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

Following Articles 82. and 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 April 19, 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«, 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. prepayment of outstanding loans and callable government bonds and buyback offers of government bonds, depending on market conditions at the time of execution of the buyback transactions. Prepayments and buybacks will be executed using the funding from the proceeds of 11 year bond issued in March 2007, and of a 5 year bond planned to be issued, , in June 2007.

The supplement includes prepayment of loans assumed on March 7, 2007, following the Act Amending the Railway Transport Act (OG RS, No. 15/2007, ZZeIP-F) from the Public Agency for Railway Transport, prepayment of the RS 46 bond and detailed procedures and conditions for repurchase of own bonds within the meaning of Chapter 3 of the Financing Program.

2. Prepayment of RS46

The terms and conditions of RS46 include a call option. Thereby it is possible, within the projected government budget cash flow, to execute the issuer's obligations before maturity, realizing savings of interest falling due in 2007, i.e. in the period from the prepayment date until original maturity of the bonds on November 8, 2007.

The prepayment must be irrevocably notified to the holders at least 30 days before prepayment date, by publishing the prepayment notification including the actual prepayment date in a daily newspaper, published in Slovenia. The Republic intends to execute the prepayment of total outstanding amount of RS 46 on May 21, 2007.

The RS46 bond is indexed to TOM rate with 3% fixed interest rate and annual interest payments. Total nominal value outstanding of RS46 on March 31, 2007 was 239 mio EUR.

Because of the indexation, the exact total value of prepayment will not be known before April 30, 2007. The prepayment will be executed using the proceeds from the 11 year bond issued March 22, 2007.

Table 3a: Prepayment of RS46

Bond	Amount of issue, 1000 SIT	Outstanding amount on 31.03.2007, in EUR	Issue date	Maturity date	Repayment	Interest rate	Expected prepayment date
RS46	48.488.500	238.951.328	8.11.2002	8.11.2007	at maturity	3,00%	21.05.2007

3. Buyback Offers of the Republic of Slovenia bonds in the period from April 2007 until the end of 2007

Chapter 3.2. titled »Execution of Buyback Offers using proceeds from 11 year and 5 year bond in the period from April 2007 to the end of 2007« shall be included in the Financing Program.

Republic of Slovenia bonds to be offered for Buyback

Chapter 3.2. defines the bonds for which Buyback Offers will be made from April 2007 until the end of 2007. Bonds are listed in Table 11 below.

On several auctions to be conducted within this period, Buyback Offers will be made for groups of bonds selected from the Table 11 bonds. Groups will be formed from time to time through further supplements to the Chapter 3.2. of the 2007 Financing Program, including more detailed conditions of the relevant transaction.

The repurchases in this period will be executed using the proceeds from 11 year and/or 5 year benchmark bond of the Republic of Slovenia.

Table 11: Bonds eligible for repurchase in 2007

Bond	Amount of issue	Currency	Amount outstanding on 31.03.07, in EUR	Issue date	Maturity date	Repayment	Interest rate in %
RS57	90.000.000.000	SIT	276.641.690,52	14.03.04	15.10.14	at maturity	4,875
RS62	118.000.000.000	SIT	488.443.390,50	23.01.06	23.03.17	at maturity	3,500
RS38	100.000.000	EUR	82.021.600,00	19.04.02	19.03.17	at maturity	5,625
RS53	100.000.000	EUR	82.193.900,00	08.04.03	08.04.18	at maturity	4,875
RS49	29.789.960	EUR	29.632.020,00	10.01.03	10.01.22	at maturity	4,750
RS52	40.000.000.000	SIT	166.920.000,00	08.04.03	08.04.08	at maturity	6,250
RS58	99.330.000.000	SIT	414.504.090,00	17.01.05	17.04.08	at maturity	3,250
RS56	50.000.000.000	SIT	208.650.000,00	11.02.04	11.02.09	at maturity	4,875
EUR09	400.000.000	EUR	400.000.000,00	18.03.99	18.03.09	at maturity	4,875
EUR10	500.000.000	EUR	500.000.000,00	24.03.00	24.03.10	at maturity	6,000
RS60	129.999.990.000	SIT	542.490.000,00	31.03.05	31.03.10	at maturity	3,500
RS18	50.000.000	EUR	50.000.000,00	26.04.00	26.04.10	at maturity	6,000
RS61	118.000.000.000	SIT	542.489.958,27	23.01.06	23.01.11	at maturity	3,250
RS23	40.000.000	EUR	40.000.000,00	13.02.01	13.02.11	at maturity	6,000
EUR11	450.000.000	EUR	450.000.000,00	11.04.01	11.04.11	at maturity	5,375
RS26	50.000.000	EUR	50.000.000,00	01.06.01	01.06.11	at maturity	5,375
RS32	23.865.500	EUR	23.865.500,00	15.01.02	15.01.12	at maturity	5,375

