Profit



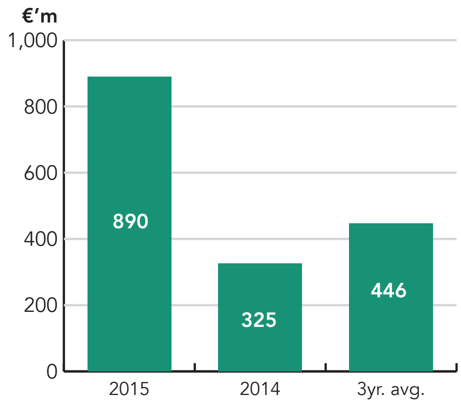
IW reported an operating profit for the first time since its establishment in 2013 mainly driven by the introduction of domestic charges and lower operating costs of €15m compared to 2014. Average employee numbers increased to 495 (284 in 2014) as IW moved from establishment phase to fully operational utility.

Adjusted PAT



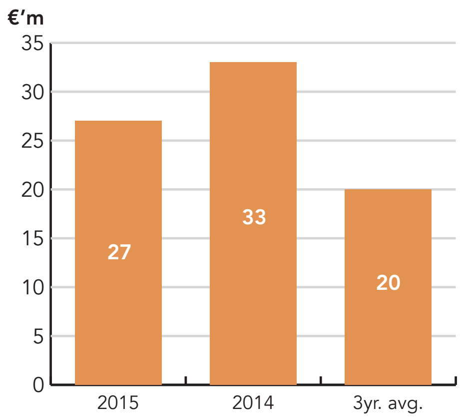
Adjusted PAT was also positive for the first time reflecting the increased operating profitability, partially offset by higher interest costs given the increase in borrowings. Any profits generated by IW are expected to be reinvested in the business given its substantial capital investment programme.

Net Debt



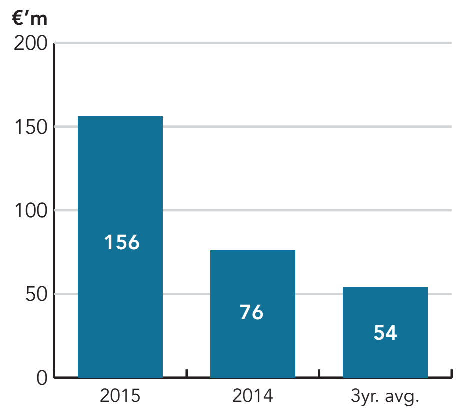
Net debt increased by €565m in 2015 due to additional borrowings to fund IW's significant investment in assets/infrastructure and to meet operational and working capital requirements. During 2015, IW arranged €800m of short-term facilities with banks, €450m with the Ireland Strategic Investment Fund and €96m with the Minister for Finance.

Pension Liabilities



Pension liabilities decreased slightly from €33m in 2014 to €27m in 2015 as a result of an actuarial gain (increased discount rate etc.).

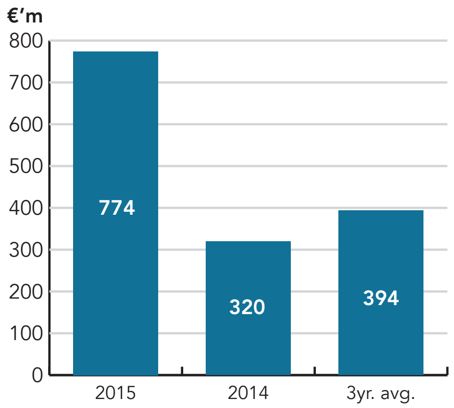
Net Assets



Net assets more than doubled from €76m in 2014 to €156m in 2015 reflecting the significant investment in assets and working capital (net of associated debt funding) during 2015 along with the conversion of €54m convertible debt instrument into equity shares ("B" shares) which were registered, in equal amounts, in the names of the Minister for Finance and the Minister for Housing, Planning, Community and Local Government (formerly the Minister for the Environment, Community and Local Government).

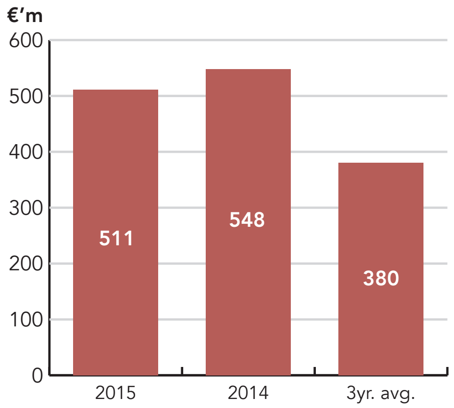
6. The Portfolio (continued)
Financial Performance of the Portfolio Entities

Invested Capital



Invested Capital has doubled in 2015 with a significant increase in debt (capital investment driven) and other liabilities offset by an increase in shareholder equity (aforementioned conversion of debt to equity and higher retained earnings).

