

# NewERA

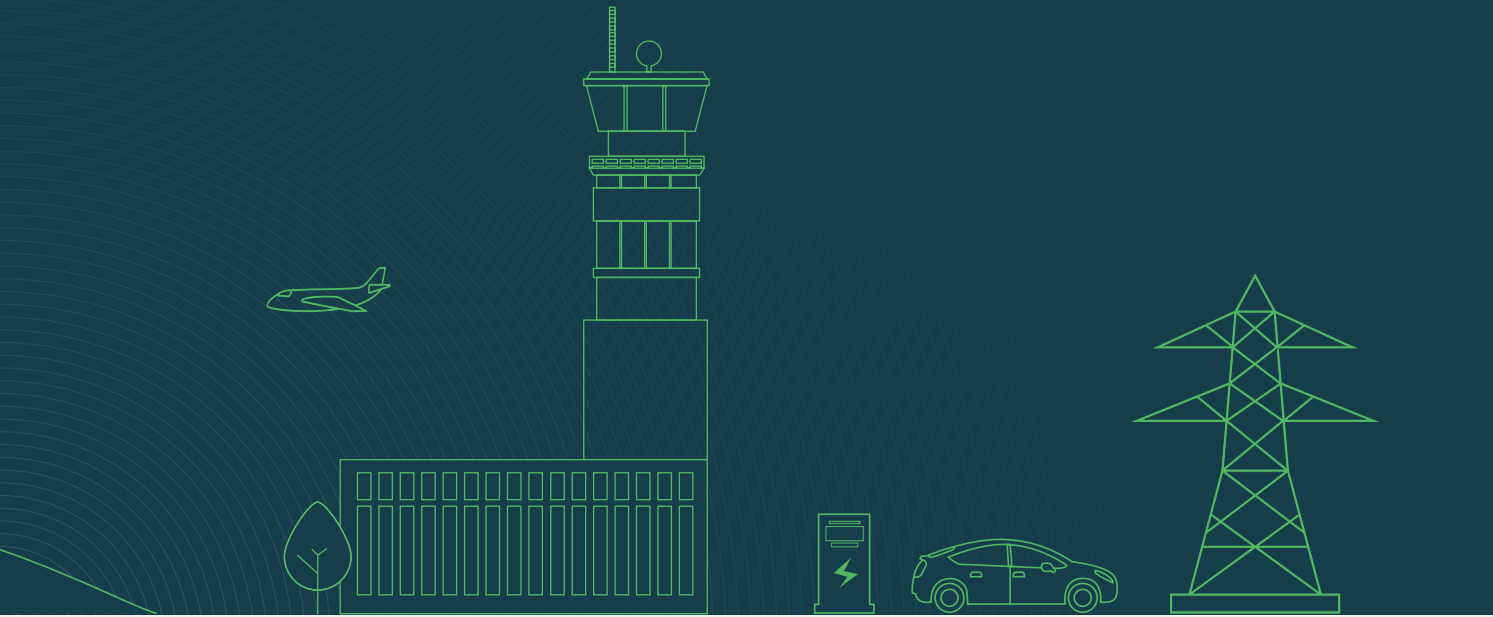


## OVERVIEW

NewERA's core role is to provide financial and commercial advice to Government Ministers and Departments in relation to their shareholdings in State-owned companies\* across the energy, water, postal, forestry, transport, health and broadcasting sectors. A number of these companies are designated to NewERA under its legislation whilst NewERA provides advice to the relevant Government Ministers and Departments on the other companies by agreement - these companies are collectively referred to as the Portfolio or the Portfolio Companies.



\* Reference to companies includes statutory bodies and shareholdings includes any ownership interest.



### Other Companies 13



### 7 Designated Companies



## Business Review

### NewERA (CONTINUED)

#### PROTECTING AND SEEKING TO ENHANCE THE VALUE OF THE PORTFOLIO COMPANIES IN A SUSTAINABLE MANNER

During 2019, NewERA provided detailed financial analysis and, where appropriate, recommendations to Government Ministers/Departments on a total of 138 submissions for Ministerial consideration and consent made by the Portfolio Companies (2018: 132).



