

ANNUAL REPORT 2003

RAILWAYS



WATER TREATMENT



BROADBAND



HOUSING

ROADS



National Development
Finance Agency



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National Development
Finance Agency

30 June 2004

Mr. Charlie McCreevy, T.D.,
Minister for Finance,
Government Buildings,
Upper Merrion Street,
Dublin 2

Dear Minister,

I have the honour to submit to you the Report and Accounts of the National Development Finance Agency for the year from the date of its establishment on 1 January 2003 to 31 December 2003.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Michael J. Somers', with a long, sweeping horizontal stroke at the end.

Michael J. Somers
Chairman

Directors

Michael J. Somers (Chairman ex officio)

Chief Executive, National Treasury Management Agency

Anne Counihan (Chief Executive from 19 December 2003)

Head of Legal & Corporate Affairs,
National Treasury Management Agency

Jim Farrell

Chief Executive (to 19 December 2003)

Ann Fitzgerald

Secretary General,
Irish Association of Investment Managers

Tony Jones

Business Consultant

Peter McManamon

Non Executive Director, Ceva Inc.

The Board met on six occasions during 2003.

Overview

Legislation was passed in December 2002 and the National Development Finance Agency was established in January 2003. This is the Agency's first report.

The Government is planning to spend 5% of GNP on capital projects in each of the next five years – on average about double the percentage in other EU countries. Prior to the Agency's establishment, there was no in-house investment banking expertise available to the Government. Instead, groups of consultants and other experts were brought together, at considerable expense, to advise on individual projects. However, once each project was finalised, the team was broken up and the body of knowledge, even within the public service, was largely lost.

The establishment of the Agency has facilitated the build up of an in-house expert group to critically examine all financial aspects of the Government's capital projects. The initial challenge for the Agency has been to identify and recruit a core group of experts. Simultaneously, it had to establish business relationships with State Authorities in an environment where many projects were already ongoing, with pre-existing advisors and financial institutions providing substantial input. A particular requirement for the Agency has been to gain an understanding of the issues arising in major infrastructural projects with a view to determining where financial efficiencies could be gained.

While the input of the Agency is primarily advisory – and a State Authority does not have to take that advice – the feedback from organisations with which it has dealt has so far been very positive. As well as achieving considerable savings, the financial deliberations on projects have also been accelerated. With the current focus on public private partnerships (PPPs), the Agency is particularly well positioned to add value. Where the funding of a PPP is causing concern, the Agency (subject to instructions from the Minister for Finance) may advance loans and equity for projects and form companies for the purpose of securing finance. In these early days of the Agency's existence, the need to provide cash has not yet arisen.

The Agency is now participating in the development of a growing number of major infrastructural projects and is adding to its core team of experts to cope with the complexities of the financial issues expected to arise.

At a more detailed level, the Agency's key mission is to assist in progressing Ireland's major infrastructural projects ranging from roads, railways and water treatment plants, to housing schemes and broadband networks. It does this by providing financial advice and, where necessary, financing to the State Authorities entrusted with advancing these projects.

The Agency has completed or substantially completed its input on nine major infrastructure projects with a combined value of approximately €1 billion. Three of these are PPPs involving private finance of €660 million. In addition, the National Development Finance Agency is currently providing financial advice on all the major capital investments being undertaken by the State.

Ireland is a relative newcomer to the public private partnership market and one of the main tasks for the Agency has been to meet with the various market participants including major construction companies, bankers, industry representative bodies such as IBEC, and other private sector service providers as well as liaising closely with the participants within the public sector with the objective of seeking to reconcile the expectations of both sides.

The Agency has also established relationships with some of the main banks, financial institutions and other bodies in the more established overseas markets to benefit from their experiences.

Major infrastructural projects necessarily have a long lead-time due to the public procurement and tendering process required under EU law, as well as environmental impact and other feasibility studies. Many of the projects on which the Agency has been advising have yet to come to fruition and some may only do so in years to come. However, there is now a great impetus evident within both the public sector and the business community to correct Ireland's long-accumulated infrastructure deficit by taking the necessary steps, legislative and otherwise, to put projects on to a faster track. The establishment of the National Development Finance Agency is one such step. We look forward to playing our part in developing Ireland's infrastructure and achieving value for money.



infrastructure

Start-Up Arrangements

ESTABLISHMENT OF NATIONAL DEVELOPMENT FINANCE AGENCY

The Oireachtas passed the National Development Finance Agency Act in December 2002. The National Development Finance Agency (the “Agency”) was established and its Board appointed by the Minister for Finance with effect from 1 January 2003. The rationale behind its establishment is to ensure that all available sources of funding are utilised for infrastructure projects and to have within the State sector a centre of financial expertise which can provide financial advice to State Authorities undertaking PPPs and other major infrastructure projects.

