NATIONAL TREASURY MANAGEMENT AGENCY

IRELAND

REPORT & ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 1994

LEGAL FRAMEWORK

The National Treasury Management Agency Act, 1990 provided for the establishment of the National Treasury Management Agency "to borrow moneys for the Exchequer and to manage the National Debt on behalf of and subject to the control and general superintendence of the Minister for Finance and to perform certain related functions and to provide for connected matters".

The 1990 Act enabled the Government to delegate the borrowing and debt management functions of the Minister for Finance to the Agency, such functions to be performed subject to such directions or guidelines as he might give. Obligations or liabilities undertaken by the Agency in the performance of its functions have the same force and effect as if undertaken by the Minister. The Agency came into existence on 3 December 1990.

The Chief Executive who is appointed by the Minister for Finance is directly responsible to him and is the Accounting Officer for the purposes of the Dail Public Accounts Committee. The Agency has an Advisory Committee to assist and advise on such matters as are referred to it by the Agency.

NATIONAL TREASURY MANAGEMENT AGENCY

CHIEF EXECUTIVE

Michael J. Somers

DIRECTORS

John C. Corrigan	Irish Pound Borrowing
Anne Counihan	Legal & Corporate Affairs
Jim Farrell	Operations
Adrian J. Kearns	Foreign Currency Borrowing
Paul Sullivan	Strategy & Risk Management

ADVISORY COMMITTEE

Joe Moran (Chairman)	Chief Executive, Electricity Supply Board
Gerold W. Brandt	Member of the Managing Board, Bayerische Landesbank, Munich
Paul Carty	Managing Partner, Deloitte & Touche
Sean P. Cromien	Secretary, Department of Finance — to June 1994
John F. Daly	Chairman, ICL Computers (Ireland) Limited
Lewis L. Glucksman	Vice Chairman, Smith Barney Inc., USA — from November 1994
Patrick H. Mullarkey	Secretary, Department of Finance — from June 1994
Donald C. Roth	Director, AIG Asian Infrastructure Management Limited, USA

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SUMMARY OF ACTIVITY

PERFORMANCE OF THE NATIONAL TREASURY MANAGEMENT AGENCY (THE AGENCY)

1994 was a particularly difficult year with rising domestic and international bond yields throughout most of the period.

A steady steepening of yields from February 1994 kept most investors on the sidelines in the major bond markets and severely limited the scope for fixed rate issuance. The US Treasury 10 year bond yield rose from 5.80% in January to over 8% in November. Unexpectedly, the sell-off in US Treasuries was matched in the key European markets. German bond yields rose from 5.57% to 7.60% and a similar rise of at least 200 basis points overshadowed other European capital markets also. In the Irish market, on an annualised basis, the 10 year benchmark bond yield, which started the year at 6.35% and reached a low of 6.21%, ended the year at 8.96%.

During 1994 the Agency funded an Exchequer Borrowing Requirement (EBR) of IR£672 million and refinanced maturing domestic and foreign medium and long term borrowings amounting in aggregate to IR£1,935 million. The total cash throughput, including the refinancing of short term debt, amounted to IR£89 billion.

The key features of the Agency's results were as follows:

- Exchequer Debt Service Costs IR£161 million below the 1994 pre-budget estimate while achieving a Net Present Value saving of IR£9 million against a new strategic Performance Benchmark;

- Interest Costs, excluding a IR£60 million interest reserve for National Savings, at the lowest level since 1989;

- A Net Repayment of IR£388 million (equivalent) of foreign currency debt.

The National Debt/GDP ratio fell from 88.1% at end 1993 to an estimated 84.1% at end 1994; the National Debt/GNP ratio also fell from 100.7% at end 1993 to an estimated 95.5% at end 1994.

The interest cost of the National Debt in 1994, after taking account of changes in balances and excluding the National Savings reserve, was IR£2,029 million.
Figures for 1994 and earlier years were:

	IR£ Million
1994	2,029*
1993	2,076
1992	2,106
1991	2,132
1990	2,109

* after deduction of National Savings interest reserve of IR£60 million which was created for the first time in 1994 having regard to the amount of accrued interest on the National Savings schemes.

These reductions have been achieved notwithstanding the additional amounts that have had to be borrowed and the increase in the National Debt since 1989.

DEBT SERVICE

In the Government's 1994 Budget, the Agency was given the cash target of reducing debt service costs by IR£100 million. The actual outturn was a reduction of IR£161 million. Of this amount, IR£102 million was used to help reduce the Exchequer Borrowing Requirement (EBR) with the balance available to the Exchequer for 1995.

These favourable performance figures were the result of a number of factors, in particular, gains on managing foreign exchange and interest rate exposures, the impact of switching into more liquid annual coupon Irish Pound bonds, the timing of new bond issues and the lower than expected pace of encashments of National Savings.

Actual expenditure on debt service in 1994 was IR£2,313 million. As well as interest payments, this figure included IR£206 million in sinking fund provisions. This is essentially a "circular" movement of cash; a capital amount is charged as a debt service cost on the current budget and is then taken back in the budgetary arithmetic as a capital receipt and used to reduce the EBR.

BENCHMARK

In addition to the Budget debt service target the performance of the Agency is measured by J.P. Morgan, the U.S. investment bank. This measurement is carried out against an independent Benchmark portfolio (the Benchmark) and takes account of the net present value of all future liabilities undertaken by the Agency and their associated risks; in effect it calculates the impact of the Agency's actions not only in the year under review but also their projected impact over the full life of the debt.

In early 1994, in conjunction with J.P. Morgan and the Department of Finance, the Agency finalised an extensive review of the original Benchmark, which had been put in place in 1991. This Benchmark review resulted in the adoption of a more normative and strategic Benchmark, recognising the need for the Benchmark to be objectively valid as an appropriate portfolio profile for the Irish National Debt. This Benchmark review also highlighted the importance the Agency ascribes to ensuring that an appropriate medium term portfolio strategy is kept under ongoing review.

The revision of the Benchmark implemented at the beginning of 1994 resulted in a significantly greater diversification of the portfolio out of Deutschemarks and Swiss Francs and into other European currencies, in particular Sterling and French Francs. It also resulted in a substantial increase in the proportion of the debt denominated in longer term fixed rate liabilities.

It is estimated that this currency diversification and the lengthening of duration incorporated in the new Benchmark reduced the net present value of the debt by approximately IR£200 million during 1994, relative to the portfolio profile of the previous Benchmark. The benefit of this substantial saving is not, of course, included in the performance result measured against the new Benchmark which amounted to IR£9 million; consequently it represents additional savings over that figure.

The main source of Irish Pound funding in 1994 was from the sale of Savings Certificates and other National Savings products. A new issue of Savings Certificates was launched in January 1994 and raised IR£244 million. A total of IR£479 million was raised through the National Savings Schemes in 1994, a substantial increase on the 1993 figures of IR£365 million. During the year a further IR£102 million was repaid to TSB Bank - the repayment in 1993 was IR£127 million.

The operating costs of the Agency in 1994, which were kept at the same level as in 1993, totalled IR£5.5 million. Of this, IR£1.6 million was paid to the Exchequer in the form of PAYE, Social

Welfare contributions and VAT, leaving a net cost of IR£3.9 million. This is equivalent to less than one and a half basis points (hundredths of one percent) of the National Debt.

FINANCIAL OPERATIONS

In the fulfilment of its borrowing and debt management objectives, the Agency raises funds for three main purposes:

- Funding the Exchequer Borrowing Requirement;
- Refinancing Maturing Debt;
- Refinancing Prepayable Debt.

The principal features of the Agency's 1994 activities under these headings are outlined below:

Funding

The Agency raised net new funds of IR£841 million as follows:

- National Savings Schemes IR£479 million
- Irish Pound Bonds and Notes IR£362 million

The total funds of IR£841 million together with a reduction in Central Bank and other balances of IR£421 million were applied towards:

- Funding the Exchequer Borrowing Requirement of IR£672 million;
- Repaying IR£388 million in foreign currency borrowing;
- Repaying IR£102 million to TSB Bank;
- Purchasing IR£100 million of Agricultural Intervention Paper.

Maturing Medium and Long Term Debt

The Agency repaid and refinanced:

- IR£1,066 million in maturing Irish Pound Bonds;
- IR£869 million in maturing foreign currency debt.

Prepayable Medium and Long Term Debt

The Agency prepaid and refinanced:

- IR£573 million in foreign currency debt.

Short Term Debt

The Agency had gross cash flows of:

- IR£35 billion in respect of all short term borrowing programmes which were used mainly for cash management purposes.

Gross cash flows through the Agency, including all short term debt management activities, increased by almost 16% on 1993 levels and totalled IR£88.8 billion, consisting of gross borrowings of IR£26.8 billion, gross payments of IR£25.3 billion, flows on foreign exchange and derivative transactions of IR£34.5 billion and interest and associated payments of IR£2.2 billion. These cash flows were in Irish Pounds and in a wide range of foreign currencies.

Agricultural Intervention Paper

During the course of 1994, the Agency was requested by the Minister for Finance to assist in the funding of the Agricultural Intervention Agency and provided a sum of IR£100 million for this purpose.

ADVISORY COMMITTEE

The Agency's Advisory Committee met on four occasions during 1994. We were pleased to welcome Patrick Mullarkey, Secretary, Department of Finance, who was appointed in June 1994 following the resignation of Sean Cromien to whom we express our thanks for his contribution as a member of the Committee since the establishment of the Agency. We were also pleased to welcome Lewis Glucksman, Vice Chairman, Smith Barney Inc., New York, who was appointed by the Minister for Finance in November 1994.

STAFF

The Chief Executive and Directors wish to thank all the staff members for their contribution to the Agency's performance in a particularly challenging year.

The increase in the volume and complexity of the Agency's activities over the past four years has been matched by the growth in the professionalism and commitment of individual staff members. This, together with the introduction of increasingly sophisticated I.T. support systems, has enabled the Agency to handle the significant increase in workload without the need for a corresponding increase in staff numbers.

