

Annual report for the years 2003 and 2004
Správa o činnosti ARDAL v rokoch 2003 a 2004

Bratislava, 2005

Preamble of the Director of the Debt and Liquidity Management Agency

In 2000, the Government of the Slovak Republic has committed itself to accomplish the public finance reform involving essential reevaluation of budget revenues, expenditures and the public finance reform management. The public and state debt reform management is an important part of the reform.

The Ministry of Finance of the Slovak Republic has recognized imperfections in the state debt and liquidity management system and risks resulting from it. In the context of international experience and the best international practices, the concept of the separating strategic-conceptual management from the debt and liquidity operational management was adopted. While the strategic-conceptual management remained in the competence of the Ministry of Finance of the Slovak Republic ("MoF SR"), the operational management was relocated to the newly-established Debt and Liquidity Management Agency ("ARDAL"). The reform of this part of the public finance started in 2002 by passing the Act No. 386/2002 Coll. on the State debt and state guaranties which determined the basic institutional and political framework for this sphere and by passing the Act No. 291/2002 Coll. on the State Treasury. The Debt and Liquidity Management Agency was established by the Act on the State Treasury.

The reform of the debt and liquidity management of the state's funds contributes to the macroeconomic stabilization, decreasing tension in public finance and accelerates fulfillment of the Eurozone-entry conditions and their subsequent performance in sustainable way.

The objective of the debt and liquidity management reform represents in particular transferring from the active management of the state and public management, rationalization of expenditures relating to the state debt financing, minimalization of risks concerning the financial assets, liabilities as well as open market positions of the state. Active debt management also involves superior monitoring and considering the situation on the market, regarding the short-term analyses of the market development, showing professionalism in financial risks management and supporting the state securities secondary market. Transition to the active debt and liquidity management has brought the following assets into the state finances management system:

- Consistency between the broader views and objectives of the Government and the debt and liquidity management,
- Reducing and controlling possible future risks, elimination of their impact - saving of the future additional expenditures relating to the debt and liquidity management in line with the best international practices,
- Decreasing expenditures referring to the state debt servicing and enhancement of the liquidity management on the single state's account,
- Ensuring the transparency of the state debt and liquidity management process,
- Flexibility in decision-making, possibility to operatively respond to fast-changing conditions on financial markets,
- Accelerating the EU integration in the state and public finance management as well as the single EU financial market integration,
- More independence of political influence in debt management (political influence can be in a form of efforts to decrease expenditures relating to the debt service in the current budget year at the expense of the increased expenditures and risks in the future).

Transition to the active debt and liquidity management was fully in compliance with the development tendencies that have been asserted in the developed countries (OECD), including the Eurozone countries.

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List of Abbreviations

ARDAL	Debt and Liquidity Management Agency (Agentúra pre riadenie dlhu a likvidity)
ST	State Treasury (Štátna pokladnica)
MoF SR	Ministry of Finance of the Slovak Republic (Ministerstvo financií Slovenskej republiky)
NBS	National Bank of Slovakia (Národná banka Slovenska)
HP	Hewlet-Packard
SBCH	State Budget Chapter
T-bonds	Treasury Bonds
NR SR	National Council of the Slovak Republic (Národná rada Slovenskej republiky)
IS	Information System
T-bills	Treasury Bills
SR	Slovak Republic
EU	European Union
NBS T-bills	Treasury Bills of the National Bank of Slovakia
CDS	Central Depository of Securities
CEE	Central and Eastern Europe
ŽSR	Slovak Republic Railway (Železnice Slovenskej republiky)
Žsp, a.s.	Railway Company (Železničná spoločnosť)
ŠFCH	State Road Fund (Štátny fond cestného hospodárstva)

Year-end exchange rate	31.12.2003	31.12.2004
SKK / EUR	41,161	38,796
SKK / USD	32,920	28,496

Introduction

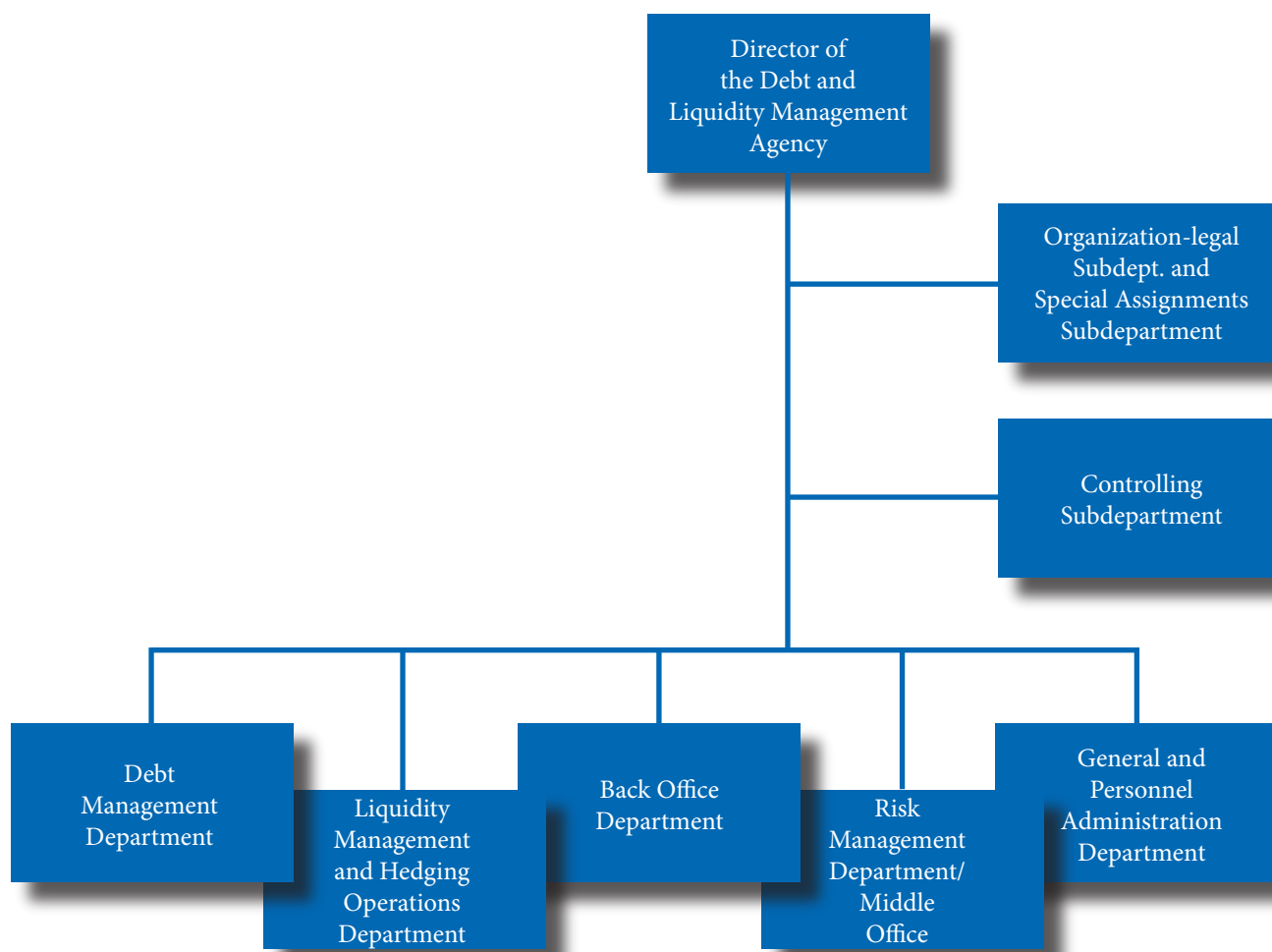
The Debt and Liquidity Management Agency (“ARDAL”) came into existence on 1 February, 2003. It was established by the Act No. 291/2002 Coll. on the State Treasury as amended by the Act No. 386/2002 on the State Debt and State Guaranties. ARDAL is a budgetary organization linked to the State Budget by its revenues and expenditures through the chapter of the MoF SR.

