



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

### Overview

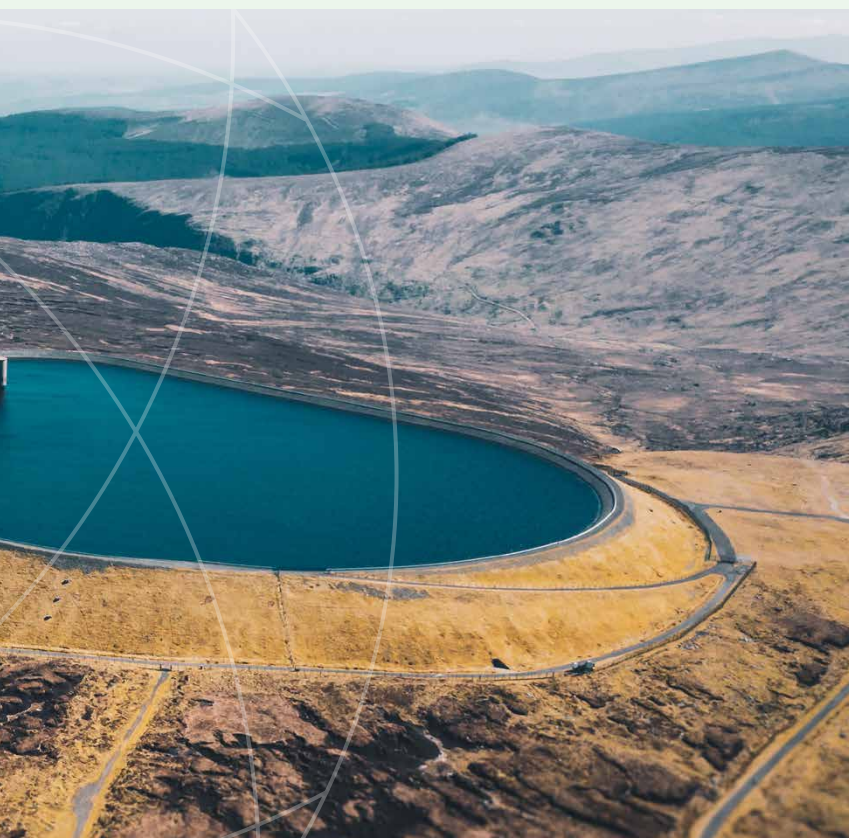
NewERA's core role is to provide financial and commercial advice to Government Ministers and Departments in relation to their shareholdings in 21 State-owned companies<sup>6</sup> across a range of sectors. Of these, 18 are listed as "designated bodies" under Part 3 of the *National Treasury Management Agency (Amendment) Act 2014*, whilst NewERA provides advice to the relevant Government Ministers and Departments on the other three companies by agreement. These companies are collectively referred to as the Portfolio or the Portfolio Companies.

### NewERA Advisory Functions

- Financial performance, return on capital and dividend policy;
- Effective and efficient use of capital;
- Corporate Strategy;
- Capital and investment plans;
- Acquisitions, disposals, reorganisations, restructurings; and
- Board appointments and remuneration.

# NewERA

<sup>6</sup> Reference to companies includes statutory bodies and shareholdings includes any ownership interest.



## Focus on Energy and Climate

A key focus area for NewERA during 2022 was monitoring the impact of the energy crisis, which was exacerbated by Russia's invasion of Ukraine. There was considerable engagement with Government Departments and the Portfolio Companies to consider the potential impacts of the crisis on the Portfolio Companies and the impact on the supply of energy, particularly for those operating in the energy sector. A key assignment related to the supply of energy was reviewing funding options for the relevant Government Departments to assist EirGrid in procuring c. 450MW of additional temporary emergency generation capacity for Winter 2023/24. EirGrid was directed to procure this additional capacity by the Commission for the Regulation of Utilities (CRU), and in June 2022 the Government approved the provision of capital funding to EirGrid.

