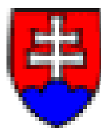


Slovak Republic – EUR 1 Bn 4.50% May 2014

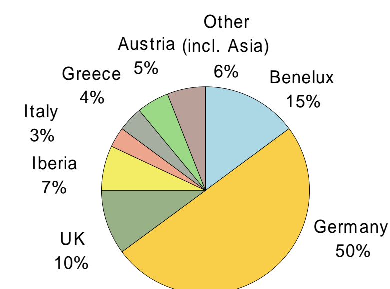
- **The Slovak Republic transaction was an outstanding success, benefiting from the marketing that preceded the issue and the new EU sovereign status recently acquired**
- **The four day pan-European roadshow resulted in a very broad distribution in Europe, which was complemented by interest out of Asia**
- **The final pricing of mid-swaps +18 bp represented a level +3 bp through Hungary and +25 bp through Poland**

Highlights

- This landmark transaction is the first issue to be brought by one of the new EU sovereigns, following their accession on the 1st May
- A dynamic bookbuilding process, with an order book in excess of EUR 2.6 Bn resulted in pricing at the tight end of price guidance despite a volatile market environment ahead of the US non-farm payrolls
- The issue met with strong demand from the investment portfolios of financial institutions seeking to diversify their EU sovereign portfolios
- The success of the transaction was demonstrated further by the secondary trading performance. Having priced at mid-swaps +18, the issue traded into +17.5/+16.5 in the secondary market

Overall Distribution

By Geography, Total orderbook

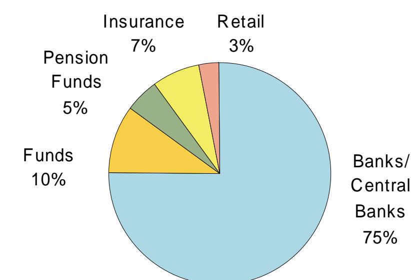


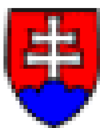
Pricing Details

Issuer:	Republic of Slovakia
Ratings:	A3 / BBB+
Size:	EUR 1 Bn
Pricing Date:	7 May 2004
Settlement Date:	20 May 2004
Maturity Date:	20 May 2014
Coupon:	4.50% a.
Re-offer Spread vs. Bund:	+ 33.50 bp
Re-offer Spread vs. Swap:	+ 18.00 bp
Bookrunners:	**Morgan Stanley**, ABN, DKW

Overall Distribution

By Type of Investor, Total orderbook





Euroweek

EuroWeek

Slovakia is due to price its Eu1bn 10 year bond today (Friday) in what is expected to be a blowout transaction launched at the tightest of possible spreads. ABN Amro, Dresdner Kleinwort Wasserstein and Morgan Stanley are lead managing the deal, which will be the first sovereign offering from the newly acceded EU countries, and represents perhaps their conclusive breakaway from the emerging market universe. The deal will also be one of the few major transactions from central Europe this year. Next up, later in the month, will be the first ever international bond issue by the Czech Republic. Deutsche Bank and Morgan Stanley will lead what is likely to be a similar Eu1bn 10-year benchmark transaction.

The lead managers were talking of pricing the Slovak issue at a range of 18bp-20bp above mid-swaps yesterday afternoon (Thursday). But there is every likelihood that the deal will be launched at 18bp, thus creating a new benchmark for Eastern European paper. The deal comes after the completion of a European roadshow by Ardal, the Slovakian debt and liquidity management agency, that began in Amsterdam and Milan on Monday and reached London yesterday. The book closed last night at Eu2.5bn, with as much as half of that coming from new accounts.

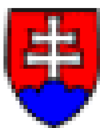
“May 1st had a massive part to play,” said Anthony Barklam, executive director on syndicate at Morgan Stanley in London.
“What I find with names like Slovakia is that historically they are traded off emerging market desks and attract emerging market investors and are looked at by emerging market analysts, as a result the perception of liquidity and the breadth of understanding of the credits is minimal.”
“EU accession thus acted as a useful catalyst to persuade new investors that Slovakia’s strong ratings and rarity value offered a great opportunity for diversification in the government bond market,” Barklam added.

Bankers said the chance to buy paper from the newly joined members of the EU would entice an array of new investors that were previously restricted from buying non-EU bonds. A more important factor in Slovakia’s favour is that if it does a deal for a minimum of E1bn it will be eligible for the Euro-MTS trading platform. Eligibility rules will ensure that at least eight dealers have to price the deal and that the bid/offer as a result will be extremely tight.