ARDAL is a state administration body and concurrently the securities trader in accordance with Sec. 54 of Act No. 566/2001 Coll. on Securities and investment services, as amended by the State Treasury Act.

The main ARDAL’s responsibilities include the following:

- Cooperation with the MoF SR in developing the State debt management strategy,
- Organizing and execution of the State debt repayment,
- Providing the MoF SR with standpoints to financial and business terms and conditions of loan agreements,
- Managing the State securities issuance,
- Settlements of state securities deals,
- Paying-off nominal values and interests of the state securities,
- Performing the pledging of the securities,
- Executing financial operations with investment instruments, including financial derivatives operations relating to the state debt and liquidity risks management on the single account,
- Redemption of the unpaid state debt,
- Prepayment of the state debt, if stated in the contract documentation or in issuance terms and conditions,
- Performing financial operations on the financial market regarding the free liquidity on the single ST account pursuant to the mandate of the ST,
- Providing the MoF SR with data regarding the accounting and keeping records of the state debt,
- Providing the ST with data relating the accounting and keeping records of financial operations,
- Cooperating with MoF SR and NBS in the areas referring to their scope of activities that are set by the law,
- Performing financial operations with investment instruments, including the financial derivatives operations on the financial market in order to bridge over the interim gap between the state budget revenues and expenditures in the fiscal year and to manage the liquidity on the single account

Organizational structure



In the years 2003 and 2004 ARDAL occupied the following head positions:

Ing. Daniel Bytčánek

Statutory representative - Director

Ing. Tomáš Kapusta, CSc.
Ing. Martin Viest

Head of the Debt Management Dept.

Head of the Liquidity Management and Hedging Operations Dept.

Mgr. Alena Delinčáková

Head of the Risk Management Dept. / Middle Office

Ing. Zuzana Reindlová

Head of the Back Office Dept.

Ing. Ján Tencer

Head of the General and Personnel Administration Dept.

ARDAL provided the performed activities with the working capacity of 14 employees in 2003 and of 16 employees in 2004.

1. Financial results of ARDAL as a budgetary organization in the years 2003 and 2004

1.1. The year 2003

The budget for the year 2003 did not expect any revenues of ARDAL.

Budgeted expenditures of ARDAL were in the volume of SKK 9,638,000, which represents 59.5 per cent pursuance of the approved regulated budget.

Current - operating expenditures were used in the volume of SKK 7,521,000 (53.5 per cent of the budget). The given expenditures covered inevitable ARDAL's operational and labour costs. Savings of budget expenditures related in particular to the fact that a part of expenditures referring to the information system and information technologies was in 2003 and partially in 2004 financed by the ST project and thus it was not included in the ARDAL's budget. Since the beginning of 2005 all expenditures assigned to the ARDAL operating have been covered by the own ARDAL budget.

Capital expenditures in 2003, budgeted in the amount of SKK 2,127,000 were used in the volume of SKK 2,118,000, which represents 99.6 per cent of the budgeted expenditures for acquisition of capital assets. The stated expenditures involved acquired inevitable capital assets - a company car, completing computer technology, copying equipment, telecommunication transmission facilities, safe deposits, recording telephone and fax facilities. The basic technical equipment has formed the primary prerequisites for well-functioning operation of ARDAL.

1.2. The year 2004

Real revenues amounted to SKK 118,000; their origin had not directly referred to the ARDAL business activity. As in the previous year, no revenues have been considered this year.

The total expenditures of the ARDAL's business activity reached the volume of SKK 20,849,000 and the approved budget was used at 97.3 per cent.

Current - operational expenditures in the volume of SKK 17,665,000 represented the budget drawing at 99.7 per cent. This volume of expenditures provided financing of all major operational and labour costs in respecting the principles of cost-effectiveness and efficiency. In addition to the labour costs, the crucial part of current expenditures was utilized for well-functioning and maintaining operational capability of the ARDAL information technology.

As to capital expenditures, SKK 3,184,000 were used, which means pursuing the budget at 86.5 per cent. Within these expenditures, the independent information network (separation from the ST information network) was formed and thus the required safety aspects of the relevant bodies were ensured. ARDAL's IS was completed by additional hardware and software equipment. The level of both operational and interior facilities has increased to a minimum extent as well.

1.3. Controlling Activity

Particular activities of ARDAL were subject to internal controlling system and the general appraisal of the activities was presented in the form of general reports submitted to the MoF SR in semi-annual intervals.

As to external controlling bodies, at the end of 2003 the controlling team of the Supreme Audit Office of the SR and at the end of the first half year 2004 the MoF SR controlling team exercised inspections.

2. Major activities of ARDAL in 2003

2.1. Institutional building of ARDAL as a budgetary organization

ARDAL was set up pursuant to the Act No. 291/2002 Coll. on the State Treasury in February 2003 as a new budgetary organization. Predominantly in the course of 2003 and partially in 2004 it had been personally, organizationally and technically built up to the present-day functional institution.

In the area of human resources, the essential concern was directed to overcome complicated and time-consuming procedures of recruiting employees into the civil-servant employment relationship following the Act No. 312/2001 Coll. on the Civil Service. Due to individual approach, despite the problems relating to wages, we gradually managed to acquire appropriate employees with professional and language capabilities with sufficient practical experience on both financial and bank securities market. At the end of 2004 ARDAL achieved the number of 16 employees. This number has covered all the key positions which provide functionality and perform all the major ARDAL tasks resulting from the Act on the State Treasury and relating laws.

In the course of 2003, legal framework involving 23 internal regulations and directives, including amendments to them and 5 Director's Resolutions was established. In 2004 other 13 regulations and 9 Director's Resolutions came into effect. This framework of internal regulations and Director's resolutions has provided standard functioning of the ARDAL operation as a budgetary organization.

The gradual recruitment of employees, forming and building ARDAL's functionality complied with the utilization of the approved budget in 2003.