The significant impetus to accelerate the transition to a low carbon energy future existed before the onset of the COVID-19 pandemic and has been brought into even sharper focus as a result of the energy crisis. The Portfolio Companies have a key collective role to play in this regard, with considerable levels of activity throughout 2022 by a number of the Portfolio Companies in progressing capital projects to assist in this transition. Some other key energy sector related assignments where NewERA provided advice to the relevant Government Ministers and Departments include:

- EirGrid's investment in the Celtic Interconnector project, a 700MW power cable linking Ireland and France. This project, which is being developed by EirGrid and its French equivalent Réseau de Transport d'Electricité (RTE), reached financial close in November 2022. The estimated cost of the project is c. €1.6bn and will be funded by the EU's Connecting Europe Facility (c. €0.5bn), a number of banks including the European Investment Bank, Danske Bank, Barclays and BNP Paribas (c. €0.8bn), and the balance of funding from EirGrid and RTE (c. €0.3bn);
- ESB's investment in technologies which will enable more renewable energy on the grid, including its Aghada battery storage project; and
- Bord na Móna's investments in the development of a 105MW wind farm at Derrinlough, Co. Offaly, and in a joint venture with Ocean Winds<sup>7</sup> to develop offshore wind projects off the coast of Ireland.

In July 2022, the Government approved the Climate Action Framework for the commercial State sector, which was developed by NewERA in conjunction with the Department of the Environment, Climate and Communications and the Department of Public Expenditure and Reform<sup>8</sup>. As many of the commercial State sector companies are playing an important role in the decarbonisation of Irish society, the Climate Action Framework will assist each of these companies in demonstrating how they will fulfil their leadership role in climate action. NewERA has been requested to monitor the implementation of the commitments set out in the Climate Action Framework and report to the Department of the Environment, Climate and Communications on a biannual basis. NewERA is working with relevant Departments to update Shareholder Expectations Framework<sup>9</sup> letters to reflect the commitments under the Climate Action Framework.

## Advisory Assignments in 2022

In 2022, NewERA provided financial and commercial advice and, where appropriate, recommendations to relevant Government Ministers and Departments on 167 Portfolio Company assignments, a slight increase on the 163 assignments undertaken in 2021.

<sup>7</sup> Shareholders are energy leaders ENGIE and EDP Renewables.

<sup>8</sup> Now the Department of Public Expenditure, National Development Plan (NDP) Delivery and Reform.

<sup>9</sup> The Shareholder Expectations Framework is in use across the commercial State sector and communicates the Government's expectations, as shareholder, to the Chairperson and board of each of the companies by way of letter from the relevant Government Ministers. The Shareholder Expectations Framework generally encompasses four key elements including: strategic priorities, sectoral policy objectives, financial performance requirements and reporting requirements.



## NewERA (continued)

### Advisory Assignments Overview

The assignments by value (€bn) included:



**Debt Financing**  
**€2.7bn**



**Capital Budgets and Commitments**  
**€2.8bn**



**Capital Investment**  
**€1.8bn**



**Joint Ventures and Disposals**  
**€0.3bn**

#### Debt Financing

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

- ESB's 2022 funding requirements, including its second green bond (€500m) and other bond issuances (€1bn) and additional revolving credit facilities (€750m); and
- Reviewing the option of a one year extension to the term of a €30m loan from the Minister for Finance to An Post.

#### Capital Investment

NewERA provided financial and commercial advice and analysis to relevant Government Ministers and Departments on significant capital investment projects by the Portfolio Companies throughout 2022 including:

- EirGrid's investment in the Celtic Interconnector project (details on page 43);
- ESB's investment in:
  - flexible thermal electricity generation (190MW), which is designed to ramp up and ramp down quickly to support renewable capacity on Ireland's electricity system and enhance the capability to add more renewable generation;
  - a battery storage (75MW) project, providing fast-acting energy storage to support grid stability and deliver more renewables on Ireland's electricity system; and
  - the Neart na Gaoithe construction stage offshore windfarm project in the UK (450MW).