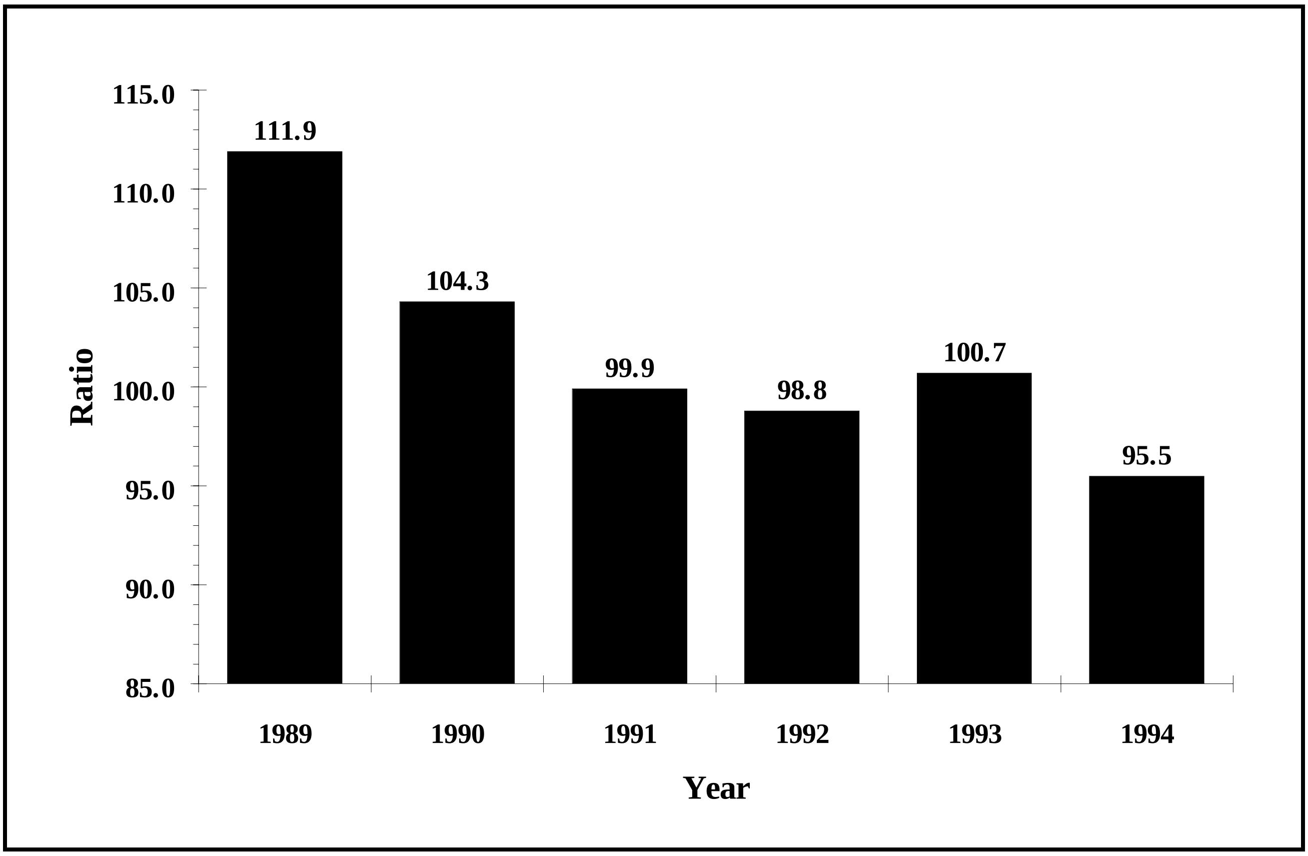
THE NATIONAL DEBT

The National Debt is traditionally defined as gross borrowings by the Government less liquid assets. It grew from IR£28,357 million at end-1993 to IR£29,227 million at end 1994, an increase of 3.1%. The National Debt as a percentage of Gross National Product decreased to 95.5% at end-1994 compared with 100.7% a year earlier.

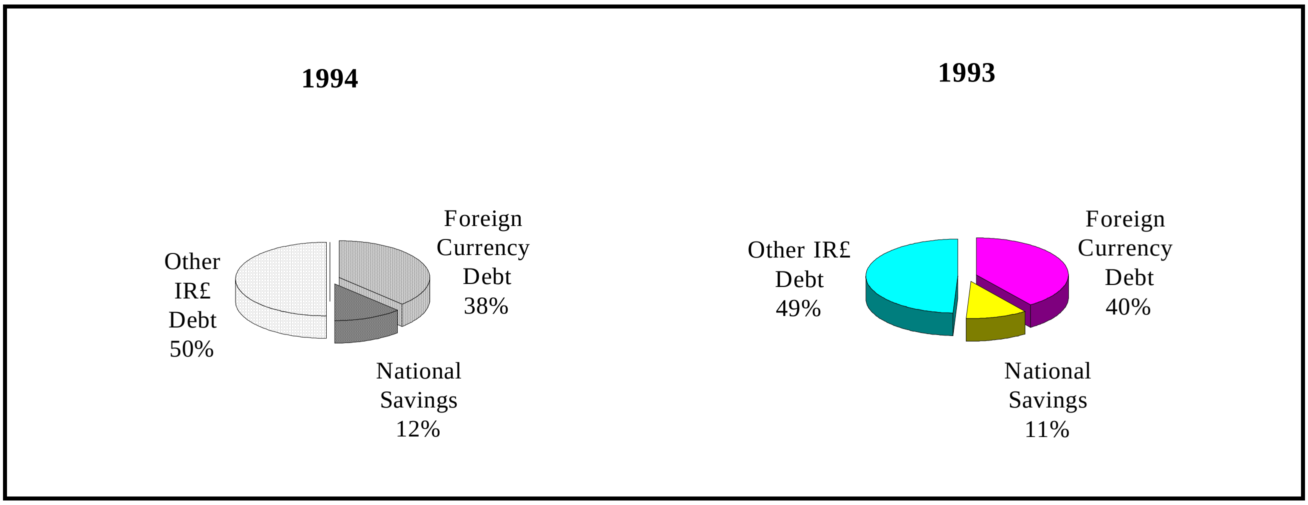
Expressed according to the standard European Union convention of Gross Government Debt to Gross Domestic Product, the ratios were 91.2% and 97.3% respectively.

This continues the downward trend in the Debt/GNP ratio that has been taking place over the last several years as can be seen below:

IRELAND : DEBT/GNP RATIO 1989 - 1994



The composition of the Debt was as follows:

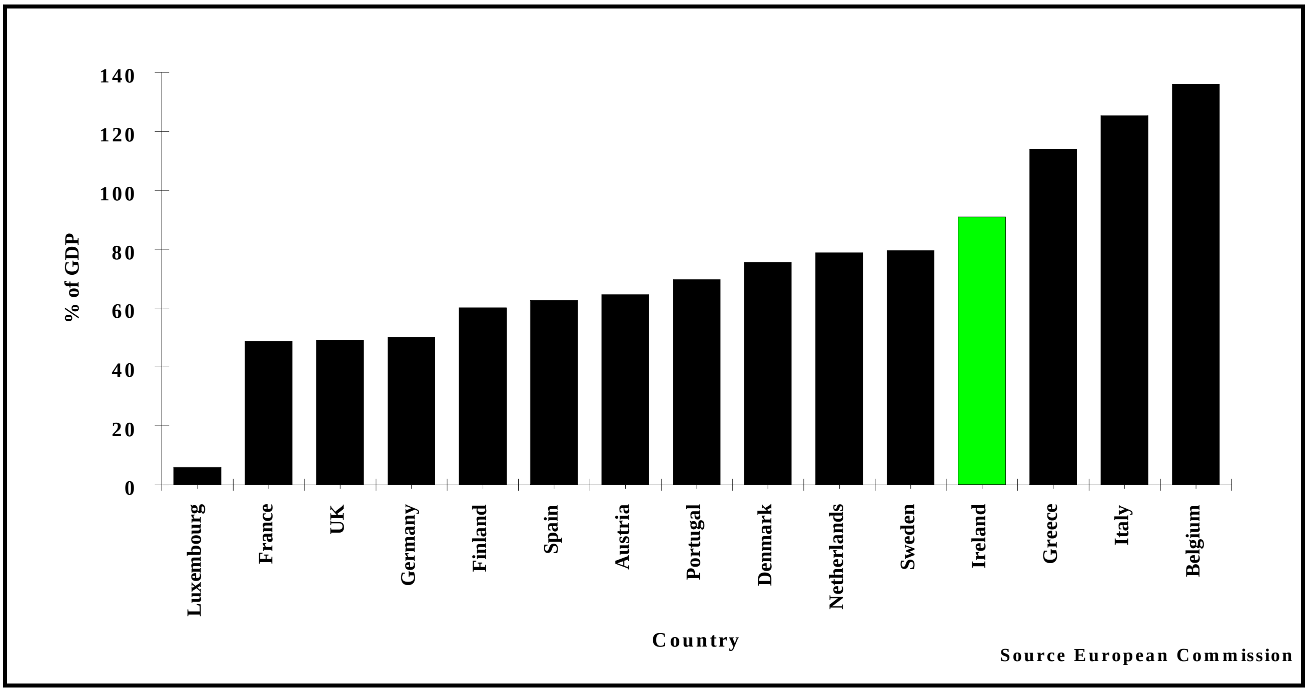


Of the Irish Pound portion of the Debt, IR£3,679 million was held by non-residents at end 1994.

INTERNATIONAL COMPARISONS

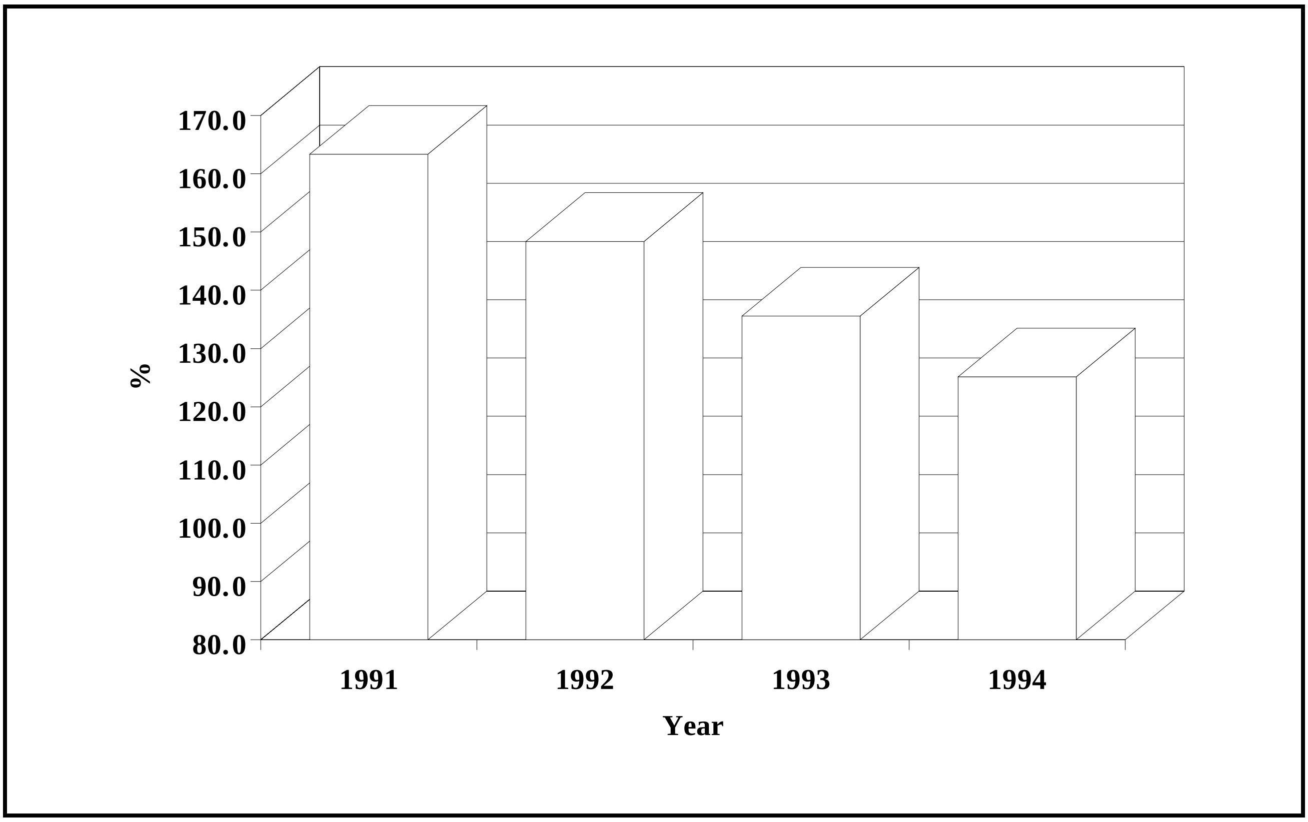
Ireland's Debt/GDP position, as at end 1994 and as measured by the EU convention, is shown below together with comparative information for other member states.

GENERAL GOVERNMENT DEBT TO GDP RATIOS OF EU MEMBER STATES 1994



While Ireland's Debt/GDP ratio is relatively high by comparison with other EU countries, it has declined significantly over recent years. Relative to the average for the other EU countries, Ireland's position has declined from 163% of the average in 1991 to 125% at the end of 1994 as can be seen below. It is anticipated that this will decline further in 1995.