OBJECTIVES

The Minister for Finance outlined the purpose of the Agency in Dáil Éireann at the second stage debate on the National Development Finance Agency Bill. The following are some extracts from the Minister’s address:

- ❖ The principal objective of the Agency is to maximise value for money for the Exchequer by identifying the best financing packages and by applying commercial standards in terms of evaluating the financial risks and costs for each project;
- ❖ In relation to the provision of financial advice, PPP projects are complex requiring expert technical, legal and financial advice. A centrally resourced expert advisory service to all State Authorities would be more economic than employing experts in each of these areas in every procuring authority, including the local authorities. This role can be filled by the National Development Finance Agency in respect of financial advice. In this way significant cost savings could be achieved over time.

With respect to the funding of projects, the Minister for Finance included 5-year capital envelopes in the December 2003 budget. The State will spend approximately 5 per cent of GNP on infrastructure programmes in the period 2004 to 2008. Specific targets have been set for projects to be financed through PPPs, based on availability payments, or by the Agency, which will amount to €3.6 billion in total by 2008. In addition, there is no upper limit on the level of PPP projects that can be funded completely by user charges.

FUNCTIONS

The Act lists the Agency's principal functions as being:

- To advise State Authorities on the optimal means of financing public investment projects in order to achieve value for money;
- To advance moneys including repayable loans and equity and to enter into other financial arrangements in respect of projects approved by any State Authority;
- To provide advice to State Authorities on all aspects of financing, refinancing and insurance of public investment projects to be undertaken by means of public private partnership or within the public sector; and
- To establish special purpose companies in order to finance projects.

The Act lists the State Authorities that are required to seek the Agency's advice. All Government departments, local authorities and the major State agencies that undertake infrastructure projects are designated as State Authorities. On 18 June 2003, the Railway Procurement Agency and Córas Iompair Éireann were added to this list by Order of the Minister for Finance. A full list of State Authorities is contained in Appendix 2.

State Authorities are obliged to seek the Agency's advice on all financial issues arising in connection with a major project or group of projects, that is with a capital value in excess of €20 million, or if less, a project that is considered to be of national importance. However, the final decision on the structure and financing of a project remains a matter for the appropriate Minister, or where there is delegated sanction, the appropriate accounting officer.

STAFF

The Agency discharges its functions through the National Treasury Management Agency (NTMA). The NTMA has recruited dedicated full-time staff for the Agency's activities. These professionals are experts in the fields of financing and financial analysis. In addition, the Agency avails of all of the NTMA's other resources, including resources relating to financial control, legal and risk management, information technology and operations.

The recruitment of further high-level personnel with proven financial expertise is ongoing and it can be expected that the number of staff will rise as further public investment projects come on stream.

The Board would like to express its appreciation for the efforts of staff involved in the Agency's start-up activities and continuing operations.

INFRASTRUCTURE PROJECTS

Prior to the establishment of the Agency, financial advisors had already been appointed for many capital projects being undertaken by State Authorities. In these circumstances the NDFAs involvement depends on the scope of the financial advice already being provided by the private sector under pre-existing business arrangements. On new capital projects, the NDFAs advisory work will be significantly broader as it is mandated as the sole financial advisor.

During 2003, the Agency advised on six infrastructure projects with a total value of over €700 million and organised European Investment Bank (EIB) and other private lending facilities of approximately €250 million for these projects.

With regard to specific projects, the Agency advised the National Roads Authority on certain financial aspects of several road and motorway projects including the M1 Dundalk Western Bypass and the M4 Kilcock-Kinnegad motorway. The M1 and M4 projects are both being undertaken using PPP arrangements. This type of PPP model can result in the earlier delivery of important national road schemes and increases the scale of road construction activity above what would be possible through reliance on Exchequer funding alone.