Gross Capital Expenditure



Capital expenditure in 2015 was €511m, a slight decrease on 2014 due to lower payments to local authorities for asset transfers and lower metering spend, although spend on core infrastructure was higher than 2014. The total capital investment programme for the period 2014-2021 is €5.5bn, noting that IW has indicated in its Water Services Strategic Plan that a multi-billion euro programme will continue through several successive investment cycles.

A number of other items to note:

- **Subsequent Events:** In 2016, the Government committed to retaining Irish Water as a single national utility, the appointment of an Expert Commission to consider the long term funding model for the delivery of domestic water and wastewater services and the introduction of legislation to suspend domestic water charges for a period of nine months while this review is being conducted. The Programme for a Partnership Government expressly committed to protecting the €5.5bn capital investment programme set out by IW.
- **Going Concern:** IW's annual report contains disclosures in relation to going concern arising from the financial impact relating to the suspension of domestic water charges. The directors of IW continue to adopt the going concern basis in preparing the annual financial statements on the basis:
  - of the Government's commitment to the utility model and the highlighting of continued support for IW's capital investment plan in the Programme for a Partnership Government; and
  - that they consider that the Government has demonstrated its commitment to the continued funding of Irish Water through a combination of State funding/support, and/or tariffs charged by Irish Water, and/or third party borrowings.

Appendices

Appendix A
Shareholdings/Stockholdings of The Portfolio

Shareholdings / stockholdings in the designated bodies (excl. IW) as at the relevant financial year end						
Designated Body	**Units of capital stock / ordinary shares in issue at Relevant Financial Year end**	**% capital stock / ordinary shares held by or on behalf of the Minister of Public Expenditure and Reform**	**% capital stock / ordinary shares held by or on behalf of the Minister of Housing, Planning, Community and Local Government**	**Number / % capital stock / ordinary shares held by the Minister of Communications, Climate Action and the Environment**	**Number / % capital stock / ordinary shares held by the Minister of Agriculture, Food and the Marine**	**% capital stock / ordinary shares held by the ESOP Trustee**
BNM	65,212,638 ordinary shares	c.95%	n/a	One share	n/a	5%
COILLTE	631,000 ordinary shares	c.100%	n/a	n/a	One share	n/a
EIRGRID	30,000 ordinary shares	c.100%	n/a	One share	n/a	n/a
ERVIA	100,000,000 units capital stock	Note 1	Note 1	Note 1	n/a	Note 1
ESB	1,979,881,855 units capital stock	85%	n/a	10%	n/a	5%

Note 1 In March 2014, an agreement was reached regarding the buy-out of the 3.27% capital stockholding in Ervia held by the ESOP Trustee on behalf of ESOP beneficiaries. The agreement provided for the appropriation and cancellation of the entire capital stock issued to the ESOP, in exchange for promissory notes to be issued by Ervia and redeemed over the period 2014 to 2018. As part of this agreement a number of amendments were made to Ervia's capital stock scheme to provide that all capital stock issued by Ervia (including capital stock issued to the Ministers and the ESOP) ceased to have any voting, dividend or other economic rights. Therefore, while the ESOP may continue to hold capital stock until January 2017, this capital stock has no dividend or economic rights, which solely rest with the Ministers through legislation. Accordingly this Report treats Ervia as 100% beneficially owned by the State. Pursuant to the Gas Act 1976 (as amended by the Gas Regulation Act 2013), the Minister of Housing, Planning, Community and Local Government acts as the majority shareholding Minister for Ervia.

Source: NewERA Analysis

Note: The Minister and Secretaries (Amendment) Act 2011 had the effect of transferring ownership of either the stock or shares previously held by the Minister for Finance to the Minister for Public Expenditure and Reform

Shareholdings / stockholdings in IW as at the relevant financial year end					
Designated Body	**Units of capital stock / ordinary shares in issue at Relevant Financial Year end**	**Units of capital stock / ordinary shares held by or on behalf of Ervia**	**Units of capital stock / ordinary shares held by the Minister of Housing, Planning, Community and Local Government**	**Units of capital stock / ordinary shares held by the Minister of Finance**	**Units of capital stock / ordinary shares held by the ESOP Trustee**
Irish Water	1 ordinary A share [1] 110 ordinary B shares [2]	1 ordinary A share [1] (100% voting rights)	55 ordinary B shares [2] (50% economic rights)	55 ordinary B shares [2] (50% economic rights)	n/a