The year 2004 can be considered as the completion of the start-up time of the ARDAL activity and as the first year of the standard ARDAL's operation in crucial activities. Budgeted sources assigned to the year 2004 were exploited to almost full extent.

2.2. Preparing terms and conditions for the ARDAL's core activity

Position of the debt and liquidity management, which has been developing since 1993, has been adapting to the current state budget with postponing risks to the future and has not met the requirements laid on the modern system of the state debt and liquidity management in a developed market economy. The ARDAL's objective involves active state debt management, transparent managing liquidity and financing of state needs, rationalization of expenditures related to the state debt and liquidity management. The objective also involves minimalization of risks relating to the state debt and liquidity management, so that the debt-service expenditures are in the medium-term and long-term horizon optimally beyond the risk rate acceptable by the state.

In respect of the establishment of ARDAL and ST as new budgetary organizations, it was requisite to redefine reallocation of activities and responsibilities among MoF SR, ARDAL, ST and NBS. With a view of this, "Proposal for Reallocation of Activities and Responsibilities among ARDAL, ST, MoF SR and NBS", specifying basic activities and responsibilities of particular subjects in the process of the debt and liquidity management was approved at the MoF SR Management meeting. The proposed allocation complies with the Act No. 5572/2001 Coll. on the Organization of the Government activities and the Central State administration.

Detailed defining ARDAL's information system requirements has revealed the fact that some laws concerning the state debt and liquidity management were not mutually harmonized, while considerably affecting the ARDAL core activity. It in particular concerns free liquidity appreciation and managing liquidity on the single ST account. The problem also occurred in defining refinancing relations between the MoF SR and ST, as well as in NR SR by legally approved operations, with a view of covering the debt and State budget deficit for the given fiscal year. Other procedural problems resulted from the fact that the nature of ARDAL's activity is

commercial, whilst from the formal-legal point of view ARDAL is a budgetary organization. Owing to the mentioned reasons and the unification of terminology referring to the debt and liquidity management, as well as with reference to the reallocation of activities, ARDAL prepared proposals for legislative changes in the following laws: Act No. 291/2002 Coll. on the State Treasury, Act No. 386/2002 Coll. on the State debt and Guaranties, Act No. 303/1995 Coll. on Budgetary Rules, Act No. 566/2001 Coll. on the Securities, Act No. 530/1990 Coll. on the Bonds and other relating laws, regulations and directives which were needed to be amended. These legislative changes formed an integral part of ARDAL preparing for its core activity.

2.3. The State Treasury System Implementation

Throughout the year 2003, ARDAL actively participated in the ŠP information system implementation into the Liquidity and Debt Management Module as ARDAL has been directly linked to the ST operating procedures and is dependent on them (the ST outputs directly affect the ARDAL operation). On the other hand, ARDAL had to follow processes utilized by MF SR, which did not dispose of any information system, i.e. any evidence was done in writing. These processes were unflexible and did not correspond with standard processes in commercial practice. Within this module, the developing documentation for cash-flows management on the single account was solved. ARDAL also cooperated on the specification of accounting procedures of transactions made on the interbank financial market and participated in the detailed harmonization of conditions in the NBS accounts keeping which serve for performing payments within both domestic and foreign payment systems of the ST. ARDAL cooperated in surveying and forming the ST operation with a view of meeting clients' requests, with an effort to ensure client's requests similar to the commercial area.

As during the introductory analytical stage of the project several crucial issues in the Liquidity and Debt Management Subproject (settlement of operations executed by ARDAL, accounting for operations, foreign payment system) were not satisfied, it was necessary to define processes and subsequently implement the ARDAL information system. Therefore ARDAL cooperated to a large extent with the ST in defining processes. Concurrently, due to above-mentioned reasons, delays in defining requests for the ARDAL information system occurred.

Information concerning the state debt management, liquidity management and the state budget execution are nonpublic. In the MoF SR (SBCH), no unequivocal rules and regulations for the debt and liquidity management were set out, thus it was complicated to acquire clear and accurate data serving for adjusting the ARDAL information system with a view of the liquidity management of the single state account.

2.4. The ARDAL Information Systems Implementation in 2003

Within the ST system, the FinaceKit Treasury system has been implemented in cooperation with the supplier company HP and PreFis. It is a complex trading system supporting the risk management as well. It also fully meets requirements in the area of the Front, Middle and Back Offices. By its flexibility it supports the wide range of instruments, required support in the area of reporting, risk management and performance measuring. In this system, ARDAL records all the closed transactions as well as prepares the documentation for settlement of transactions and risk management.

Within the framework of the ST system, the following information systems needed for the ARDAL's core activity have been implemented:

Reuters Dealing 3000 - Information and communication system serving for closing deals on the interbank financial market

Active8, Reuters 3000 Extra - Complex information services serving for acquiring data relating to the activities on financial markets and providing information which affect the action on these markets.

BIPS - Interbank clearing system serving for executing payments system in the local currency in the Slovak Republic. It serves for monitoring the execution of payments system as well.

ManEx -The ST information system through which the state-debt expenditures have been managed and controlled. This system is interconnected to the BIS system (Budget Information System) where budgets for individual budget chapters are assigned. The payments system has been realized through this system as well.

MS SQL - A software serving for monitoring future cash flows of the ST clients through which ARDAL is able to manage liquidity on the single account in a superior manner. ARDAL suggested the structure and in cooperation with the supplier company HP the software was implemented in ARDAL

2.5. Taking-over the Agenda of the MoF SR

In connection with reallocation of activities and responsibilities among the MoF SR, ARDAL, ST and NBS, a part of agenda and some activities performed by the MoF SR have passed to ARDAL. While preparing for its core activity, ARDAL developed the agenda list taken over from the above-mentioned institutions, as well as the specific agenda schedule of the takeover, in order to ensure its fluent and trouble-free transition. The takeover of the agenda and ARDAL preparation for its core activity was completed in December 2003.

2.6. Capital Market and T- Bonds Issues

In 2003 were due Treasury bonds (“T-bonds“) at the nominal value of SKK 60.5 billion, due foreign bonds at the nominal value of EUR 1 billion and USD 0.3 billion, as well as due T-bills at the nominal value of SKK 39.5 billion. ARDAL started to affect the T-bond issues at the beginning of April 2003 by suggesting the issuance of zero-coupon T-bonds. Due to maturity of a large-volumed debt denominated in EUR and USD, favourable interest rates on the Euromarket and inadequate requests of domestic banks for interest yields of the domestic T-bonds, ARDAL proposed the Eurobond issuance. This issuance was successfully accomplished in May 2003 at the nominal value of EUR 500 million (the nominal value of the issue was increased by EUR 250 million in November) with the 3M Euribor interest rate + 0.05 per cent and a 2-year maturity. This issue induced the reduction in investors’ pressure on increase in domestic T-bonds interest yields, as well allowed more time for approving the debt management strategy.