The Agency has advised the Railway Procurement Agency on a number of projects including the Luas. It also arranged for a €95 million credit facility for the Railway Procurement Agency in respect of the Luas project and is advising on further facilities with a value of €40 million.

The Department of Communications, Marine and Natural Resources was advised by the Agency on the Metropolitan Area Networks (MAN) project which will significantly advance the rollout of broadband infrastructure. The MAN broadband project will provide high-speed communications infrastructure in 19 towns and cities throughout Ireland and will be expanded thereafter through the rest of the State. The project was funded by the Irish Government at a cost of €65 million and will be operated by the successful private sector bidder under a Concession Agreement signed on 29 June 2004.



MAN Contract Signing: Dermot Ahern, Minister for Communications, Marine and Natural Resources; Anne Counihan, Chief Executive NDFA; Michael Tiernan, Chief Executive ENet (successful private bidder)

The Agency acted as financial advisor to Cork County Council in connection with loan facilities of €31 million from the European Investment Bank. This loan part-finances the redevelopment of Cork County Hall and is a component of a larger EIB framework loan facility for local authorities of up to €100 million. This is the first time that the EIB has approved a loan to any local authority in Ireland.

The Agency has advised on three other projects that have reached financial close since year-end 2003. These are the Rathcormac-Fermoy Bypass, the Fatima Mansions social housing project and an EIB loan to Kildare County Council. The combined value of these projects is approximately €300 million.

Work continues on other infrastructure projects that have been referred to the Agency by various State Authorities including the M50 upgrade, the Waterford Bypass, Metro and the Digital Hub.

The following are examples of the type of projects on which the Agency has advised:

❖ NATIONAL ROADS AUTHORITY

M50 Motorway Extension

M1 Dundalk Western Bypass

M4 Kilcock-Kinnegad Motorway

Rathcormac-Fermoy Bypass

Waterford Bypass

❖ RAILWAY PROCUREMENT AGENCY

Luas

Integrated Ticketing

Metro

❖ DEPARTMENT OF COMMUNICATIONS,
MARINE AND NATURAL RESOURCES

Metropolitan Area Network

Digital Hub

❖ OFFICE OF PUBLIC WORKS

Decentralisation



HOUSING - DUBLIN CITY COUNCIL

Fatima Mansions

O'Devaney Gardens

OTHER

Criminal Courts Complex

National Conference Centre

Community Nursing Units

Dundalk Institute of Technology

Dublin Institute of Technology – Grangegorman Campus

FINANCIAL ADVISORY ROLE

In practical terms the financial advisory role of the Agency involves:

- ❖ Advising on the best financial package for State infrastructure projects – the mix and nature of Exchequer/private sector funding that is appropriate having regard to the risks inherent in the project;
- ❖ The preparation of a financial model tailored to a specific project or series of similar projects.
- ❖ The formation of special purpose vehicles (SPVs). As yet no SPV structure has been used but, subject to the prior approval of the Minister for Finance, such financing structures are likely to be recommended in the future;
- ❖ Analysing the financing component of invitations to tender and assessing such tenders from a financial perspective;
- ❖ Negotiating on behalf of State Authorities on the financial terms and conditions in financing and legal agreements;
- ❖ Assisting State Authorities with the financial components of their business case prior to the submission of a project to a sanctioning authority for approval; and
- ❖ Financial and Net Present Value calculations used for the preparation of Public Sector Benchmarks.

PUBLIC SECTOR BENCHMARK

In line with the Department of Finance's guidelines published in July 2003, regarding appraisal of PPP projects, a Public Sector Benchmark must be prepared. This Benchmark is a comprehensive risk-adjusted, whole life costing of a project under traditional procurement conditions.

Traditional procurement conditions assume that the State body undertaking a project is responsible for delivery of the project itself. In order to provide a measure by which to judge delivery of that same project using a PPP arrangement, projects to be awarded under a PPP arrangement must demonstrate that the winning tender betters the Public Sector Benchmark, i.e. that value for money will be provided to the Exchequer.

Detailed estimates of the base costs of the project, including both capital and operating costs over the whole life of the project, are calculated by reference to the project output specification. The life of a project is the construction period plus the proposed operating period which, in the case of a road, may be up to 30 years. In addition to base costs, all potential risks which the public sector would retain under traditional procurement conditions are identified and quantified. It is these risks which can, and frequently do, lead to an inability to deliver projects on time and on budget.

