



REPUBLIC OF SLOVENIA  
MINISTRY OF FINANCE

No: 475 -12/2006/5

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**Supplement No. 1 to the Financing Program of the Republic of Slovenia Central Government Budget for the Fiscal Year 2007**

Following Article 84. of Public Finance Act (Official Gazette no.. 79/99, 124/00, 79/01, 30/02), the Government of the Republic of Slovenia, at 118th its session held on March 8, 2007 decided to supplement the Financing Program of the Republic of Slovenia Central Government Budget for the Fiscal Year 2007 as regards Chapter 3, »Managing Central Government Debt«, by adding Chapter 3.1.1 »Execution of buybacks of the Republic of Slovenia bonds on March 23, 2007, by use of proceeds of 11 year benchmark bond issued March 22, 2007« and has empowered the Ministry of Finance to execute the program thus supplemented.

**1. Brief Resume of the Supplement**

The Financing Program for 2007 includes, inter alia, a proposal of government debt management transactions to be carried out in the fiscal year. Chapter 3 defines the instruments of managing the debt, i.e. repurchase of RS57, RS62, RS38, RS53 in RS49 bonds using the proceeds of an 11 year bond issue in March 2007. Buybacks are market transactions depending on conditions in the market at the moment of transaction; the Financing Program will therefore include the ramifications for proposed transactions in a form of Supplement to be proposed to the Government in the preparation phases of each transaction. This Supplement of the 2007 program includes a detailed manner and conditions of the execution of buybacks of the RS57, RS62, RS38, RS53 in RS49 bonds.

**2. Chapter 3. of the Financing program of the Republic of Slovenia Central Government Budget for the Fiscal Year 2007 shall be supplemented by Chapter 3.1. titled »Execution of Buyback Offers using proceeds from 11 year benchmark bond on March 23, 2007«.**

**Republic of Slovenia bonds offered for buyback and preconditions of the buyback**

Chapter 3 of the Financing Program for 2007 lists the following bonds as eligible for buyback using proceeds of newly issued 11 year bond:

Bond	Amount of issue	Currency	Outstanding amount on 1.1.07	Issue date	Maturity date	Repayment	Interest rate %
RS57	90.000.000.000	SIT	375.570.000,00	14.03.04	15.10.14	at maturity	4,875
RS62	118.000.000.000	SIT	492.414.000,00	23.01.06	23.03.17	at maturity	3,500
RS38	100.000.000	EUR	100.000.000,00	19.04.02	19.03.17	at maturity	5,625
RS53	100.000.000	EUR	100.000.000,00	08.04.03	08.04.18	at maturity	4,875
RS49	29.788.960	EUR	29.788.960,00	10.01.03	10.01.22	at maturity	4,750

The preconditions for execution of buybacks of bonds in the secondary market, as set in Chapter 3 of the Financing Program of the Republic of Slovenia Central Government Budget for the Fiscal Year 2007, following article 82 of the Public Finance Act, are:

- financial effects of the buyback transaction, calculated as present value of cashflows, are to be neutral or positive
- from the perspective of debt servicing costs and portfolio structure – and thereby on long term exposure to market risk and macroeconomic risk (decrease of refinancing risk), the impact on the budget is to be positive.

In addition, the buyback transactions will have further positive effects:

- consolidation of the government debt portfolio
- a smaller number of benchmark issues of government bonds in the portfolio, each of at least 1 billion EUR size,
- formation of a yield curve of government bonds in the European financial market, comparable to other EMU member countries,
- positioning of Slovenian government debt within the common European financial market in line with its credit rating and EMU sovereign status,
- faster integration of domestic financial market into the common European financial market.

The above conditions will be fulfilled when the buyback price of individual bond is equal to or lower than the highest acceptable price of such bond to be determined by the Ministry of Finance.

The highest acceptable buyback price of individual bond will be determined on the day of buyback auction<sup>[1]</sup> in the manner where:

<sup>[1]</sup> The highest acceptable repurchase price for an individual bond will be determined on the day of the buyback auction in a manner that will ensure the execution of the transaction, taking into account such proportions of buyback of individual bonds in the total buyback executed in the auction which will satisfy the preconditions for the execution of the buyback transaction. The highest acceptable buyback price of an individual bond will be calculated on the basis of expected yield-to-maturity of such a bond, and will be expressed at midswap plus /minus a margin,

- the difference between the sum of average annual net present values of cashflows of all of the bonds to be bought back on a given date , and the average annual net present value of the amount of proceeds from the newly issued benchmark bond to be used for the buyback will be equal or higher than 0 EUR, whereby the amount of outstanding debt will not be changed or will be decreased and whereby the budgetary effects may be negative or positive, depending on the year, and may also be negative in total, or
- the difference between the sum of average annual net present values of cashflows of all of the bonds to be bought back on a given date , and the average annual net present value of the amount of proceeds from the newly issued benchmark bond to be used for the buyback will be equal or higher than 0 EUR, and the outstanding debt may be either unchanged or increased , and the budget effects in given year are positive.

### **The execution of Buyback Transactions**

The buybacks will be conducted by way of buyback offer, inviting the holders of bonds to be bought back, to participate in the buyback auction. The Buyback offer will be delivered to the bondholders and to the Primary Dealers on March 9, 2007. An announcement of the buyback offer will be published in daily newspapers and on the Ministry of Finance website on March 12, 2007.

An offer will consist of:

- a description of the bonds to be bought back,
- the right of the Ministry to purchase a given bond in total or partial nominal amount of issue,
- the right of the Ministry not to purchase any of the bonds if the parameters for the execution of buybacks set by financing program are not fulfilled,
- time schedule for the auction, the manner for submitting the bids, the manner of accepting the bids and the time of publication of the results of auction, and
- the procedure for cancellation of the bought back bonds in the KDD - Central Securities Clearing Corporation Inc. Ljubljana registry of securities.

The auction will be executed on March 16, 2007, in the Bloomberg Auction System . Settlement date will be March 23, 2007; there will be no advance pricing.

Primary dealers will participate in the auction directly, while other legal and individual persons will be able to participate in the auction indirectly, through the primary dealers.

At the auction, the primary dealers will submit the bids for sale of bonds both in their own name and for own account and in their own name and for the account of their customers. The bids will include the number of bonds for each particular bond offered and the price of each such bond. In selecting the bids, all the bids will be ranked from the lowest priced bid to the highest priced bid. Each individual bid can be accepted at the bid price or rejected partially or in total. The bids will be placed into the selection of accepted bids in such order until the total nominal amount of selected bids equals the nominal amount of each bond to be repurchased by the Ministry or until the highest price that the Ministry is willing to accept is reached. If the sum of bids at the price the Ministry is willing to accept is higher than the amount of bonds the Ministry is willing to purchase, all the bids at such a price will be accepted in partial amounts.

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