In 2003 the domestic T-bonds at the nominal value of SKK 98.5 billion, foreign T-bonds at the nominal value of EUR 750 million and T-bills at the nominal value of SKK 54.6 billion were issued.

Striving for improving transparency of the issuer’s intent (MoF SR) and its communication with investors and financial markets, ARDAL elaborated and in December 2003 submitted to investors and the financial market a complete plan – binding schedule of the state securities issuance for 2004. This schedule was submitted to investors and the financial market for the first time in the history of Slovakia. This step was also aimed to approaching our country to the standard of the EU countries.

2.7. State Debt Management Strategy until the year 2006

In 2003 ARDAL submitted a proposal for the state debt management strategy to the MoF SR for approval. While developing the draft material, ARDAL regarded the present situation of the debt portfolio and risks relating to the present debt structure. Following the accepted basis for the forthcoming years, this material has specified objectives and principles for the forthcoming years, whilst considering the practices from abroad. Consequently the MoF SR submitted the complex material “State Debt Management Strategy until the year 2006“ to the Government of the Slovak Republic which was approved in November 2003.

T-bonds Auctions denominated in SKK

2004	3-year	5-year	5-year float	10-year	15-year	Free Auction
January	12.1.2004		19.1.2004			
	26.1.2004					
February			2.2.2004	9.2.2004		
	23.2.2004					
March			22.3.2004	8.3.2004		
				28.3.2004		
April	26.4.2004	8.4.2004				
May				24.5.2004	10.5.2004	
June		7.6.2004				21.6.2004
July	2.7.2004		19.7.2004			
August	30.8.2004	16.8.2004	23.8.2004		2.8.2004	
September				27.9.2004	13.9.2004	27.9.2004
October		25.10.2004	11.10.2004			
November	8.11.2004		22.11.2004			
December		6.12.2004				

T-Bills Auctions

DATE	DTM
16.2.2004	364
1.3.2004	364
15.3.2004	364
5.4.2004	364
19.4.2004	364
3.5.2004	364
17.5.2004	364
31.5.2004	364
14.6.2004	364
28.6.2004	364
12.7.2004	364

DATE	DTM
26.7.2004	364
9.8.2004	364
23.8.2004	364
6.9.2004	364
20.9.2004	364
4.10.2004	364
18.10.2004	91
29.10.2004	91
15.11.2004	91
29.11.2004	91
13.12.2004	91

3. ARDAL's Major Activities in 2004

The year 2004 was a significant milestone in the area of the state debt management and the state and public finance liquidity. It was the first year of the real operation of both ARDAL and the ST. As to ARDAL, the year 2004 could be characterized as a year of gaining experience with particularities of the ST, MoF SR (SBCH) cash flows and a significant part of the entire range of public finance and with utilization of information system and information technologies. In 2004 the state debt management strategy pursuant to the conceptual material – Strategy, approved by the Government, began to be followed.

The major positive features and assets of the ARDAL's operation are as follows:

- Trouble-free management of the state refinancing – the highest ever need in the Republic's history, amounting to nearly SKK 218 billion,
- Transparency of the issuing state policy (disclosing and following the issuing calendar),
- Supporting the money market stabilization (interest rates and total liquidity of the interbank money market),
- Introducing the partnership approach towards investors and substantial enhancement of communication with them both in the SR and abroad,
- Decreasing the state debt expenditures (utilization of synergetic effect of the state debt and liquidity management. At any time the Government used to borrow funds at the most favourable prices on the market. Through the issuing policy and liquidity allocation, ARDAL has actively contributed to the decrease in the state securities revenues. Savings in SBCH amount to SKK 3.707 billion comparison of the approved budget with reality (in case of accrual comparison the savings represent SKK 4.699 billion)),
- Active managing the free liquidity of the state (at any time throughout the year the free state funds were effectively invested at the market interest rates),
- Performing the extremely successful foreign-bond issuance at the Republic's highest ever nominal value of EUR 1 billion with the lowest ever surcharge (0.18 per cent) on the market interest rate,
- Enhancing the T-bonds portfolio indicators in compliance with the approved strategy until 2006 – average maturity increased from 3.8 years in 2003 to 4.7 years in 2004 and the duration increased from 2.4 years in 2003 to 3.6 years in 2004,
- Change in state securities issue system with a view to enhance their liquidity on the secondary market,
- Significant approaching the state securities primary market and the state securities issue system to the EU standards,
- Implementing the transparent and effective refinancing system between the ST and the MoF SR – by needs of SBCH. Utilization of this system has induced the decline in demands for T-bills issuance by more than SKK 22 billion, whilst the ST funds were considerably cheaper than those from the financial market.

In 2004 fundamental prerequisites for professional state debt and liquidity management were established and practically the execution of the public finance management reform started. Positive consequences of the steps performed within the reform will be fully proved in the several next years.

Subjects of the Liquidity Management

The liquidity management system has been affected by and made up of 3 subjects:

State Treasury - budgetary organization whose role is to keep clients' accounts (in compliance with the Act No. 291/2002 Coll. on the State Treasury), to realize both domestic and foreign payments system, to inspect using of expenses from the state budget and to execute the state budget,

Ministry of Finance of the Slovak Republic, as the case may be SBCH - is responsible for the management of liquidity, state budget and state debt on the single state account. For this purpose it issues state securities, accepts loans and performs operations of the financial market, accounts for these operations,

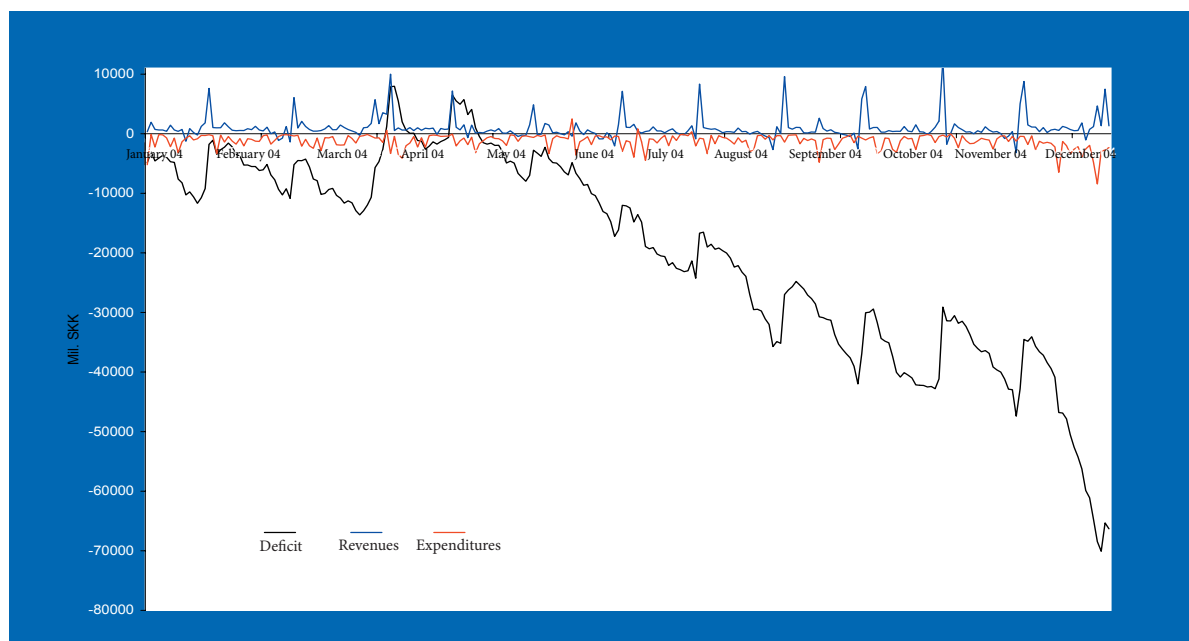
ARDAL - is a budgetary organization which manages the activities referring to the liquidity management and the state debt management for MoF SR (SBCH) on the single state account and relating risks. ARDAL also manages the ŠP liquidity on the single ŠP account and relating risks.

