

NewERA

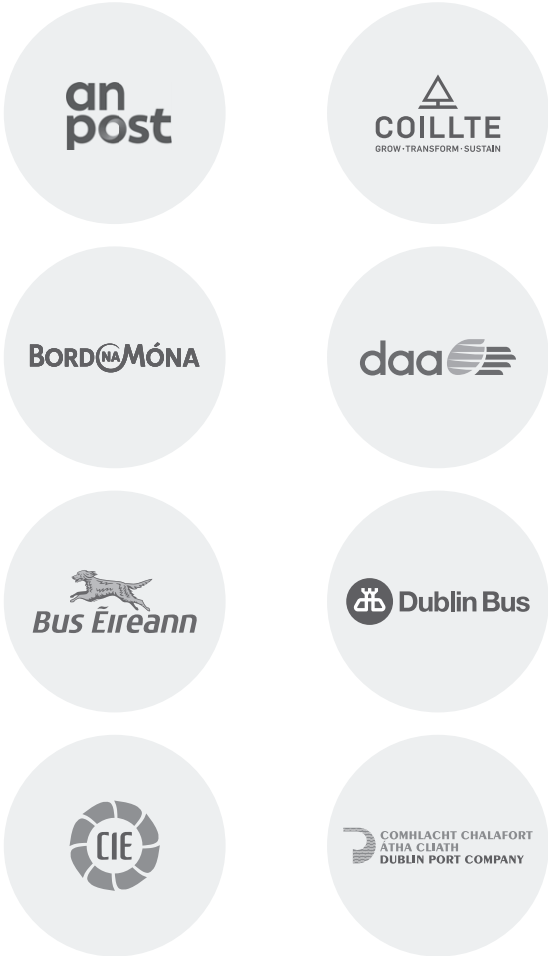
Through NewERA, the NTMA provides a dedicated centre of corporate finance expertise to Government, providing financial advice to Ministers regarding their shareholdings in major commercial State bodies.



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 companies⁵ 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. 11 transport companies were designated on 18 February 2021 so that NewERA now has 21 companies within its scope of work and 18 of these are designated. These companies are collectively referred to as the Portfolio or the Portfolio Companies.

- Designated Companies 18
- Other Companies 3



⁵ Reference to companies includes statutory bodies and shareholdings includes any ownership interest.



Business Review

NewERA (continued)

NewERA Advisory Functions

Board appointments
(Chairperson, Directors,
CEO) and remuneration



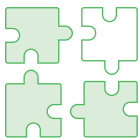
Financial performance,
return on capital and
dividend policy



Effective and efficient
use of capital



Acquisitions, disposals,
reorganisations,
restructurings



Capital and
investment plans



Corporate Strategy



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 included in the 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 overleaf.

<p>Oireachtas</p> 	<p>Core Mandate</p> <p>The functions and powers of the individual entities as generally set out in their governing legislation or constitution, as applicable.</p>
<p>Relevant Government Ministers, supported by NewERA and relevant Departments</p> 	<p>Shareholder Expectations Framework:</p> <ul style="list-style-type: none"> • Strategic priorities* • Sectoral policy objectives • Financial performance requirements* • Reporting requirements* <p><i>*NewERA input</i></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>Board of Directors</p> 	<p>Strategic Plan</p> <ul style="list-style-type: none"> • Rolling five-year business and financial plan <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>Relevant Government Ministers and Departments, NewERA, Board of Directors, Company Management</p> 	<p>Ongoing Dialogue*</p> <p><i>*NewERA input</i></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>

The Impact of COVID-19

A number of the Portfolio Companies have been materially impacted by the COVID-19 pandemic given the sectors in which they operate. For instance, the significant fall-off in demand for air transport has adversely impacted the Portfolio Companies with responsibility for managing Dublin, Cork and Shannon airports and Irish airspace. Similarly in the public transport sector, services were operated at a considerably reduced capacity for much of 2020.

A key focus for NewERA is to assist the relevant Government Departments and Ministers in assessing and monitoring the financial challenges resulting from COVID-19 on the Portfolio Companies. NewERA delivered advice on a number of COVID-related items during 2020 drawing on in-depth knowledge of the companies' trading environments and financial positions to quickly assess the financial implications of the crisis.

Business Review

NewERA (continued)

- CIÉ: Financial impact of COVID-19**
 - Provided analysis of CIÉ Group's revenue projections, outlining the relative impacts of COVID-19 on Exchequer-supported revenue streams and the Group's non-subsidised commercial businesses, and the implications for CIÉ's liquidity position.
- Shannon Group 2020/21 forecasts/funding requirements**
 - Provided analysis of the forecast financial performance of Shannon Group in 2020/21 and the case for Exchequer funding to be provided due to the significant impact of COVID-19.
- RTÉ: Forecast Trading**
 - Provided analysis of the forecast trading position prepared by RTÉ.

