



National Treasury Management Agency

NATIONAL TREASURY MANAGEMENT AGENCY

Press Release

Results for the Year 2006

www.ntma.ie

The information within is based on bond prices quoted on the Irish Stock Exchange on 29 December 2006 and, in the case of foreign exchange, on rates notified by the Central Bank as of close of business on 29 December 2006. Data in respect of the National Pensions Reserve Fund are, in the case of direct quoted investments, based on valuations as of close of business on 28 December as markets had not yet closed on 29 December at the time of issue of this statement and, in the case of property, private equity, emerging markets, currency and other indirect investment vehicles, based on the most recently available valuations. All figures in this statement are preliminary. Unless indicated otherwise, all figures are in euro. Debt ratios are based on Department of Finance Budget 2007 estimates for EBR and CSO figures for GDP and GNP.

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1. HIGHLIGHTS 2006

OVERALL

- **With an expected budget surplus for 2006 in the order of €2 billion, rather than the earlier estimated deficit of €3 billion, as well as strong gains on the National Pensions Reserve Fund, the State is better off by €7 billion more than might have been expected at the beginning of 2006; this brings the improvement over the last two years to €12 billion.**
- **The National Debt at close of business today – at close to €36 billion - will have fallen in absolute terms for the first time since 2001 and dropped to its lowest level since that date.**
- **Total debt service savings were €71 million.**
- **The combined total of asset and liability portfolios managed by the NTMA is up to almost €60 billion.**
- **Gross cashflows through the NTMA in 2006, at almost €80 billion, were equivalent to around four times Ireland's GNP.**
- **The net Exchequer profit on the National Pensions Reserve Fund for 2006 was €1.6 billion, bringing the profit to date to €3 billion (the total NPRF gain to date is €5.3 billion).**
- **New functions have been assigned to NTMA.**

NATIONAL DEBT

- **The State's balance sheet continues to improve. The National Debt, less the National Pensions Reserve Fund and other funds managed by the NTMA, is now equivalent to less than four months' tax revenue (down from six and a half months at end 2005). When the NTMA was established in 1990, it took over three months' tax revenue just to pay the interest on the debt.**

- The General Government Debt/GDP ratio dropped again – to 25.1 per cent at end 2006 (from 27.4 per cent at end 2005) and continues to be one of the lowest in the EU.
- Deducting the value of the National Pensions Reserve Fund and other funds managed by the NTMA would give an even lower Net Debt/GDP ratio of around 12.7 per cent at end 2006 (16.3 per cent at end 2005).
- Based on the Department of Finance estimated surplus of €1.854 billion (which includes substantial cheques in transit), the National Debt at end 2006 would decrease to €36.3 billion (see Appendix I). However, the latest figures available indicated an Exchequer surplus of €2.8 billion at close of business last night (see Appendix II).
- Interest payments on the Debt were €1,859 million. Interest costs are 3 per cent of tax revenue, about a sixth of the figure 10 years ago when the interest bill was 18 per cent of tax revenue. This reduction in the interest burden has freed up substantial resources which the Government can use for other purposes.
- Foreign investors hold 84 per cent of Irish Government bonds, up sharply from 22 per cent at end 1998, just before the introduction of the euro.
- Ireland's benchmark bonds trade at virtually the same cost as Germany and France, who are viewed as the benchmark borrowers. As a result of the strength of the public finances, no new bond issues or auctions of existing bonds were necessary during 2006.
- Bond yields at end 2006 were:

3¼% Treasury Bond 2009	3.90%
5% Treasury Bond 2013	3.92%
4.6% Treasury Bond 2016	3.95%
4½% Treasury Bond 2020	4.03%

- At end 2006, 88 per cent of the National Debt carried fixed rates of interest. The high level of fixed interest debt is a result of the policy of locking in long-term borrowing at historically low levels of interest, thus protecting the Exchequer against the effects of rising interest rates. The remaining 12 per cent relates to retail savings schemes.
- Exchange rate risk has been eliminated from the National Debt, as all of the debt is now denominated in, or swapped into, euro.
- Government retail savings schemes raised net additional funds of €19 million in 2006. This takes account of the repayment of €40 million to holders of maturing Special Savings Incentive Accounts with An Post.
- The credit rating agencies continue to regard Irish Government debt as among the best in the world. Moody's, Standard & Poor's, Fitch and Rating & Investment Information Inc. have all reaffirmed Ireland's top AAA long-term credit rating within the last three months.

OTHER NTMA FINANCIAL ACTIVITIES

- The NTMA has borrowed on behalf of the Housing Finance Agency (HFA) since February 2003. Such borrowings averaged €1.57 billion in 2006. Turnover in 2006 was €31.6 billion.
- The Central Treasury Service continues to provide health, education and local government authorities with a competitive alternative to the banking industry for both borrowing and lending. An average of €50 million in loans and €55 million in deposits was outstanding during 2006.
- The NTMA manages the assets of the Social Insurance Fund on behalf of the Department of Social and Family Affairs. The total assets under management by the NTMA were €2.7 billion at end 2006, up by €600 million from end 2005.
- The NTMA manages the assets of the Dormant Accounts Fund, which came to €11.3 million at end December 2006 (€104.4 million at end 2005). Some €80.1 million in respect of dormant accounts was transferred to the Fund by financial

institutions and life assurance companies in 2006, while €44.6 million of previously dormant funds was reclaimed. Disbursements from the Fund amounted to €33.3 million during the year.

- The NTMA manages those assets of the National Pensions Reserve Fund invested in bonds under the terms of a mandate from the NPRF Commission. This bond portfolio has made €500 million since inception and now stands at €1.8 billion. The Fund's cash balances, currently €900 million, are also managed by the NTMA under terms agreed by the Commission.

The foreign exchange transactions required by the NPRF for its investments in non-euro assets and for the execution of the Fund's long-term strategic hedging strategy (but not those for the Fund's active foreign currency exposure management – see page 12) are executed by the NTMA. Turnover on these activities in 2006 amounted to over €32 billion.

- The NTMA manages the balance in the Exchequer Account at the Central Bank in support of the European Central Bank's (ECB) overall liquidity management operations. The 2006 turnover in ECB liquidity management operations was €229 billion, while the average daily transaction size was €620 million.
- The Exchequer account is estimated to have €3.5 billion on deposit with the Central Bank at end 2006.

STATE CLAIMS AGENCY

- Currently, the State Claims Agency (SCA) is managing 3,900 claims, of which 1,300 relate to clinical negligence claims against hospitals and health enterprises. The total outstanding reserve against all claims amounts to approximately €85 million, comprising:

Employer Liability, Public

Liability and Property Damage	€112 million	(40%)
Clinical Claims	€173 million	(60%)

- In 2006, 1,360 new claims were lodged with the SCA.

- **Up to the end of 2006, the SCA has resolved approximately 2,900, or 42 per cent of all claims received since inception (2001), at a cost of approximately €37 million.**
- **2006 was the first full year of managing the additional classes of claims delegated in September 2005, particularly claims of child sexual abuse and the residual of hearing loss claims from members of the Defence Forces.**
- **Notwithstanding an underlying downward trend in employer liability and public liability claims, the number of claims managed by the SCA has increased because of the additional classes of claims delegated.**
- **72 per cent of all claims involve the Prison Service, An Garda Síochána and the Defence Forces.**
- **The level of clinical negligence claims remains unchanged – claims disposed of approximately equalling new claims received.**
- **Approximately 60 per cent of all clinical negligence claims, by reserve value, relate to obstetrics.**
- **A comprehensive programme of risk initiatives across all the State authorities was undertaken in 2006. In particular this included:**
 - **an audit of the health and safety management system in the Defence Forces,**
 - **the implementation of the recommendations of an SCA report on the management of risk in the Irish Prison Service,**
 - **the establishment of risk management liaison groups with An Garda Síochána and the Office of Public Works,**
 - **a series of training and seminars for schools and Government Departments,**
and
 - **the appointment of a team of clinical risk advisors to advise healthcare institutions on their risk management activities and structures.**

NATIONAL DEVELOPMENT FINANCE AGENCY (NDFA)

- **The NDFA was established on 1 January 2003 to provide financial advice to State Authorities undertaking major infrastructure projects, whether by means of Public Private Partnership (PPP) or traditional procurement. To date, 105 projects have been referred to it with a total capital investment of some €20 billion. The NDFA has completed its advice to date in relation to 28 projects with a capital value of €3.3 billion, 15 of which were Public Private Partnerships (PPPs) which involved significant financing from the private sector.**

- **In 2006, the NDFA completed its advice in relation to six projects, four of which are PPPs:**
 - **The N25 Waterford Bypass (total cost: €600m) - the contract was awarded in April 2006 and the target completion date is August 2010.**
 - **The Limerick Tunnel PPP Scheme (total cost: €400m) - the contract was awarded in August 2006. The target completion date is September 2010.**
 - **Greystones Harbour (total cost: €200 million) – the contract is expected to be awarded in early 2007 and the scheme is anticipated to be completed by 2012.**
 - **Jamestown Road (capital value: €45 million) – this is a Design, Build Finance PPP regeneration project which comprises 240 affordable and 60 private houses. The contract was signed with the preferred bidder in December 2006.**

The NDFA also completed its advice in relation to two non-PPPs:

- **Midlands Prison – the NDFA advised on the refinancing of the outstanding loans (€37 million) in respect of this project. The refinancing was executed in December 2006 via a supplementary issue to the Justice vote.**
 - **Horse Racing Ireland – (€15 million) the NDFA advised on the optimal funding arrangements in respect of capital projects being undertaken by Horse Racing Ireland.**
-
- **The NDFA continues to provide financial advice on a number of high profile projects. Among these are transport projects such as the Metro North PPP Project, the M3 Cavan to Dublin (Clonee Kells) and the N6 Galway to East Ballinasloe. The NDFA is working closely with Dublin City Council to deliver a**

number of Social and Affordable Housing Regeneration schemes including O'Devaney Gardens, a very imaginative and innovative scheme that is shortly reaching contract close. A number of other Design, Build and Finance PPP housing schemes are at various stages of procurement including: St. Michael's Inchicore, Bridgefoot Street, Dominick Street, St. Teresa's Gardens, North Fringe and Croke Villas, all of which combined are expected to deliver over 690 social and 550 affordable houses. The NDFA is also acting as financial and risk advisor on two major civic landmark building projects - the Criminal Courts Complex and the National Conference Centre, both of which have reached the final stages of negotiations and are expected to close imminently. Other projects which are progressing well and on which the NDFA is acting as financial advisor include Lansdowne Road Stadium Reconstruction, Digital Radio for Blue Light Services, Waterford Grouped Towns & Villages Sewerage Scheme and South Eastern Region Waste Project, various water projects and the redevelopment of Bray Harbour in County Wicklow. Two of the new PPP projects recently referred to the NDFA include the National Concert Hall and the Abbey Theatre.