With regard to these facts, ARDAL in cooperation with the MoF SR (SBCH) developed a material where the method of interchanging of accounting documentation and preparing the SBCH's client budget was clearly defined.

3.1. Deficit and Liquidity Management in 2004

3.1.1. Deficit development

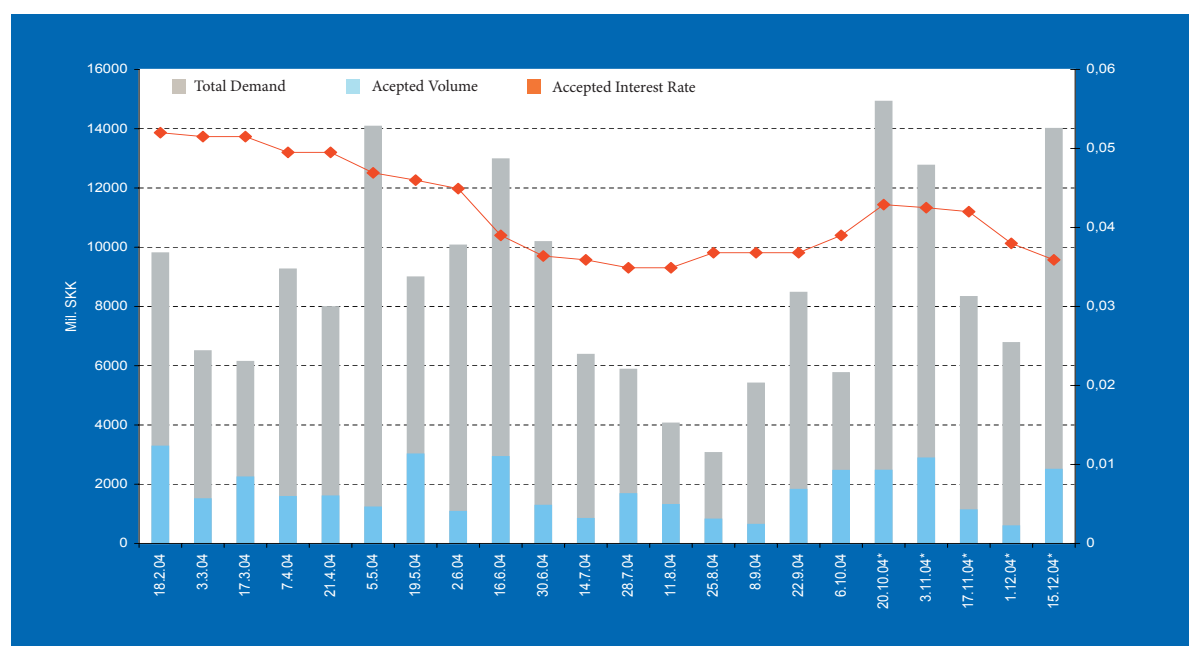
Graph N. 1: Development of Revenues, Expenditures and Deficit



The deficit as at 31 December 2004 amounted to SKK 70,288 million (the budgeted deficit for 2004 was SKK 78,495 million). The state budget revenues represented the amount of SKK 242,444 million (thereof VAT – SKK 99,572 million, excise taxes – SKK 43,405 million, income taxes – SKK 60,549 million; budgeted revenues – SKK 231,957 million). The state budget expenditures amounted to SKK 312,733 million (budgeted expenditures – SKK 310,452 million). Over the year the interim gap between the needs and funds of the state budget was partially covered by T-bills and partially by the free liquidity cumulated for the debt repayment. As at the end of the year the total issued T-bills were at the nominal value of SKK 38,881 million. The T-bills auctions were performed in compliance with the approved 2004 schedule. As at the end of the year, the free liquidity amounting to SKK 18,248 million (thereof SKK 15,298 million for O/N and 2,950 million for the period ranging from 2 weeks to 6 months) was used through refinancing system from the ST. The amount of SKK 10,850 million was borrowed as at 31 December 2004.