- A range of capital projects by Uisce Éireann (UE) as it continued its significant ongoing investment programme, including:
  - a new national laboratory based in Limerick to undertake water/wastewater testing;
  - a main drainage scheme in Athlone;
  - further phases of UE's ongoing upgrade of the Ringsend wastewater treatment plant; and
  - a wastewater treatment plant in Rathmullan, Co. Donegal.
- Gas Networks Ireland's (GNI) South West Scotland Onshore System<sup>10</sup> security upgrades project; and
- Bord na Móna's investment of c. €150m in the development of a 105MW wind farm at Derrinlough, Co. Offaly.

#### Joint Ventures and Disposals

NewERA also provided financial and commercial advice to relevant Government Ministers and Departments in relation to a number of joint ventures and disposals throughout 2022. These included:

- An investment by Bord na Móna in a joint venture with Ocean Winds (details on page 43) to develop offshore wind projects off the coast of Ireland;
- Additional investment by ESB in a joint venture with Red Rock Power Limited<sup>11</sup> to develop the Inch Cape offshore wind farm project (c 1.1GW), which will be located off the east coast of Scotland; and
- The sale of ESB's shareholding in Thameside Energy Recovery Facility Project in the UK (energy from waste plant).

#### Selection of other Assignments

NewERA also provided financial and commercial advice to relevant Government Ministers and Departments in relation to a number of other assignments in 2022, these included:

- The separation of Irish Water from the Ervia Group with NewERA participating in a number of working groups to oversee and progress the separation (e.g. board appointments, new constitutions, pensions). Legislation enabling the separation was passed by the Oireachtas in December 2022, and on 1 January 2023, Irish Water formally separated from the Ervia Group to become a standalone State entity renamed as Uisce Éireann, with a new chairperson and board appointed; and
- Pension advisory assignments with a number of requests received in relation to proposed increases to pensions in light of the inflationary environment. Pensions is a key area of focus from a shareholder perspective, with Portfolio Companies being encouraged to maintain focus on putting appropriate and sustainable funding and risk management plans in place to meet future scheme liabilities and Pensions Authority requirements.

<sup>10</sup> GNI and its subsidiary GNI (UK) own and operate two gas interconnectors between the UK and Ireland together with the associated onshore infrastructure connecting to the UK transmission network (known as the South West Scotland Onshore System network).

<sup>11</sup> Red Rock Power Ltd is the UK subsidiary of SDIC Power Holdings Co. Ltd. which is a majority Chinese state-owned power company headquartered in Beijing.

## Combined Financial Highlights of the Portfolio Companies

The indicative combined financial information for the 2022<sup>12</sup> period alongside the financial highlights from the 2021 Annual Financial Review<sup>13</sup> is set out below.

FINANCIAL HIGHLIGHTS 2022 <sup>14</sup> (indicative)	FINANCIAL HIGHLIGHTS 2021 <sup>15</sup>
<b>€1.7bn</b> <p>The level of combined operating profit has returned to pre-pandemic 2019 levels with a 42% increase in 2022 relative to 2021. This is primarily due to higher reported operating profits for the aviation and energy sector companies.</p>	<b>€1.2bn Operating Profit</b> <p>A significant increase in the combined level of operating profit generated by the Portfolio Companies in 2021 relative to 2020 (+60%) but still c. 70% of 2019 levels. However, operating losses continued to be reported in the aviation and postal sectors which, although reduced relative to 2020 in the case of the aviation companies, reflects the ongoing COVID-19 related challenges during 2021.</p>
<b>€3.3bn</b> <p>An overall increase of 13% in capital spend in 2022 relative to 2021, reflecting primarily the higher expenditure by the water and energy sector companies. The gross capital expenditure by these companies comprise 73% of the total gross capital expenditure in 2022.</p>	<b>€2.9bn Gross Capital Expenditure</b> <p>Capital spend was ahead of both 2020 and 2019, reflecting an increased level of capital intensity and also less disruption to construction activity than arose in 2020 due to the COVID-19 pandemic. Nearly 70% of 2021 investment levels related to the energy sector companies and UÉ, reflecting the scale of their respective regulated asset investment programmes.</p>
<b>€209m</b> <p>€209m of total dividends paid by the Portfolio Companies in 2022, €204m of that to the Exchequer. This represents an increase of 33% versus 2021 due to the higher profitability.</p>	<b>€157m Dividends</b> <p>€157m of total dividends paid by the Portfolio Companies in 2021, €151m of that to the Exchequer. This represents an increase of 15% versus 2020. However, it was 41% lower than 2019 dividend payment levels due to significantly lower profitability arising from COVID-19 but also reflecting the absence of special dividend payments in 2021.</p>