Source: NewERA Analysis

[1] *Ordinary A share is a voting share but with no economic rights attaching*

[2] *Ordinary B shares are non-voting shares but with economic rights attaching*

Appendix B
Financial Performance Measures

Term	Definition
Acid Test Ratio	Aggregate of closing balance for trade and other receivables, cash and current tax assets *divided by* Aggregate of closing balance for trade and other payables, current borrowings and current tax liabilities
Adjusted EBIT (Operating Profit)	Earnings before interest and tax, adjusted for exceptional items and certain fair value movements
Adjusted EBITDA	Earnings before interest, tax, depreciation and amortisation, adjusted for exceptional items and certain fair value movements
Adjusted PAT	Net profit after tax, adjusted for exceptional items and certain fair value movements
Adjusted Total Debt (ROIC)	Total debt *plus* net pension liabilities *plus* finance leases *plus* operating leases (derived) *plus* provisions *plus* net derivative financial liabilities *plus* net deferred tax liabilities
Adjusted Total Equity (ROIC)	Equity *plus* net derivative financial and operational assets *plus* net derivative operational liabilities
Average Employee Costs	Employee Costs *divided by* Average Number of Employees where Employee Costs: i. Includes capitalised payroll, pension costs and social welfare costs and excludes exceptional costs (if any) ii. Includes capitalised payroll and excludes exceptional costs (if any), social welfare costs and pension costs
Current Ratio	Aggregate of closing balance for inventories, trade and other receivables, cash and current tax assets *divided by* Aggregate of closing balance for trade and other payables, current borrowings and current tax liabilities
Dividends Paid	Dividends paid during the financial year per the cashflow statement (including or excluding special dividends depending on the individual metric)
Dividend Payout Rate	Dividends paid in line with dividend policy (excl. special dividends) *divided by* Prior year net profit after tax calculated for the purposes of dividends
Earnings (adjusted) growth	Year-on-year growth in Adjusted PAT
EBITDA Margin	Adjusted EBITDA *divided by* reported turnover
EBIT Margin (Operating Profit Margin)	Adjusted EBIT *divided by* reported turnover
EBITDA Interest Cover	Adjusted EBITDA *divided by* Interest paid
Equity	Total shareholder(s) equity taken from the balance sheet
Fair value movements	Includes unrealised fair value gains/losses on derivatives or all fair value gains/losses on derivatives where the Portfolio entity does not separately identify unrealised items
Gross Debt	Gross interest bearing borrowings as reported by the individual Portfolio entities
Invested Capital (ROIC)	Adjusted Total Debt *plus* Adjusted Total Equity (per NewERA methodology)
Net Debt / EBITDA	Net Debt *divided by* Adjusted EBITDA
Net Gearing	i. Net Debt *divided by* Net Debt *plus* Equity ii. Net Debt *divided by* Net Debt *plus* pension liabilities *plus* employee related liabilities *plus* Equity
NOPAT (ROIC)	EBIT (adjusted) *plus* operating lease expense *less* operating lease depreciation (derived) with the resulting total adjusted for tax
PAT Margin	Adjusted PAT *divided by* Turnover
Return on Invested Capital (ROIC)	Net Operating Profit after Tax (NOPAT) *divided by* Average Invested Capital
Total Shareholder Return	(Equity value at the end of the year *less* Equity value at the beginning of the year *less* Equity Injected *plus* Dividends paid) *divided by* Equity value at the beginning of the year
Turnover Growth	Year-on-year growth in reported turnover