3.1.2. T-bills Issues in 2004

Graph N. 2: Overview of the 1-year's T-bills Auctions Results

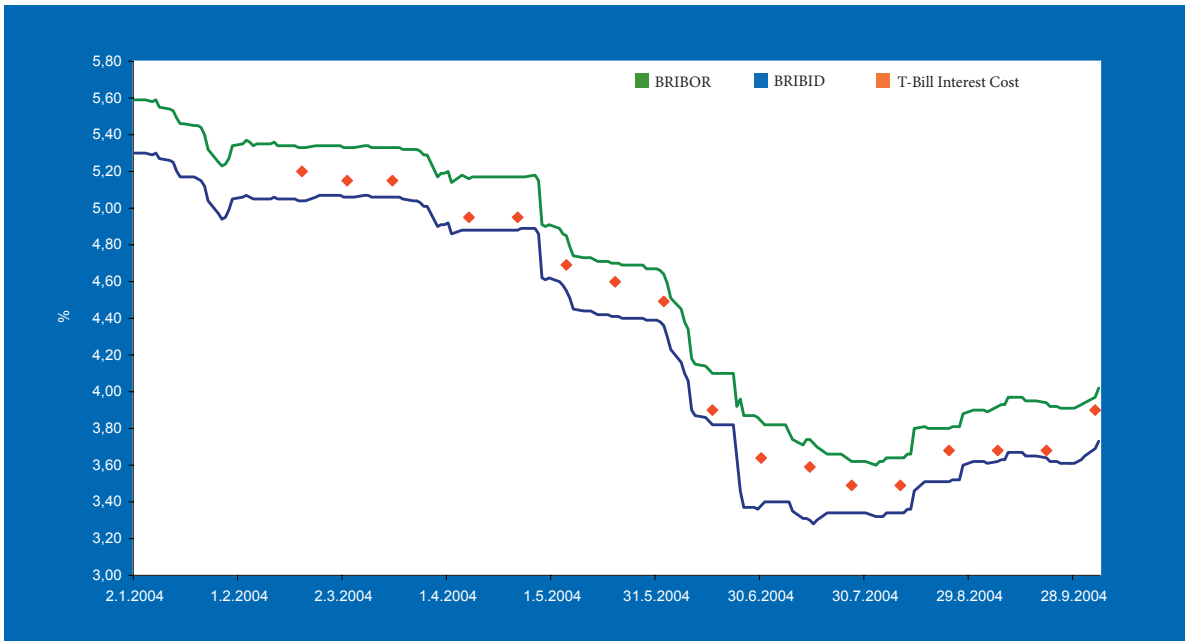


* 3-month T-bills

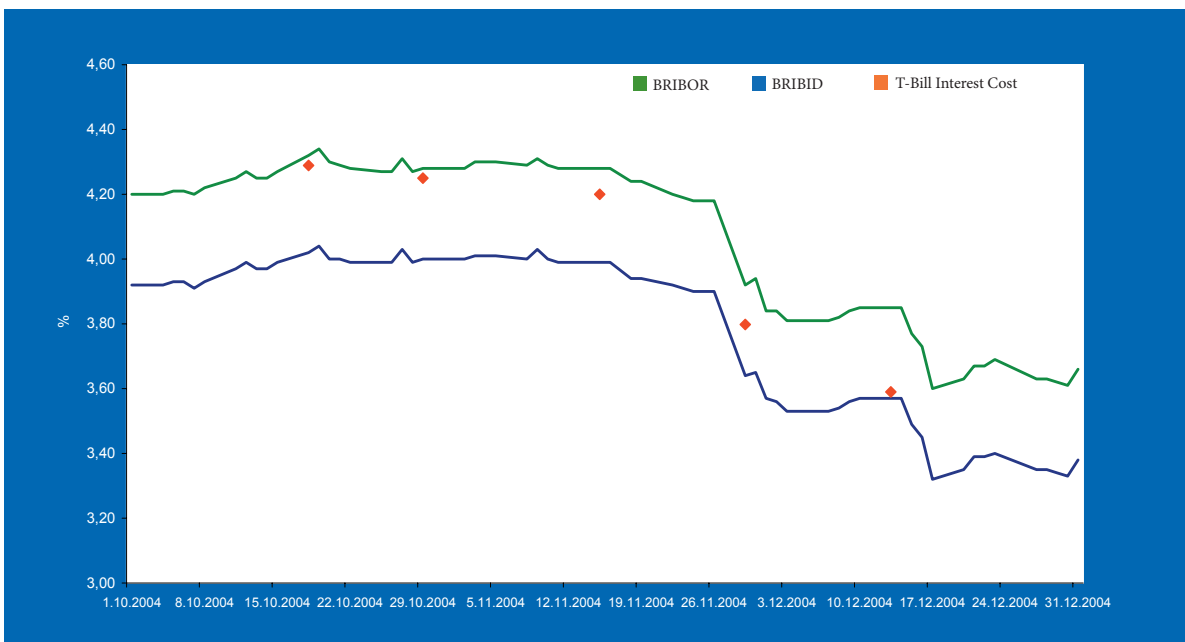
In 2004 the T-bills at the total nominal value of SKK 38,881 million were issued. The accepted interest rates ranged from 3.49 per cent p.a. to 5.2 per cent p.a. as to annual T-bills and from 3.59 per cent p.a. to 4.289 per cent p.a. as to 3-month T-bills. Throughout the whole year the accepted interest rates ranged between the BRIBOR – BRIBID values. The average interest rate (weighted by the value and maturity) of the T-bills portfolio issued in 2004 was 4.336 per cent per annum.

3.1.3. Comparison of T-bills' Interest Costs with BRIBOR

Graph N. 3: Overview of interest costs of 1-year's T-bills and 12M BRIBOR

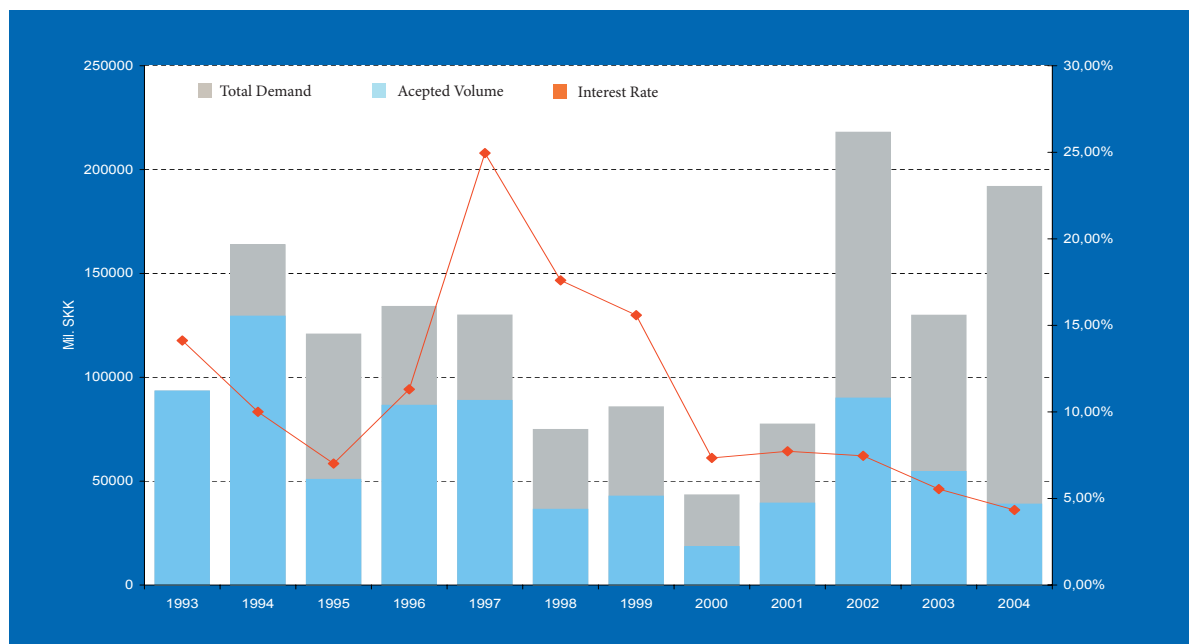


Graph N. 4: Overview of Interest Costs of the 3-month's T-bills and 3M BRIBOR



3.1.4. T-bills Issuances from 1993 to 2004

Graph N. 5: Overview of the T-bills Auctions Results in Particular Years



3.2. Liquidity Management in 2004 and Refinancing System

3.2.1. 2004 – the year of transition

By the year 2003, bank services to the state budget were provided by the National Bank of Slovakia (“NBS”). Regarding the transferring of these services to the ST, it was essential to prepare the whole MoF SR (SBCH) debt and liquidity management system for the 1-year transitional (bridging) period serving for the successive transfer of all clients from the NBS to the ST. The transfer was allocated into four stages, whilst in the second stage one of the clients involved to the ST was the MoF SR (SBCH). It was essential to prepare the bank accounts transfer and starting-up the MoF SR (SBCH) that issues state securities for the deficit and debt coverage and manages the liquidity of the single state account.