IRELAND'S DEBT POSITION RELATIVE TO EU AVERAGE



IMPACT OF UNFUNDED PENSIONS ON NATIONAL DEBT

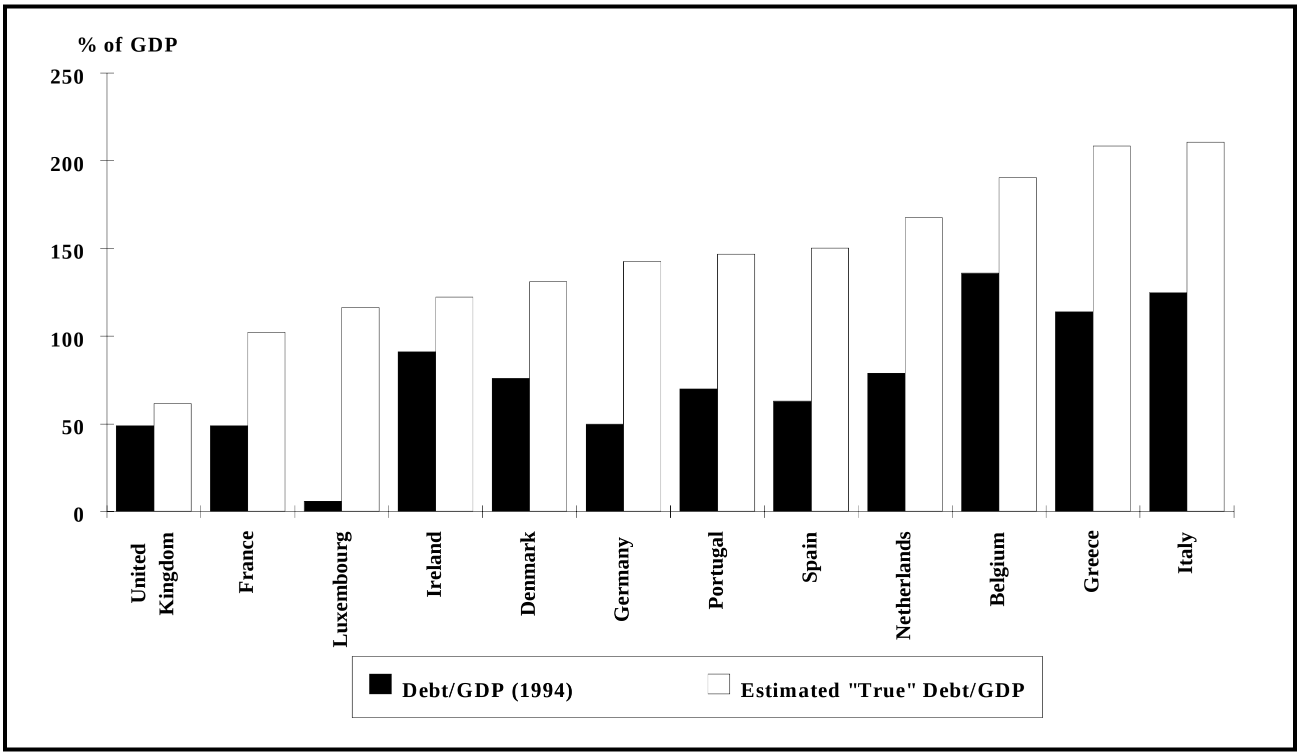
In large part because of its status as one of the convergence criteria established under the Maastricht Treaty, the debt/GDP ratio has been the subject of considerable focus and discussion for member states over the past couple of years. Of increasing concern, although to date the subject of much more limited public discussion, has been the question of the appropriate definition of a country's indebtedness. One particular and, in terms of size, quite significant element of indebtedness that has not been included in the formal calculation of national debt is that arising from unfunded state pension liabilities. This is the case not only for Ireland but also for all other EU states. The position of Ireland in this respect is comparatively favourable relative to most other EU countries as can be seen overleaf.

Research* in this area over the past couple of years has shown that in many cases the impact of these liabilities is such as to double the level of indebtedness relative to that reported by the conventional measure.

Many of the countries with comparatively low levels of conventionally measured debt/GDP ratios have particularly high levels of unfunded pension liabilities; as a result, not only the absolute levels of the ratios of indebtedness but also the comparative position of different countries varies considerably if a more comprehensive measure of true indebtedness is applied.

While not affecting 1995 or indeed the next several years, these liabilities represent a substantial call on the future resources of the EU economies and are an area where further planning for the future will increasingly be required. Although these data are only estimates, they indicate the scale of the future problem that has to be addressed by all of the countries involved. In addition, the orders of magnitude involved point to the need to supplement the use of comparative summary indicators by broader and more comprehensive analysis in this area.

ESTIMATED "TRUE DEBT"



* *The Hidden Liabilities of Basic Pensions Schemes in the European Community* by Jan B. Kuné, Wilfried F.M. Petit and Aggie J.H. Pinxt. Centre for European Policy Studies Brussels.

The Remaking of Europe - Employment and the Hidden Debt, Economic Research, CS First Boston, London, November 1993.
European Commission, 1995.

DEBT SERVICE COSTS

The cost of servicing the National Debt in 1994 came to IR£2,313 million including the National Savings interest reserve of IR£60 million which was created for the first time in 1994. This meant a decrease of IR£55 million on the previous year when the reserve is excluded. Of the total service cost, IR£2,029 million was in respect of interest, a decrease of IR£47 million on the 1993 figure. These costs are affected not only by interest on borrowings to fund the current year's Exchequer Borrowing Requirement but also by the cost of new borrowings undertaken to repay maturing debt and by changes in interest and exchange rates applicable to existing debt.

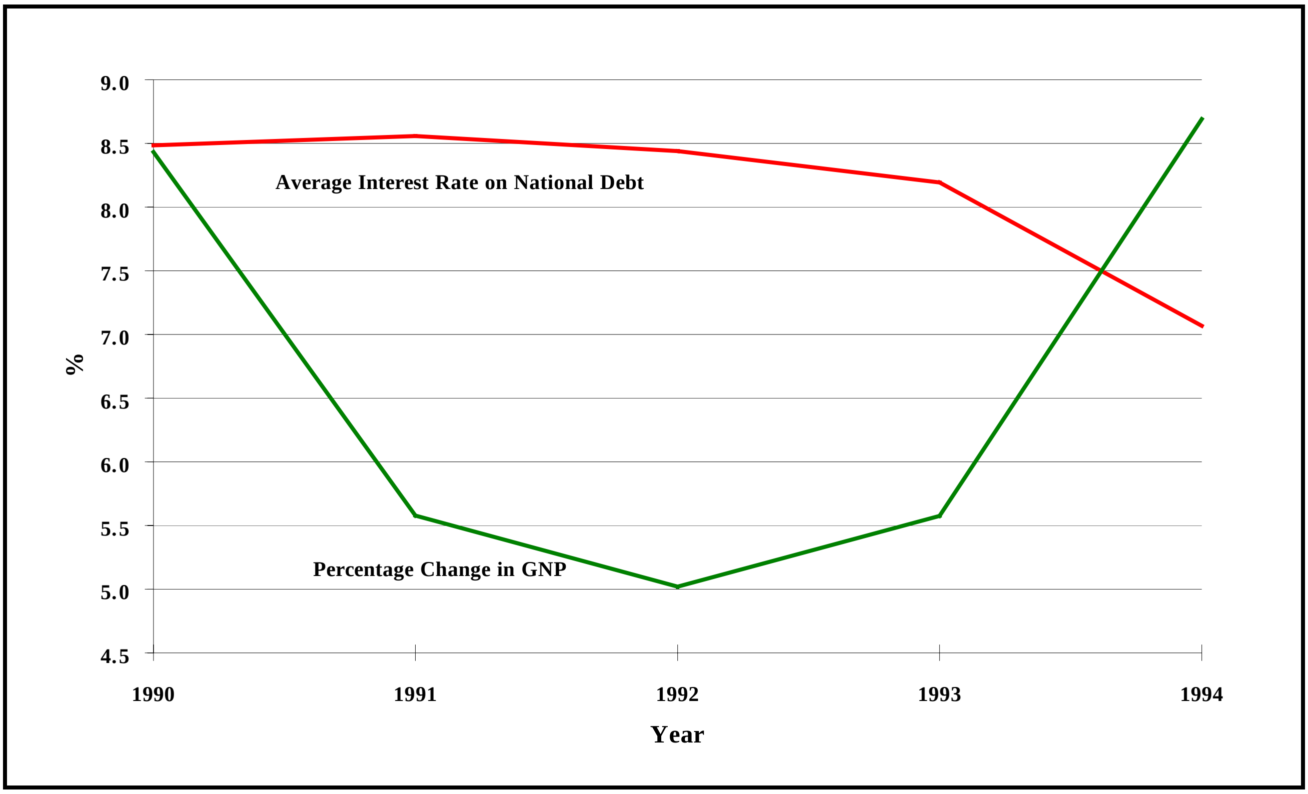
IMPACT OF INTEREST RATES ON EXCHEQUER FINANCES

Reflecting the level of Ireland's National Debt relative to GNP, the annual interest cost of servicing the debt represents a substantial portion of total government current expenditure; this amounted to 17.9% in 1994 and averaged 23.2% over the previous ten years. The level and trend of domestic and global interest rates have, therefore, a considerable significance not just for debt service costs but also for the public finances in aggregate.

Together with the tighter fiscal policy followed since the mid 1980s, the decline in foreign and domestic interest rates has contributed significantly to the major improvement in the Exchequer's financial position over the past ten years. For example, the reduction in the average interest cost on the National Debt over the period 1984 to 1994 is now worth IR£1.6 billion every year, equivalent to 42% of the total receipts from income tax. Expressed differently, the 1994 EBR would have been some 7.4% of GNP instead of an actual rate of 2.2% if the average interest cost of the Debt had remained at the 1984 level. Similarly it is estimated that the actual end 1994 debt would have been some IR£6.1 billion higher, equivalent to 115% of GNP as compared with an actual figure of 95%.

Over the past ten years the average interest rate on the debt has declined substantially, from almost 11% in 1984 to just over 7% in 1994. The benefit to the Exchequer finances over this period reflects not just the reduction in nominal interest rates but also an improvement in the relationship between interest rates and GNP growth as can be seen below.

TREND IN GNP & AVERAGE DEBT RATE



While exchange rate fluctuations and issuance discounts can have a material impact on occasion, the main determinants of the trend in the debt/GNP ratio are the level of the primary budget (i.e. the EBR excluding interest payments), the level of the average interest rate on the Debt and the growth rate of nominal GNP. If the primary budget is in balance it is necessary for the nominal growth rate to exceed the average interest rate on the debt if the debt/GNP ratio is to decline.

The primary budget in Ireland has been in surplus since 1987. While this surplus has fallen, from 6.8% of GNP in 1990 to 4.4% in 1994, the decline in the average interest rate on the debt (from a level of 2.2% greater than the rate of growth of nominal GNP in the years 1990 to 1993 to a level of 1.6% below it in 1994) allowed the Debt/GNP ratio to fall from 104.3% in 1990 to 95.5% at end 1994.

In summary, declining interest rates together with strong GNP growth have enabled the Debt/GNP ratio to decline even though there has been an increase in non-interest expenditure. While there remains a vulnerability to higher interest rates or to a slowdown in growth, it should be noted that some 59% of the Debt is denominated in fixed rate borrowings, giving considerable protection against any sudden increase in domestic or foreign interest rates.

BORROWING ENVIRONMENT

With no exchange controls on capital movements, Irish investors are not confined to the Irish bond, equity or savings markets but are free to invest their funds overseas. Therefore, the Irish Pound bond market must be attractive by international standards if it is to compete and must be seen to provide value to domestic as well as non-resident investors. Additionally, with the international capital markets experiencing a continued increase in global demand for capital, strong competition for Irish pound funds can be expected to continue as is evidenced by the outflow of almost IR£3 billion from the beginning of 1994 to March 1995, recently reported by the Central Bank of Ireland. It is against this broad background that the Agency entered into discussions with domestic and international market participants to bring about the introduction of market making in Irish Pound bonds.