Appendix C
Portfolio Financial Information

KEY FINANCIAL INFORMATION – PORTFOLIO	Unit	5yr. avg.	2015/16	2014/15	2013/14	2013/12	2012/11
INCOME STATEMENT							
Turnover	€'m	5,816	6,100	5,812	5,252	6,279	5,638
EBITDA (adjusted)	€'m	1,828	2,012	1,805	1,863	1,818	1,641
EBIT (adjusted)	€'m	896	1,044	813	1,010	892	718
PAT (adjusted)	€'m	503	623	367	596	531	399
PAT (reported)	€'m	416	518	290	671	381	217
BALANCE SHEET							
Tangible Fixed Assets	€'m	16,099	16,919	16,324	15,201	16,238	15,812
Gross Debt	€'m	(7,528)	(8,057)	(7,121)	(7,268)	(7,703)	(7,492)
Net Debt	€'m	(6,799)	(7,421)	(6,582)	(6,519)	(6,812)	(6,663)
Pension Liabilities	€'m	(1,150)	(1,009)	(1,240)	(1,109)	(1,229)	(1,161)
Employee Related Liabilities	€'m	(170)	(145)	(166)	(183)	(214)	(142)
Net Assets	€'m	6,692	6,631	6,421	6,965	6,732	6,713
Invested Capital (Note 1)	€'m	15,499	15,537	14,841	15,088	16,030	16,000
CASHFLOWS							
Net Cashflow from Operations	€'m	1,172	1,292	1,194	1,297	1,099	975
Gross Capital Expenditure	€'m	(1,406)	(1,572)	(1,743)	(1,174)	(1,252)	(1,289)
Net (Acquisitions)/Disposals Spend	€'m	176	9	934	3	-	(64)
Dividends Paid (total)	€'m	(270)	(441)	(476)	(204)	(102)	(126)
Dividends Paid (normal)	€'m	(130)	(127)	(114)	(181)	(102)	(126)
EMPLOYMENT INFORMATION							
Employee Numbers	€'m	12,258	12,023	11,718	12,136	12,526	12,888
Average Employee Costs (Note 1)	€'000	76	80	77	75	74	74
Average Employee Costs (Note 2)	€'000	65	67	65	64	63	64

Source: Annual Reports, NewERA Analysis

Notes: See Appendix C for definitions of NewERA's standardised adjusted profit figures.

Financial Information for 2015/16, 2014/15 and 2013/14 include Ervia and Irish Water. Prior periods included the BGE group as it was constituted prior to the sale of BG Energy.

1 *Includes capitalised payroll, pension costs and social welfare costs and excludes exceptional costs (if any). Capitalised payroll included on a gross basis as breakdown is not available per published accounts.*

2 *Includes capitalised payroll and excludes exceptional costs (if any), social welfare costs and pension costs. Capitalised payroll included on a gross basis as breakdown is not available per published accounts.*

KEY METRICS – PORTFOLIO

	Unit	5yr. avg.	2015/16	2014/15	2013/14	2013/12	2012/11
PROFITABILITY AND EFFICIENCY							
Turnover Growth	%	3.4%	5.0%	10.7%	(16.4%)	11.4%	6.2%
EBITDA Margin	%	31.5%	33.0%	31.1%	35.5%	29.0%	29.1%
Operating Profit Margin	%	15.5%	17.1%	14.0%	19.2%	14.2%	12.7%
PAT Margin	%	8.7%	10.2%	6.3%	11.3%	8.5%	7.1%
Return on Invested Capital (ROIC)	%	5.1%	6.1%	4.8%	5.7%	4.9%	4.2%
LIQUIDITY							
Current Ratio	times	1.1x	0.7x	0.9x	1.1x	1.3x	1.5x
Acid Test Ratio	times	1.0x	0.6x	0.8x	1.0x	1.1x	1.3x
LEVERAGE AND SOLVENCY							
Net Gearing (excl. pension & empl. liab.)	%	50%	53%	51%	48%	50%	50%
Net Gearing (incl. pension & empl. liab.)	%	55%	56%	55%	53%	55%	54%
Net Debt / EBITDA	times	3.7x	3.7x	3.6x	3.5x	3.7x	4.1x
EBITDA Interest Cover (net)	times	5.2x	5.5x	5.1x	4.9x	4.6x	5.8x
SHAREHOLDER RETURNS							
Dividend Payout (normal dividends)	%	34%	42%	29%	45%	27%	30%
Earnings (adjusted) growth	%	16%	70%	(38%)	12%	33%	2%

Source: NewERA Analysis

For full definitions of the financial performance measures please refer to Appendix B. The measures are applied by NewERA on a standardised basis across each of the Designated Bodies. It is recognised by NewERA that the financial measures used by each body for its own purposes may differ.