The year 2004 was specific due to the fact that expenditures and revenues of the state budget were executed through clients’ accounts kept in the ST and concurrently in the NBS. As a result, one of the ARDAL’s priorities through the client MoF SR (SBCH) was to manage the coverage of the part of the state budget which was executed through the accounts in the NBS by the end of 2004. In order to manage the liquidity on the both accounts, it was essential to have cognizance of ST processes and operation, as well of particularities of the payments system in the NBS.

3.2.2. Refinancing System

One of the principal concepts of establishing the ST system represents the effort to centralize as far as possible all funds of the state. To utilize centralized sources directly to coverage of the state needs relating to the state budget financing and the liquidity management, the result of which is the cost saving.

ARDAL proposed the method of the ST cash flow management, whilst the MoF SR (SBCH) cash flows are managed on the basis of refinancing relation between the two clients via refinancing deals through which the state borrows funds for covering its financial needs.

ARDAL thus succeeded in transforming the liquidity management of the two state subjects into the liquidity management of the one, which caused the cost savings in transferring funds among several financial subjects (financial institutions that credit the state and where the ST deposits surplus sources), the savings in interest-rate margins in loans drawdowns, in depositing surplus sources and in decreasing costs relating to the creation of minimum capital adequacy.

3.2.3. Operations on the Interbank Market

ARDAL intended to become a part of the interbank market, whilst using standard tools, which the commercial banks have at disposal, was its objective. Despite the ARDAL's effort to find the common ground with the NBS, no agreement has not been reached. At the end of the year the NBS enabled the MoF SR to participate ad interim in NBS-bills primary auctions. ARDAL was thus compelled to execute transactions with commercial banks on behalf of the MoF SR and the ST that caused the increase in the state credit risk. In 2004 ARDAL took part in two primary NBS-bills auctions and invested financial resources amounting to SKK 6,920 million at the average interest rate of 4.310 per cent per annum (weighted by value and maturity).

In 2004 ARDAL mainly executed short-term interbank deposits for the benefit of the ST and the MoF SR (SBCH) in compliance with the authorized limits for individual domestic and foreign commercial banks.

With the view of managing liquidity, throughout the year ARDAL dealt interbank deposits (loans) ranging from SKK 300 million to 10,900 million at the average interest rate of 3.017 percent p.a. (weighted by the value and maturity) on the MoF SR account.

	Interest Rate*
ST Resources Appreciation	4.272 % p.a.
NBS Resources Appreciation	3.127 % p.a.
NBS-bills	4.310 % p.a.
MM Loans	3.017 % p.a.
Loans – Refinancing System	3.021 % p.a.

* interest rate weighted by volume and maturity

3.3. Debt Management in 2004

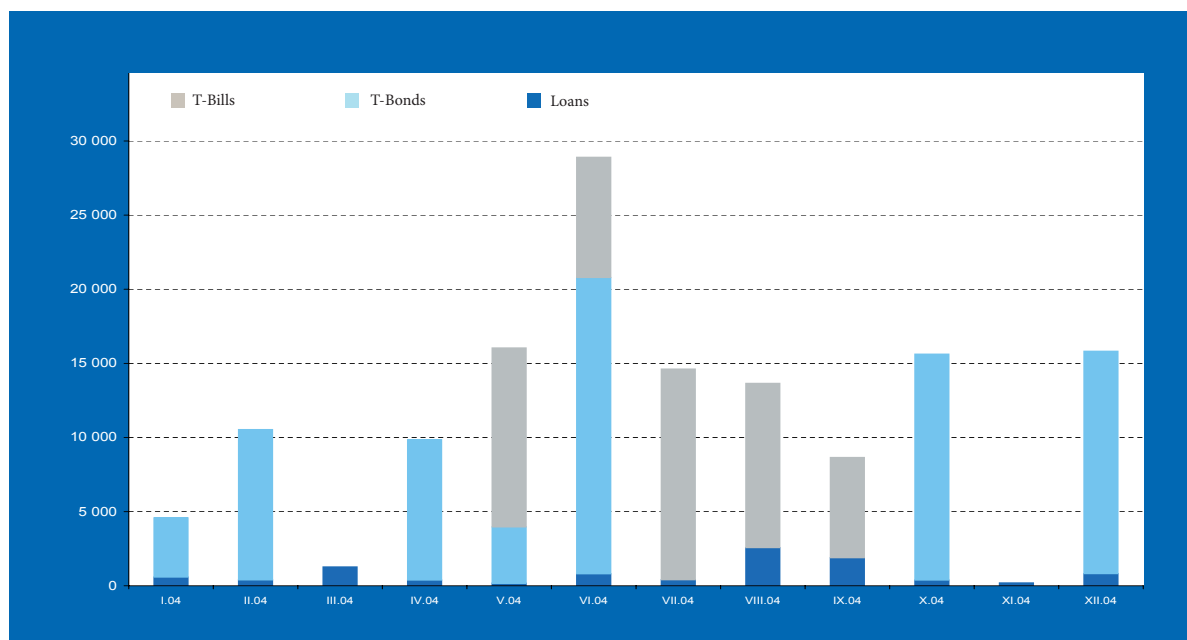
The state debt management strategy until 2006 is the principal and initial document specifying basic scope of activities and directing the debt management policy for the given period. The strategy only covers the part of the debt and liquidity which is managed by the MoF SR, i.e. state debt and liquidity of those subjects that are managed by the central government. The state debt management strategy is developed by the MoF SR in cooperation with ARDAL and approved by the government. The first strategy whose operation is limited by the year 2006 was already authorized in the autumn 2003, its annual specification for 2005 was developed in July 2004. The document for the next period whose duration will be specified later, mainly with respect to the target year of the Slovakia's EMU entry will be prepared in the first half year of 2006.

Following the need for the active debt management, and in the line with the market requirements, the approach to the securities issues has completely changed. Over the year 2004, ad hoc issues following the immediate needs of financial resources were not applied. In compliance with the state debt maturity profile, the issuing schedule as well as auctions calendar for 2004 were created and disclosed. They were, unlike in previous years, binding. With the exception of two T-bonds auctions that were postponed to the later date owing to the great risk of the CDS incapability to settle up the auctions results, the state securities auction calendar was observed.

As to the T-bonds issued in 2004, the standard value of issues amounting to SKK 40 billion was set (for shorter-term maturities, i.e. up to 5 years the standard of SKK 20 billion is possible in the future). The aim of this step was to approach to the EU countries' standards and the gradual enhancement of the state securities secondary market.