- In July 2005, the Government announced a major new initiative aimed at accelerating the delivery of PPPs for key capital infrastructure projects. It involves the expansion of the NDFA to include a "Centre of Expertise" which is responsible for the delivery of PPP projects. This has extended the role of the NDFA from being financial advisor to being responsible for all aspects of procurement and delivery in these sectors. The Government recently published a bill amending the NDFA Act 2002 in respect of the new functions. Earlier this month the Bill passed all stages in the Seanad and is scheduled to go before the Dáil in early February.
- Since the announcement in July 2005, the NDFA, through the "Centre of Expertise", has already made huge progress on some €1 billion worth of projects within the Education, Justice and Health sectors. These projects include a second bundle of schools, Thornton Hall Prison and the Radiation Oncology Centres.

NATIONAL PENSIONS RESERVE FUND

- The Fund grew by €3,458 million (including the Exchequer contribution of €1,446 million) from €15,419 million at end 2005 to €18,877 million at 28 December 2006.
- The Fund earned a return of €2,012 million or 12.3 per cent from 1 January to 28 December 2006 driven, in particular, by strong returns on its European equity investments.
- 2006 represents the fourth successive year of strong returns on the Fund's investments. Its annualised return now stands at 6.5 per cent since its inception in April 2001.
- The Fund currently holds shares in approximately 2,250 quoted companies worldwide. It holds 161 debt securities. It also has investments in 22 property investment vehicles, 18 private equity investment vehicles and 8 specialised investment products (including currency funds, emerging markets funds and commodity certificates).
- The Fund's value at 28 December 2006 was equivalent to 12.7 per cent of GNP.
- During 2006, the Fund invested €16 million in two pooled currency funds in order to introduce a limited amount of active management to its foreign currency exposure (50 per cent of which is hedged on a long-term strategic basis). The net effect of the active funds will be to vary the level of the overall hedge between 40 per cent and 60 per cent of foreign currency exposure in the light of short-term market conditions.
- In April 2006, the Fund joined a group of the world's largest institutional investment funds in signing the UN-sponsored Principles for Responsible Investment. The aim of the Principles is to integrate the consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices and thereby improve long-term returns. Actions that the Fund is currently taking to implement the Principles include the development and implementation of a comprehensive proxy voting policy and development of an engagement capacity with investee companies on ESG issues.

The Fund has decided to contract third party service providers to deliver these services within policy guidelines to be determined by the Commission. A request for tenders in this regard will be issued shortly and it is anticipated that the proxy voting and engagement services will be in place by Spring 2007.

National Pensions Reserve Fund		
Summary Asset Allocation – 28 December 2006		
	€m	%
Quoted Equity Investments	14,490	76.8
Private Equity	109	0.5
Property	525	2.8
Commodities	240	1.3
Bonds	2,517	13.3
Currency Funds	120	0.6
Cash*	876	4.7
Total	18,877	100.0

* Includes fx hedge.

NEW FUNCTIONS FOR NTMA ETC.

- Establishment of a “Centre of Expertise” to streamline the procurement of PPP projects, initially in the Departments of Education and Science, Health and Children, and Justice, Equality and Law Reform and assignment of this procurement function to NDFA. The National Development Finance Agency (Amendment) Bill 2006, which puts the “Centre of Expertise” on a statutory footing, was published on 21 November 2006.
- NTMA has been appointed as agent for the State with responsibility for the purchase of carbon credits required to meet Ireland’s obligations under the Kyoto Protocol. The Government has introduced into the Dáil the Carbon Fund Bill 2006 which provides for the establishment of the Carbon Fund and designates NTMA as purchase agent.
- Management of the foreign currency requirements (about €100 million per annum) of the Department of Foreign Affairs. This will be carried out on a non-statutory basis pending the enactment of legislation.

- **Management of the assets of the Education Finance Board Fund. The Board was established on 15 February 2006 under Section 23 of the Commission to Inquire into Child Abuse (Amendment) Act 2005. The Fund which the Board has at its disposal is managed by the NTMA pending its disbursement by the Board. The balance in the Fund at 31 December 2006 was close to €10 million.**
- **In July 2006, the Department of Finance requested the NTMA to undertake a review of the treasury management and banking arrangements of the Health Service Executive. The review commenced in September and a report was presented to the Department of Finance in December 2006.**
- **The Health Bill 2006, which provides for the establishment of the Health Information and Quality Authority, includes a provision whereby the NTMA may, at the request of the Health Service Executive, manage moneys in patients' private property accounts on terms agreed with the HSE.**
- **Staff numbers in the National Treasury Management Agency grew during the year from 104 to 125. This occurred mainly in the State Claims Agency and in the National Development Finance Agency. Most recruitment was of experienced professionals but a small number of graduates was also recruited across the businesses.**

2. GENERAL GOVERNMENT DEBT/NATIONAL DEBT

The nominal value of the debt as traditionally measured domestically (the National Debt) is calculated net of Exchequer cash balances and is estimated to be €36.3 billion* at end 2006; this is €1,855 million lower than the end 2005 level of €38.2 billion. The projected Exchequer Surplus of €1,854* million accounts for virtually all of the decrease in the Debt. See Appendix I.

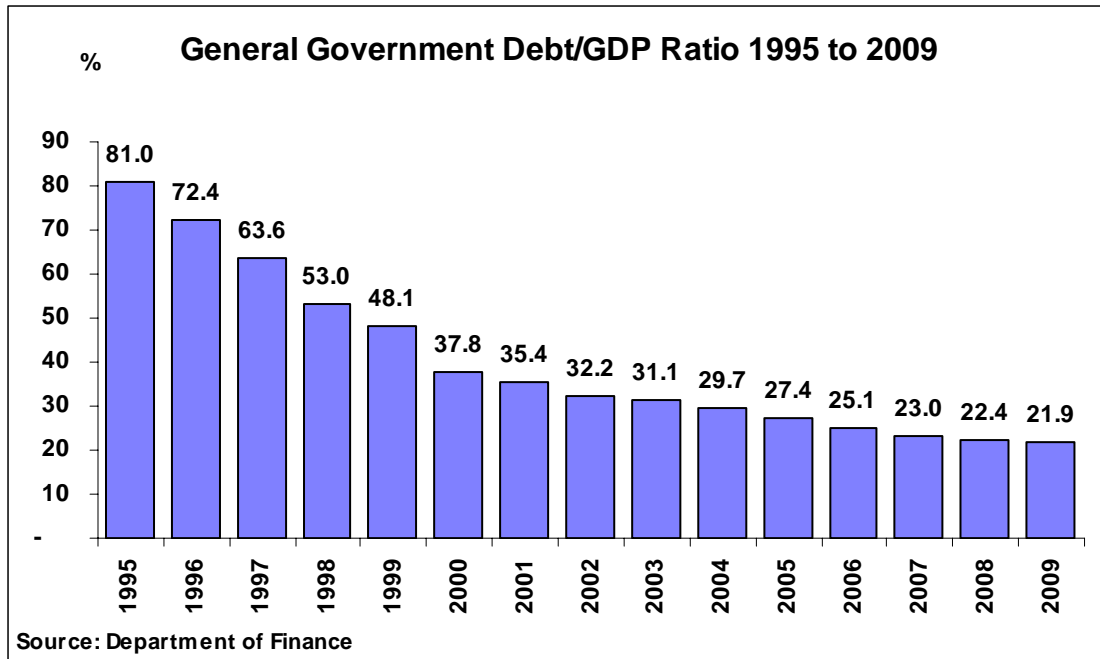
The National Debt/GNP ratio fell from 28.1 per cent at end 2005 to 24.4 per cent at end 2006. Approximately one third of the decrease in the ratio is due to the Exchequer Surplus; the balance is as result of the increase in nominal GNP.

General Government Debt (GGD) is the definition used for comparative purposes within the European Union. The National Debt is its principal component. Unlike the National Debt, the GGD does not allow any offset for Exchequer cash balances. In addition, GGD includes Local Government debt, certain extra-budgetary funds and the accrued interest not provided for in respect of the retail savings schemes.

The GGD is estimated at €44.1 billion* at end 2006, a decrease of €0.1 billion on 2005.