In the case of foreign currency borrowing, the most cost-effective method of raising funds for sovereign borrowers with a high credit rating is to borrow through public bond issues, private placements, medium term notes and commercial paper. This is the route that the Agency continues to follow. Most of the Agency's funding is done on the major capital markets; in addition the Agency accesses local and regional markets whenever particularly favourable pricing conditions prevail.

The personal savings sector in Ireland has become very competitive - especially in the area of medium to long term fixed-rate deposits. This is the area in which the National Savings Schemes have traditionally been strong and from which the Agency seeks to raise a large proportion of new borrowings each year. The very high rates of interest on offer during the currency crisis of 1993 made savers more aware of the range of investment options available to them. As a result, the Agency has to compete more actively to raise funds from this sector.

The Agency places significant importance on developing and maintaining active dialogue with the international investor community. Since early 1994 the Agency has continued its overseas marketing programme with investor presentations in Tokyo, Paris, Frankfurt, London, Zurich, Geneva, Munich and in the Middle East.

Copies of the Agency's Annual Report and the Ireland Information Memorandum are distributed to a wide range of international banks and financial institutions. In addition, through active contact and discussion with overseas Central Banks and other financial institutions, together with features in the international financial press, the Agency has continued to reinforce the position and name of Ireland in the international capital markets.

Considerable interest in the Agency's operations has been shown by other countries, many of which have sent representatives to visit the Agency during the past year. The Agency was recently appointed to act as consultant to an overseas sovereign borrower.

CREDIT RATINGS

1994 was an exceptionally good year for Ireland's credit ratings. The Japan Bond Research Institute up-graded Ireland from AA to AA+. Moody's raised Ireland's rating from AA3 to AA2. In a first ever rating of Ireland, IBCA, the European credit-rating agency, determined on a rating of AA+. The positive momentum was maintained in 1995 with the upgrade by Standard and Poor's from AA- to AA.

In addition, Ireland continues to have the top AAA credit rating from both Moody's and Standard & Poor's for Irish pound bonds and the top A1+ and P1 ratings for short-term foreign debt.

Close communications are maintained with all four Rating Agencies to ensure they are kept fully informed on all major developments in the Irish economy and on Government economic policy.

RISK

The Agency's responsibility for both the issuance of new debt and the repayment of maturing debt, together with the management of the interest rate and currency profile of the total debt portfolio, makes the management of risk a central and critical element of the Agency's business. The principal categories of risk arising from the Agency's activities are:

- liquidity risk;
- market risk;
- counterparty credit risk;
- operational risk.

In all of these categories the Agency has put in place limits and control procedures to monitor and manage the risks involved.

Liquidity Risk

A major requirement of the Agency is to ensure that future funding needs, arising from refinancing maturing debt as well as new Exchequer borrowing, can always readily be met. Ultimately the protection of liquidity is the Agency's most critical task. Risks to the liquidity of the National Debt can arise either from domestic events or, given the foreign currency element of the portfolio and the high level of linkage between markets, from events originating outside Ireland.

The Agency manages this risk primarily by controlling the amount of debt maturing in any particular period of time. This is reinforced by the Agency's activities in continuing to develop a well informed and diversified international investor base, through maintaining its presence in all major capital markets and by extending the range of debt instruments which it issues.

Market Risk

Market risk is the risk of a rise in debt service costs and in the total market value of the debt due to changes in market interest or exchange rates. In conducting its debt management activities, the Agency has to have regard to both medium and short term objectives given its task of controlling not only near term fiscal debt service costs but also the present value of all future payments of principal and interest arising from the debt.

Liabilities in currencies which are within or closely related to the European Exchange Rate Mechanism (ERM) normally carry less exchange rate risk than other currencies and, appropriately therefore, account for the major portion of the foreign currency portfolio. However, exchange rate fluctuations within the permitted ranges of the ERM can give rise to material short term fluctuations in the value of the foreign currency debt. Non-ERM currencies are also important in the portfolio and can be expected to remain so for reasons of current or expected cost, market presence or economic linkage.

Borrowings in Irish Pounds also carry market risk. As with borrowings in any other currency, Irish Pound fixed interest rate borrowings are subject to a market valuation risk in the event of a decline in interest rates. While carrying less market valuation risk than fixed rate debt, floating rate borrowings carry a higher risk to the near term fiscal cost of servicing the debt. The balance between fixed and floating rate liabilities has, therefore, to be managed for both the domestic and foreign currency portfolios.

The exposure to interest rate and currency risk, both for debt service and for the market value of the portfolio, is controlled through limiting the currency and interest rate concentration of the portfolio.

The Agency seeks to achieve the best trade-off between cost and risk over time. As conditions in financial markets change the appropriate interest rate and currency profile of the portfolio is reassessed.

Counterparty Credit Risk

Derivatives, placements and foreign exchange transactions represent the product categories which give rise to counterparty risk exposures. Procedures are in place which provide for the approval of risk limits for all counterparties. Exposures under these limits are updated and reported daily to management. A review of all limits is undertaken periodically to take account of changes in the credit standing of counterparties or in economic/political events.

Operational Risk

Comprehensive controls have been established to ensure that operational risks are managed in a prudent manner. These controls include the segregation of duties between dealing, processing, payments and reporting. Prior to dealing in any new product, a product description must be prepared and approved by management; this product description identifies the product's inherent risks and documents appropriate processing and reporting procedures.

IRISH POUND BORROWING

Irish Pound borrowing, excluding the National Savings Schemes, accounted for 50 per cent of the National Debt as at 31 December 1994.

The amounts outstanding were:

	IR£ Million (nominal)			
	31 December 1994		31 December 1993	
Irish Pound Bonds				
Domestic Holders	10,760		10,097	
Non-resident Holders	3,679	14,439*	4,047	14,144
Exchequer Notes		633		433
Exchequer Bills		29		15
Notes issued under Section 69 of Finance Act 1985		122		146
		15,223		14,738

* Excludes dual currency bonds amounting to IR£104 million (1993 IR£102 million).

Bonds in issue have maturities ranging up to 20 years while Bills and Notes have a maximum maturity of twelve months.

Since 1993 all new fixed rate issues have an annual coupon, whereas interest on earlier issues is payable semi-annually. In addition, some ten per cent of issues have a variable rate of interest payable quarterly by reference to the Dublin Inter Bank Offered Rate (DIBOR).

The Agency sells and repurchases bonds on the Stock Exchange through the Government Broker, who acts for the Agency on the primary market. The Agency also trades actively on the secondary market. Tight segregation is maintained between the primary desk and the secondary trading activity.

1994 ACTIVITY

Net funding by the Agency on the domestic market during 1994 is shown below:

			IR£ Million (Cash Amounts)
Sales of:	Bonds		3,767
	Exchequer Notes/Exchequer Bills (Net)		209
			3,976
Less:	Redemption of Bonds	1,066	
	Repurchase of Bonds	2,424	
	Payment under Irish Pound/Foreign Currency Swap	100	
	Net Repayment of IR£ Section 69 Notes	24	3,614
			362

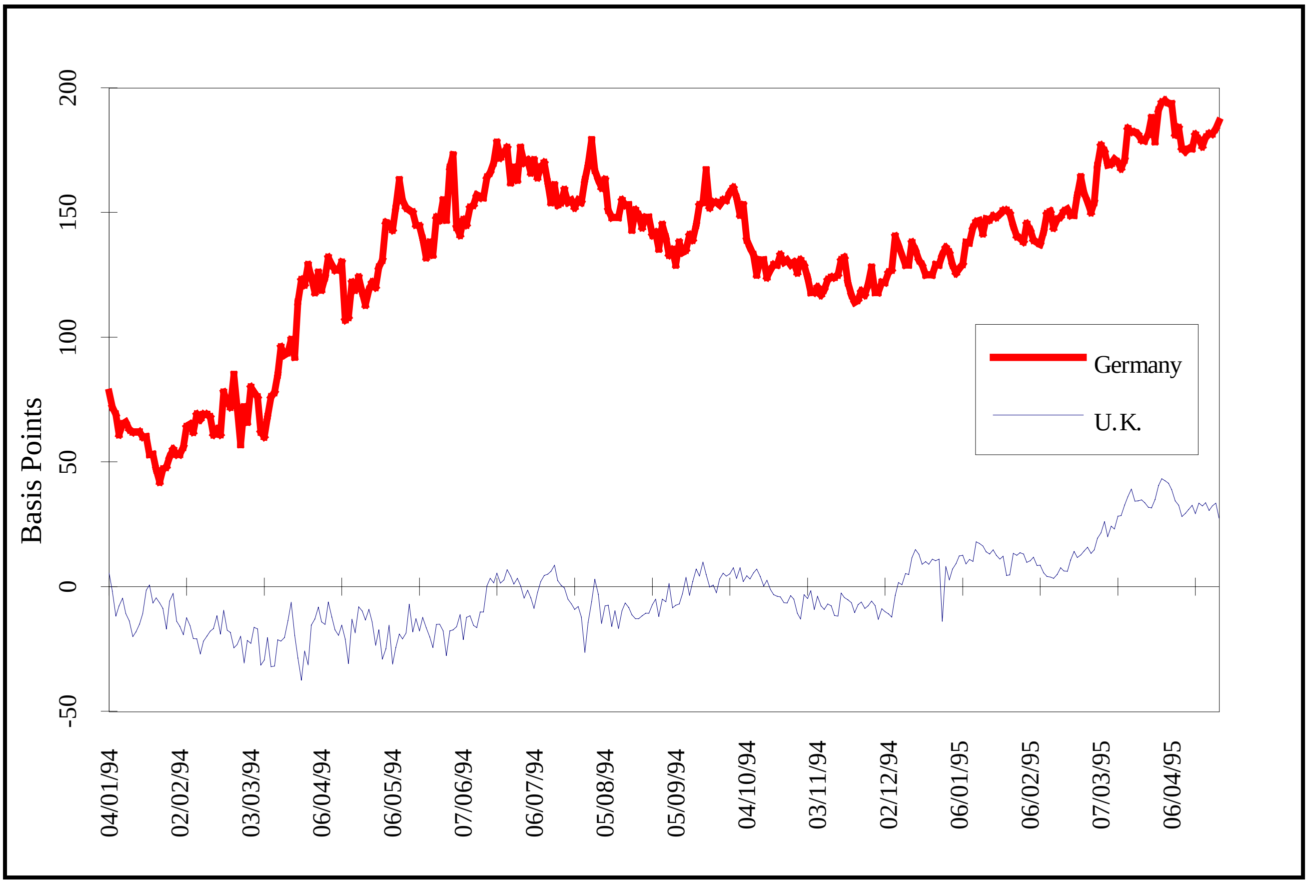
At the start of the year bond yields, which had declined during 1993, continued to fall and by early February reached their lowest levels in many years. The opportunity was taken to fund as much as possible early in the year without adversely affecting yields. However, this situation changed dramatically in February when the United States Federal Reserve Bank increased official U.S. interest rates. After that, bond markets became increasingly concerned about inflation, resulting in higher bond yields throughout most of the remainder of the year. During the difficult first half of the year, the Agency also helped support the domestic market by buying back IR£600 million of bonds. As markets stabilised in the second half of the year fixed rate funding was resumed.

BOND YIELDS (SEMI-ANNUAL) %

Maturity	End 1993	Low	High	End 1994
5 Year	5.90	5.76	8.80	8.76
10 Year	6.25	6.12	9.04	8.77
20 Year	6.56	6.39	9.12	8.62

This general increase in bond yields was greatest in the smaller bond markets. In Ireland, on an annualised basis, the spread at which Irish Pound 10-year bonds trade over 10-year German Government bonds increased from a low of 42 basis points in late January, to a high of 176 basis points at mid-year. By year-end this spread over German bonds had narrowed somewhat to 136 basis points. For most of 1994, Ireland's 10-year bond traded below comparable U.K. yields by up to 40 basis points. However, towards end-year this position started to reverse, with the Irish 10-year bond trading at a small margin above the comparable UK bond yield.