The aggregated results for 2022 have improved relative to 2021. Indicative operating profits increased by 42% from €1.2bn in 2021 to €1.7bn in 2022 and are now at pre-pandemic levels (2019: €1.7bn). The COVID-19 pandemic had a significant operational and financial impact for a number of the Portfolio Companies. For example, daa reported operating losses in 2021, reflecting the ongoing challenges from COVID-19 on trading conditions in this sector, but generated operating profits during 2022, reflecting the recovery in air traffic and passenger volumes during 2022. The majority of the other Portfolio Companies generated either reduced operating losses or higher levels of operating profit during 2022, with the energy sector companies in particular reporting material increases. This has resulted in a significant improvement in aggregate net profits after tax, which increased from €0.6bn in 2021 to €1.1bn in 2022, which is at pre-pandemic levels. (2019: €1.1bn).

## Gender Representation

NewERA works closely with the Public Appointments Service and Government Departments in carrying out its advisory role with regard to appointments to the boards of the commercial State sector companies designated to it, with the process for appointments to these boards governed by the Guidelines on Appointments to State Boards. As at end-March 2023, the percentage of women on the boards of these State sector companies was 36%, below the overall 40% target, with five of the boards having female representation of 40% or more. Increasing female representation remains a key focus in the context of meeting the Government policy target of 40% representation of women and of men on all State Boards and NewERA will continue to work closely with relevant stakeholders to seek to deliver on this.

<sup>12</sup> Collectively, the latest reported annual financial year ends for the Portfolio Companies (excluding LDA, RTE and VHI) span 2022 and, in one case, to March 2023. For simplicity, the financial highlights refer to the reporting period covering 2022/23 as 2022.

<sup>13</sup> A detailed view on the aggregated financial performance of the Portfolio Companies (excluding LDA, RTE and VHI) in respect of the reporting periods spanning 2021 was presented in NewERA's Annual Financial Review 2021/22, published in December 2022.

<sup>14</sup> The aggregate financial information is indicative as it includes financial information based on draft financial statements of the Portfolio Companies (excluding LDA, RTE and VHI) as at the date of publication of this document.

<sup>15</sup> Collectively, the latest reported annual financial year ends for the Portfolio Companies (excluding LDA, RTE and VHI) span 2021 and, in one case, to March 2022. For simplicity, the financial highlights refer to the reporting period covering 2021/22 as 2021.



as at 31 March 2023

<b>40%</b>	<b>36%</b>	<b>5/18</b>	<b>5/18</b>
Government target for representation of women and men on State Boards.	The percentage of women on the boards of the Portfolio Companies <sup>16</sup> as at end-March 2023.	The number of Portfolio Company boards which meet/exceed the 40% target.	The number of Portfolio Company boards which have a female Chairperson.

### Climate Action Framework

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, with many of the commercial State sector companies playing an important role in the decarbonisation of Irish society. It is recognised however, 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 Climate Action and Low Carbon Development (Amendment) Acts 2015 - 2021 (the Acts) give legal underpinning to climate action by the public sector. The Acts require public bodies, including companies within the commercial State sector, in so far as practicable, to perform their functions in a manner consistent with national climate plans and strategies. The Climate Action Plan 2021 (CAP 2021), sets out a specific public sector climate action mandate with decarbonisation targets including a greenhouse gas emissions reduction target of 51% by 2030, and to be a climate neutral economy by 2050. The commercial State sector is not covered by the CAP 2021 public sector climate action mandate, and so a separate framework for these companies to address climate action objectives (the Climate Action Framework) was developed by NewERA, in conjunction with the Department of the Environment Climate and Communications and the Department of Public Expenditure and Reform<sup>8</sup>. It seeks to fulfil a role comparable to that of the public sector climate action mandate and will assist each of these companies in demonstrating how they will fulfil their leadership role in climate action. The Climate Action Plan 2023 reinforces the importance of the Climate Action Framework and progress towards its implementation.