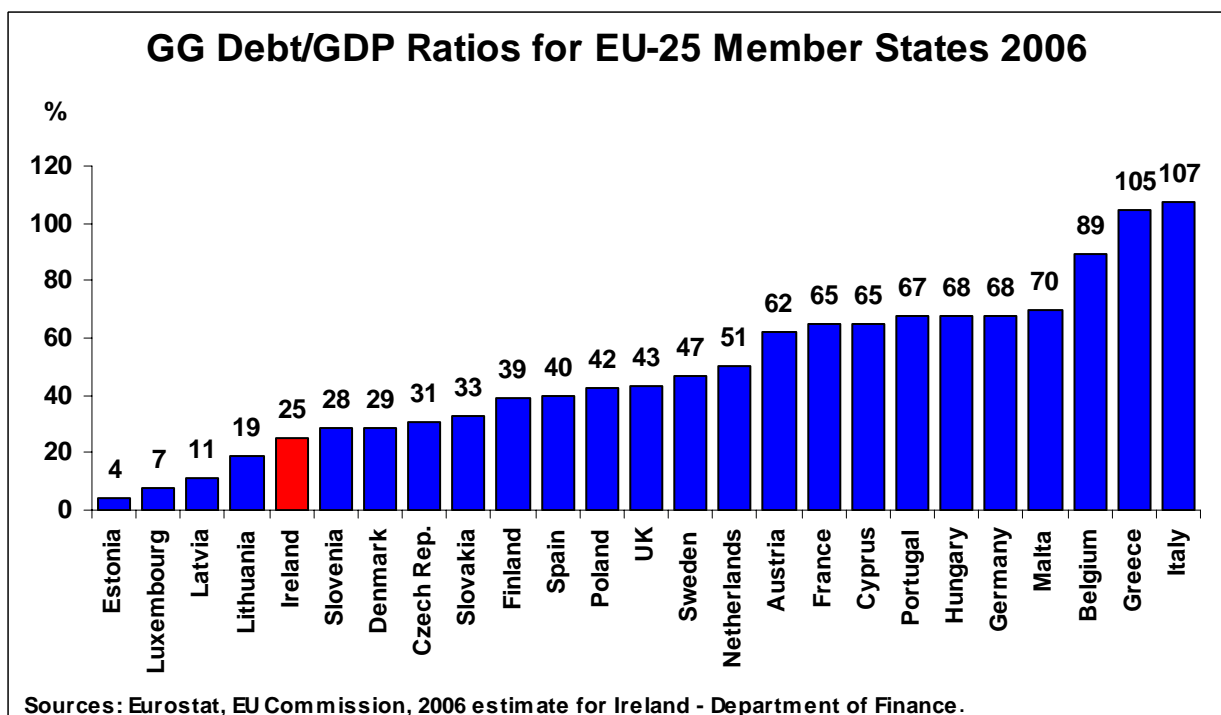
The GGD/GDP ratio also fell during 2006 – from 27.4 per cent at the end of 2005 to an estimated 25.1 per cent at end 2006. The decrease in the ratio was mainly as a result of the growth in nominal GDP this year.

* Source: Department of Finance

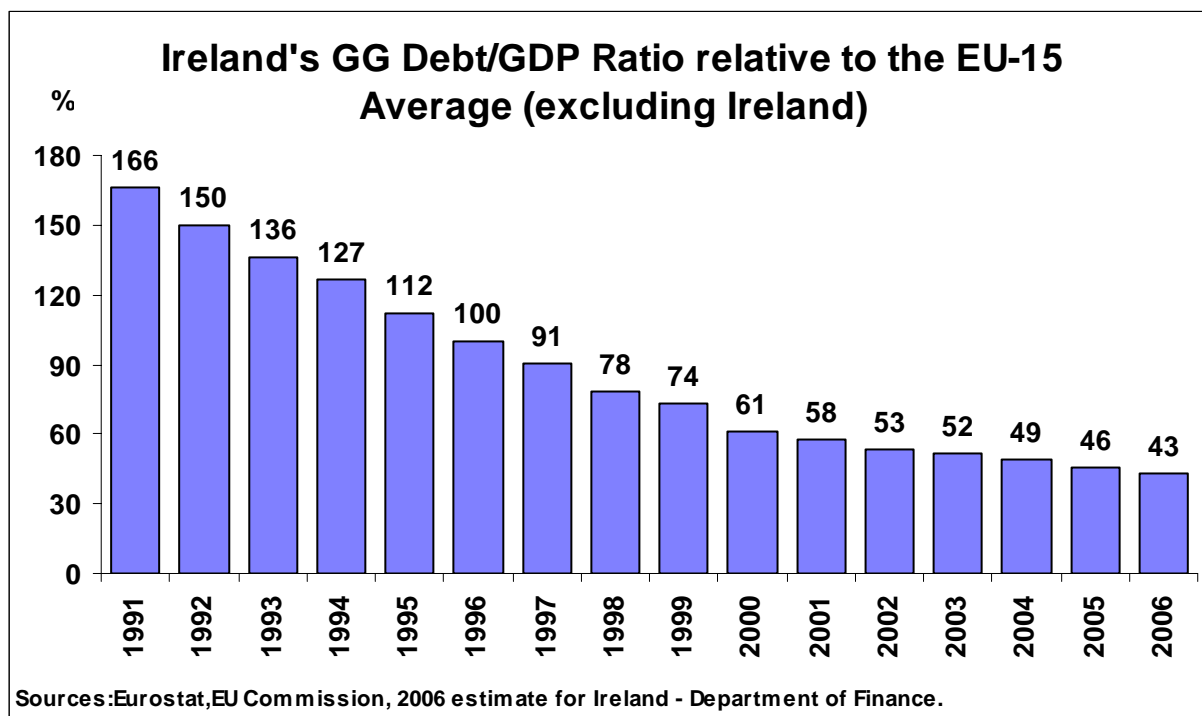


The budgetary outlook projects that GGD/GDP ratio will continue to fall steadily in the coming years from 25.1 per cent in 2006 to 21.9 per cent in 2009.

Ireland has one of the lowest levels of indebtedness relative to GDP among the 25 EU Member States; a comparison of Ireland's GGD/GDP ratio with these countries is set out below.



Ireland's GGD/GDP ratio has fallen to 43 per cent of the EU-15 average (excluding Ireland) at end 2006, contrasting sharply with a ratio of 166 per cent in 1991. The full time-series is not available for the 10 EU accession states which joined in 2004.



3. DEBT SERVICE COSTS

Interest paid by the Exchequer on the National Debt in 2006 came to €1,859 million. A further €243 million was paid from the Small Savings Reserve Fund. The Fund was built up since 1994 through charges on the Exchequer to meet some of the accrued interest on the retail savings schemes which would be paid out in large amounts in future years.

The interest bill was €71 million less than in the Budget, due to lower borrowings than anticipated and favourable interest rates as well as certain debt management initiatives. The Minister for Finance approved that €50 million of these savings could be used to reduce the drawdown from the Small Savings Reserve Fund. The balance in the Small Savings Reserve Fund at end 2006 is €582 million, or some 55.2 per cent of the estimated interest liability accrued but not yet paid on the retail savings schemes.

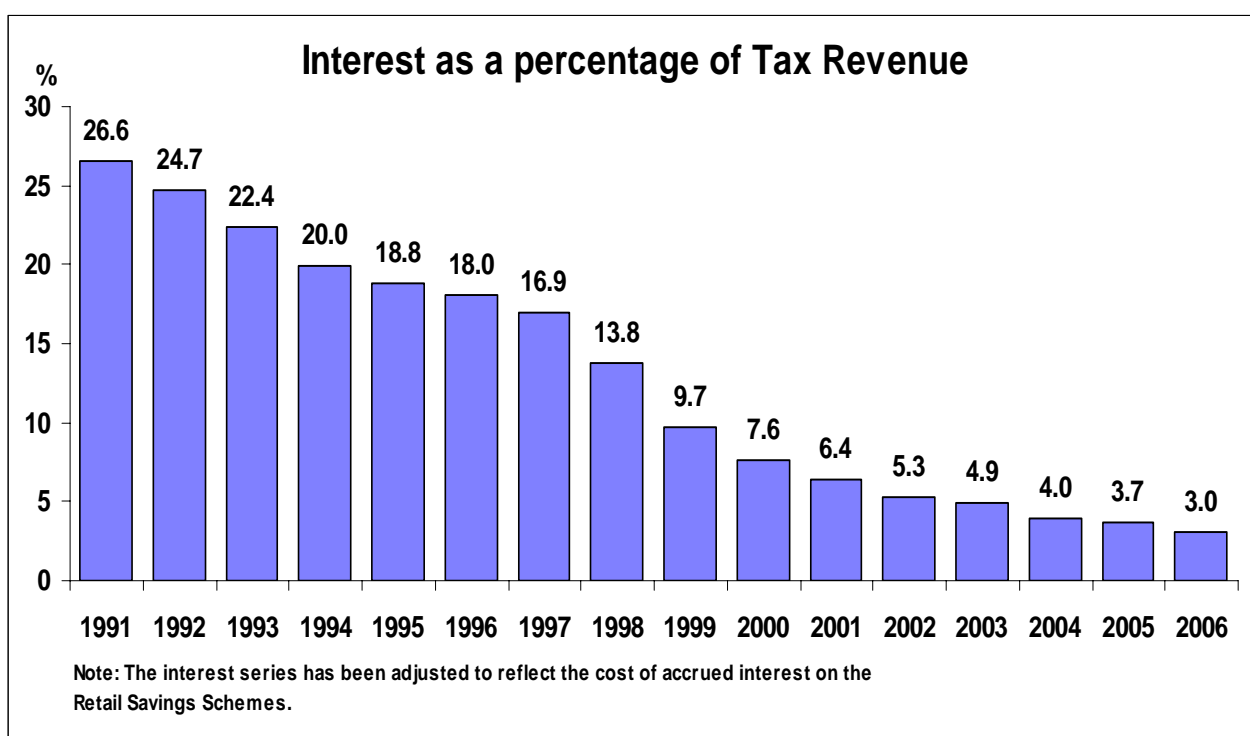
Other items charged to Debt Service Costs included Sinking Funds of €470 million (this is in effect a technical charge on the current budget which is also reflected as a receipt in the capital budget) and fees and administration expenses of €49 million.