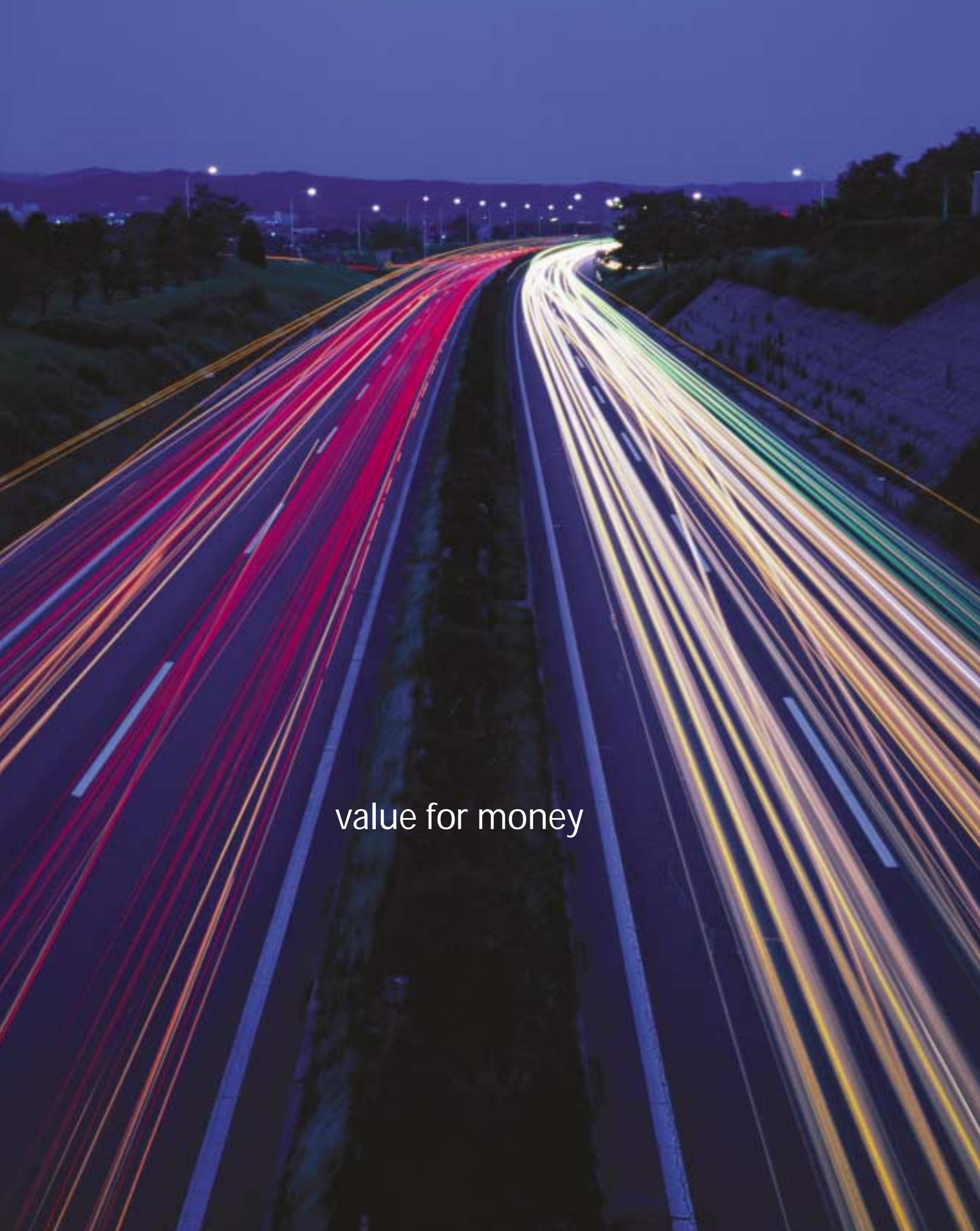
These project risks are typically classified under the following headings:

	<i>Example</i>
Planning Risk	<i>Archaeological Finds, Planning Permission</i>
Construction Risk	<i>Repositioning of Utilities</i>
Demand Risk	<i>Traffic Levels on a Toll Road</i>
Operating Risk	<i>Public Protest, Strikes</i>
Financial Risk	<i>Borrowing Costs Greater than Forecast</i>
Legal & Environmental Risk	<i>Ecologically Significant Habitat</i>

The Benchmark serves a number of key roles in the procurement of PPP projects:

- ❖ it facilitates a State Authority in making the case for a project to be undertaken as a PPP, as the Benchmark will form a core element of the business case. This is required before sanction will be given to enter into a public procurement bidding process;
- ❖ it is used by the Sanctioning Authority (usually the Department of Finance) as a basis for determining the overall limit on expenditure that will be allowed for the project; and
- ❖ it is used to evaluate tenders under the “Value for Money for the Exchequer” criterion.