Appendix D
Financial Information of Portfolio Entities

BORD NA MÓNA

KEY FINANCIAL INFORMATION – year ended March			IFRS	IFRS	GAAP	GAAP	GAAP
INCOME STATEMENT	**Unit**	**2yr. avg.**	**2016**	**2015**	**2014**	**2013**	**2012**
Turnover	€'m	420	433	407	427	429	384
EBITDA (adjusted)	€'m	101	100	101	91	85	61
EBIT (adjusted)	€'m	64	59	70	50	47	(4)
PAT (adjusted)	€'m	39	36	43	33	30	(16)
PAT (reported)	€'m	29	16	43	33	9	(16)
BALANCE SHEET							
Tangible Fixed Assets	€'m	321	301	342	316	244	245
Gross Debt	€'m	(273)	(271)	(274)	(245)	(264)	(263)
Net Debt	€'m	(175)	(173)	(178)	(72)	(17)	(67)
Pension Liabilities	€'m	(51)	(34)	(67)	(43)	(59)	(47)
Net Assets	€'m	215	221	208	212	173	182
Invested Capital	€'m	564	567	562	449	523	536
CASHFLOWS							
Net Cashflow from Operations	€'m	65	69	62	28	90	22
Gross Capital Expenditure	€'m	(94)	(72)	(115)	(89)	(42)	(24)
Net (Acquisitions)/Disposals Spend	€'m	-	-	-	3	-	(2)
Dividends Paid (normal)	€'m	(11)	(10)	(11)	(3)	(3)	(4)
Dividends Paid (special)	€'m	-	-	-	(2)	-	-
Dividends Paid (total)	€'m	(11)	(10)	(11)	(5)	(3)	(4)
EMPLOYEE INFORMATION							
Employee Numbers		1,968	1,937	1,999	2,061	2,044	2,141
Average Cost per Employee (1)	€'000	(55)	(55)	(56)	(55)	(50)	(51)
Average Cost per Employee (2)	€'000	(48)	(48)	(49)	(48)	(43)	(45)

KEY METRICS - year ended March							
PROFITABILITY & EFFICIENCY	**Unit**	**2yr. avg.**	**2016**	**2015**	**2014**	**2013**	**2012**
Operating Profit Margin	%	15.3	13.5	17.1	11.8	10.9	(1.0)
Return on Invested Capital (ROIC)	%	10.8	9.2	12.4	9.2	7.9	(0.4)
LIQUIDITY							
Current Ratio	times	1.7	1.3	2.1	2.1	3.5	4.7
Acid Test Ratio	times	1.1	0.8	1.3	1.6	3.0	3.4
LEVERAGE							
Net Gearing (excl. pension & empl. liab.)	%	45	44	46	25	9	27
Net Gearing (incl. pension & empl. liab.)	%	51	48	54	35	30	38
Net Debt/EBITDA	times	1.7	1.7	1.8	0.8	0.2	1.1
EBITDA Interest Cover (net)	times	6.0	5.8	6.2	9.0	7.6	6.0
SHAREHOLDER RETURNS							
Dividend Payout (normal dividends)	%	33	33	33	33	33	33
Earnings (adjusted) growth	%	6	(15)	27	12	(283)	(226)

Note: The above measures are applied by NewERA on a standardised basis across each of the commercial semi-State entities. It is recognised by NewERA that the financial measures used by each entity for their own purposes may differ from the above.

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KEY FINANCIAL INFORMATION – year ended 31 December

			FRS102	FRS102	Old GAAP	Old GAAP	Old GAAP
INCOME STATEMENT	**Unit**	**2yr. avg.**	**2015**	**2014**	**2013**	**2012**	**2011**
Turnover	€'m	284	283	286	276	262	259
EBITDA (adjusted)	€'m	85	90	81	59	53	61
EBIT (adjusted)	€'m	66	79	54	41	35	41
PAT (adjusted)	€'m	45	56	34	27	21	28
PAT (reported)	€'m	38	48	29	26	15	20
BALANCE SHEET							
Tangible Fixed Assets (incl. biological)	€'m	1,392	1,391	1,393	1,512	1,489	1,467
Gross Debt	€'m	(182)	(188)	(176)	(175)	(168)	(170)
Net Debt	€'m	(165)	(154)	(176)	(171)	(162)	(154)
Pension Liabilities	€'m	(110)	(78)	(142)	(130)	(161)	(135)
Net Assets	€'m	1,029	1,078	979	1,242	1,189	1,201
Invested Capital	€'m	1,333	1,358	1,307	1,553	1,524	1,513
CASHFLOWS							
Net Cashflow from Operations	€'m	29	23	36	21	29	38
Gross Capital Expenditure	€'m	(64)	(79)	(49)	(41)	(43)	(42)
Net (Acquisitions)/Disposals Spend	€'m	34	67	-	-	-	-
Dividends Paid (normal)	€'m	(5)	(4)	(6)	-	(2)	(10)
Dividends Paid (special)	€'m	-	-	-	-	-	-
Dividends Paid (total)	€'m	(5)	(4)	(6)	-	(2)	(10)
EMPLOYEE INFORMATION							
Employee Numbers		902	897	907	913	960	1,013
Average Cost per Employee (1)	€'000	(72)	(74)	(71)	(70)	(66)	(64)
Average Cost per Employee (2)	€'000	(59)	(60)	(58)	(58)	(56)	(55)

