



Mr Brendan Tuohy
Chairperson
EirGrid PLC
The Oval
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12th December 2019

Shareholder Letter of Expectation for EirGrid PLC

Dear Brendan

I am writing to you on behalf of myself and the Minister for Public Expenditure and Reform (“MPER”) in order to provide guidance to the Board of EirGrid with respect to the Government’s current objectives for EirGrid PLC and its subsidiaries (“EirGrid” or the “Group”) and the primary considerations which may be taken account of by us and other Government Ministers, where relevant, in respect of the matters for which Ministerial consent is required including, inter alia, under the European Communities (Internal Market in Electricity) Regulations 2000 and the Electricity Regulation (Amendment) (EirGrid) Act 2008, under EirGrid’s Memorandum and Articles of Association and the Code of Practice for the Governance of State Bodies (the “Code”). As with previous letters of this nature that have been issued¹, we believe that this letter will be helpful to the Board particularly in its corporate and strategic planning processes. It is intended that this letter will cover the period from the date of this letter to 30 June 2021.

¹ Letters dated 24 March 2014 and 2 August 2017 (the “2017 Shareholder Expectation Letter”).

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D’fhonn is go gcuirfeair leithmeanna na Roinne i gcrích, agus seirbhís ar fáil, ceanglaíonn an Roinn Cumarsáide, Gníomhaithe ar son na hAeráide agus Comhshaoil go soláthroidh custaiméirí sonraí pearsanta áirithe. Féadfaid do shonraí pearsanta a mhalartú le Ranna Rialtais eile agus le gníomhaireachtaí eile in imthosca áirithe de réir dlí. Tugtar sonraí iomlána sa bhFógra um

Príobháideacht Sonraí atá ar fáil ar www.dcae.gov.ie, nó i bhfoirm chruachóipe ama iarraidh sin.



The Government's overall current policy objectives for EirGrid are:

- EirGrid should continue to operate a safe, secure and reliable transmission power system in Ireland and Northern Ireland;
- EirGrid should continue the transparent, stable and reliable operation of the wholesale electricity market on the island of Ireland, which now forms part of the Integrated Single Electricity Market ("I-SEM");
- EirGrid should continue to develop and implement grid roll-out and upgrade, in line with its grid development strategy *"Ireland's Grid Development Strategy - Your Grid, Your Tomorrow"*, the July 2012 *"Government Policy Statement on the Strategic Importance of Transmission and Other Energy Infrastructure"*, the Energy White Paper *"Ireland's Transition to a Low Carbon Energy Future 2015-2030"*, the National Energy Climate Plan (NECP) and the *All of Government Climate Action Plan*;
- EirGrid should remain a profitable company with a capital structure which maintains a level of headroom to have sufficient liquidity and financial flexibility to protect loan covenant requirements; and
- EirGrid should also have regard to the relevant national strategic outcomes and policy objectives contained within Project Ireland 2040² and the *All of Government Climate Action Plan 2019*.

Additional overall policy objectives of Government are that EirGrid should focus on long term value generation and, provided no additional financial and/or operational risk is taken on, should aim to perform better than any operating and financial targets set down in regulatory determinations for EirGrid.

The specific objectives set out hereunder should be considered in the context of these overall policy objectives.

1. Specific Energy Policy Objectives

As Ireland's electricity Transmission System Operator, EirGrid shall continue to support general energy policy being the safeguarding of energy security, development of a sustainable energy future and ensuring competitive, efficient and properly-regulated energy markets. This will continue to require an appropriate level of ongoing investment by EirGrid.

In relation to the general energy policy objective to develop a sustainable energy future, EirGrid should also have regard to the Government's National Energy and Climate Plan

² Published in February 2018 and comprised of the National Planning Framework and National Development Plan.



(NECP) and, in particular, the underpinning policies set out in the Climate Action Plan, Project Ireland 2040.