**138**

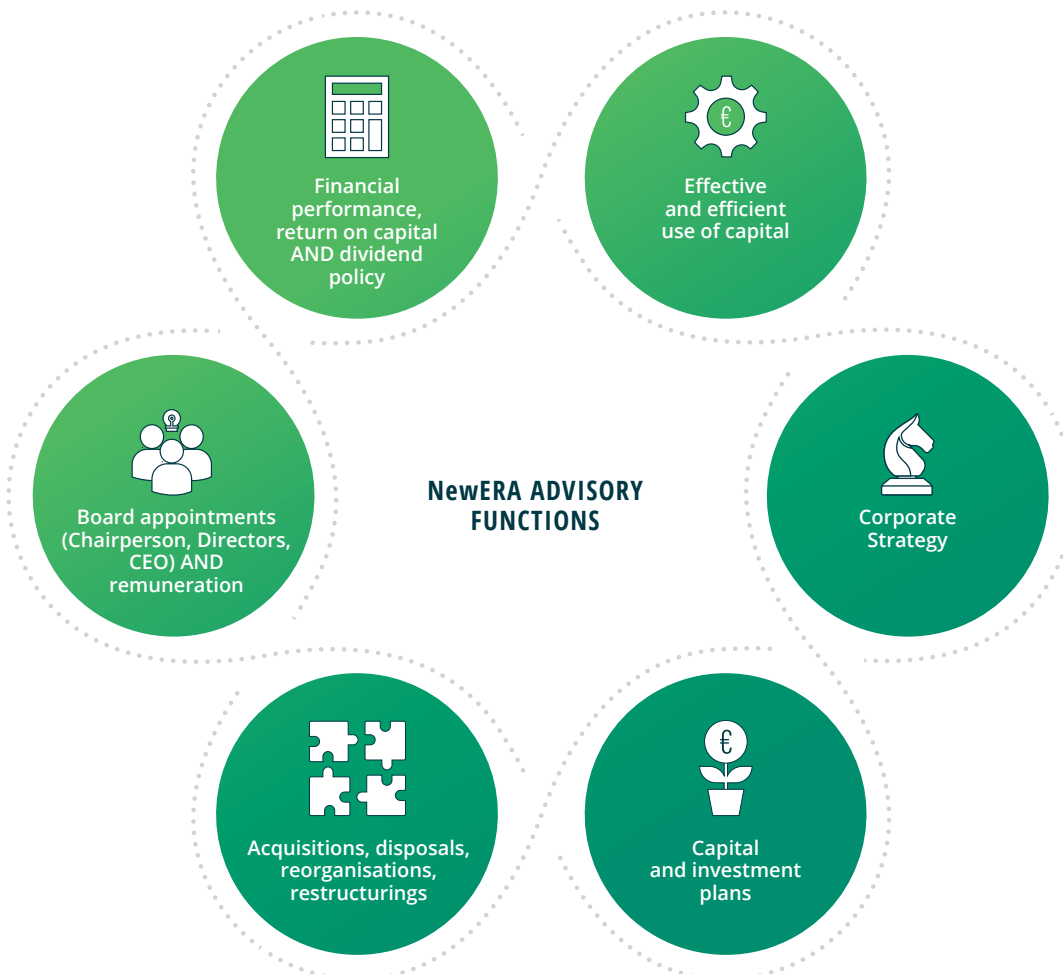
#### PORTFOLIO COMPANY ASSIGNMENTS

on which NewERA provided financial analysis and, where appropriate, recommendations to Government Ministers in 2019 (2018: 132).

NewERA's financial advice covered a broad range of areas across all Portfolio Companies, as illustrated below.

#### ACTIVE OWNERSHIP

NewERA's approach is to facilitate an enhanced level of active ownership by the State as shareholder in the Portfolio Companies. The Shareholder Expectations Framework (the Framework) which communicates the Government's expectations, as shareholder, to the Chairperson and Board of each company by way of annual/biennial letters (Framework Letters) from the relevant Government Ministers assists with the implementation of this more active approach. This approach is now applied more widely across the commercial State sector with the Framework and use of Framework Letters having been included in the 2016 Code of Practice for the Governance of State Bodies which states that: "Clear accountability underpins effective relations between Government Departments and State Bodies under their aegis" and sets out that "For commercial State bodies the oversight agreement is the Shareholder Letter of Expectation". The link between the Framework and the strategic, business and financial planning processes of the Portfolio Companies is illustrated below:



 <b>OIREACHTAS</b>	 <b>RELEVANT GOVERNMENT MINISTERS, SUPPORTED BY NewERA AND RELEVANT DEPARTMENTS</b>	 <b>BOARD OF DIRECTORS</b>	 <b>RELEVANT GOVERNMENT MINISTERS AND DEPARTMENTS, NewERA, BOARD OF DIRECTORS, COMPANY MANAGEMENT</b>
<b>CORE MANDATE</b>	<b>SHAREHOLDER EXPECTATIONS FRAMEWORK:</b> <ul style="list-style-type: none"> <li>● Strategic priorities*</li> <li>● Sectoral policy objectives</li> <li>● Financial performance requirements*</li> <li>● Reporting requirements*</li> </ul> <i>* NewERA input</i>	<b>STRATEGIC PLAN</b> <ul style="list-style-type: none"> <li>● Rolling five-year business and financial plan</li> </ul>	<b>ONGOING DIALOGUE*</b>  <i>* NewERA input</i>
<p>The functions and powers of the individual entities as generally set out in their governing legislation or constitution, as applicable.</p>	<p>The purpose of the Framework is to provide formal clarity and guidance to the Chairperson and Board of the commercial State body in relation to the Government's expectations, as shareholder, in respect of strategic priorities, policy objectives, financial performance and reporting requirements.</p>	<p>The Code sets out that the preparation and adoption of a strategic plan and rolling five-year business and financial plan is the primary responsibility of the Board of a State Body. Plans should reflect shareholders' objectives, as appropriate, and the strategic and legal mandate of the State body.</p>	<p>Through ongoing dialogue, the State monitors compliance by entities with their core mandate and Shareholder expectations as provided for in the Framework Letters.</p>

## ADVISING MINISTERS ON CRITICAL INFRASTRUCTURAL INVESTMENT BY THE PORTFOLIO COMPANIES

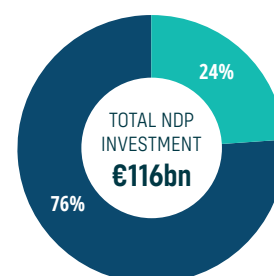
NewERA's Portfolio Companies have a critical role to play in the delivery of enabling national infrastructure. Reflecting this, the Portfolio Companies are estimated to account for approximately 24% (€28bn) of the total investment planned in the National Development Plan 2018-27.

During 2019, NewERA provided financial advice to Government Ministers/Departments in relation to a range of critical infrastructure investment plans presented by the Portfolio Companies. This included €4.1bn in debt financing-related requests (including bond issuance and commercial debt facilities) to fund the Portfolio Companies' investment plans, €2.7bn in relation to capital budgets and commitments and €0.8bn in relation to specific capital projects and acquisition spend.

## TOTAL NDP INVESTMENT

### ● Portfolio Companies

	€bn
Energy	13.7
Irish Water	8.5
Airports	3.8
Ports	1.0
Other (e.g. Coillte and BnM)	0.8
<b>Total</b>	<b>27.8</b>



### ● Other Exchequer and non-Exchequer funding








Source: NewERA Analysis NDP

Note: The total investment in Irish Water included in the NDP is €8.5bn comprising €6.8bn of Exchequer funding and €1.7bn of non-Exchequer funding.

NewERA (CONTINUED)



€4.1bn Debt Financing

	<p><b>ESB</b></p> <p><b>€500m</b> green bond – In June 2019, ESB issued Ireland’s first corporate green bond which will finance eligible green projects, including renewable energy generation, network connections for onshore wind farms and electric vehicle charging infrastructure.</p>
	<p><b>Gas Networks Ireland</b></p> <p><b>€300m</b> bond issue to support continuing investment in gas network infrastructure, which is expected to play a key role in the transition to a low carbon energy system. Gas Networks Ireland also raised funding for its ‘Green Connect’ project which aims to rollout a network of compressed natural gas refuelling stations in Ireland.</p>
	<p><b>An Post</b></p> <p><b>€40m</b> facility from the European Investment Bank to support An Post’s transformation plan and digitalisation strategy.</p>
	<p><b>Dublin Port</b></p> <p><b>€300m</b> private placement facility to support Dublin Port’s capital investment programme.</p>
	<p><b>daa</b></p> <p><b>€350m</b> facility from the European Investment Bank to support capital investment programme at Dublin Airport.</p>
	<p><b>Shannon Group</b></p> <p>Loan facility to support development of new aircraft painting hangar at Shannon Airport.</p>
	<p><b>Irish Water</b></p> <p>During 2019, NewERA continued to advise Ministers on the short-term extension of Irish Water’s €1.25bn of commercial borrowing facilities pending refinancing with State funding, which is to be implemented over three phases. The first phase of the refinancing of Irish Water’s commercial borrowings with State funding, through a capital contribution of €758m from the Minister for Finance, completed in December 2019. Work is currently ongoing to complete the second phase of the replacement, which involves a proposed loan facility from the Minister for Finance to refinance a further portion of Irish Water’s existing commercial borrowings and also provide Irish Water with future borrowings to part-fund its capital expenditure related to the non-domestic sector. The third phase relates to a planned provision of a working capital loan facility from the NTMA’s Central Treasury Service to Irish Water, which will require amending legislation.</p>



## €2.7bn Capital Budgets and Commitments

The Portfolio Companies continued to implement their capital investment plans in line with the National Development Plan, with a significant proportion of the €2.7bn relating to regulated electricity, gas and water network assets.