The relevant figures are illustrated below.

ANALYSIS OF DEBT SERVICE OUTTURN RELATIVE TO BUDGET	
	(€million)
Budgeted Exchequer Debt Service Expenditure	2,400
Actual Exchequer Debt Service Expenditure	<u>2,379</u>
Total Favourable Variance from Budget	21
Debt Service Savings used to reduce	
Small Savings Reserve Fund drawdown	<u>250</u>
Total Debt Service Savings	<u>271</u>

Debt Service Burden

Only 3.0 per cent of tax revenue is now needed to pay interest on the National Debt, compared to 26.6 per cent in 1991. Interest costs have fallen from 8.4 per cent of GNP in 1991 to 0.9 per cent in 2006.



The average interest cost of servicing the National Debt has fallen substantially from 8.7 per cent in 1991 to 3.5 per cent in 2006, due to the downward trend in global interest rates, Ireland's improved credit ratings, NTMA's debt management initiatives and Ireland's participation in the eurozone.

4. FUNDING AND DEBT MANAGEMENT

Irish Government Bonds

Irish Government bonds continued to trade in the markets in 2006 at virtually the same, or sometimes lower, levels than the euro area benchmark bonds issued by Germany and France. Ireland has 5 major benchmark bonds with maturities across the yield curve from approximately one year to thirteen years. The amount outstanding in each of these bonds exceeds €5 billion, ensuring that liquidity is continuous and deep. Due to the very strong performance of the public finances during the year, the NTMA decided not to hold any bond auctions in 2006.

Foreign investors hold the vast bulk of Irish Government bonds, with only 16 per cent held by domestic investors. The bonds have moved substantially into the hands of international investors since the introduction of the euro. Non-resident holdings have increased from 22 per cent of the total outstanding at end-1998, just before the introduction of the euro, to 84 per cent in 2006. This increase has occurred against a backdrop of an increase of more than 50 per cent in the amount of bonds outstanding over the same period.

The keen foreign demand for Irish Government bonds continues to be underpinned by the strength of the public finances, as exemplified by the long record of surpluses on the General Government budget and the declining debt to GDP ratio, which is now at 25.1 per cent – among the lowest in the EU. The overall position is even better when account is taken of the €18.9 billion in the National Pensions Reserve Fund. All the major rating agencies continued to be very positive in their assessment of the Irish credit rating in 2006, as reflected in their confirmation, with a stable outlook, of Ireland's top long-term and short-term credit ratings.

The NTMA played an active role in the repo market during the year, by providing repo and reverse repo facilities to the Primary Dealers. Overall the NTMA's repo activity amounted to €24 billion. This activity contributed to the smooth and efficient operation of the market for all investors and was a useful source of market intelligence for the NTMA.

Over the years the NTMA has been active in buying back old illiquid off-the-run Irish Government bonds whenever opportunities have arisen in the markets. The opportunities for such buybacks are now very limited as the volume of illiquid off-the-run bonds has been greatly reduced by previous years' buyback activity. Nevertheless, some €5.8 million was bought back in this way in 2006.

In 2006, bond yields began at relatively low levels by historical standards – the German 10 year bond opened at 3.33 per cent. After an initial rally, yields began to drift upwards in response to ECB interest rate increases, reaching a high of 4.14 per cent in July. From that time, 10 year yields have settled into a range between 3.70 per cent and 3.95 per cent as the market has continued to speculate on the ECB's possible monetary policy actions for 2007 and beyond.

Short Term Paper

Over the course of the year there was considerable activity in the NTMA's short term paper programmes, particularly in the Section 69 Notes and Exchequer Note programmes, to fund short-term cash requirements. Turnover was €6 billion. The strong Exchequer position in 2006, with buoyant tax revenues and a lower than expected budget deficit, has resulted in the very low levels of short term paper outstanding at the end of the year – just over €100 million.

Government retail savings schemes

In 2006, the Government retail savings schemes attracted net additional funds of €19 million. This takes account of some €40 million repaid from Special Savings Incentive Accounts (SSIAs) operated on behalf of NTMA by An Post. These accounts began to mature in May 2006, though the majority will not expire until early 2007.

New money received into SSIAs in 2006 amounted to €2 million. The balance of the funding was made up of a net inflow of €9 million into the Post Office Savings Bank,

net investment of €8 million in Prize Bonds and net investment of €140 million in the other savings products (i.e. Savings Certificates, Savings Bonds and Instalment Savings). The total outstanding in the Government retail savings schemes is now over €6.4 billion, representing almost 18 per cent of the National Debt, up from 16 per cent at end 2005.

During 2006, the upper limits on the amount that may be invested in Savings Certificates and Savings Bonds were increased by 50 per cent. The new limits are €20,000 for individual holdings of each product and €240,000 for joint holdings.

Central Treasury Service

The Central Treasury Service (CTS) operated by the NTMA, takes deposits from, and makes advances to, health and education authorities and local government. The objective of the service is to provide these bodies with a competitive alternative to the banking industry for their treasury business and thereby make savings for the Exchequer.

During 2006, lending to designated bodies, both long-term and short-term, averaged approximately €50 million, while the deposit base remained strong throughout. There were 781 deposits placed with the CTS during the year, with average balances of €55 million.

Management of the Assets of the Social Insurance Fund

In 2006, the Department of Social and Family Affairs transferred an additional €600 million surplus on the Social Insurance Fund to the NTMA for management. This brought the total assets under management at end 2006 to €2.7 billion. Total turnover in 2006 was over €60 billion.

NTMA Borrowing on behalf of the Housing Finance Agency (HFA)

The NTMA has had responsibility since February 2003 for carrying out borrowings on behalf of the Housing Finance Agency under the HFA's €2.5 billion Multi Currency Commercial Paper programme. Borrowings were carried out under the programme in a number of currencies with all foreign currency borrowings immediately swapped into euro. Borrowings under the programme averaged €1.57 billion during the year. Total turnover in 2006 was €31.2 billion.

Dormant Accounts Fund

Under the Dormant Accounts Act 2001 and the Unclaimed Life Assurance Policies Act 2003, balances on dormant accounts in certain financial institutions and the net encashment value of certain life assurance policies are remitted to the State and disbursed for purposes of societal or community benefit. The amounts due to be so remitted are transferred to the Dormant Accounts Fund not later than 30 April each year.

The legislation guarantees the right of account and policy holders to reclaim their moneys at any time from the relevant financial institutions. The NTMA is obliged to determine the amount to be paid into the Reserve Account of the Fund to meet such reclaims and also to meet expenses. This reserve has been set at 15 per cent of the total amount in the Fund with the approval of the Minister for Community, Rural and Gaeltacht Affairs and the consent of the Minister for Finance. The balance of the Fund is available for disbursement. Decisions on disbursements are made by the Government. The Dormant Accounts Board, established under the Dormant Accounts (Amendment) Act 2005, advises on priority areas for funding. The Board also has a role in monitoring the impact of this funding.

Pending disbursement, moneys in the Fund are invested by the NTMA. In that regard, the NTMA had €111.3 million of moneys in the Fund under management at end December 2006, as compared with €204.4 million at end 2005. Some €80.1 million was transferred to the Fund in 2006 while €44.6 million of previously dormant funds was reclaimed. Disbursements from the Fund amounted to €33.3 million in 2006.

ECB Liquidity Management

In 2006, the NTMA engaged in short-term cash management transactions to the value of €229 billion so as to regulate the level of Government cash balances at the Central Bank and Financial Services Authority of Ireland. The average size of the daily transactions was €20 million. This activity is undertaken as part of overall management of liquidity by the European Central Bank.

Exchequer Cash Balances

Cash on deposit with the Central Bank in the Exchequer Account at end 2006 is estimated at €3.5 billion. This will be reduced somewhat by cheques drawn on the Exchequer by 31 December but not yet cleared. Thus, the Exchequer has ample liquidity going into the New Year.