In developing and implementing a market-specific, dynamic and progressive corporate strategy focussed on regional growth, against the backdrop of both national and European energy policy, care must be taken by EirGrid to prioritise core areas of activity. This includes delivering on its commitment to work in close co-operation with ESB to develop and implement grid roll-out and upgrade, in line with *“Ireland’s Grid Development Strategy - Your Grid, Your Tomorrow”*, the July 2012 *“Government Policy Statement on the Strategic Importance of Transmission and Other Energy Infrastructure”*, the Energy White Paper *“Ireland’s Transition to a Low Carbon Energy Future 2015-2030 and the All of Government Climate Action Plan 2019”*.

EirGrid should pay particular attention to:

- the implementation of EU and Government energy policy initiatives, including those advocated under the Internal Energy Market and the Integrated Single Electricity Market; and
- compliance with EU and national regulatory requirements and decisions including the five-year network reviews overseen by the Commission for Regulation of Utilities (CRU) and relevant Single Electricity Market Committee decisions.
- ensure that it is operating a first class transmission power system, and through the employment of appropriate scenario planning exercises to 2020, 2030 and 2050, should make a strong contribution to achieving sustainable development goals.
- Implement energy actions under the Government Statement on the Role of Data Centres in Ireland’s Enterprise Strategy to ensure that large demand connections are regionally balanced to minimise grid reinforcements. Specifically this includes the development of longer term measures (in conjunction with the CRU) to facilitate data centres and minimise grid reinforcement.
- implement the DS3 Programme (Delivering a Secure, Sustainable Electricity System) and its successor DS30, to assist Ireland meet its renewable electricity targets for 2020, 2030 and beyond;
- support the Department and the CRU to deliver a well-designed auction system under the Renewable Electricity Support Scheme and manage the administration and delivery monitoring of the periodic RESS auctions;
- support the Department and CRU to develop an effective and efficient offshore grid connection policy to ensure delivery of offshore renewable energy targets for 2030 and beyond;
- support the Department in the delivery of the 70% RES-E Target via efficient grid connection delivery, which will contribute to our European renewable energy ambitions out to 2030;



- build on the effective work to date in stakeholder management and community engagement to deliver on the commitments and ambition of overall Grid strategy, Generation Capacity, security of supply and Tomorrow's Energy Scenarios analysis;
- consider the potential for any further opportunities to facilitate the deployment of high speed broadband through its infrastructure.

All State bodies, including EirGrid, are expected to play an active role in delivering on the Climate Action Plan, specifically in relation to offshore renewable energy and associated grid infrastructure policy in order to ensure that we deliver our 2030 targets, prepare for deep decarbonisation by 2050 and make Ireland a leader in responding to climate change.

2. Financial Performance

i. Financial Performance Measures and Targets

Appendix I sets out a number of financial performance measures. Consistent with its statutory functions to provide financial and commercial advisory services to relevant Ministers in relation to designated bodies (which include EirGrid) under the National Treasury Management Agency ("NTMA") Amendment Act 2014 (the "Act"), New Economy and Recovery Authority ("NewERA") will assess these financial performance measures in the context of financial information received from EirGrid and provide advice to us as necessary, in accordance with the Act.

You will recall that in the 2017 Shareholder Letter of Expectation and a separate letter from my Department to the Interim Chief Executive dated 9 February 2018, EirGrid was requested to develop appropriate financial targets relating to certain specified financial performance measures in the context of EirGrid's five year strategic plan submitted under the Code (which covers the period from 1 October 2017 to 30 September 2022) (the "Corporate Plan").