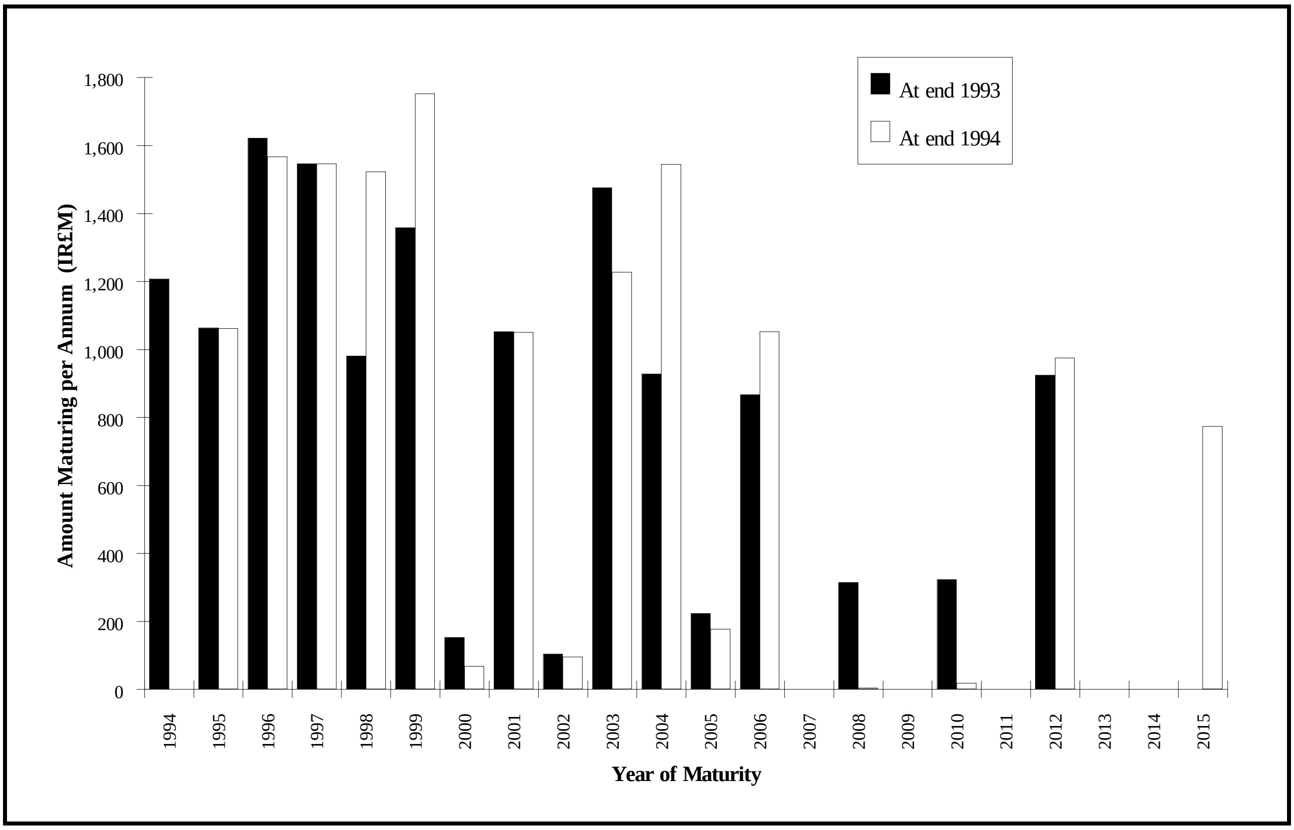
BENCHMARK BOND YIELD DIFFERENTIALS JANUARY 1994 TO APRIL 1995
IRISH 10 YEAR BENCHMARK BOND YIELD DIFFERENTIALS - GERMANY & UK



BOND MATURITY PROFILE

The maturity profile of outstanding Irish Pound Bonds at 31 December 1994 is shown in the graph below:

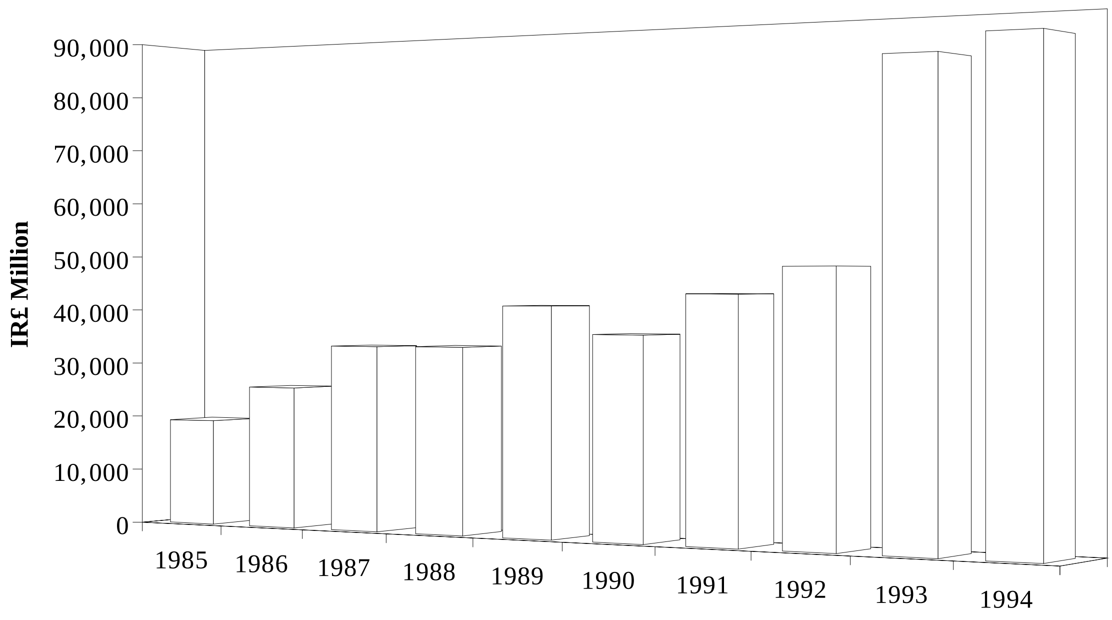
MATURITY PROFILE OF IRISH GOVERNMENT BONDS



BOND MARKET TURNOVER

Reported Stock Exchange turnover in the primary and secondary market in 1994 at IR£86 billion represented an increase of 4 per cent on the 1993 outturn of IR£83 billion. The level of turnover in 1994 may have been distorted by an above normal level of sale and repurchase agreements (REPOS). The Agency, through its primary dealing and repurchase activities, accounted for IR£6.2 billion of reported turnover, while its operations in the secondary market accounted for an additional IR£3.5 billion. The prices at which the Agency trades on the Stock Exchange in Irish Pound bonds are quoted on Reuters, page NTMB.

BOND MARKET TURNOVER



BENCHMARK BONDS

The Agency maintains designated benchmark bonds in or close to the five, ten and twenty year maturities. Benchmark stocks are changed periodically in order to keep maturities close to these ranges and to maintain appropriate levels of outstandings in each stock, as well as to keep coupons on benchmark stocks in line with prevailing market yields. Outstandings under the benchmark stocks as at 31 December 1994 are shown below:

Coupon	Name	Maturity	Outstanding 31 December 1994 IR£ million
6.25% (annual)	Treasury Bond	1 April 1999	1,624
6.25% (annual)	Treasury Bond	18 October 2004	1,524
8.25% (annual)	Treasury Bond	18 August 2015	774

Following the introduction of the twenty year benchmark bond in August 1994 the benchmark bonds in the key 5, 10 and 20 year maturities all carry an annual coupon. The new 20-year long bond was introduced by tap followed by an auction in the final quarter of the year.

The process of changing to annual coupon bonds, which commenced in June 1993, is well advanced with some 50 per cent of all outstanding fixed rate bonds now carrying an annual coupon.

The Agency facilitated switching by investors from relatively illiquid issues into the benchmark issues. Switching in 1994 totalled IR£1,400 million, of which IR£600 million represented switching into the new 20-year benchmark bond.

A new 5-year benchmark bond, introduced in April 1995, replaced the previous benchmark, the 6¼% Treasury Bond 1999, which had an outstanding size of IR£1,781 million. A new 10 year benchmark was introduced in May 1995, to replace the 6¼% Treasury Bond 2004, which had IR£1,642 million outstanding.

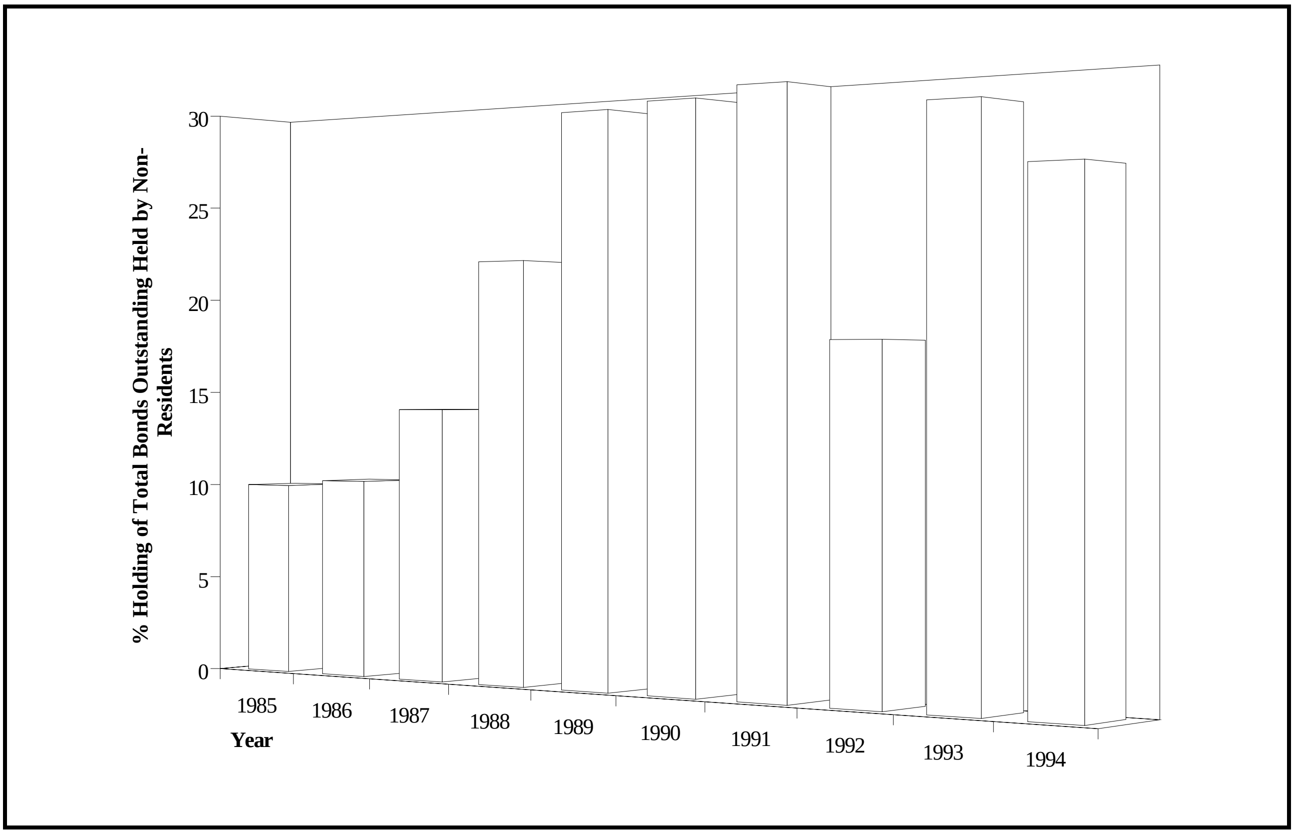
BENCHMARK STOCKS - 1 JUNE 1995

Coupon	Name	Maturity	Outstanding 1 June 1995 IR£ million
8.00% (annual)	Treasury Bond	18 October 2000	890
8.00% (annual)	Treasury Bond	18 August 2006	1,142
8.25% (annual)	Treasury Bond	18 August 2015	918

NON-RESIDENT HOLDINGS

Irish Pound bonds held by non-residents fell from 29 per cent of total outstandings at end 1993 to 25 per cent by end 1994.