5. STATE CLAIMS AGENCY

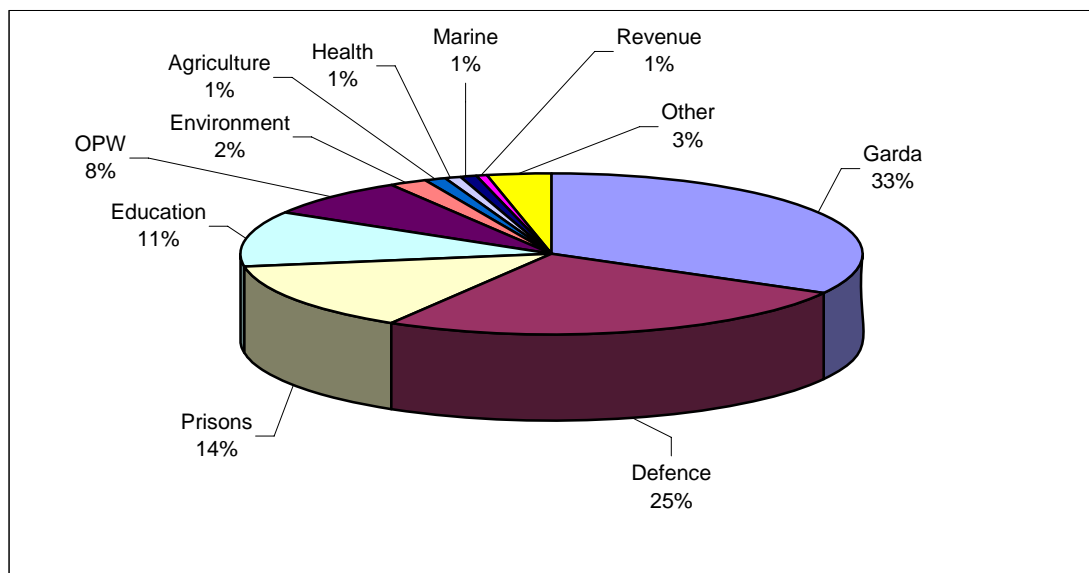
The State Claims Agency (SCA) - the name used by the NTMA in dealing with claims - manages personal injury and property damage claims against the State (currently 3,900) and provides risk management advice to State authorities with the aim of reducing the scope for future litigation. Claims are categorised either as Employer Liability/Public Liability/Property Damage (EL/PL/PD) or Clinical.

Employer Liability, Public Liability and Property Damage claims management

In this category, broken down by claims volume, 39 per cent are employer liability claims, 33 per cent are claims made by members of the public and the 28 per cent are claims arising from damage to property.

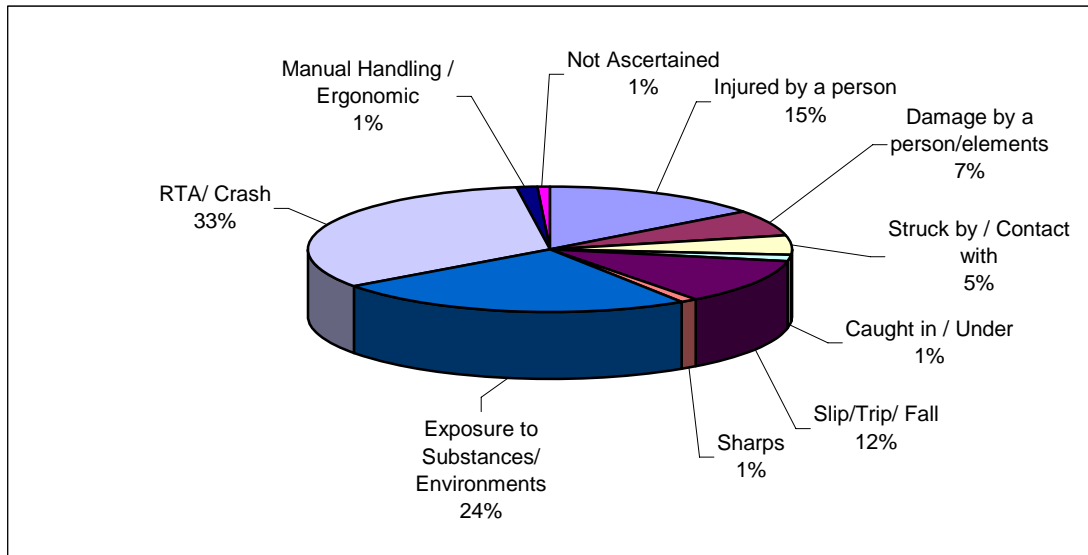
EL/PL/PD Claims Volume by Authority

The following pie chart shows the distribution of claims volume by State authority. In aggregate, 72 per cent per cent of all claims involve the Prison Service, An Garda Síochána and the Defence Forces.



EL/PL/PD Claims by Primary Cause

The primary causes of EL/PL claims are road traffic accidents (RTAs) (33 per cent), exposure to hazardous substances (24 per cent), injured by a person (15 per cent) and slips, trips and falls (12 per cent). The *'Injured by a person category'* has increased from previous years following the receipt of the newly delegated claims of child abuse.

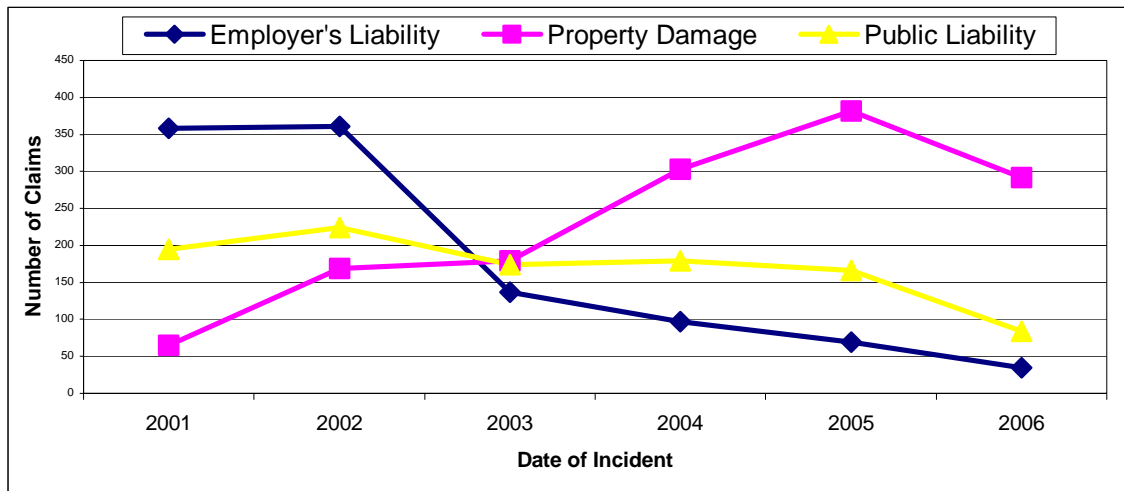


EL/PL/PD Claim Trends by Date of Incident

The SCA is also monitoring approximately 4,800 adverse EL/PL incidents, some of which may develop into claims at a later stage.

Since 2002 there has been a significant decline in EL and PL claims. As shown below, there has been a reduction in the number of EL and PL claims by 90 per cent and 60 per cent respectively. The strongly downward trend mirrors – but in a more pronounced way – that of a general decline in claims across the insurance industry.

Although there has been an increase in property damage claims, these claims are of significantly lower value.



The above-mentioned trends exclude the newly delegated child sex abuse and noise induced hearing loss claims.

Child Sexual Abuse

These claims relate to child abuse mainly in day-schools, i.e. national schools funded by the Department of Education and Science but either managed by patrons/managers or Boards of Management (since 1975). A minority of claims relate to abuse in residential institutions.

375 sexual abuse claims have been received to date from the Department of Education and Science, the Department of Health and Children and the Chief State Solicitor's Office.

Two recent sexual abuse cases against the Minister for Education and Science and the other State defendants were dismissed in the High Court on the basis that the Minister had not exercised any control over the teachers in the cases. The judgement held that the relationship between the Minister and teachers was insufficient to create a servant/agent or employer/employee relationship whereby the Minister could be vicariously liable for the acts or omissions of the teachers. Further, the Court held that, had the plaintiffs chosen to sue the Patron and/or Manager of the respective schools in respect of the injuries which they suffered at the hands of the abuser teachers, such claims would have been successful.

On that basis, the Minister for Education and Science is not vicariously liable for the tortious acts of abuser teachers – that liability, if any, falls for the Manager/Patron

and/or Board of Management of the schools in question, who have the responsibility to recruit, monitor and remove teachers.

Hearing Loss Claims

In total, 560 hearing loss claims have been transferred to the SCA from the Chief State Solicitor's Office and the Department of Defence. These are the residue of the so-called army deafness mass action cases which for one reason or another had not been settled. Since September 2005, the SCA has received an additional 40 hearing loss claims. Of these 600 claims, 265 (44 per cent) have been resolved. The resolved cases were settled at an average cost of €6,400.

Asbestos claims

The Supreme Court judgement in 2003 *Fletcher v Commissioners for Public Works* held that Irish law precludes the recovery by plaintiffs of damages for psychiatric injury arising from an irrational fear of contracting a disease where the risk of acquiring such a disease is remote ("worried well" cases). It is estimated that the State had been obliged to spend on average €5,000 per case or about €2.5 million in total on legal and medical costs in the defence of these claims. Following a further judgement of the Supreme Court on 31 January 2005, the SCA is now actively pursuing the recovery of the State's costs. To date the SCA has secured court orders in a number of cases for its costs and has been successful in recovering them.

There is however a possible second phase of asbestos related litigation. The judgement in the Fletcher case left open the issue of whether the implantation of asbestos fibres in the lung, or, in particular, a resultant inflammation of the lung (pleural plaques), constituted a physical injury. None of the plaintiffs in Fletcher, or the related appeals, had developed pleural plaques.

Solicitors, who represented some of the asbestos "worried well" plaintiffs, are now pressing ahead with claims alleging that their clients:

- (i) were exposed to asbestos; and
- (ii) developed pleural plaques.

The SCA in response has prepared a detailed legal strategy (including medical examination) to meet the new threat posed by 'pleural plaques' litigation.

Claims resolved

Since its establishment in December 2001, over 2,900 claims (42 per cent of all claims received to date) have been resolved by the SCA at a cost of approximately €37 million, the majority of these through out-of-court settlement. These claims costs are recoverable from the various State Authorities. 30 per cent of all closed claims have been resolved at no cost to the State.