In practice, the preparation of a Public Sector Benchmark involves the participation of the State Authority, as well as technical, engineering, construction, and other experts as appropriate to the relevant project, which will collectively arrive at their best estimates of the costs and likely risks. The role of the Agency is to conduct a financial and risk analysis of those estimates and to calculate the Benchmark, which is expressed as a single monetary figure.



value for money

Board

The Act provides that the Board of the Agency shall ensure that the functions of the Agency are being performed effectively, set the strategic objectives and targets, and ensure those objectives and targets are met.

The Board consists of a Chairperson and four ordinary members. Its ex-officio Chairperson is the Chief Executive Officer of the National Treasury Management Agency. The Minister for Finance appoints the ordinary members for a five-year term. The Board appoints one of its members, other than the Chairperson, to be Chief Executive Officer of the Agency.

The Chairperson and the Chief Executive Officer of the Agency are required to give evidence to the Committee of Public Accounts of Dáil Éireann. Such evidence covers the regularity and propriety of all transactions of the Agency, the economy and efficiency of the Agency, and the systems, procedures and practices employed by the Agency for purposes of evaluating the effectiveness of its operations. Evidence was given to the Committee on 29 April 2004.



moving ahead

Operating Environment

The Government's National Development Plan 2000-2006, the Programme for Government and the budget from December 2003 impact the operating environment of the Agency. These plans describe the factors that caused the infrastructural deficit that exists in Ireland, the State's capital expenditure plans and the rationale for the establishment of the Agency.

The State intends to invest significantly in infrastructure and has budgeted to spend in excess of €35 billion over the period 2004-2008. Consequently, there is a large number of capital investment projects either in train or expected to reach procurement stage shortly. Some of these projects will be developed using complex PPP structures. Of the €35 billion, approximately €3.6 billion will be funded either via PPPs (based on availability or other charges) or by the Agency. In addition, there is no upper limit on projects undertaken by means of public private partnerships where the PPP can be funded entirely by user charges. User charges typically take the form of tolls on roads.

Given the increasing level of capital expenditure by the State, the Agency expects an increasing level of demand for its financial advisory services and, potentially, financing. The Agency is developing its skill base and expanding its available resources in order to be in a position meet this demand.



deal flow

APPENDIX 1

LEGISLATIVE BACKGROUND

The National Development Finance Agency Act 2002 provides for:

- ❖ the establishment of the Agency to provide financial advice, and in certain cases funding, to State Authorities for priority infrastructure projects including public private partnerships, in order to achieve value for money;
- ❖ the performance of the functions of the Agency through the National Treasury Management Agency;
- ❖ the Agency to advise State Authorities on the optimal means of financing public investment projects, including all aspects of financing, refinancing and insurance;
- ❖ the obligation of State Authorities to seek the Agency's advice as soon as is practicable before undertaking a public investment project;
- ❖ the issue of Ministerial Guidelines; at present they provide that State Authorities must refer all capital investment projects costing in excess of €20 million to the Agency;
- ❖ the establishment by the Agency, with the prior written consent of the Minister for Finance, of special purpose companies in order to secure financing for public investment projects;
- ❖ the borrowing by the Agency, and any special purpose companies formed by it, of up to €5 billion in aggregate, subject to such guidelines as the Minister may issue;
- ❖ the advance by the Minister of up to €250 million from the Central Fund to the Agency or a special purpose company established by the Agency for the purposes of making an equity investment in a special purpose company;
- ❖ the advancement of moneys, including loans and equity, by the Agency to public investment projects;