NON-RESIDENT HOLDERS OF IRISH POUND BONDS



INTERNATIONAL BOND INDICES

Irish Pound Bonds are now included in the following international indices:

- Bloomberg / EFFAS - Government Bond Index
- Lehman Brothers - Global Bond Index
- Merrill Lynch - Global Government Bond Index II
- Salomon Brothers - Global Government Bond Composite Index
- UBS Phillips & Drew - Global Benchmark Bond Index
- JP Morgan - Government Bond Index

EUROCLEAR/CEDEL

During the first half of 1994, both Euroclear and CEDEL introduced arrangements to provide settlement facilities for Irish Pound Bonds.

MARKET MAKING

On 1 June 1994 the Agency released preliminary proposals for a market making system in Irish Pound bonds to serve as a discussion document between interested parties.

Reflecting the increased competitiveness of the international capital markets, the Agency had been reviewing the structure of the Irish bond market. The need for this review was given further impetus by a decision of the Irish Competition Authority that the Stock Exchange's rules, which required that stockbrokers act only as agents in respect of transactions in Government securities and which specified fixed minimum rates of commission, were anti-competitive. In its decision the Competition Authority noted that essentially the "agency only" rule (whereby brokers only matched buyers and sellers) prevented the emergence of market makers which might otherwise be expected to operate in the bond market.

Following extensive consultation with market participants, on 8 May 1995 the Agency published its definitive proposals for primary dealers to make a market in Irish Pound bonds and invited applications by 23 June 1995. The Agency's aim is to bring the Irish bond market more into line with competitor countries, almost all of which have some form of formal price making system. Under the scheme, primary dealers would undertake to quote continuous buy and sell prices in all market conditions. In return for adopting this obligation dealers would be entitled to certain facilities such as sole access to the Agency's tap issues. With continuous price making there will be greater immediacy of execution and thus improved liquidity in the secondary market. By its deadline of 23 June 1995, the Agency had received six applications - four domestic and two non-resident - for primary dealership. It is envisaged that the new system, which will involve a comprehensive REPO market, will commence on 2 October 1995.

EXCHEQUER BILLS AND NOTES (NOMINAL AMOUNTS)

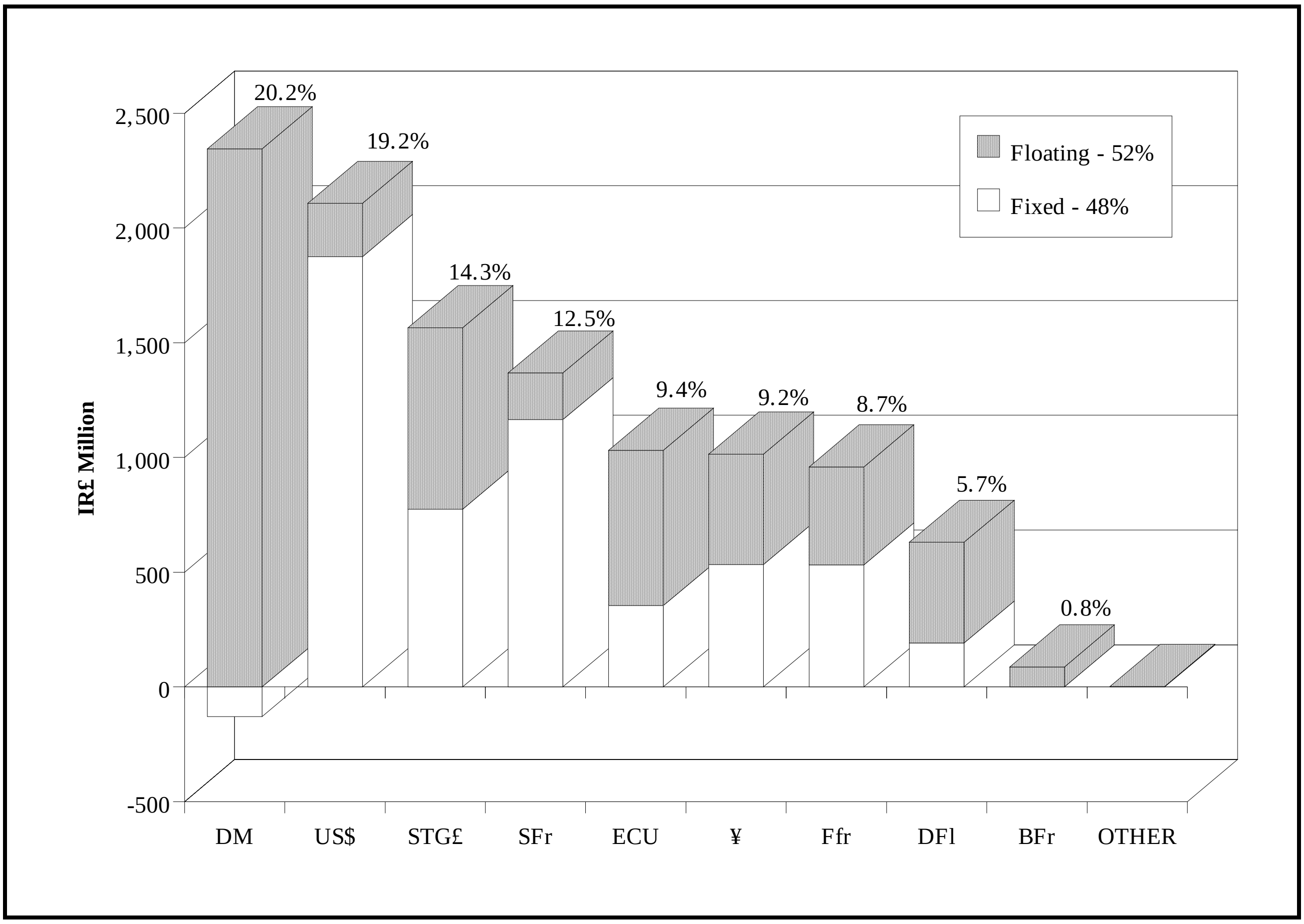
Throughout 1994 the Agency continued to market Exchequer Notes to a broad range of investors. This led to a significant increase in outstandings which, including Bills, rose by IR£214 million to reach IR£662 million by year-end.

The Agency maintains an active market in Exchequer Notes and is prepared to repurchase them prior to maturity. The prices at which the Agency is prepared to buy and sell these Notes are quoted on Reuters, page NTMA.

FOREIGN CURRENCY BORROWING

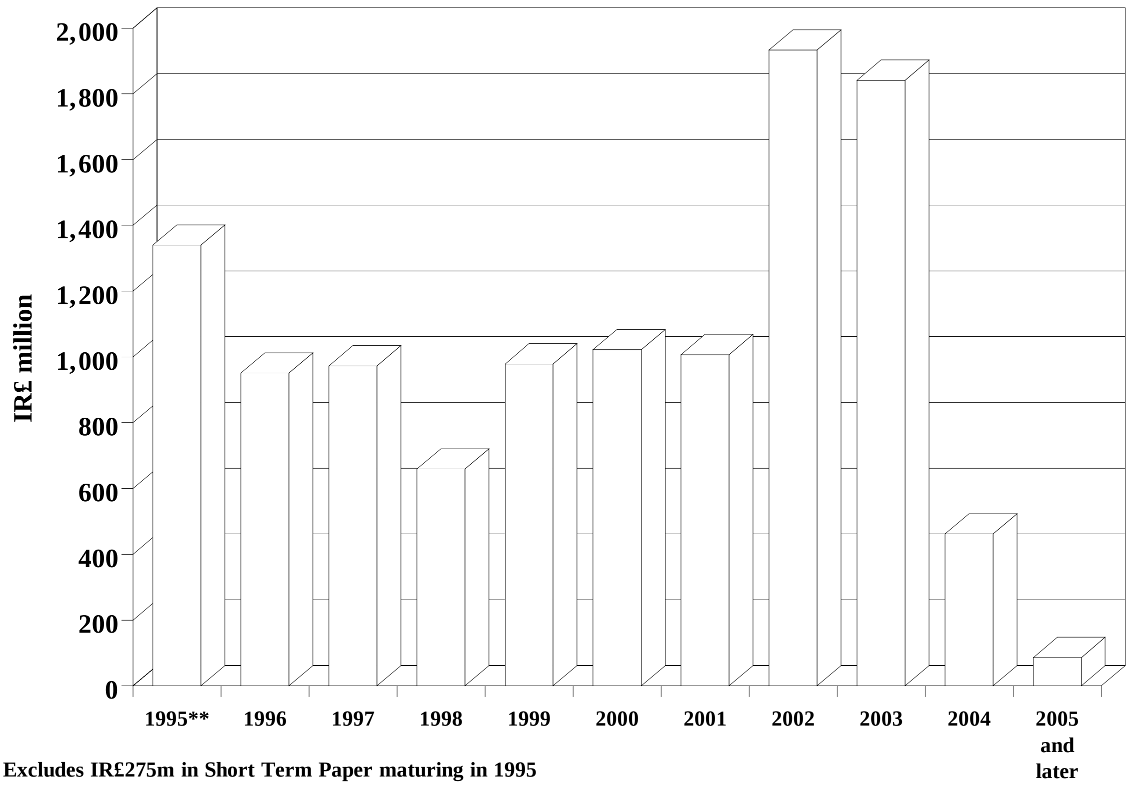
Outstanding foreign currency debt was IR£10,978 million at 31 December 1994 based on exchange rates at that date. The following chart shows the currency composition and interest rate mix of the debt.

FOREIGN DEBT COMPOSITION - 31 DECEMBER 1994



The proportions of debt in each currency and the split between fixed and floating interest rates are kept under constant review by the Agency and are actively managed taking account of likely movements in both interest and exchange rates.

MEDIUM TO LONG-TERM FOREIGN CURRENCY DEBT MATURITY PROFILE*
31 DECEMBER 1994



* Excludes IR£275m in Short Term Paper maturing in 1995
** Foreign deposits of IR£553m netted against 1995 maturities

The maturity profile of the debt is set out above. In determining the maturity of new borrowings, a major factor is the need to ensure that scheduled repayments are kept to manageable levels particularly over the short term. While cost savings continue to be a driving force in assessing re-financing opportunities, an overriding requirement is the need to maintain a prudent maturity profile ensuring that repayments are spread relatively smoothly into the future.

LIABILITY MANAGEMENT

During 1994, the Agency continued to implement a strategy of diversifying the currency risk associated with the foreign debt. In particular, the proportion of debt denominated in Deutschemarks, Swiss Francs and Dutch Guilders was reduced from 53 per cent to 38 per cent while the proportion of debt denominated in other European currencies was increased from 21 per cent to 33 per cent. In particular, the Sterling component of the foreign currency debt increased from 8 per cent to 14 per cent over the course of the year.

Over the two year period to 31 December 1994, the proportion of debt denominated in Deutschemarks, Swiss Francs and Dutch Guilders has been reduced from 64 per cent to 38 per cent. The percentage of foreign currency debt denominated in Sterling, French Francs, ECU and Belgian Francs has increased from 9 per cent to 33 per cent. Given the strength of the Deutschemark bloc in recent years, this strategy of diversification has achieved a substantial reduction in the present value of the debt relative to what would otherwise have been the case.