As a result, in a letter to my Department dated 31 May 2018, EirGrid proposed a number of financial targets in respect of (i) capital structure, (ii) profitability and (iii) dividends (the "Targets"). Following further discussion on the Targets and having considered NewERA's advice both myself and MPER are of the view that the following targets are appropriate for EirGrid:

Specific Targets	Financial	Target
Capital Structure		Maximum annual gearing ratio of 60% over the period of the Corporate Plan. This will be calculated as Net Debt / Net Debt plus Equity (" Gearing Ratio (net) " or " Gearing Ratio ").
Profitability		Minimum level of annual underlying profit after tax (" Underlying PAT ") of €16m over the period of the Corporate Plan with a



	stretched target of an average level of annual Underlying PAT of €17.5m over the period of the Corporate Plan.
Dividends	Annual dividend payment of €4m over the period of the Corporate Plan.

Should it be reasonably expected by EirGrid that the above targets will not be met, my Department, DPER and NewERA should be promptly informed.

As part of the evaluation and monitoring of the Targets, we expect that both Departments, together with NewERA, would meet with EirGrid at least once annually to discuss these Targets, their outcome and relevance, EirGrid's work to achieve the Targets, and whether any changes need to be made to them. It is expected that these Targets will be reviewed in the context of the revised corporate plan that is being prepared on foot of EirGrid's recently published strategy.

ii. Shareholder Return

We will continue to review total shareholder return ("TSR"), assisted in this process by NewERA. We acknowledge that returns will vary from year to year, sometimes due to temporary or non-controllable factors, but it remains a key Government objective that the factors driving changes in EirGrid's value are clearly understood.

In the context of EirGrid's recently published strategy and the requirement for further clarity on costs/funding in relation to the Celtic Interconnector, the next equity valuation of EirGrid should be carried out with a valuation date as at 30 September 2019 (the "2019 Valuation"), to be submitted to my Department by no later than 31 March 2020. For the avoidance of doubt, we do not require an equity valuation to be carried out internally in respect of 2018. The 2019 Valuation should be procured from an independent party and undertaken on a consistent basis with the most recent independent equity valuation which was submitted during 2017 based on a valuation date 30 September 2016 (the "2016 Valuation"). The 2019 Valuation will be reviewed by NewERA and my Department, in consultation with DPER.

We will now require independent equity valuations to be procured every two years (i.e. for the 2019 valuation, the 2021 valuation, the 2023 valuation and so on) but will no longer require an equity valuation to be carried out internally by EirGrid in respect of the intervening periods between independent equity valuations. This means that we will, in due course, transition from reviewing TSR over a five-year rolling period to a six-year rolling period.

3. Governance Arrangements

3.1. Corporate Plan



With respect to EirGrid's rolling five-year corporate plan, which it is required to prepare pursuant to the Code, my Department, together with NewERA, will continue to engage with you in this regard in order for us to provide feedback to you on the plan. Following the recent publication of EirGrid's new strategy, I would expect that EirGrid will submit the corresponding rolling five-year plan to my Department and NewERA no later than 30 March 2020. We acknowledge that a corporate plan was not submitted for the current year and that this is outside the requirements of the Code, but in this instance, on a once-off basis, we agree to this alternative arrangement. In the circumstances, there can be no slippage on submission of the plan by the date specified.

It is expected that investment targets outlined in this plan align with and support the spatial objectives as set in the National Planning Framework under Project Ireland 2040 .

3.2. Reporting

As you know, the Code sets out current requirements in terms of reporting obligations, which supplement EirGrid's obligations in this regard under its governing legislation and its Articles of Association. We also expect EirGrid to continue with the quarterly meetings involving both Departments and NewERA, and we acknowledge the co-operation that EirGrid have shown to date in this regard. We also anticipate a continuation of the existing policy of regular communication with both Departments and NewERA should any material matters arise.

Some specific reporting expectations are set out below:

i. Project Ireland 2040 Investment Projects and Programmes Tracker (the Tracker)

The Tracker sets out information on all of the key projects and programmes being delivered under Project Ireland 2040 and is currently published on www.gov.ie. NewERA has been engaging with a number of the commercial State companies, including EirGrid, on behalf of DPER in relation to the next iteration of the Tracker and your ongoing co-operation in this regard is appreciated.