- ⌘ the appointment of consultants and other advisers as necessary for the performance of the Agency's functions;
- ⌘ the ability of the Agency to acquire, hold and dispose of property and land;
- ⌘ the ability of State Authorities to transfer real or personal property to special purpose companies formed by the Agency;
- ⌘ the charging to the Central Fund of the administrative expenses of the Agency that are incurred in the performance of its functions;
- ⌘ the charging to the vote of the appropriate Department or Departments of expenses of the Agency that are incurred in the performance of its advisory functions in relation to specific public investment projects;
- ⌘ the charging of the expenses of the Agency, that are incurred in the performance of its financing functions, including payments of principal and interest, against repayments to the Agency on loans advanced by it or out of any surplus accruing to it;
- ⌘ the preparation of accounts by the Agency and the audit of such accounts by the Comptroller and Auditor General; and
- ⌘ the submission of these accounts and a report on the Agency's activities to the Minister within six months after the end of each financial year, such accounts to be laid before the Oireachtas.

APPENDIX 2

STATE AUTHORITIES

The Schedule to the National Development Finance Agency Act, 2002, and the subsequent Order by the Minister for Finance list the following bodies as State Authorities for purposes of the Act.

- ✦ A Minister of the Government
- ✦ A local authority
- ✦ The Commissioners of Public Works in Ireland
- ✦ The National Roads Authority
- ✦ The Railway Procurement Agency
- ✦ Córas Iompair Éireann
- ✦ A Health Board established under the Health Act, 1970
- ✦ The Eastern Regional Health Authority
- ✦ A university within the meaning of the Universities Act, 1997, other than Trinity College and the University of Dublin
- ✦ The Dublin Institute of Technology
- ✦ A college within the meaning of section 2 of the Regional Technical Colleges Act, 1992
- ✦ A vocational education committee within the meaning of section 7 of the Vocational Education Act, 1930
- ✦ Courts Service
- ✦ A harbour authority within the meaning of the Harbours Act, 1946 to 1976



acceleration

FINANCIAL STATEMENTS OF THE NATIONAL DEVELOPMENT FINANCE AGENCY FOR THE YEAR ENDED 31 DECEMBER 2003

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NATIONAL DEVELOPMENT FINANCE AGENCY BOARD MEMBERS AND OTHER INFORMATION

BOARD MEMBERS

Michael J. Somers – Chairman

Anne Counihan – Chief Executive Officer*

Ann Fitzgerald

Tony Jones

Peter McManamon

**Jim Farrell served as Chief Executive Officer from 1 January 2003 to his retirement from the Board on 19 December 2003. Anne Counihan was appointed Chief Executive Officer on that date.*

AUDITORS

Comptroller & Auditor General

Dublin Castle

Dublin 2

NATIONAL DEVELOPMENT FINANCE AGENCY STATEMENT OF AGENCY'S RESPONSIBILITIES

The Agency is required by the National Development Finance Agency Act, 2002 to prepare financial statements in respect of its operations for each financial year.

In preparing those statements, the Agency is required to:

- ❖ select suitable accounting policies and then apply them consistently;
- ❖ make judgements and estimates that are reasonable and prudent;
- ❖ prepare the financial statements on the going concern basis unless it is inappropriate;
- ❖ disclose and explain any material departure from applicable accounting standards.

The Agency is responsible for keeping in such form as may be approved by the Minister for Finance all proper and usual accounts of all moneys received or expended by it and for maintaining accounting records which disclose with reasonable accuracy at any time the financial position of the Agency.

The Agency is also responsible for safeguarding assets under its control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Michael J. Somers

Chairman

National Development Finance Agency

12 May 2004



Anne Counihan

Chief Executive Officer

National Development Finance Agency

NATIONAL DEVELOPMENT FINANCE AGENCY STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

RESPONSIBILITY FOR SYSTEM OF INTERNAL FINANCIAL CONTROL

On behalf of the National Development Finance Agency ("the Agency"), we acknowledge the responsibility for ensuring that an effective system of internal financial control is maintained and operated.

The system can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely period.

KEY CONTROL PROCEDURES

In accordance with Section 11 of the National Development Finance Agency Act, 2002 the Agency performs its functions through the National Treasury Management Agency.

The Agency has taken steps to ensure an appropriate control environment by:

- ∴ clearly defining management responsibilities;
- ∴ establishing formal procedures for reporting significant control failures and ensuring appropriate corrective action.