In managing foreign currency interest rate risk, the Agency's strategy in 1994 was to increase the proportion of debt at fixed rates. This approach was based on the view that short-term interest rates were close to their lowest point for the current interest rate cycle and that long-term rates had reached attractive levels by the end of 1993. Over the course of 1994, therefore, the proportion of debt at fixed rates was raised from 32 per cent to 48 per cent.

One of the more notable features of financial market activity in 1994 was the substantial rise in long-term rates. The initial impulse for this was the decision of the US Federal Reserve Bank to raise its key rates in February, thus reversing its policy of the previous five years. The impact of the Bank's policy change was more pronounced and more far-reaching than had been anticipated. In retrospect, it would appear that the bond market rally of 1993 was driven, to a large extent, by short-term speculative flows. Withdrawal of these flows and the associated reversal of some highly leveraged trading strategies acted to depress bond markets and to push up long-term yields.

UK 10 YEAR BENCHMARK BOND

Yield %

1994

GERMANY - 10 YEAR BENCHMARK BOND

Yield %

1994

JAPAN - 10 YEAR BENCHMARK BOND

Yield %

1994

US TREASURY - 10 YEAR BENCHMARK BOND

Yield %

1994

Unlike 1993, when Ireland's foreign borrowing transactions - some of significant size - were concentrated mainly in the early part of the year to cope with the effects of the European currency crisis, the 1994 borrowing programme was spread fairly evenly through the year. Borrowings tended to be of smaller size and were geared more specifically to taking advantage of arbitrage opportunities. The cash raised in 1994, together with funds carried over from 1993, was used to refinance medium and long term debt of IR£869 million (equivalent) maturing in 1994 as well as prepayments of IR£573 million (equivalent). There was a net repayment of foreign debt equivalent to IR£388 million during 1994.

Notwithstanding the difficult market environment, the Agency found it possible, taking advantage of particular market opportunities, to fund successfully in various markets and at appropriate arbitrage gains. The following is a short commentary on the major funding operations carried out during the year.

DUTCH GUILDER MARKET

Ireland revisited the Dutch capital market for the first time since 1986 and launched a public bond issue of DFl 250 million for 10 years. The spread of 25 basis points over Dutch Government bonds was a historic low for Ireland. Accompanying the fixed rate terms was an attractive swap opportunity producing a spread of 15 basis points below inter bank rates.

SWISS FRANC MARKET

This market offered few possibilities for medium to long term issuance in 1994. During a short respite towards the end of the year the Agency launched a public bond issue for SFr 150 million with a five year maturity at 5.375% per annum. Ireland was one of only two sovereign borrowers to take advantage of the opportunities available in this market in 1994.

CANADIAN DOLLAR MARKET

The Agency launched Ireland's first ever issue in the Canadian Dollar market to take advantage of an arbitrage opportunity into US Dollars. The issue size was Can$ 200 million for 3 years and was switched into floating rate US Dollars at LIBOR minus 20 basis points.

JAPANESE YEN MARKET

Although yields also rose in the Yen market, the rise was less sharp than elsewhere. Following a ¥10 billion Eurobond issue in December 1993 with payment in January 1994, two further Euroyen 10 year bond issues were completed by the Agency in 1994, one for ¥20 billion the other for ¥30 billion. The ¥30 billion issue, in particular, traded at 11 basis points over the relevant Japanese Government Bond. This was Ireland's tightest ever spread in a foreign currency and close to that of AAA names. A further ¥12 billion was issued through the Euro Medium Term Note Programme (EMTN) mainly as floating rate debt at spreads varying between 20 and 50 basis points below inter bank rates.

US DOLLAR MARKET

A total of US$75 million was issued under the EMTN Programme at spreads between 25 and 43 basis points below inter bank rates. In addition, bilateral loans from the European Investment Bank (EIB) totalling US$183 million were arranged at spreads of 15 - 30 basis points below inter bank rates.

STERLING MARKET

One bilateral loan of Stg£73 million was contracted at a margin of 19 basis points below inter bank rates and with a maturity of 9 years. A four year EMTN of Stg£10 million was issued at inter bank rates less 30 basis points.

LUXEMBOURG FRANC MARKET

This was one of the most active markets in 1994. Towards the end of the year Ireland issued its first public bond issue in Luxembourg. The amount was LFr 2 billion and the maturity 5 years. This was the first of a series of three Luxembourg Franc issues (the remaining two being done in 1995) which, after swaps, provided attractive opportunities in floating rate Belgian Francs.

EURO-MEDIUM TERM NOTES

In 1994 the Agency increased the size of its EMTN from US$1 billion to US$2 billion. This programme has been a notable success for the Agency enabling it to raise low cost debt through the use of structured transactions. During 1994, spreads below US$ of up to 43 basis points were achieved. The scope of the programme has now been widened to include underwritten public issues which previously would have had to be issued on a stand alone basis. This development has significantly reduced the time and expenditure on documentation.

COMMERCIAL PAPER

Ireland has a US$1 billion Euro Commercial Paper Programme, a US$1 billion US Commercial Paper Programme and a DM2 billion German Commercial Paper Programme. These programmes offer quick and cost-effective access to foreign currency funds and provide a flexible source of bridging finance for longer-dated issues as and when the need arises.

SECTION 69 NOTES

These tax-exempt securities are issued in a range of currencies (including Irish Pounds) to eligible foreign-owned companies located in Ireland. They have maturities from seven days upwards and are sold directly by the Agency and also through designated banks in Ireland. Average monthly outstanding balances for the year were IR£439 million (equivalent) compared with IR£444 million (equivalent) in 1993.

SECTION 69 NOTES OUTSTANDING (IR£ AND FOREIGN CURRENCY)

FOREIGN CURRENCY BORROWINGS 1994

JANUARY	3.75% ¥10 billion Euroyen Issue due 2004
MARCH	¥3 billion Loan at LIBOR less 20 basis points due 2004
APRIL	DFl 250 million Public Bond Issue (swapped to AIBOR less 15 basis points) due 2004
	¥2.5 billion Loan at LIBOR less 50 basis points due 1995
MAY	4.25% ¥20 billion Euroyen Issue due 2004
	Stg£10 million EMTN at LIBOR less 30 basis points due 1998
JUNE	US$65 million EMTN at LIBOR less 25 basis points due 1999
AUGUST	¥2 billion Loan at LIBOR less 22 basis points due 2004
	¥1.5 billion EMTN at LIBOR less 25 basis points due 1999
SEPTEMBER	8.375% Can$200 million Public Bond Issue (swapped to US$ at LIBOR less 20 basis points) due 1997
	US$10 million EMTN at LIBOR less 43 basis points due 1996
NOVEMBER	LFr2 billion Public Bond Issue (swapped to BFr at BIBOR less 16 basis points) due 2000
	5.375% SFr150 million Public Bond Issue due 1999
	4.80% ¥30 billion Euroyen Issue due 2005
DECEMBER	4.80% ¥3 billion Loan due 2005

EIB BORROWINGS

MARCH	US$143 million at LIBOR less 30 basis points due 2004
MAY	Stg£73 million at LIBOR less 19 basis points due 2003
OCTOBER	US$40 million at LIBOR less 15 basis points due 2004

NATIONAL SAVINGS SCHEMES

The National Savings Schemes had a record year in 1994 with net inflows of IR£479 million (excluding TSB Bank repayments). They were the main source of Irish pound borrowing for the Agency during the year and by year-end, accounted for almost 20 per cent of the Irish Pound element of the National Debt. The appeal of the schemes to personal investors stems from their unique range of attributes: all the schemes are free of risk and free of transaction costs and offer attractive rates of return which are in many cases also free of tax. From a funding perspective, these instruments are a cost effective and very stable source of funding with the additional benefit that almost all holdings are by Irish resident investors. The lack of volatility inherent in this category of debt makes it one of the most attractive sources of funding for the Agency.

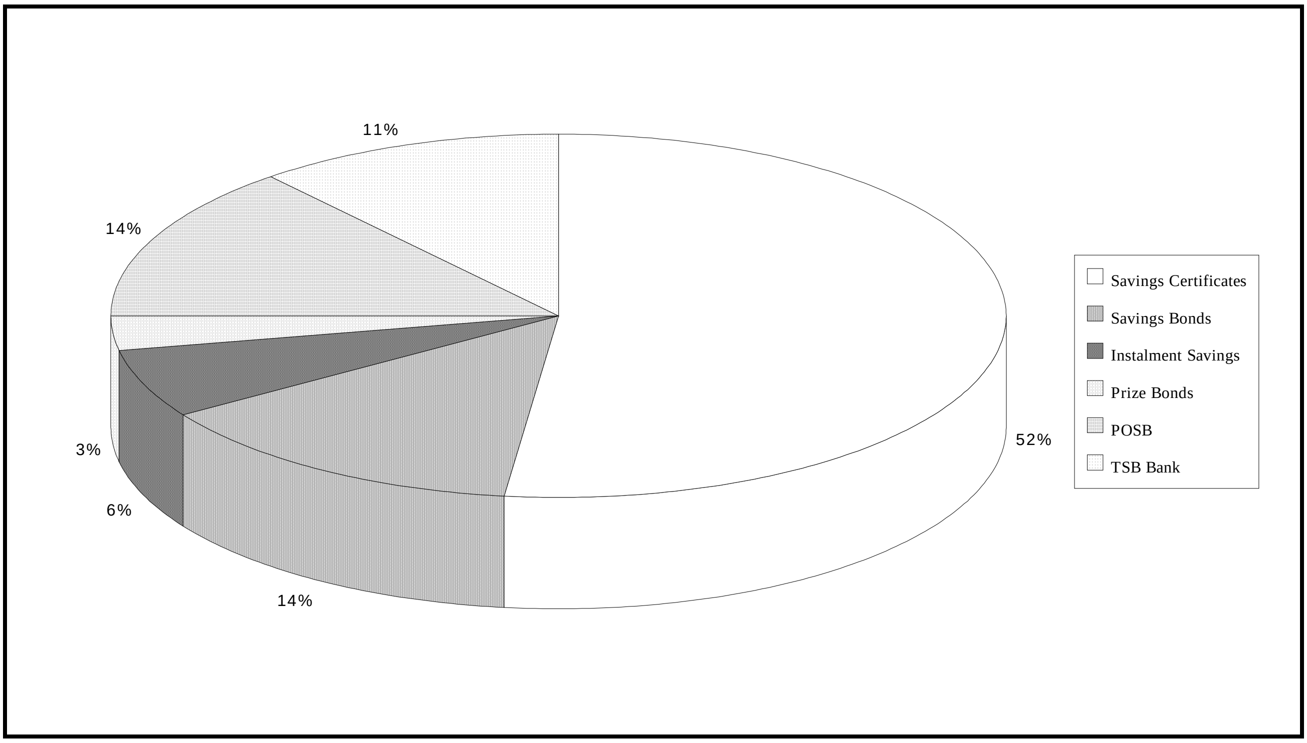
All of the savings products are sold nationwide by the Post Office (An Post) acting on behalf of the Agency. A number of the products are also available through banks and stockbrokers.

The net amounts raised during 1994 and the totals outstanding for each of the savings schemes at 31 December 1994 were as follows:

	Total Outstanding	**Cash Raised in 1994**
	£ Millions	
Savings Certificates	1,830	238
Savings Bonds	506	174
Instalment Savings	222	29
Prize Bonds	117	17
Post Office Savings Bank (POSB):		
1. Ordinary Deposit Account	412	(3)
2. Deposit Account Plus	72	6
TSB Bank, including interest	406	(102)
POSB Fund Investment Income		18
Total	3,565	377

The total outstanding represents 12 per cent of the National Debt at end 1994. In addition to the amounts outstanding, there is accrued interest due to investors of IR£979 million in respect of Savings Certificates, Savings Bonds and Instalment Savings (IR£845 million at end-1993). A reserve fund to cover part of the accrued interest was created by the Finance Act 1994 and an initial contribution of IR£60 million was made in 1994. A further provision of IR£54 million is being made for 1995 and additional contributions are expected to be made in subsequent years until the reserve fund provides a reasonable level of cover for the interest outstanding.