On reporting more broadly, as citizens have a right to know the policies and activities of their government, it is imperative that all programmes and projects under Project Ireland 2040 clearly display the identity across signage for projects at all stages of planning, design, construction and completion, all written reports, consultation documents, websites, social media, advertisements and publicity material and at all relevant public engagements. This will ensure that the public can clearly see how Ireland's infrastructure is being carefully planned and improved over the coming two decades, in order to meet the needs of our growing population.

ii. Post-Project Reviews



Consistent with the provisions in the Public Spending Code, it is expected that post-project reviews are carried out by EirGrid for all large (and a proportion of other) capital projects³. For individual projects that were the subject of Ministerial consent, it is expected that EirGrid should submit the post-project review where requested to do so by my Department and/or NewERA.

iii. Wind/Hydro Reporting requirement

Expectations in respect of wind and hydro capacity reporting, as highlighted in the 2017 Shareholder Expectation Letter, remain unchanged.

3.3. Board evaluation

Consistent with the provisions in the Code we expect that the Board continually reviews its own operation and performance and that of its committees and individual members. This should involve a formal evaluation of its performance on an annual basis. In addition, the Board should have such an evaluation facilitated by an independent assessment every three years. We know that such a review and evaluation process in EirGrid is led by the Chairman and expect that it allows each Director to give honest and constructive feedback on performance, both individually and for the Board as a whole.

We request that a formal high-level feedback report be provided to us (copied to NewERA) on overall Board performance⁴, key focus areas being for continuing development and assurance that the review process has been properly implemented. The feedback report on the evaluation by the Chairman for the financial year ending 30 September 2018 is still awaited and we would ask that this is submitted without delay.

4. Sustainability

In April 2018, my Department launched '*The Sustainable Development Goals National Implementation Plan 2018-2020*', the first of a series of implementation plans in the period to 2030 (the "**SDG Implementation Plan**") relating to the United Nations 2030 Agenda for Sustainable Development (the "**2030 Agenda**"). In terms of the role of business, the 2030

³ The Public Spending Code requires post-project reviews to be carried out for capital projects costing greater than €20 million and at least 5% of other capital projects. The Code requires, *inter alia*, that (i) the Board should ensure that robust and effective systems and procedures are in place in the State Body to ensure compliance as appropriate, with the relevant principles, requirements and guidelines of the Public Spending Code and (ii) the Chairperson of each State body should confirm in the annual report that the organisation is adhering to the relevant aspects of the Public Spending Code.

⁴ Note that performance relates to the performance of the Board as a collective and the feedback report should not contain comments on the performance of individual board members



Agenda explicitly calls for companies, especially large and multinational companies, to be encouraged to adopt sustainable practices and to integrate sustainability information into their reporting cycle. The SDG Implementation Plan assigns responsibility for this particular goal to the Department for Business, Enterprise and Innovation and links the delivery of this goal with the '*National Plan on Corporate Social Responsibility 2017-2020*' (the "National CSR Policy").

A key objective of the National CSR Policy is that Ireland will be recognised as a centre of excellence for responsible and sustainable business practices through the adoption and implementation of best practice in CSR in enterprises and organisations. It is expected that commercial State-owned entities would act in an exemplary fashion or as role models in terms of responsible and sustainable business practice to include:

- Working to comply with international standards, as appropriate;
- Integrating sustainability perspectives into strategy and business operations;
- Formulating strategic targets for sustainable business;
- Reporting on CSR and sustainability practices and outcomes in a transparent manner;
- Implementing sustainable/green procurement practices; and
- Engaging with external stakeholders in the promotion of sustainable business.