KEY METRICS - year ended 31 December

PROFITABILITY & EFFICIENCY	**Unit**	**2yr. avg.**	**2015**	**2014**	**2013**	**2012**	**2011**
Operating Profit Margin	%	23.4	27.9	18.8	15.0	13.4	16.0
Return on Invested Capital (ROIC)	%	4.5	5.2	3.7	2.4	2.1	2.5
LIQUIDITY							
Current Ratio	times	2.0	2.2	1.7	1.6	1.5	1.7
Acid Test Ratio	times	1.6	1.8	1.4	1.3	1.1	1.3
LEVERAGE							
Net Gearing (excl. pension & empl. liab.)	%	14	12	15	12	12	11
Net Gearing (incl. pension & empl. liab.)	%	21	18	25	20	21	19
Net Debt/EBITDA	times	1.9	1.7	2.2	2.9	3.1	2.6
EBITDA Interest Cover (net)	times	10.0	11.9	8.2	6.2	6.3	7.1
SHAREHOLDER RETURNS							
Dividend Payout (normal dividends)	%	17	12	23	-	7	30
Earnings (adjusted) growth	%	46	66	27	29	(26)	(16)

Note: The above measures are applied by NewERA on a standardised basis across each of the commercial semi-State entities. It is recognised by NewERA that the financial measures used by each entity for their own purposes may differ from the above.

Appendix D
Financial Information of Portfolio Entities (continued)

EIRGRID GROUP

KEY FINANCIAL INFORMATION – year ended 30 September			IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT	**Unit**	**5yr. avg.**	**2015**	**2014**	**2013**	**2012**	**2011**
Turnover	€'m	602	706	668	622	542	471
EBITDA (adjusted)	€'m	76	96	92	94	45	54
EBIT (adjusted)	€'m	50	60	64	73	23	30
PAT (adjusted)	€'m	35	34	39	53	22	27
PAT (reported)	€'m	35	34	39	53	22	27
BALANCE SHEET							
Tangible Fixed Assets	€'m	543	591	598	610	574	344
Gross Debt	€'m	(369)	(367)	(384)	(402)	(427)	(261)
Net Debt	€'m	(242)	(207)	(253)	(276)	(289)	(185)
Pension Liabilities	€'m	(19)	(27)	(18)	(10)	(22)	(16)
Net Assets	€'m	131	179	159	155	75	88
Invested Capital	€'m	468	682	673	663	142	180
CASHFLOWS							
Net Cashflow from Operations	€'m	68	136	43	115	40	5
Gross Capital Expenditure	€'m	(102)	(23)	(17)	(116)	(197)	(158)
Net (Acquisitions)/Disposals Spend	€'m	-	-	-	-	-	-
Dividends Paid (normal)	€'m	(1)	(3)	-	-	-	-
Dividends Paid (special)	€'m	(1)	-	(4)	-	-	-
Dividends Paid (total)	€'m	(1)	(3)	(4)	-	-	-
EMPLOYEE INFORMATION							
Employee Numbers		443	480	460	449	428	399
Average Cost per Employee (1)	€'000	(98)	(103)	(102)	(98)	(94)	(93)
Average Cost per Employee (2)	€'000	(78)	(79)	(80)	(78)	(77)	(77)

KEY METRICS - year ended 30 September							
PROFITABILITY & EFFICIENCY	**Unit**	**5yr. avg.**	**2015**	**2014**	**2013**	**2012**	**2011**
Operating Profit Margin	%	8.1	8.5	9.6	11.8	4.3	6.4
Return on Invested Capital (ROIC)	%	11.5	7.9	8.4	15.9	12.3	13.2
LIQUIDITY							
Current Ratio	times	1.4	1.4	1.4	1.4	1.2	1.4
Acid Test Ratio	times	1.4	1.4	1.4	1.4	1.2	1.4
LEVERAGE							
Net Gearing (excl. pension & empl. liab.)	%	65	54	62	64	79	68
Net Gearing (incl. pension & empl. liab.)	%	67	57	63	65	81	69
Net Debt/EBITDA	times	3.5	2.2	2.8	2.9	6.4	3.4
EBITDA Interest Cover (net)	times	4.2	5.0	4.6	4.1	2.8	4.4
SHAREHOLDER RETURNS							
Dividend Payout (normal dividends)	%	4	20	-	-	-	-
Earnings (adjusted) growth	%	42	(12)	(27)	144	(19)	123

Note: The above measures are applied by NewERA on a standardised basis across each of the commercial semi-State entities. It is recognised by NewERA that the financial measures used by each entity for their own purposes may differ from the above.