BREAKDOWN OF THE NATIONAL SAVINGS COMPONENT OF THE NATIONAL DEBT AT 31 DECEMBER 1994



SAVINGS CERTIFICATES, SAVINGS BONDS & INSTALMENT SAVINGS

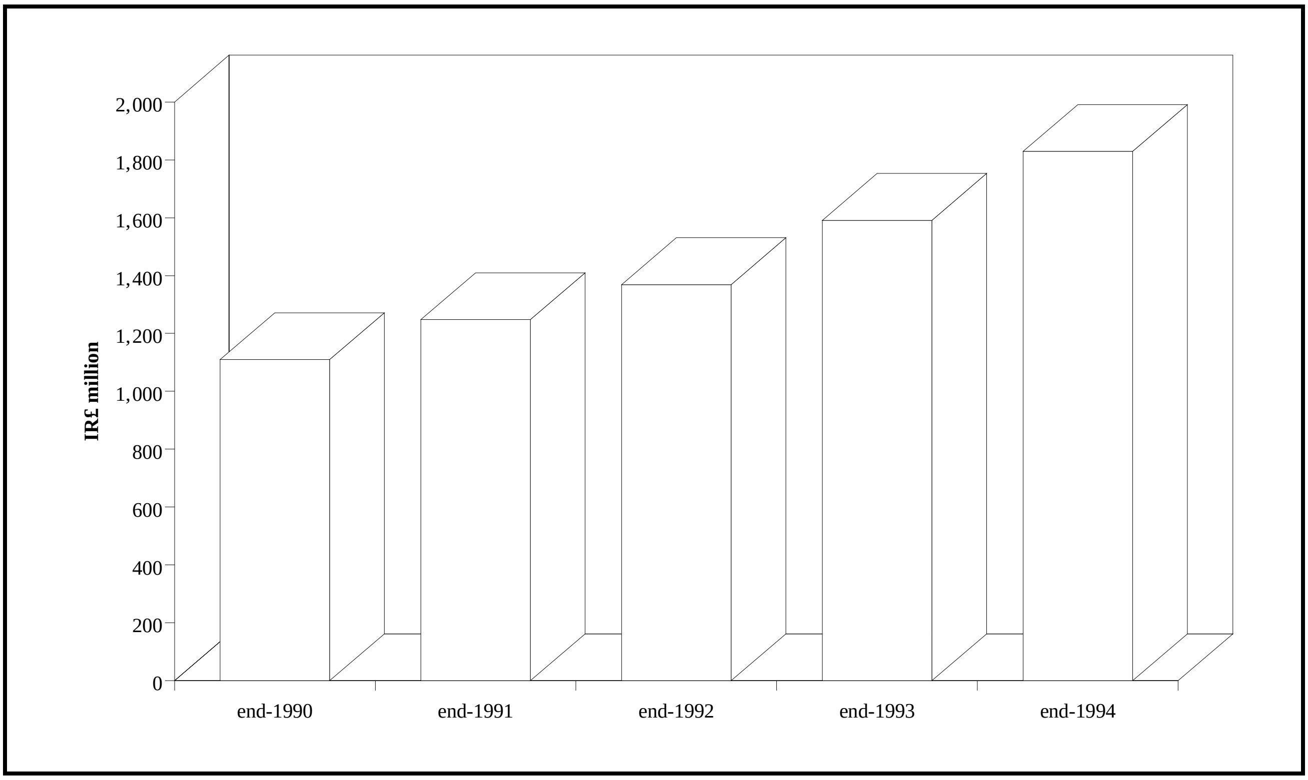
IR£441 million was raised through these three products in 1994. This is an increase of 68% on the 1993 figure.

This substantial increase in net inflows was achieved notwithstanding that competition for personal savings intensified in 1994. Almost all the banks and building societies, as well as some assurance companies, launched medium to long term guaranteed deposits, many offering tax paid returns designed to compete directly with Savings Certificates and Savings Bonds.

In order to ensure the protection of the name Savings Certificates, an investment product in existence since the foundation of the State, it was necessary for the Agency to institute legal proceedings against one of the new entrants to the guaranteed bond market, restraining them from using the name Savings Certificates for one of their own savings products. The Agency was successful in its High Court action and the protection of the name was secured.

Savings Certificates continued to be the most successful savings product contributing a net amount of IR£238 million. A new issue of Savings Certificates was introduced in January 1994, giving a return of 40 per cent tax free after a period of five years and nine months, equivalent to an average rate of interest of 6 per cent per annum.

SAVINGS CERTIFICATES OUTSTANDING 1990 - 1994



Net inflows from Savings Bonds reached IR£174 million, compared to IR£24 million in 1993. The current issue of Savings Bonds gives a return of 20.4 per cent over three years.

In March 1995, the limits on the amount which savers may invest in both Savings Certificates and Savings Bonds were increased by IR£20,000 to IR£60,000. The last time the maximum holdings for Savings Certificates and Savings Bonds were increased was 1989 and 1990 respectively. The increases are designed to reflect the very large growth which has occurred in the Irish personal savings market in the last few years.

Receipts under the Instalment Savings scheme continued to grow in 1994 with a net inflow of IR£29 million.

PRIZE BONDS

This scheme is operated on behalf of the Agency by the Prize Bond Company Limited, jointly owned by An Post and the Foreign Exchange Company of Ireland (FEXCO). The administration of the scheme is carried out at FEXCO's headquarters at Killorglin, Co. Kerry.

In 1994, the Agency implemented a high profile marketing campaign for Prize Bonds, encompassing TV, radio and press advertising as well as introducing a special telephone sales facility operated by FEXCO.

The new marketing strategy was successful. Net inflows more than doubled from the previous year to a record IR£17 million, bringing the total invested in Prize Bonds to IR£117 million.

POST OFFICE SAVINGS BANK

An Post operates the Post Office Savings Bank (POSB) for the Agency. The POSB continued to grow, albeit at a slow rate in 1994. There was a net inflow of funds of over IR£3 million and, when accrued interest is taken into account, the deposit base increased by IR£11 million to IR£484 million. This increase was wholly accounted for by Deposit Account Plus, the Special Savings Account offered by the POSB carrying a low rate of Deposit Interest Retention Tax. The rates on both POSB accounts - the book-based deposit account and Deposit Account Plus - were reduced in 1994 in line with market trends.

Services for POSB customers have greatly improved as a result of the extensive computerisation programme now under way. Full on-line facilities are available at over 440 of the busiest post offices and are to be extended to 1,000 post offices by end-1997.

TSB BANK

TSB Bank continued to reduce its deposits with the Agency during 1994 in accordance with the agreed arrangements between the Bank and the Agency. The actual amount on deposit at end 1994 was IR£406 million, including accrued interest, down from IR£483 million at end 1993.

LEGAL & CORPORATE AFFAIRS

LEGAL

As in previous years, the main focus of legal activity has been in the negotiation and documentation of transactions arising from the Agency's foreign currency borrowing programme and the documentation of derivatives, including a number of structured transactions associated with the Agency's US$2 billion Euro Medium-Term Note Programme.

The Agency, in order to protect the State's proprietary interest and goodwill in the name Savings Certificates, commenced legal proceedings against the Irish Permanent Building Society (now Plc) which had launched a new savings product under the name Savings Certificates. An action brought in the High Court seeking an interlocutory injunction was successful and the injunction was granted in November 1994 restraining the Defendant from using the name in the promotion of its retail savings products. The injunction subsequently formed the basis of a permanent undertaking from the Defendant by consent which was ruled by the President of the High Court in January 1995. The Minister for Finance and An Post were joined as co-Plaintiffs to the action.

The legal division also provided day-to-day advice with respect to existing Agreements and continued to monitor both domestic and foreign legal developments affecting the Agency's business. It is also responsible for ensuring compliance with the professional conduct rules relative to confidentiality, conflicts of interest and other procedures associated with best business practice which all Agency staff are required to observe. The Agency has also put in place a procedure whereby members of staff confirm compliance with such rules on a periodic basis.

PERSONNEL

1994 saw the first outward movement of staff from the Agency. Of the 57 permanent staff at end-1993, five left the Agency during 1994. Two new members of staff were recruited by year-end and a further two appointments were made in early 1995.

To expedite the development of strategic I.T. systems to support business objectives, the number of temporary staff on I.T. project development work was increased from three to six during the year.

Following extensive work on the Trust Deed and Rules, the NTMA Pension Scheme was completed and granted "exempt approved scheme" status by the Revenue Commissioners in June 1994. It was then formally registered with the Pensions Board.

OPERATIONS

The debt management and funding activities of the Agency during 1994 resulted in a higher volume of transactions, carrying a higher monetary value and covering an expanded range of products. The actual volume of transactions processed by the transactions processing department increased by 14% to over 28,000, amounting to IR£89 billion in monetary terms and encompassing some twenty different products.

In September 1994 the Agency became a participant in SWIFT, the international electronic funds transfer system. This system, which is currently used by the Agency for Irish pound transactions, has brought considerable benefits in the form of enhancing both the security and speed of funds transmission. Later this year SWIFT is set to become the transmission system for all currencies used in the Agency.

A milestone was reached in 1994 with the completion of I.T. applications for long term funding instruments. Work on the construction of management information systems and the upgrading of the network continues. In a business such as the Agency's, which is so reliant on quality and timely information, the process of enhancing and upgrading systems is a priority.

The I.T. department was given public recognition for its work when it received a special merit award in the Computer Professionals of the Year competition.

The financial control department made considerable progress in improving the quality and expanding the scale of management information reporting. Working closely with the I.T. department, financial control have succeeded in constructing systems that greatly facilitate the provision of timely and relevant information to management. While further work remains to be done in this area, much has been achieved to date.

Adherence to high standards of internal controls is an area of constant focus within the Agency. Policies and procedures have been established to monitor and control liquidity, counterparty, market and operational risks. In the case of each product, well documented processing and control procedures, which take account of the risks associated with such products, are also in place. This is in line with the policy that such procedures be documented, and approved by management, prior to new products being used by the Agency.

In addition to the annual audit conducted by the Comptroller & Auditor General, two internal audits were conducted, all with satisfactory results.

Looking to the future, the priorities are further improvements to the management reporting and information systems, activation of the Agency's own foreign currency accounts and the further streamlining of the processing function, using the SWIFT funds transfer system for all payments.

STRATEGY & RISK MANAGEMENT

Management of the liquidity, debt service cost and market value of the National Debt portfolio requires timely and accurate portfolio analysis and management information. Over the past year, these needs have further increased as a result of the growth in the diversity and complexity of the portfolio. To meet these requirements the Agency has continued to extend its capabilities in these areas, including:

- Implementation of a comprehensive set of market risk limits to contain exposure to large volatility in debt service costs, both in terms of near term fiscal cost as well as total market value.

- Preparation and tracking of an overall funding plan for the year, outlining the planned sources and timing of funding activity in the various market areas and ensuring that liquidity is protected through the year. This also involves the identification and resolution of conflict between various objectives relating to liquidity, market presence, the level and stability of fiscal cost and performance relative to the Agency's Benchmark.

- Management of the fiscal debt service budget, which accounts for approximately one fifth of annual Government current expenditure. Over the past year the Agency has further developed its ability to analyse the sensitivity of debt service costs to actual or potential movements in interest or exchange rates.

- Management of a comprehensive portfolio performance measurement system which tracks the performance of the Agency's debt portfolio against a Benchmark portfolio, under the supervision of J.P. Morgan, the US investment bank.

Following an extensive review of the currency and interest rate profile of the original Benchmark, a revised more strategic Benchmark was implemented for 1994. This new strategic Benchmark portfolio involved diversifying exposures among a greater number of European currencies and increasing the fixed rate portion of the debt; both of these strategic changes contributed very substantially to net present value savings during the year.