## €0.8bn Capital Investment



### Irish Water

Water and wastewater infrastructure projects in line with Irish Water's ongoing investment plan to address the deficits in Ireland's public water infrastructure.



### ESB

Acquisition of a 50% stake in a pre-construction 450MW offshore wind farm off the coast of Scotland as ESB looks to continue to develop its experience in offshore wind with a view to developing projects off the Irish coast in the future.



## Joint Ventures/Other



### Coillte/ESB

Agreement to establish a joint venture development company to deliver 1,000MW of renewable energy by 2030, which would represent a significant contribution to Ireland's renewable energy targets subject to regulatory and Ministerial approval.



## Strategic Advice



### RTÉ

During 2019, NewERA was requested to undertake a financial and commercial review of RTÉ's revised strategy to assist the Government in its consideration of this revised strategy. Following the additional public funding provided to RTÉ in December 2019, and the establishment of the Commission on the Future of Public Service Broadcasting, NewERA has been requested to provide financial advisory services to the Departments in relation to RTÉ on an ongoing basis.

## Business Review

### ASSISTING THE STATE IN MEETING ITS CLIMATE OBJECTIVES

NewERA, through the financial advisory services it provides to Government Ministers and Departments including in relation to the Portfolio Companies, has a role to play in assisting the State in meeting its climate objectives.

#### Climate Action Plan

During 2019, NewERA provided financial assistance to the relevant Government Departments in the preparation of the Climate Action Plan. The Climate Action Plan was published by Government in June 2019 and seeks to underpin the ambition to deliver a step-change in Ireland’s emissions performance over the decade to 2030 and to position the State to meet its 2050 decarbonisation ambitions. The Climate Action Plan 2019 maps out 183 individual actions with a particular focus on the sectors that contribute most to Ireland’s greenhouse gas (“GHG”) emissions, namely agriculture, transport, electricity, built environment and industry.




#### Role of Portfolio Companies in Climate Action

The role of the Portfolio Companies in helping to meet the State’s climate objectives is a key area of focus for the State and, by extension is a key area of focus for NewERA’s advisory work for Government.

The Climate Action Plan is Government-led and governed but Portfolio Companies are directly referenced across 28 of the 183 individual actions and will have a role in enabling the successful completion of many others.







### ELECTRICITY

	<ul style="list-style-type: none"> <li>● Grid planning, development and operation</li> <li>● Renewable energy grid connections</li> <li>● Facilitating large demand connections to minimise grid reinforcements</li> <li>● Renewable Electricity Support Schemes (RESS) implementation</li> </ul>
	<ul style="list-style-type: none"> <li>● Examining feasibility of utilisation of Carbon Capture and Storage</li> </ul>
	<ul style="list-style-type: none"> <li>● Facilitation of private networks/direct lines</li> <li>● Facilitate development of offshore wind</li> <li>● Micro-generation</li> </ul>



## TRANSPORT



	<ul style="list-style-type: none"> <li>● Commence ESB HV High Power Charging Infrastructure Development Project</li> </ul>
	<ul style="list-style-type: none"> <li>● Commence Green Renewable Agricultural Zero Emissions (GRAZE) gas project</li> <li>● Complete rollout of 14 public compressed natural gas (GNG) fuelling stations as part of Causeway Project</li> </ul>
	<ul style="list-style-type: none"> <li>● Electrification of delivery fleet of An Post</li> <li>● Plan to install a commercial network of electric vehicle (EV) charging points at post offices</li> </ul>
	<ul style="list-style-type: none"> <li>● Support completion of rail fleet technology assessment, adoption of rail fleet strategy and initiation of tender process for bi-mode/electric fleet</li> </ul>




## BUILT ENVIRONMENT



	<ul style="list-style-type: none"> <li>● Roll-out of smart metering services</li> </ul>
	<ul style="list-style-type: none"> <li>● Research into Anaerobic Digestion technologies suited for biogas</li> <li>● Development of system of certification of renewable gas use in the national grid</li> </ul>