Risk Management - Employer Liability, Public Liability & Property Damage

The SCA has a statutory brief to advise and assist State Authorities in relation to risks which, if not addressed adequately, may give rise to personal injury/property damage litigation. It provides advice and recommendations so that preventative measures can be put in place.

Authorities are obliged by law to report to the SCA any incidents which may give rise to claims and, since its establishment, it has received almost 4,500 adverse EL/PL incident notifications. Early reporting of incidents is critical to successful claims and risk management. It enables the SCA to conduct an early and detailed investigation of the more serious incidents so that the question of liability can be determined in advance of any litigation. Data on adverse incidents also enables the SCA to identify any patterns or clusters, which might point to weaknesses in existing health and safety procedures.

The SCA also conducts risk reviews, which seek to identify the risks being run by each authority based on its activities and the premises occupied by it. In conjunction with data on claims and adverse incidents, risk reviews enable the SCA to identify risk management deficiencies and to recommend initiatives to address them.

The following are among the risk review initiatives undertaken in 2006:

Liaison with State authorities

Since its inception, the SCA has forged strong relationships with all State authorities to communicate, report, advise, monitor and promote risk management. The Defence Forces, the Irish Prison Service, An Garda Síochána, the Office of Public Works and the Department of Agriculture have the highest levels of risk associated with them by reference to the number employed and the types of activities in which they are engaged.

The SCA has established risk management liaison groups with all these authorities. These are quarterly meetings which allow for an exchange of information and an update on the progress on any initiatives underway.

Quarterly reports on claims and incidents received are also sent to all State authorities.

The SCA also provides training and seminars for the relevant authorities. A series of eight seminars was provided to the Boards of Management, principals and teachers of Community and Comprehensive Schools and to teachers' organisations following the launch by the SCA and the Department of Education and Science of a joint report on the Management of Occupational Health and Safety in the Technologies in Post-Primary Schools.

The SCA also held a seminar on health and safety issues for those State Authorities which have a lower level of risk because their activity is mainly office-based. Attendees were given an update on new legislation enacted in 2006. Topics such as noise, stress, driving, e-working and home working were covered. The seminar was well attended and received.

Occupational Health & Safety Management Systems – Defence Forces

The Defence Forces requested the SCA to facilitate and audit the introduction of an occupational health and safety management system based on international standards.

The SCA in conjunction with the Defence Forces developed and agreed occupational health and safety objectives and key performance indicators for all functional levels. Audits were then completed for an appropriate sample of functional levels and selected military units. The Defence Forces successfully achieved compliance in all areas audited with the Occupational Health and Safety Management System Standard.

Occupational Health & Safety Management System – Irish Prison Service

An occupational health and safety management system based on international standards is being implemented in pilot sites in the Irish Prison Service (IPS).

Policy and management procedures for all elements of the system together with a project implementation plan were developed by the SCA in conjunction with the IPS.

Training programmes for key staff have been developed and health and safety objectives. Key performance indicators have been agreed for all areas of the IPS for 2007. Full implementation will be complete by mid 2007 and the system will be audited for compliance before the end of 2007.

Clinical Claims

The Government established the Clinical Indemnity Scheme (CIS) in July 2002. Under the Scheme and the associated concept of enterprise liability, each healthcare enterprise (whether it is a hospital or other agency) accepts liability for the actions of staff involved in the provision of clinical services. Where negligence is alleged, the State assumes responsibility for the indemnification and management of such clinical negligence claims. This function was formally delegated to the SCA in February 2003 along with the closely related function of advising and assisting in the development of a national clinical risk management strategy.

Scope of the Clinical Indemnity Scheme

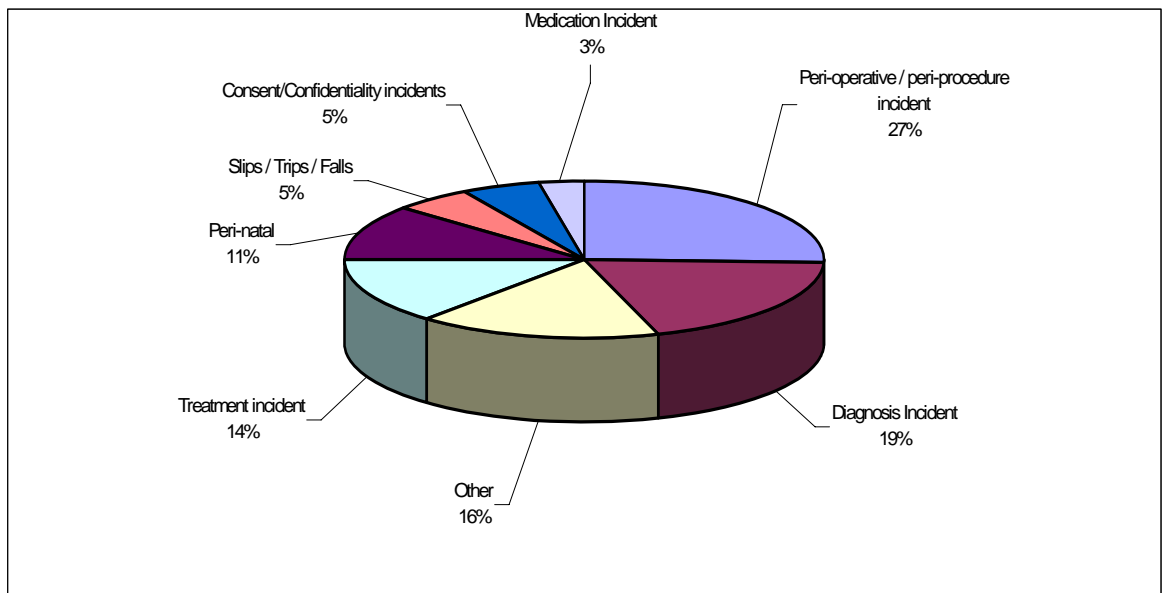
With effect from February 2004, the scope has been extended to cover the public practice of hospital consultants and their private practice in public hospitals. It does not cover private hospitals. Special funding arrangements have been put in place in respect of the obstetric/gynaecological facilities in Mount Carmel Hospital, Dublin and the Bons Secours Hospital, Cork. The SCA manages clinical claims arising in connection with these facilities.

Employer liability and public liability claims of health enterprises are covered under insurance policies with commercial insurers.

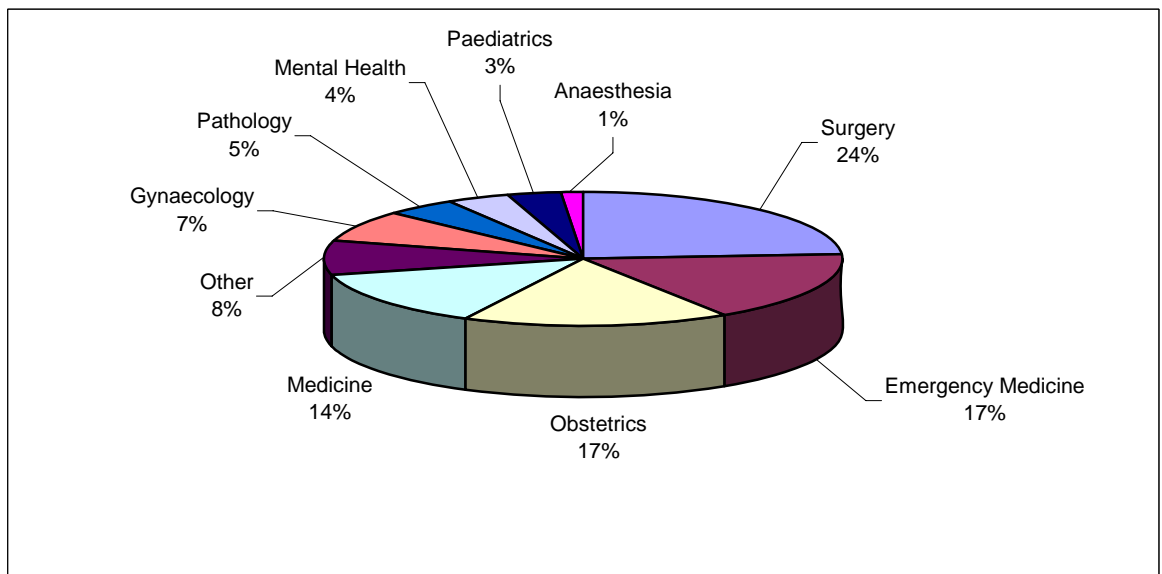
Clinical Negligence Claims – Clinical Indemnity Scheme

Under the Clinical Indemnity Scheme (CIS), the SCA is currently managing 1,300 claims for clinical negligence.

CIS Claims by General Type of Incident



CIS Claims by Speciality



MRSA

As a response to the growing number of MRSA claims (there are now approximately 40 such claims) and having regard to the significant challenge posed by MRSA litigation, the SCA has established a specialist unit within its clinical claims team. The specialist unit will be devoted exclusively to the management of MRSA claims and will work closely with the appointed solicitors firms and counsel.

Clinical Incident Reporting System – STARSweb

National rollout of the STARSweb system is now complete in all major enterprises. Almost 82,000 adverse clinical incidents and “near misses” have been logged on the system to date.

CIS Obstetrics Forum

Obstetrics practice in Ireland constitutes approximately 25 per cent of all clinical claims and 60 per cent of the cost of such claims. An Obstetrics Forum was established to facilitate communication of information and trends between the CIS and maternity units covered by the scheme.