One particular area of immediate focus for my Department is the individual approaches that are being taken by commercial State companies to measure, monitor and report the impact of their sustainability initiatives and, in this regard, I note the relevant disclosures in your Annual Report. For your information, NewERA will be seeking to incorporate sustainability perspectives into future iterations of their annual financial review of key commercial State companies and will be in contact with you in due course in relation to this. This will include, amongst other things, an overview of initiatives being taken in respect of:

- *Climate Action*: The All of Government Climate Action Plan has been recently published. This Plan sets out our clear ambition to deliver a step change in our emissions performance over the coming decade so that we will not only at least meet our EU targets for 2030 but will ensure we are well placed to meet our mid-century decarbonisation objectives. This will involve setting climate goals in all key sectors, including electricity, agriculture, transport, and industry. It is recognised that the proposed targets in the Plan are extremely ambitious and will require radical behavioural changes across the economy and society in the short term. All public bodies have a leadership role to play in ensuring the successful delivery of this Plan and it is expected that every public body will adopt a targeted decarbonisation strategy. For the commercial State sector, my Department will work with NewERA, to develop an appropriate framework to address the role of each State body in advancing climate action objectives, including taking advantage of opportunities to reduce greenhouse gas emissions within the scope of their commercial mandate.



It is very much recognised that EirGrid is active in this space. EirGrid's role as Chair of the Business In The Community Low Carbon Sub-group, playing a key role in the development of the Low Carbon Pledge which has so far resulted in 45 of Ireland's largest companies committing to reducing their scope 1 and 2 greenhouse gas emissions intensity by 50% by 2030 is to be commended. The DS3 programme has enabled EirGrid to increase levels of renewable generation on the Irish power system to 65%. The aim to increase this to 75% by 2020 and to over 90% by 2030 is very encouraging. I would ask that the Group continues to take advantage of opportunities to reduce greenhouse gas emissions and improve energy efficiency, where appropriate and possible within the scope of its commercial mandate, and to continue to measure, monitor and report the impact of such initiatives.

- Environmental Initiatives: My Department wrote to you in February of this year regarding a Government Decision requiring public bodies to show leadership in environmental behaviour, specifically in the areas of reducing single-use plastics and taking measures to reduce the wasteful use of resources. I acknowledge the engagement you have had with my officials since then and look forward to receiving a report from you before the end of November, as required by the Government Decision, outlining the full suite of actions taken by EirGrid.
- Green Public Procurement (GPP): GPP is a process where public authorities seek to source goods, services, or works with a reduced environmental impact and is widely recognised as an effective means to manage the balance between cost effectiveness and sustainable development. In January this year Government decided that Departments would bring forward proposals on implementing green public procurement as part of national public procurement policy and practice. Those proposals have been agreed and the Department of Public Expenditure and Reform has issued a Circular giving direction to public bodies in this regard.
- Gender Equality: As you are aware, it has been an ongoing commitment of Government to increase the female representation on State Boards, with a goal to appoint women to at least 40% of such positions. In the wider context of gender diversity in the workplace, we note the ongoing efforts that are being made by a number of bodies⁵ to encourage businesses to develop strategies that integrate diversity and promote gender equality at all levels in the workplace. It is expected that all commercial State owned entities would contribute to improving the representation

⁵ The National CSR Policy assigns responsibility for this to the CSR Forum, the Department of Business, Enterprise and Innovation, the Department of Justice and Equality and the Department of Employment Affairs and Social Protection.



of women in leadership at all levels and to measure, monitor and report the progress of these initiatives.

5. Land Development Agency

As you are aware, the Land Development Agency (“LDA”) was established on a statutory footing⁶ in September 2018 to ensure, amongst other things, a strategic approach to the development of State and other publicly owned lands, the delivery of housing and securing sustainable urban development in line with Project Ireland 2040. This is clearly a priority matter for Government and it is expected that EirGrid will proactively engage and cooperate with the LDA where requested and as appropriate.

6. Engagement

Our expectation is that you will engage with both Departments, along with NewERA, shortly after receiving this letter to discuss in more detail the matters raised. This process will enable EirGrid to set out its perspectives in relation to the proposed approach, and I would be grateful if you would make the appropriate arrangements for such discussions with NewERA and the Departments.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Richard', is positioned below the text 'Yours sincerely'.