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KEY FINANCIAL INFORMATION – year ended 31 December

			IFRS	IFRS	IFRS
INCOME STATEMENT	**Unit**	**3yr. avg.**	**2015**	**2014**	**2013**
Turnover	€'m	501	491	506	505
EBITDA (adjusted)	€'m	330	307	337	346
EBIT (adjusted)	€'m	205	182	204	230
PAT (adjusted)	€'m	116	116	111	123
PAT (reported)	€'m	113	117	103	120
BALANCE SHEET					
Tangible Fixed Assets	€'m	2,540	2,528	2,537	2,555
Gross Debt	€'m	(1,362)	(1,176)	(1,142)	(1,768)
Net Debt	€'m	(1,254)	(1,022)	(1,010)	(1,730)
Pension Liabilities	€'m	(62)	(51)	(85)	(49)
Net Assets	€'m	1,184	1,139	1,109	1,304
Invested Capital	€'m	2,473	2,475	2,412	2,533
CASHFLOWS					
Net Cashflow from Operations	€'m	233	263	175	261
Gross Capital Expenditure	€'m	(99)	(100)	(94)	(103)
Net (Acquisitions)/Disposals Spend	€'m	312	2	934	-
Dividends Paid (incl. special dividends)	€'m	(125)	(151)	(171)	(52)
EMPLOYEE INFORMATION					
Employee Numbers		912	909	914	n/a
Average Cost per Employee (1)	€'000	(91)	(94)	(87)	n/a
Average Cost per Employee (2)	€'000	(71)	(71)	(70)	n/a

KEY METRICS - year ended 31 December

PROFITABILITY & EFFICIENCY	**Unit**	**3yr. avg.**	**2015**	**2014**	**2013**
Operating Profit Margin	%	41	37	40	46
Return on Invested Capital (ROIC)	%	6.9	6.5	7.2	n/a
LIQUIDITY					
Current Ratio	times	0.6	0.6	0.9	0.2
Acid Test Ratio	times	0.6	0.6	0.9	0.2
LEVERAGE					
Net Gearing (excl. pension & empl. liab.)	%	51	47	48	57
Net Gearing (incl. pension & empl. liab.)	%	52	49	50	58
Net Debt/EBITDA	times	3.8	3.3	3.0	5.0
EBITDA Interest Cover (net)	times	6.0	8.2	5.3	4.6
SHAREHOLDER RETURNS					
Dividend Payout (normal dividends)	%	30	30	30	30
Earnings (adjusted) growth	%	(3)	5	(10)	n/a

Note: The above measures are applied by NewERA on a standardised basis across each of the commercial semi-State entities. It is recognised by NewERA that the financial measures used by each entity for their own purposes may differ from the above. Income statement information for 2013 and 2014 excludes results from discontinued operations (BG Energy).

Appendix D
Financial Information of Portfolio Entities (continued)

ESB

KEY FINANCIAL INFORMATION – year ended 31 December			IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT	**Unit**	**5yr. avg.**	**2015**	**2014**	**2013**	**2012**	**2011**
Turnover	€'m	3,238	3,335	3,258	3,422	3,260	2,916
EBITDA (adjusted)	€'m	1,274	1,348	1,301	1,342	1,256	1,121
EBIT (adjusted)	€'m	583	635	552	684	576	469
PAT (adjusted)	€'m	342	364	280	431	356	279
PAT (reported)	€'m	261	286	215	510	194	100
BALANCE SHEET							
Tangible Fixed Assets	€'m	10,439	10,873	10,717	10,157	10,288	10,162
Gross Debt	€'m	(4,716)	(5,109)	(4,783)	(4,515)	(4,574)	(4,601)
Net Debt	€'m	(4,499)	(4,975)	(4,639)	(4,145)	(4,414)	(4,324)
Pension Liabilities	€'m	(887)	(790)	(895)	(876)	(947)	(926)
Employee Related Liabilities	€'m	(170)	(145)	(166)	(183)	(214)	(142)
Net Assets	€'m	3,889	3,859	3,889	4,122	3,780	3,795
Invested Capital	€'m	9,739	9,681	9,567	9,800	9,814	9,834
CASHFLOWS							
Net Cashflow from Operations	€'m	820	857	938	915	713	676
Gross Capital Expenditure	€'m	(812)	(786)	(920)	(745)	(759)	(849)
Net (Acquisitions)/Disposals Spend	€'m	(7)	-	-	-	-	(35)
Dividends Paid (normal)	€'m	(86)	(59)	(76)	(147)	(73)	(77)
Dividends Paid (special)	€'m	(84)	(214)	(208)	-	-	-
Dividends Paid (total)	€'m	(171)	(273)	(284)	(147)	(73)	(77)
EMPLOYEE INFORMATION							
Employee Numbers		7,630	7,305	7,149	7,490	7,992	8,212
Average Cost per Employee (1)	€'000	(81)	(84)	(82)	(78)	(79)	(80)
Average Cost per Employee (2)	€'000	(69)	(72)	(70)	(67)	(68)	(69)