Recruitment of Clinical Risk Advisors

A team of five clinical risk advisors was appointed in 2006. The clinical risk advisors have responsibility for providing advice and support to healthcare facilities within designated geographical areas and in certain specialist areas, reflecting their individual experience and clinical backgrounds. The team provides advice and assistance to all clinical facilities covered by the CIS and works with risk management and relevant personnel at enterprise level, to support patient safety and to help minimise clinical claims. This includes encouraging the early notification of incidents and “near-misses” and identifying any local and national trends in clinical malpractice. A programme of visits by team members to all enterprises covered by CIS has commenced.

6. NATIONAL DEVELOPMENT FINANCE AGENCY

The National Development Finance Agency (NDFA) was established on 1 January 2003. Its key objective is to ensure that the State attains value for money on all public capital investment projects. The establishment of the NDFA has addressed the need to build up in-house expertise to critically examine all financial and risk aspects of the Government’s capital projects.

There are close to 100 different State Authorities that must seek the NDFA’s advice on financing any infrastructure projects where the capital value is greater than €20 million. However, the final decision remains with the State Authority.

To date, 105 projects have been referred to the NDFA with a total capital investment of over €20 billion. The NDFA has completed its advice in relation to 28 projects with a capital value of €3.3 billion, 15 of which were Public Private Partnerships (PPPs) involving financing from the private sector. Financing has been provided by the following sources: private sector bank debt, European Investment Bank project loans, direct Exchequer contributions and private equity. Further information in relation to projects on which the NDFA has provided and completed its financial advice is set out below.

In July 2005, the Government announced a major new initiative aimed at accelerating the delivery of PPPs for certain key capital infrastructure projects. This new initiative involves the expansion of the NDFA to include a “Centre of Expertise” responsible for the procurement and delivery of PPP projects. The role covers projects in the Education, Health and Justice sectors initially. Once Departments have carried out their functions and handed the project over to the NDFA, the NDFA has responsibility for preparing contract documents, going to tender for projects, contract negotiations, evaluation of tenders, selection of preferred bidders and monitoring the construction of the project. The project, once procured, is delivered by the NDFA back to the relevant Department on a turnkey basis. Since this was announced, the NDFA has commenced work on over €1 billion worth of projects. Further information in relation to the “Centre of Expertise” is set out overleaf.

Financial Advisory Role

The NDFA has provided and completed its financial advice in 2006 in relation to six projects, four of which are Public Private Partnership projects.

They include the **N25 Waterford Bypass**, costing a total of €600 million, the contract for which was awarded to Celtic Roads Group in April 2006. The scheme comprises approximately 23 km of dual carriageway, a Suir bridge of approximately 475m length and approximately 4 km of single carriageway and the target completion date is August 2010.

The NDFA also completed its advice in November 2006 in relation the **Limerick Tunnel PPP Scheme** which is expected to cost €400 million. The project will

comprise of approximately 10km of standard dual carriageway and will incorporate a tunnel under the River Shannon and the target completion date is September 2010.

In 2006, the NDFA also completed its advice in relation to the **Greystones Harbour Project** which is expected to cost in excess of €300 million and will be one of the most challenging civil engineering and architectural projects to be undertaken in Ireland over the coming years. It involves the provision of a new harbour and marina, together with enhanced public and community amenities, backed by residential and retail development. Greystones Harbour Project is a major PPP involving Wicklow County Council and Sispar.

In December 2006, the contract was signed with the Preferred Bidder for **Jamestown Road**, a Design, Build, Finance PPP project. This regeneration scheme comprises 240 affordable and 60 private houses.

The NDFA also completed its advice in relation to two non-PPPs:

The NDFA advised on the refinancing of the outstanding loans (€37 million) in respect of the **Midlands Prison Project**. The refinancing was executed in December 2006 via a supplementary issue to the Justice vote. The NDFA also advised on the optimal funding arrangements in respect of capital projects being undertaken by **Horse Racing Ireland** to the value of €15 million.

The NDFA continues to provide financial advice in relation to a number of road projects into 2007. “Transport 21”, which was launched by the Government in November 2005, has given a new focus and urgency to the **Metro North PPP Project**. It is a €34.4 billion plan over 10 years (with €8 billion funded by PPP), which includes seven new light railway “Luas” lines, two metro lines and a central station in the centre of Dublin. The NDFA is advising the Railway Procurement Agency on the financial aspects of the PPP process. The route for Metro North was announced by the Minister for Transport on 19 October 2006, and the Official Journal of the European Union Notice (OJEU) along with the Project Information Memorandum and Pre-Qualification Questionnaire are expected to be issued in early 2007. The NDFA continues to advise the Railway Procurement Agency in relation to its Luas line projects.

The preferred bidder for the **M3 Cavan to Dublin (Clonee Kells)** was announced on 19 September 2006 and negotiations are ongoing with a targeted financial close date in early 2007. This project, which is expected to cost €400 million and includes bypasses of Dunshaughlin, Navan and Kells, will involve the construction of a 50 km stretch of motorway/dual carriageway and 11 km of single carriageway. The **N6 Galway to East Ballinasloe** scheme, which is expected to cost €350 million, comprises 56 km of dual carriageway with 1.6 km of single carriageway. The provisional preferred bidder was announced in July with financial close expected in Summer 2007.

The NDFA works closely with Dublin City Council to deliver the Social and Affordable Housing Regeneration Programme, which continues to be a huge success. Following the successful completion of **Fatima Mansions Housing Redevelopment**, the first social and affordable pilot project of its kind in Ireland (150 social, 70 affordable and 396 private houses) and **Infirmity Road** housing scheme (160 affordable and 40 private houses), a number of similar housing redevelopments - all of which are Design, Build and Finance PPP contracts - are advancing at an accelerating rate.

O'Devaney Gardens is one of the largest of the Dublin regeneration projects, comprising 281 social houses, 250 affordable and 292 private houses, and is in the final stages of negotiations. This project is extremely imaginative and innovative in terms of its provision of commercial facilities, community centres, health centres, crèche facilities and community recreation spaces.

Other Design, Build, Finance PPP social and affordable housing projects are at various stages of procurement and include **St Michael's Inchicore** (150 social, 48 affordable and 480 private houses), **Bridgefoot Street** (60 affordable and 135 private houses), **Dominick Street** (120 social and 190 private houses), **St. Teresa's Gardens, North Fringe** and **Croke Villas** (120 social, 30 affordable and 150 private houses). These housing projects will in total provide over 690 social and 550 affordable units, in addition to high quality community centres, retail and sports facilities, health centres and community recreation spaces.

The NDFA has acted as financial and risk advisor on two major civic landmark buildings projects, the **Criminal Courts Complex** and that **National Conference**

Centre, both of which have reached the final stages of negotiations and are expected to close imminently.

The new Criminal Courts Complex (€100-€150 million), which is a Design, Build, Finance, Operate and Maintain PPP, will be located on Infirmary Road, Parkgate Street, Dublin 7 and will accommodate all criminal court business currently located in various sites within and around the Four Courts. The building will house 22 courtrooms in its 20,000 square meters area, judges' chambers and ancillary facilities, jury rooms and consultation rooms, a secure holding area for approximately 100 prisoners, space for approximately 70 staff, information technology facilities, a public restaurant and accommodation for the Bar Council. The new Criminal Courts Complex is expected to make a significant contribution to the architectural form of Dublin.

The National Conference Centre (€200-€250 million), which is a Design, Build, Finance, Operate and Maintain PPP will be a modern, purpose-designed facility, located on the Spencer Dock site in Dublin and is intended to be an attractive venue for major international conference events. The preferred bidder is Spencer Dock International Conference Centre Consortium, a consortium including Treasury Holdings and Irish Rail. Final negotiations are ongoing and are expected to conclude in early 2007.

The NDFA is acting as financial advisor on a number of other high profile projects including **Lansdowne Road Stadium Reconstruction** (where due diligence work has been carried out), the procurement of three offices as part of the programme for the **Decentralisation** (where the prequalification of tenders for the PPP project is currently being finalised), and the **Digital Radio for Blue Light Services** (where the financial robustness of bidders has been determined). In relation to utilities such as waste, the NDFA is currently advising on the **Waterford Grouped Towns & Villages Sewerage Scheme**, the **South Eastern Region Waste Project**, various water projects and the redevelopment of a **Bray Harbour** in County Wicklow.

Two new PPP projects recently referred to the NDFA include the **National Concert Hall** and the **Abbey Theatre**. These are expected to become 'live' in 2007.

“Centre of Expertise”

Since the announcement in July 2005, the NDFA, through the “Centre of Expertise”, has already made huge progress on some €1 billion worth of projects within the Education, Justice and Health sectors.

Education – a €300 million plan was announced in September 2005 to provide 23 new post primary schools and four new primary schools from 2006 to 2009 on a Public Private Partnership basis. The procurement process for these 27 schools is being managed by the NDFA. The first bundle of schools consists of the following four post-primary schools:

- St. Mary’s CBS, Portlaoise, 850 pupils
- Scoil Chríost Rí, Portlaoise, 850 pupils
- A new community school in Ferbane, Co Offaly, 450 pupils
- Banagher College, Coláiste na Sionna Co. Offaly, 550 pupils

During the first half of 2006, the NDFA worked closely with the Department of Education and Science to prepare this bundle to go to the market. On 27 September 2006, a notice for the Official Journal of the European Union for the first bundle was dispatched to the Official European Journal website and to the eTenders website, together with the Project Information Memorandum and the Pre-Qualification Questionnaire. An open day was held on 16 October 2006 in Croke Park for potential bidders. Over 60 interested parties were represented at the open day. On 3 November 2006, nine Expressions of Interest were received. These were evaluated by the financial, legal and technical teams and on 22 December a short-list of three bidders was agreed and announced to the market. In January 2007, the Invitation to Negotiate document and the Project Agreement will be issued to the short-listed bidders. The return date for the tenders will be in the first quarter of 2007. Following the evaluation of these tenders a preferred bidder is expected to be announced in the second quarter of 2007.