## AGRICULTURE, FORESTRY AND LAND USE



	<ul style="list-style-type: none"> <li>● Under 6 regional development plans 2016-20, Coillte is committed to replanting or restocking a total of 34,770ha</li> <li>● Explore opportunities to encourage increased public access in woodlands</li> </ul>
	<ul style="list-style-type: none"> <li>● Assess and implement mitigation options on rewetted organic soils</li> <li>● Assess and implement mitigation options on post-production, peat extraction sites</li> </ul>
	<ul style="list-style-type: none"> <li>● Collaborate with stakeholders to set a target for level of energy to be supplied by biomethane injection by 2030</li> <li>● Development of a system of certification for renewable gas use in the national grid</li> </ul>



## Business Review

### NewERA (CONTINUED)

NewERA has been allocated a number of actions for delivery in the Climate Action Plan, including a lead role in the following three actions:



#### Non-Exchequer sources of financing climate action and green investments:

In Q3 2019, NewERA finalised a report for the Department of Communications, Climate Action & Environment on options for non-Exchequer sources of financing climate action and green investments. As part of this exercise, NewERA conducted a market soundings exercise with funders and market participants to assess the feasibility of the climate measures being funded on commercial terms. The exercise examined investment appetite, financial structuring, current policy and market conditions.



#### Climate Action Framework:

NewERA has been tasked with developing (in conjunction with Department of Communications, Climate Action & Environment and Department of Public Expenditure and Reform) a framework for the commercial semi-State sector to address climate action objectives. During Q4 2019, NewERA commenced the development of an outline framework consisting of a series of undertakings, relating to embedding climate action objectives in corporate plans, measuring progress towards achieving them, reporting progress as part of quarterly shareholder engagement and climate-related disclosures in interim and annual financial reporting. Engagement is ongoing with the Portfolio Companies on this outline framework with a view to arriving at a common set of undertakings that would see all Portfolio Companies committing to a best practice approach to their climate action objectives.



#### Mobilisation of Private Investment:

NewERA has been tasked with working with the Portfolio Companies, the Ireland Strategic Investment Fund, the Strategic Banking Corporation of Ireland and other public bodies, to identify priority opportunities in key sectors to mobilise private investment towards assisting in meeting its climate objectives.

At Portfolio level, it is recognised that the transition to a low carbon energy future affects some of the companies more than others, with the impact being considerable for those operating in the energy sector given the relative nature and scale of the climate-related risks and opportunities they face. Some aspects of the Climate Action Plan are of particular relevance given the opportunities and challenges they present. These include:

- the complete phase-out, over time, of coal and peat-fired power generation;
- reducing long-term demand for gas;
- increasing carbon taxes;
- greater use of renewables and complementary technologies;
- the incentivisation of electricity storage and interconnection;
- funding for climate related initiatives;
- enhancing sustainable forms of transport, both public and private; and
- greater efficiency in land usage.

## ANNUAL FINANCIAL REVIEW OF PORTFOLIO COMPANIES<sup>4</sup>

During 2019, NewERA published its annual financial review of the Portfolio Companies. The Review highlights the financial contribution made by the Portfolio Companies during 2018/19. It also sets out common themes of relevance from a shareholder perspective, including in relation to the climate and sustainability agenda.

### FINANCIAL HIGHLIGHTS



#### €1.4bn Operating Profit

€1.4bn of operating profit was generated by the Portfolio in 2018/19 with an operating profit margin of 12.3%.



#### €22.5bn Invested Capital

€22.5bn in debt and equity capital invested in the Portfolio with a return on invested capital of 5.6% in 2018/19.



#### €2.2bn Gross Capital Expenditure

€2.2bn of capital investment spend in 2018/19, more than three quarters of which related to the energy and water sector companies, reflecting the scale of their individual regulated asset capital investment programmes.



#### €261m Dividends

€261m in combined dividends were received by the Exchequer from bodies within NewERA's remit in 2018/19 with €1.77bn of dividends to the Exchequer over the past five years.

FINANCIALS BY ACTIVITY	Turnover	Operating Profit (EBIT adjusted)	Gross Capital Expenditure (cash basis)
Airports	10%	17%	8%
Energy	42%	52%	48%
Health	13%	6%	1%
Natural Resources	5%	7%	4%
Ports	1%	4%	5%
Postal & Retail	8%	3%	1%
Rail & Buses	12%	-1%	5%
Water	9%	12%	28%

Source: NewERA Analysis

NewERA's 2018/2019 Annual Review outlined that NewERA considered the financial performance of the Portfolio covered by the Review and its level of return on invested capital, to be satisfactory overall given the sectors they operate in and the challenges faced by some of the underlying businesses in 2018/19.

<sup>4</sup> The Annual Financial Review excludes RTÉ.