For many investors EU accession has long since been factored in and in some cases it has been overfactored. For example, this week, Fitch began what could be a growing trend among the rating agencies in the coming months when it lowered Poland’s foreign debt outlook and local currency rating, citing political uncertainty that may delay fiscal reforms and adoption of the euro. The Slovak deal, in contrast, may have benefited from the cabinet’s approval on Wednesday of its convergence programme for 2004-2010, in time for a submission deadline to the European Union of mid-May.

Another lead manager cited several comparables off which the deal was due to be priced: Slovakia’s 10 year credit default swap, which was trading at 20bp/30bp on Wednesday, and its 2010s that asset swap to 17bp over; the Hungary 2014s that asset swap to 18bp over; and the Poland 2013s that trade at 37bp over mid-swaps.

Rated at A3/BBB+, Slovakia is lower rated than some of its counterparts such as Hungary and Poland. But on the positive side, it has less debt outstanding in the market. This will only be its third bond deal, following a stop-gap Eu500m two year floating rate note (FRN) last year and an outstanding 2010 benchmark.



IFR Magazine

IFR Magazine INTERNATIONAL FINANCING REVIEW Every Insight is Essential

The **Republic of Slovakia**, rated A3/BBB+, brought its first benchmark Eurobond since joining the EU. A €1bn 4.50% 10-year issuewas launched through *ABN AMRO*, *Dresdner Kleinwort Wasserstein* and *Morgan Stanley* on Friday at 18bp over mid-swaps, or 33.5bp over the January 2014 Bund.

"The Republic views the issue as strategically important. The market has shown support and understanding of Slovakia's reforms," claimed Daniel Bytcanek, director at the Ardal, Slovakia's debt and liquidity management department.

"**Slovakia** is a totally different story from what it was when the last fixed-rate bond was launched four years ago. We have targeted a completely different investor base and our credit story is different," he added.

During the roadshow presentations that took place in eight major European locations, the Slovakian delegations met with more than 100 accounts. "New accounts from Scandinavia, Greece, Iberia and Benelux bought the deal," said Bytcanek.

Banks accounted for 75% of distribution, funds bought 10%, insurance 7%, pension funds 5% and retail 3%. Germany took exactly half the ticket, with other European centres seeing a fair split plus some interest from non -Japan Asia. The initial spread guidance was introduced in the 20bp area over mid-swaps.

"When the pre -marketing of the new issue started, 10-year **Slovak** CDS were bid at 20bp over swaps and better-rated Hungary and Poland were bid at 38bp and 48bp, respectively," said George Niedringhaus, head of emerging market syndicate at ABN AMRO.

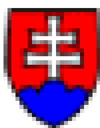
The book grew to €2.6bn. "The strength of the book allowed us to price at 18bp over mid swaps, although we have seen some orders at even tighter levels and the aftermarket trading at plus 17bp-16bp suggests there has been ongoing buying at tighter levels," said Anthony Barklam of Morgan Stanley syndicate.

"In the volatile market environment, when many investment-grade credits have widened, **Slovakia** has managed to price inside of the better-rated peer group."

High quality accounts participated in the deal, with the majority buying bonds at the reoffer," said Carlyle Peake, head of emerging market syndicate at Dresdner.

"Hungarian and Polish 10-year cash bonds were bid at 19bp and 37bp each, and by the time we priced, they had widened to 21bp and 42bp over mid-swaps when **Slovakia** tightened," explained Niedringhaus. The issue will be listed on the new EUROMTS platform, and the proceeds will be used to repay a €500m 7.5% June 2004 bond. "The rest will be used to replace some domestic issuance and other payments. The overall external debt position will not increase though," said Bytcanek.

Yields on domestic bonds now sit at 5% for the 10-year benchmark, and the coupon on the forthcoming new 15-year is set at 5.3%.



Dow Jones

Slovakia Proves EU Issuer Appeal With Euro 1 Billion Bond Launch
By Emily Barrett
Of DOW JONES NEWSWIRES
7 May 2004
Dow Jones International News (c) 2004 Dow Jones & Company, Inc.

LONDON (Dow Jones)--Slovakia drew a warm response for its largest-ever bond issue Friday, and became the first among the latest European Union members to test its new market appeal.

The country sold EUR1 billion of 10-year bonds, priced at the lowest end of guidance, 33.5 basis points over bunds. Lead managers on the transaction were ABN Amro, Dresdner Kleinwort Wasserstein and Morgan Stanley.