On 20 November 2006, the second bundle of schools comprising five post primary and one primary was announced. The new schools will provide accommodation for just under 4,300 pupils. The second bundle consists of six schools on five sites. The bundle comprises the following schools:

Post-Primary

- Bantry Community College, Co. Cork (700 pupils)
- Kildare Town Community School, Co. Kildare (1,000 pupils)
- Abbeyfeale Community College, Co. Limerick (850 pupils)
- Athboy Community School, Co. Meath (550 pupils)
- Wicklow Town Community College (1,000 pupils)

Primary

- Gaelscoil Bheanntaí (eight classroom school)

The NDFA has commenced the pre-procurement process for this new project bundle. The second bundle is expected to go to the market in early 2007. The remaining bundles are expected to go to the market in 2007.

Justice – Thornton Hall Prison. This Design, Build, Finance and Maintain Public Private Partnership Project involves the development of a new high security prison complex on the Thornton Hall 150 acre site in North Dublin to replace the existing Mountjoy Prison complex. The facilities on the new site are to accommodate a minimum of 1,200 prisoners.

The Project Information Memorandum and the Pre-Qualification Questionnaire were issued to the market on 16 February 2006. Six Expressions of Interest were received on 24 April 2006. These Expressions of Interest were evaluated and three candidates are currently on the short-list. The Invitation to Negotiate document and the Project Agreement document were issued to the short-listed bidders on 1 November 2006. Bidders have been requested to submit a base tender in accordance with the full output specification and a mandatory variant tender, which excludes one prison block. Under the indicative timetable, tenders are due for submission on 31 January 2007. The contract is scheduled to be signed in the first quarter of 2007.

Health - Radiation Oncology Treatment Centres. This complex project involves in excess of €400 million capital costs plus approximately €72 million per annum and will be delivered under a Design, Build, Finance and Maintain contract. A Government decision was taken to proceed with the project in July 2005.

It involves the provision of a network of five or six Radiation Oncology Centres throughout the country. The nationwide project includes the provision of all equipment requirements and all associated buildings, which will be procured by the NDFA. This will entail an investment in 23 additional linear accelerators to bring the total number of linear accelerators in the public sector up to 36.

On 25 May 2006, the NDFA issued a Request for Tender to engage consultants to develop process maps for the project. Tender responses were received on 26 June 2006 and the preferred tender was selected on 18 July 2006. These consultants were responsible for determining the most efficient and effective workflows in order to provide top-class radiation oncology services in each of the centres. The consultants have now completed their work on the development of process maps at each of the sites.

A notice for the Official Journal of the European Union including the Pre-Qualification Questionnaire was dispatched on 3 October 2006 with a return date of 2 November 2006 to engage multidisciplinary advisors for the full duration of the project. The Health Service Executive (HSE) will enter into a contract with the technical advisors for the first stage of the project (prior to handover to the NDFA). The NDFA will enter into a contract with the multidisciplinary advisors for the second stage of the project. The HSE are currently scoping the project in further detail in order for the Request for Tenders to be issued to the four short-listed candidates, who were selected on 22 December 2006. Full tender documents will be issued to all short-listed bidders in January 2007. The HSE and NDFA will evaluate the tenders received. It is expected that the technical advisors will be appointed in the first quarter of 2007.

7. NATIONAL PENSIONS RESERVE FUND

The National Pensions Reserve Fund was established in April 2001 under the National Pensions Reserve Fund Act 2000. Its objective is to meet as much as possible of the costs of social welfare and public service pensions from 2025 onwards when these costs are projected to increase dramatically due to the ageing of the population.

The Fund is controlled by the National Pensions Reserve Fund Commission, a body corporate appointed by the Minister for Finance and including, ex officio, the Chief Executive of the NTMA. The NTMA has been appointed as the Manager of the Fund until April 2011 and the Commission is required to perform its functions through the Manager as its agent.

The Fund earned a return of 12.3 per cent or €2,012 million from 1 January to 28 December 2006 excluding the Government contribution of €1,446 million. Its estimated market value at 28 December 2006 was €18,877 million (12.7 per cent of GNP), compared with €15,419 million at end 2005. The Fund's annualised return now stands at 6.5 per cent since its inception in April 2001.

2006 represents the fourth successive year of strong returns on the Fund's investments. Its 2006 performance was driven by strong returns on its European equity investments with economic activity consistently exceeding forecasts and corporate profits ahead of start-year expectations. The Fund's global equity performance during the year was assisted by its policy of hedging 50 per cent of its foreign currency exposure. This limited the negative impact of euro strength on non-euro denominated equity returns.

During the year the Fund continued the diversification of its strategic asset allocation, announced in February 2005. The purpose of the diversification strategy is to exploit potential sources of additional long-term return without substantially altering the Fund's risk profile. It includes 8 per cent target allocations to both property and private equity. The Commission expects to reach these target allocations by end 2009. This is likely to involve investments of some €2 billion by that time in each of these asset classes.

The Fund is accessing the property and private equity markets indirectly through international investment vehicles rather than through acquiring and holding physical property or company portfolios. By end 2006, it had committed €11 million to property investment vehicles and €725 million to private equity investment vehicles. Moneys committed will be drawn down as suitable investment opportunities arise.

During 2006, the Fund invested €16 million in two pooled currency funds in order to introduce a limited amount of active management to its foreign currency exposure (50 per cent of which is hedged on a long-term strategic basis). The net effect of the active funds will be to vary the level of the overall hedge between 40 per cent and 60 per cent of foreign currency exposure in the light of short-term market conditions.

The Fund currently holds shares in approximately 2,250 quoted companies worldwide. It holds 161 debt securities. It also has investments in 22 property investment vehicles, 18 private equity investment vehicles and 8 specialised investment products (including currency and emerging markets funds and commodity certificates).

In April 2006, the Fund joined a group of the world's largest institutional investment funds in signing the UN sponsored Principles for Responsible Investment. The aim of the Principles is to integrate the consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices and thereby improve long-term returns.

The Fund is taking specific measures to implement the Principles. Actions it is currently taking include the development and implementation of a comprehensive proxy voting policy and development of an engagement capacity with investee companies on ESG issues.

The implementation of a comprehensive policy on proxy voting and engagement has considerable resource implications. The Fund has decided to contract third party service providers to deliver these services within policy guidelines to be determined by the Commission. A request for tenders in this regard will be issued shortly and it is anticipated that the proxy voting and engagement services will be in place by Spring 2007.

National Pensions Reserve Fund – Asset Allocation			
	Asset Allocation 28 December 2006		Target Strategic Allocation End 2009
	€m	%	%
Large Cap Equity	13,344	70.7	63.0
Small Cap Equity	783	4.2	4.0
Emerging Markets Equity	363	1.9	2.0
Total Quoted Equity	14,490	76.8	69.0
Private Equity	109	0.5	8.0
Property	525	2.8	8.0
Commodities	240	1.3	1.5
Forestry	0	0.0	0.5
Total Alternative Assets	874	4.6	18.0
Government Bonds	2,433	12.9	11.0
Corporate Bonds	84	0.4	2.0
Currency Funds	120	0.6	
Cash*	876	4.7	
Total Financial Assets	3,513	18.6	
Total	18,877	100.0	100.0

* Includes fx hedge.

8. ASSET COVERED SECURITIES ACT 2001

The Asset Covered Securities Act 2001 provides that, in the event of any issuer of securities defaulting, the NTMA must in the following order:

- Secure an alternative service provider to manage relevant asset pools; or
- Secure an alternative obligor for the relevant pools; or
- Manage the pools itself.

The Act further provides that the NTMA should have priority with respect to expenses incurred in the performance of its functions and will derive an annual commitment fee in return for accepting its functions under this Act. The Irish Financial Services Regulatory Authority has approved an annual commitment fee of one tenth of one basis point of the nominal amount of asset covered bonds issued. During 2006, €15.4 billion was issued under the legislation, bringing the total amount in issue to €60 billion.

9. OTHER NTMA FUNCTIONS

Under the NTMA Act 1990, the Minister for Finance may seek advice on, inter alia, the borrowing of money by persons whose borrowing is subject to his consent (including the timing and terms and conditions), the sale of assets on behalf of the State (including the employment of financial institutions) and in stock exchanges and other markets for stocks and shares. None of these issues arose in 2006.

**National Treasury Management Agency
29 December 2006**

APPENDIX I - CHANGE IN NOMINAL VALUE OF NATIONAL DEBT 2006

	€million
Value of National Debt (end 2005) (nominal)	38,182
Less:	
(i) Exchequer Surplus (Department of Finance forecast)	(1,854)
(ii) Non-cash movements*	(1)
<u>Change in nominal value of National Debt</u>	<u>(1,855)</u>
<u>Value of National Debt (end 2006) (nominal)</u>	<u>36,327</u>

***Note:** Impact of exchange rate movements and net discounts on tranches and cancellations.
Premiums/Discounts arise when bonds are issued at a price other than their par value due to a difference between the coupon on the bonds and market yields.

APPENDIX II - EBR GRAPH: EXCHEQUER BALANCE 2005 AND 2006

As at 28/12/2006