The Agency has established processes to identify and evaluate certain risks by:

- ❖ identifying the nature, extent and financial implication of risks facing the Agency including the extent and categories which it regards as acceptable;
- ❖ assessing the likelihood of identified risks occurring;
- ❖ assessing the Agency's ability to manage and mitigate the risks that do occur;
- ❖ assessing the costs of operating particular controls relative to the benefit obtained.

The system of internal financial control is based on a framework of regular management information, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes:

- ❖ a comprehensive budgeting system for the administration costs of the Agency ;
- ❖ regular reviews of periodic and annual financial reports which compare financial performance against forecasts;
- ❖ setting targets to measure financial and other performance;
- ❖ formal management disciplines.

The Agency has an internal audit function, which operates in accordance with the Framework Code of Best Practice set out in the Code of Practice on the Governance of State Bodies. The work of internal audit is informed by analysis of the operational risks to which the Agency is exposed, and annual internal audit plans are based on this analysis. At least annually, the Internal Auditor provides the Agency with a report of internal audit activity. The report includes the Internal Auditor's opinion on the adequacy and effectiveness of the system of internal financial control.

The Agency's monitoring and review of the effectiveness of the system of internal financial control is informed by the work of the internal auditor (currently PricewaterhouseCoopers), the executive managers within the Agency who have responsibility for the development and maintenance of the financial control framework, and comments made by the Comptroller and Auditor General in his management letter or other reports.

ANNUAL REVIEW OF CONTROLS

For the year ended 31 December 2003, the Internal Auditor has conducted a review of the effectiveness of the system of internal financial controls and has reported this to the Chief Executive, National Treasury Management Agency who is also the Chairman of the NDFA Board. No issues arose in the review by the Internal Auditor.



Michael J. Somers
Chairman
National Development Finance Agency



Anne Counihan
Chief Executive Officer
National Development Finance Agency

12 May 2004

NATIONAL DEVELOPMENT FINANCE AGENCY REPORT OF THE COMPTROLLER AND AUDITOR GENERAL FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

I have audited the financial statements on pages 8 to 14 under Section 20 of the National Development Finance Agency Act, 2002.

RESPECTIVE RESPONSIBILITIES OF THE BOARD AND THE COMPTROLLER AND AUDITOR GENERAL

The accounting responsibilities of the members of the Board are set out on page 4. It is my responsibility, based on my audit, to form an independent opinion on the financial statements presented to me and to report on them.

I review whether the statement on pages 5 and 6 reflects the Agency's compliance with applicable guidance on corporate governance and report any material instance where it does not do so, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements.

BASIS OF AUDIT OPINION

In the exercise of my function as Comptroller and Auditor General, I conducted my audit of the financial statements in accordance with auditing standards issued by the Auditing Practices Board and by reference to the special considerations which attach to State bodies in relation to their management and operation.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In my opinion, proper books of account have been kept by the Agency and the financial statements, which are in agreement with them, give a true and fair view of the state of affairs of the National Development Finance Agency at 31 December 2003 and of its income and expenditure for the year then ended.

A handwritten signature in black ink, appearing to read 'John Purcell', with a large, stylized initial 'J'.

John Purcell

Comptroller and Auditor General

27 May 2004

NATIONAL DEVELOPMENT FINANCE AGENCY ACCOUNTING POLICIES

The National Development Finance Agency was established by order of the Minister for Finance on 1 January 2003 under the National Development Finance Agency Act, 2002. The significant accounting policies adopted in respect of the National Development Finance Agency are as follows:

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the National Development Finance Agency Act, 2002 in a format approved by the Minister for Finance.

The financial statements summarise the transactions and financial position of the National Development Finance Agency.

REPORTING PERIOD

The reporting period is the year ended 31 December 2003.

REPORTING CURRENCY

The reporting currency is the euro, which is denoted by the symbol €.

INCOME RECOGNITION

Income is accounted for on an accruals basis.

EXPENSES

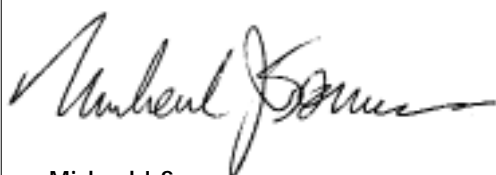
Expenses are accounted for in the year in which they fall due.

Expenses incurred in respect of the administration of the Agency are charged to the Administration account.

Fees and expenses incurred in respect of the Agency's financing and advisory functions are charged to the Income and Expenditure account.