The deal weathered tough market conditions - emerging-markets debt has been badly shaken over the past two weeks by fears of interest-rate hikes in the U.S. But the lead managers stressed that Slovakia has migrated out of that troubled asset class. The sovereign gained investment-grade status in 2001, and traditional buyers of E.U. government bonds are now prominent among its investor base.

"Slovakia is no longer really an emerging-markets issuer and the book reflected that. It was more high-grade buyers," said ABN Amro syndicate official George Niedringhaus.

Debt-management officials in the Czech Republic have no doubt paid much attention to the progress of the Slovakia transaction. The Czechs are planning their debut on the international markets with a EUR1 billion deal slated for the summer. Lead managers are Deutsche Bank and Morgan Stanley.

The order book on the Slovakia transaction was amply oversubscribed, with EUR2.5 billion in subscriptions from over 100 accounts, according to Dresdner Kleinwort Wasserstein's Carlyle Peake. The majority of investors were institutions, meaning buy-and-hold accounts, and the largest share of the issue went to German buyers.

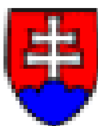
The issue was well supported in the secondary market, trading just one basis point wider in the hours after launch. This was despite a broader market selloff following the release of exceptionally strong U.S. nonfarm payrolls data.

The pricing was particularly favorable for Slovakia in comparison with the trading levels of debt from its higher-rated accession counterparts. Poland's 4.5% bonds due 2013 currently yield 52 basis points over bunds, and Hungary's 10-year yields 32 over.

Slovakia is rated at least a notch below both countries, with an A3 from Moody's Investors Service and BBB+ from Standard & Poor's and Fitch Ratings.

Niedringhaus cited the country's strong economic growth prospects as a strong drawing card for investors. He added that the deal's volume offers attractive liquidity. Slovakia joins Poland, Hungary and Lithuania as a benchmark issuer listed on the New EuroMTS platform, a trading system specifically designed for the debt of the 10 countries that joined the EU May 1.

-By Emily Barrett, Dow Jones Newswires; +44 (0)207 842 9314; emily.barrett@dowjones.com



International Insider

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07MAY04                     *** SLOVAK REPUBLIC ***
E1BN, 4.5PC, 20-MAY-2014, IP/FPR 99.44 (MID-SWAPS +18), RATED A3/BBB+, FEES
0.125PC, PAY 20-MAY, JOINT LEADS ABN AMRO, DrKW, MORGAN STANLEY.

                              *** VIEWPOINT ***
   For convergence investors Slovak euro debt doesn't have a huge amount of
upside left, having gone from north of 215bps over bunds or a rough mid-swaps
+180 at the time of the last fixed euro - a E500m 10yr launched in '00 - through
last May's Jun '05 floater at E+17 (all-in), and now to this new 10yr at bunds
+33.5/mid-swaps +18. Spreads are rapidly homing in on the junkier euro members,
and although there is still some scope for tightening, the relative margins are
now extremely small next to the likes of 10yr Greece currently at m/s +8, and
Italy at around +5.
   There has though been decent interest in this new bond, despite the scanty
performance prospects, and despite the general jitters across all fixed income
markets that have been building over the course of recent sessions (culminating
in the heavy sell-off this p.m. after the April NFP figures).
A number of potential buyers with Slovakia lines set up have been put off by the
volatility and have decided to hold out for more stable conditions, but even
then the overall book has remained strong - orders are said to total around
E2.5bn with 110 accounts involved - the Republic's now official EU member status
bringing a theoretically greater base of mainstream investors in addition to the
expected EM asset manager crowd. A Euro MTS eligible E1bn size has helped,
unlike March's E400m 10yr from fellow EU joiner Latvia.
   Final terms give m/s +18, very roughly flat to bid side screen levels on
Latvia and Lithuania '13s, and a handful inside quotes on Hungary's E1bn Jan '14
in the low 20s over. Poland is trading in the low 40s.
   Allocations have a heavy German bias - around 50pc, and as was also the case
with the Hungary 10yr deal (39pc) - then tickets from Benelux (15pc) and the UK
(10pc). Banks and central banks are around 1/2 of the total, asset managers and
pension funds around 1/3, and insurance cos around 10pc.
   Proceeds will pay off a E500m old 5yr expiry on 23-Jun, and will also
probably being going towards the E750m frn redemption next May.
                                                        ///ENDS///
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