The Climate Action Framework was approved by Government in July 2022 and it has been adopted by almost all of the Portfolio Companies (with the remainder expected to adopt it in 2023). NewERA has been requested to monitor the implementation of the commitments set out in the Climate Action Framework and report to the Department of the Environment, Climate and Communications on a biannual basis. NewERA is working with each Portfolio Company and relevant Departments to update Shareholder Expectations Framework letters to reflect their commitments under the Climate Action Framework.

### Climate Action Framework Areas of Commitment

- Governance of Climate Action Objectives
- Emissions Measurement and Reduction Target
- Emissions Valuation in Investment Appraisal
- Circular Economy and Green Procurement
- Climate-Related Disclosures

*"The public sector generally has a lead role in Ireland's shift to a carbon neutral economy and society. Many of our commercial semi-State companies are already playing a significant role in the decarbonisation of Irish society. Our ambition with this new Framework is to go further by committing every commercial semi-State company to action – in line with our climate ambitions to achieve a 51% reduction in overall greenhouse gas emissions by 2030 and to set us on a path to reach net-zero emissions by 2050.*

*The Framework will assist each company to publicly demonstrate its commitment and the steps it will take to deliver on this commitment."*

**Minister for Environment, Climate and Communications, Eamon Ryan TD, August 2022**

<sup>16</sup> Portfolio Companies excluding RTÉ, Vhi and the LDA.

## NewERA Climate Forums

In the context of the Climate Action Framework commitments, and to facilitate discussion around developments of interest in relation to climate action and sustainability topics more generally, two forums were facilitated in 2022 by NewERA for the commercial State sector companies. These related to the following areas:

- **Circular Economy and Green Procurement:** this forum provided an overview of key recent developments in circular economy policy, circular economy and green procurement practices and some key initiatives in the transport and forestry sectors, with guest speakers from ClÉ, Coillte, the Department of the Environment, Climate and Communications and the Environmental Protection Agency (EPA).
- **Climate-Related Disclosures:** this forum provided an overview of the disclosure requirements envisaged in the proposed EU Corporate Sustainability Reporting Directive, including those elements that relate to the EU Taxonomy, with a guest speaker from the European Financial Reporting Advisory Group Project Task Force.

NewERA also facilitated a workshop between Ireland's leading climate science organisations and commercial State sector companies regarding the physical risks associated with climate change.

There is increasing focus on the climate-related information that companies disclose, as investors, regulators, purchasers and other stakeholders demand access to information that will allow them to take climate-related matters into account in decision making. There are several existing disclosure frameworks that exist in the EU and internationally. While the Climate Action Framework does not specify which reporting framework the commercial State sector companies must apply, most will be required in due course to adopt mandatory reporting standards per the EU's expanded scope of reporting requirements in this area under the Corporate Sustainability Reporting Directive (CSRD). The aim of the CSRD is to ensure that companies are disclosing reliable and comparable sustainability information. Underpinning this is the EU Taxonomy, which is a common classification system that uses science based criteria to assess whether economic activities contribute to environmental objectives.

Ahead of the CSRD implementation and in seeking to employ best practice, it is noted that a number of the Portfolio Companies have indicated support for existing voluntary disclosure frameworks such as the Global Reporting Initiative, Carbon Disclosure Project, the Science Based Targets Initiative and/or the Task Force on Climate-related Financial Disclosures. NewERA continues to consult with Portfolio Companies in preparation for CSRD implementation (which will apply to most of the companies from FY2025 onwards).