KEY METRICS - year ended 31 December							
PROFITABILITY & EFFICIENCY	**Unit**	**5yr. avg.**	**2015**	**2014**	**2013**	**2012**	**2011**
Operating Profit Margin	%	18	19	17	20	18	16
Return on Invested Capital (ROIC)	%	5.3	5.8	5.0	6.1	5.2	4.4
LIQUIDITY							
Current Ratio	times	1.2	0.9	1.0	1.6	1.0	1.3
Acid Test Ratio	times	1.1	0.8	0.9	1.5	0.9	1.1
LEVERAGE							
Net Gearing (excl. pension & empl. liab.)	%	54	56	54	50	54	53
Net Gearing (incl. pension & empl. liab.)	%	59	61	59	56	60	59
Net Debt/EBITDA	times	3.5	3.7	3.6	3.1	3.5	3.9
EBITDA Interest Cover (net)	times	5.6	5.3	5.6	5.2	4.9	7.1
SHAREHOLDER RETURNS							
Dividend Payout (normal dividends)	%	31	35	30	30	30	30
Earnings (adjusted) growth	%	15	30	(35)	21	28	32

Note: The above measures are applied by NewERA on a standardised basis across each of the commercial semi-State entities. It is recognised by NewERA that the financial measures used by each entity for their own purposes may differ from the above.

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KEY FINANCIAL INFORMATION – year ended 31 December

			IFRS	IFRS	IFRS
INCOME STATEMENT	**Unit**	**3yr. avg.**	**2015**	**2014**	**2013**
Turnover	€'m	513	851	687	-
EBITDA (adjusted)	€'m	(34)	72	(107)	(68)
EBIT (adjusted)	€'m	(57)	29	(130)	(69)
PAT (adjusted)	€'m	(64)	17	(139)	(71)
PAT (reported)	€'m	(64)	17	(139)	(71)
BALANCE SHEET					
Tangible Fixed Assets	€'m	675	1,235	737	52
Gross Debt	€'m	(490)	(945)	(362)	(162)
Net Debt	€'m	(446)	(890)	(325)	(125)
Pension Liabilities	€'m	(20)	(27)	(33)	-
Net Assets	€'m	54	156	76	(71)
Invested Capital	€'m	394	774	320	90
CASHFLOWS					
Net Cashflow from Operations	€'m	(52)	(56)	(59)	(42)
Gross Capital Expenditure	€'m	(380)	(511)	(548)	(81)
Net (Acquisitions)/Disposals Spend	€'m	(20)	(60)	-	-
EMPLOYEE INFORMATION					
Employee Numbers		268	495	289	20
Average Cost per Employee (1)	€'000	(70)	(73)	(67)	(70)
Average Cost per Employee (2)	€'000	(62)	(62)	(60)	(63)

Appendix E
Board Analysis

BOARD						
	COMPOSITION AS AT THE RELEVANT FINANCIAL YEAR END				MOVEMENTS DURING THE RELEVANT FINANCIAL YEAR END	
	Maximum Number of Directors	Actual Number of Directors	Male	Female	New Appointments	Retirements / Expiry of Term / Resignations
BNM	12	12 [1]	83%	17%	-	-
Coillte	9	6 [2]	67%	33%	-	-
EirGrid	10	10 [3]	70%	30%	2	1
Ervia	9	7 [4]	71%	29%	4	2
ESB	12	11 [5]	64%	36%	2	2
TOTAL	**52**	**46**	**72%**	**28%**	**8**	**5**

[1] *Includes Chairperson, Managing Director, 4 Worker Directors and 6 Non-Executive Directors*

[2] *Includes Chairperson, 1 staff representative and 4 Non-Executive Directors*

[3] *Includes Chairperson, CEO, 1 worker director and 7 Non-Executive Directors*

[4] *Includes CEO, 1 ESOP nominated Director and 5 Non-Executive Directors*

[5] *Includes Chairperson, CEO, 4 Worker Directors and 5 Non-Executive Directors*

[6] *The board of Ervia is predominantly a non-executive board having overall responsibility and accountability for the performance of the Ervia group (including the two principal subsidiaries, IW and GNI). The boards of IW and GNI are executive-only boards.*