RS29	55.000.000	EUR	55.000.000,00	15.01.02	15.01.12	at maturity	5,375
RS44	2.964.930.000	SIT	12.372.652,89	8.11.02	8.11.12	at maturity	6,650
RS48	60.000.000	EUR	60.000.000,00	2.12.02	2.12.12	at maturity	4,750
RS50	61.281.800	EUR	61.281.800,00	24.2.03	24.2.13	at maturity	4,500
RS54	30.000.000.000	SIT	125.190.000,00	15.10.03	15.10.13	at maturity	5,750

Preconditions for the execution of Buyback Transactions

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 cash flows, 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^[1] in the manner where:

- the difference between the sum of average annual net present values of cash flows 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 outstanding debt may be either increased or decreased, and the budget effects in any single year may be positive or negative.

The objective of the Ministry of Finance at each of the buyback transactions is to achieve, within the parameters set in the previous paragraph, by selection of the bids to be accepted, neutral or positive difference between the average annual net present value of each

^[1] 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,

participating bond and the annual average net present value of cashflow of the new benchmark bond, in the amount necessary for the buyback of such bond. In the case the parameter set in the first line of the previous paragraph is satisfied, the Ministry of Finance may, if deemed appropriate, accept such a selection of bids of an individual bond which will carry a difference between average net present value between the old and new cash flow of such a bond, lower than 0 EUR.

The Ministry will propose to the government an additional supplement to the Financing Program for every buyback transaction. Such proposal will include detailed terms and conditions for the proposed transaction: list of bonds to be bought back, proposal of the approximate total nominal amount of buyback, date of public announcement, date of auction, source of funds for settlement and an assessment of financial effects. The decision to execute the auction will be made by Minister of Finance, provided the conditions for the transaction are met.

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 offer will be published on the website of the Ministry of Finance. An announcement of the buyback offer will be published in daily newspapers and on the Ministry of Finance website.

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 Buy backs 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.

Before each auction, the primary dealers of the Republic of Slovenia bonds for 2007 will receive an invitation to submit bids.. The auction will be executed in the Bloomberg Auction System on the basis of the Rules of the Republic of Slovenia Government Securities' Auctions for 2007¹ save as otherwise provided in the Buyback Offer. Primary dealers will participate in the auction directly, while other legal and natural persons will be able to participate in the auction indirectly, through the primary dealers..

Buybacks to be offered on April 26, 2007

Table 12: First 26.04.2007 auction

Bond	Amount of issue	Currency	Amount outstanding on 31.03.07, in EUR	Issue date	Maturity date	Repayment	Interest rate in %
RS52	40.000.000.000	SIT	166.920.000,00	08.04.03	08.04.08	at maturity	6,250
RS58	99.330.000.000	SIT	414.504.090,00	17.01.05	17.04.08	at maturity	3,250
RS60	129.999.990.000	SIT	542.490.000,00	31.03.05	31.03.10	at maturity	3,500

¹ The Rules of the Republic of Slovenia Government Securities' Auctions for 2007 are published on Ministry of Finance's website <http://www.gov.si/mf/angl/obvezn/aobveznice.htm>

Table 13: Second 26.4.2007 auction

Bond	Amount of issue	Currency	Amount outstanding on 31.03.07, in EUR	Issue date	Maturity date	Repayment	Interest rate in %
RS56	50.000.000.000	SIT	208.650.000,00	11.02.04	11.02.09	at maturity	4,875
RS61	118.000.000.000	SIT	542.489.958,27	23.01.06	23.01.11	at maturity	3,250
RS50	61.281.800	EUR	61.281.800,00	24.2.03	24.2.13	at maturity	4,500

Repurchases will be executed using the proceeds of 11 year RS bond issued 22.03. 2007.

Integral text of the Buyback Offer will be published on April 20, 2007 on the website of the Ministry of Finance http://www.gov.si/mf/angl/vredn_papirji/gov_sec.htm. Notification of the Buyback Offer will also be published in Finance and Dnevnik daily newspapers. The Ministry of Finance will also notify the members of KDD - Central Securities Clearing Corporation Inc. of the offer and of the mode and costs of transfer of the purchased bonds to the securities account of the Republic of Slovenia.

4. Prepayments of loans

Chapter 3.3. titled »Prepayment of Loans« shall be included into the Financing Program.

Chapter 3.3. states that proceeds from 11- year benchmark bond of the Republic of Slovenia issued on March 22, 2007, will be used for prepayment of loans assumed on March 7, 2007 following the Act on Amending the Railway Transport Act (OG RS, No. 15/2007, ZZeIP-F) in the total amount of 97,4 million EUR.

According to existing loan agreements, the prepayment must be irrevocably announced, at least 30 days in advance, by a prepayment notice to the creditors. The Republic of Slovenia will execute the prepayment of above loans in total.