COVID-19 has had a material impact on the aggregated financial performance of the Portfolio, which will be presented in more detail in NewERA's next Annual Financial Review to be published later this year. The financial highlights of the 2019/20 Annual Financial Review, which covers the reporting periods preceding the onset of the COVID-19 pandemic, are set out below alongside indicative aggregate financial information for the 2020/21 period.

FINANCIAL HIGHLIGHTS 2019/20	2020/21 (indicative)
€1.7bn Operating Profit €1.7bn of operating profit was generated by the Portfolio in 2019/20 with an operating profit margin of 14.6%.	€0.8bn A material reduction in operating profit relative to the prior period mainly reflecting the impact of COVID-19 on the companies operating in the transport sector.
€2.7bn Gross Capital Expenditure €2.7bn of capital investment spend in 2019/20, 72% of which related to the energy and water sector companies, reflecting the scale of their individual regulated asset capital investment programmes.	€2.7bn Capital investment spend was broadly in line with the prior year notwithstanding the impact of COVID-19.
€261m Dividends €261m in combined dividends were received by the Exchequer from bodies within NewERA's remit in 2019/20 with €1.5bn of dividends paid to the Exchequer over the past five years.	€133m €133m in combined dividends were received by the Exchequer from bodies within NewERA's remit in 2020/21. This represents a decrease of c. 49% YoY which reflects the impact of COVID-19 on a number of the companies, as well as a reduction in special dividends received.

Advisory Mandate Activity

During 2020, NewERA provided detailed financial analysis and, where appropriate, recommendations to Government Ministers/Departments on a total of 144 submissions for Ministerial consideration and consent made by the Portfolio Companies (2019: 138).

144 PORTFOLIO COMPANY ASSIGNMENTS

on which NewERA provided financial analysis and, where appropriate, recommendations to Government Ministers/Departments in 2020 (2019: 138).



€4.0bn
Debt Financing



€2.8bn
Capital Budgets and Commitments



€0.3bn
Capital Investment



€0.7bn
Joint ventures / others

NewERA provided analysis and advice to relevant Government Ministers/Departments on a number of debt financing transactions undertaken by some of the Portfolio Companies, including:

- ESB's refinancing of its €1.4bn revolving credit facility which, for the first time, included sustainability linked elements as part of ESB's Green Finance Strategy
- daa increase of its revolving credit facility from €300m to €450m
- A new bond issue from daa of €500m
- Irish Water's replacement of €240m commercial borrowings with a new Exchequer loan facility from the Minister for Finance concluding the second phase of the replacement of Irish Water's commercial borrowings.

NewERA reviewed capital investment projects by Portfolio Companies and provided financial and commercial advice and analysis to Government Ministers and Departments on significant projects throughout the year including:

- EirGrid Celtic Interconnector project and the proposed investment relating to the detailed design and consents phase
- Irish Water Ringsend wastewater treatment plant €52m upgrade
- An Post's €18m investment in a new digital consumer platform for its financial services
- Bord na Móna's €108m enhanced peat rehabilitation scheme
- Coillte Smart Ply €44m investment to upgrade their facility in Waterford.

NewERA also provided advice to Government Ministers and Departments in relation to a number of acquisitions and disposals throughout 2020, these included:

- ESB's acquisition of a 50% stake in the Inch Cape offshore wind development stage project.
- ESB's disposal of its Fitzwilliam 28 property.

Climate Action 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.

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.

The Portfolio Companies represent a diverse group in terms of size, sectors and activities and different companies are at different stages on the climate action and broader sustainability journeys. However, all of the companies either have a sustainability strategy in place, or have commenced the development of such a strategy. Many place the United Nations Sustainable Development Goals framework at the centre of their approach. Even as the Portfolio Companies deal with the challenges of the COVID-19 crisis, continuing to progress the development of and progress towards sustainability goals has remained a priority.

Climate Action Framework

Throughout 2020, NewERA has engaged with the Portfolio Companies to better understand each company's approach to sustainability, and in particular the approaches taken to environmental issues. This has informed work on the development of a framework for the CSS* sector to address climate action objectives, as envisaged under Action 147 of the Climate Action Plan 2019. NewERA is developing this framework in conjunction with the Department of the Environment, Climate and Communications and the Department of Public Expenditure and Reform.

NewERA's proposed approach has been agreed with the Departments of the Environment, Climate and Communications and Public Expenditure and Reform, and is expected to be submitted to Government for approval during Q2 2021. It envisages the Framework as a series of five commitments by the companies in relation to their climate action objectives. The proposed commitments reflect the three centrally designated frameworks highlighted in the Public Sector Leading by Example section of the Climate Action Plan 2019 (measurement of carbon footprint, green public procurement, carbon pricing in capital evaluation) as well as two further elements specific to the corporate environment (governance of climate action objectives and financial disclosures). By signing up to or adopting the framework, each company would be voluntarily entering into these commitments.

*Commercial Semi-State (CSS)