**NATIONAL DEVELOPMENT FINANCE AGENCY
INCOME & EXPENDITURE ACCOUNT FOR THE
YEAR-ENDED 31 DECEMBER 2003**

	Notes	2003 €
Income	1	31,500
Transfer to Administration Account	2	(31,500)
Net Income for the period		<u>00</u>



Michael J. Somers
Chairman
National Development Finance Agency

12 May 2004

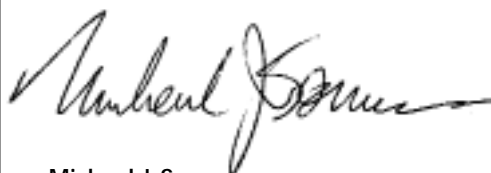


Anne Counihan
Chief Executive Officer
National Development Finance Agency

The statement of accounting policies and notes 1 to 9 form part of these accounts.

**NATIONAL DEVELOPMENT FINANCE AGENCY
ADMINISTRATION ACCOUNT FOR THE YEAR-ENDED
31 DECEMBER 2003**

	Notes	2003 €
Transfer from Income & Expenditure Account	2	31,500
Administration expenses of Agency	3	(31,500)
Net income\ (expenditure)		<u>Nil</u>



Michael J. Somers
Chairman
National Development Finance Agency

12 May 2004

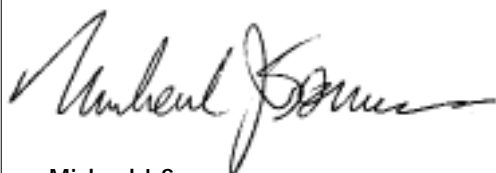


Anne Counihan
Chief Executive Officer
National Development Finance Agency

The statement of accounting policies and notes 1 to 9 form part of these accounts.

**NATIONAL DEVELOPMENT FINANCE AGENCY
BALANCE SHEET 31 DECEMBER 2003**

	Notes	2003 €
Assets		
<i>Debtors</i>	4	<u>1,500</u>
Liabilities		
<i>Creditors</i>	5	<u>1,500</u>
Total Assets less Liabilities		<u>Nil</u>
Representing		
<i>Accumulated Reserves</i>	6	<u>Nil</u>



Michael J. Somers
Chairman
National Development Finance Agency

12 May 2004



Anne Counihan
Chief Executive Officer
National Development Finance Agency

The statement of accounting policies and notes 1 to 9 form part of these accounts.

NATIONAL DEVELOPMENT FINANCE AGENCY NOTES TO THE ACCOUNTS

1.	Income	2003 €
	Central Fund	<u>31,500</u>
2.	Transfer to Administration Account from Income & Expenditure Account This amount of €31,500 represents the amount required to cover the administration costs of the Agency.	
3.	Administration Expenses The Administration expenses of the Agency are detailed below on an accruals basis:	
		2003 €
	Fees & Expenses of Board	30,000
	Audit Fees	1,500
		<u>31,500</u>

In addition to the above expenses, the administrative costs incurred by the National Treasury Management Agency in the performance of the Agency's functions amounted to €1,528,988. These costs are included in the expenses of the National Treasury Management Agency and are charged on the Central Fund and are excluded from the above.

4. Debtors	2003
	€
Central Fund	1,500
	<hr/>
5. Creditors	2003
	€
Accrued Expenses	1,500
	<hr/>
6. Accumulated Reserves	2003
	€
Net income for the period	-
	<hr/>
Closing balance	Nil
	<hr/>

7. Contingent liabilities

The National Development Finance Agency had no contingent liabilities at 31 December 2003.

8. Related parties**Minister for Finance**

The members of the Board of the National Development Finance Agency as given on page 3, were appointed by the Minister for Finance under section 12 of the Act.

Under section 7 of the Act the Minister may guarantee the repayment of borrowings of the Agency or any special purpose company formed by the Agency in the performance of its activities. No such guarantees have been given during the period.

9. Approval of Financial Statements

The financial statements were approved by the Board on 12 May 2004.



National Development Finance Agency,
Treasury Building, Grand Canal Street,
Dublin 2, Ireland

Telephone 353 1 664 0800
Facsimile 353 1 676 6582

Email info@ndfa.ie
Web www.ndfa.ie



National Development
Finance Agency