Richard Bruton T.D.
Minister for Communications, Climate Action and Environment

c.c. Paschal Donohoe T.D
Minister for Public Expenditure and Reform

c.c. Andrew O’Flanagan, NewERA

⁶ S.I. No. 352 of 2018.



Appendix I: Financial Performance Measures

Profitability and Efficiency

Measure	Calculation
Turnover Growth	Year-on-year growth in reported turnover
EBITDA Margin	Adjusted EBITDA <i>divided by</i> reported turnover
EBIT Margin/ Operating Profit Margin	Adjusted EBIT <i>divided by</i> reported turnover
PAT Margin	Net profit after tax, adjusted for exceptional items and certain fair value movements
Underlying profit before and after tax	Calculated by management to include the return on the Regulated Asset Base, working capital allowance, return on equity invested, connection/modification fees, operating cost savings/shortfall, unregulated profit/loss from telecoms and incentives out-turn plus or minus tax
Return on Invested Capital	Net operating profit after tax (NOPAT) <i>divided by</i> average invested capital
Return on Capital Employed	i. Adjusted EBIT / Capital Employed (average) ii. Adjusted EBIT / Adjusted Capital Employed (average)

Liquidity

Measure	Calculation
Current Ratio	Aggregate of closing balance for inventories, trade and other receivables, cash and current tax assets <i>divided by</i> aggregate of closing balance for trade and other payables, current borrowings and current tax liabilities
Acid Test Ratio	Aggregate of closing balance for trade and other receivables, cash and current tax assets <i>divided by</i> aggregate of closing balance for trade and other payables, current borrowings and current tax liabilities

Leverage and Solvency

Measure	Calculation
Net Gearing	iii. Net debt <i>divided by</i> net debt plus equity iv. Net debt <i>divided by</i> net debt plus pension liabilities plus



	employee related liabilities plus equity
Net Debt/EBITDA	Net debt <i>divided by</i> Adjusted EBITDA
EBITDA Interest Cover	Adjusted EBITDA <i>divided by</i> interest paid

Shareholder Returns

Measure	Calculation
Total Shareholder Return	Equity value at the end of the year less equity value at the beginning of the year plus equity injected plus dividends paid <i>divided by</i> equity value at the beginning of the year
Dividend Payout	Dividends Paid (excluding special dividends) <i>divided by</i> prior year Adjusted PAT
Dividend Yield	Dividends Paid / Commercial Equity Value (average)
Earnings (adjusted) growth	Year-on-year growth in Adjusted PAT

Entity Specific Metrics

Measure	Calculation
FFO Interest Coverage	S&P and Moody's basis
FFO / Debt	S&P and Moody's basis



Other

Measure	Calculation
Average Employee Costs	<p>Employee costs <i>divided by</i> average number of employees where employee costs:</p> <ol style="list-style-type: none"> 1. Include capitalised payroll, pension costs and social welfare costs and excludes exceptional costs (if any) 2. Include capitalised payroll and excludes exceptional costs (if any), social welfare costs and pension costs <p>Note: where an entity does not disclose the average number of employees in the notes to its financial statements, the employee numbers as at the end of the financial year are used.</p>

Definitions of key terms used in calculations

Term	Definition
Adjusted Capital Employed	Net debt <i>plus</i> Equity <i>plus</i> pension liabilities <i>plus</i> employee related liabilities
Adjusted EBIT	Earnings before interest and tax, adjusted for exceptional items and certain fair value movements. Also referred to in this report as operating profit
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
Capital Employed	Net debt <i>plus</i> Equity
Commercial Equity Value	As determined from the most recent commercial equity valuation undertaken in accordance with Section 2(ii) of this letter
Dividends Paid	Dividends paid during the financial year per the cashflow statement (including or excluding special dividends depending on the individual metric)
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 Designated Body does not separately identify unrealised items
Invested Capital	Adjusted total debt plus adjusted total equity (per NewERA



methodology)