3.3.1. The State Debt Maturity in 2004

Graph N. 6: Overview of the State Debt Maturity

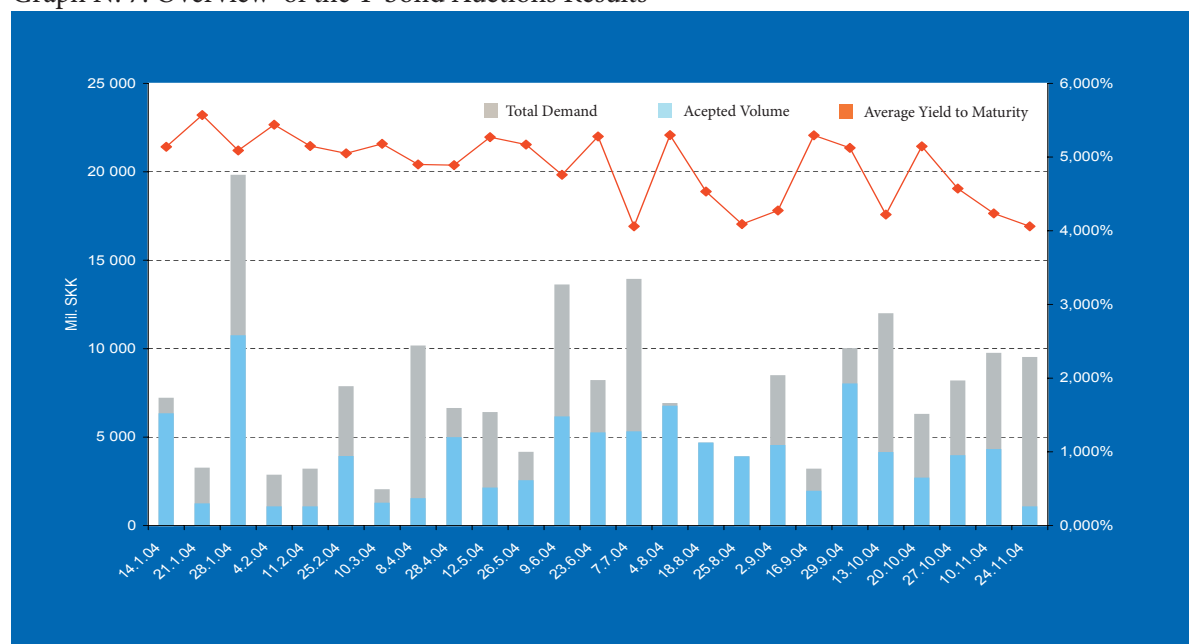


In 2004 installments in the state debt principals amounting to SKK 139,734 million were realized (thereof the state debt is represented by SKK 77,633 million, loans – SKK 9,852 million and T-bills are represented by the amount of SKK 52,249 million). In order to cover the debt payable in 2004 amounting to nearly SKK 140 billion, five new T-bonds issues with the maturities from 3 to 15 years were open on the domestic

capital market, wherewith 27 auctions were realized: a T-bond with the 3-yr maturity and the zero-coupon bond, a T-bond with a 5-yr maturity and floating coupon interest rate based on 1Y BRIBOR, a T-bond with a 5-yr maturity and fixed coupon interest rate of 4.8 per cent per annum, a T-bond with a 10-yr maturity and fixed coupon interest rate of 4.9 % p.a. and a T-bond with a 15-yr maturity and fixed coupon interest rate of 5.3 % p.a. On the domestic market the T-bonds at the nominal value of SKK 100,989 million were issued. The average interest rate reached in auctions performed in 2004 weighted by the value is 4.821 % per annum. The average interest rate of the unpaid T-bonds portfolio denominated in SKK, weighted by the value is 6.35 % per annum. The rest of almost SKK 40 billion was received by the Eurobond issue in May 2004.

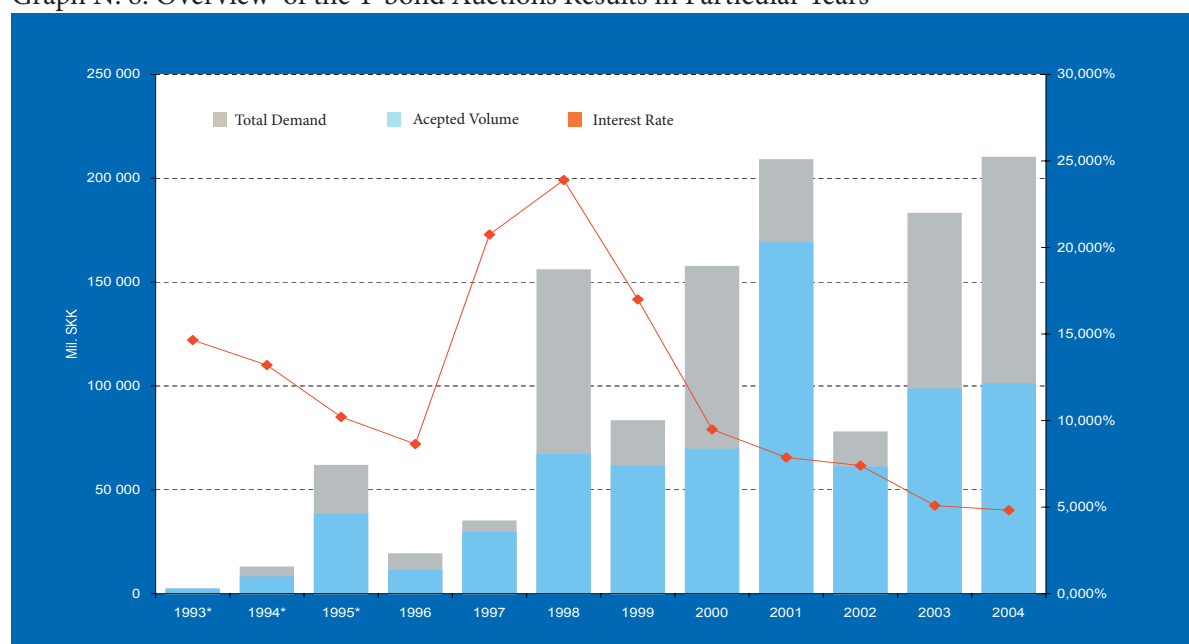
3.3.2. The T-bonds Issues in 2004

Graph N. 7: Overview of the T-bond Auctions Results



3.3.3. T-bonds Issues from 1993 to 2004

Graph N. 8: Overview of the T-bond Auctions Results in Particular Years



* data are approximate

3.3.4. The liquidity and Debt Management Coordination

The liquidity and debt management harmonization was the significant contribution of ARDAL in 2004. The cash flow of the entire ST (MoF SR (SBCH) is its part) is managed by the Liquidity and Hedging Operations Management Department which reports on the situation to the Debt Management Department, thus, in case of unfavourable market conditions on the capital market, the Debt Management Department has the option to hold out for enhancement of market conditions, or in case of favourable price conditions, can issue more securities than immediate need requires and to appreciate ad interim these sources on the interbank market. This synergistic effect gives scope to bridge over the temporarily unfavourable conditions and enables the state to refinance itself under the best market conditions. The synergistic effect of the liquidity and market management brings stabilization on the money market and reduces the interest rates volatility.

3.3.5. Eurobond

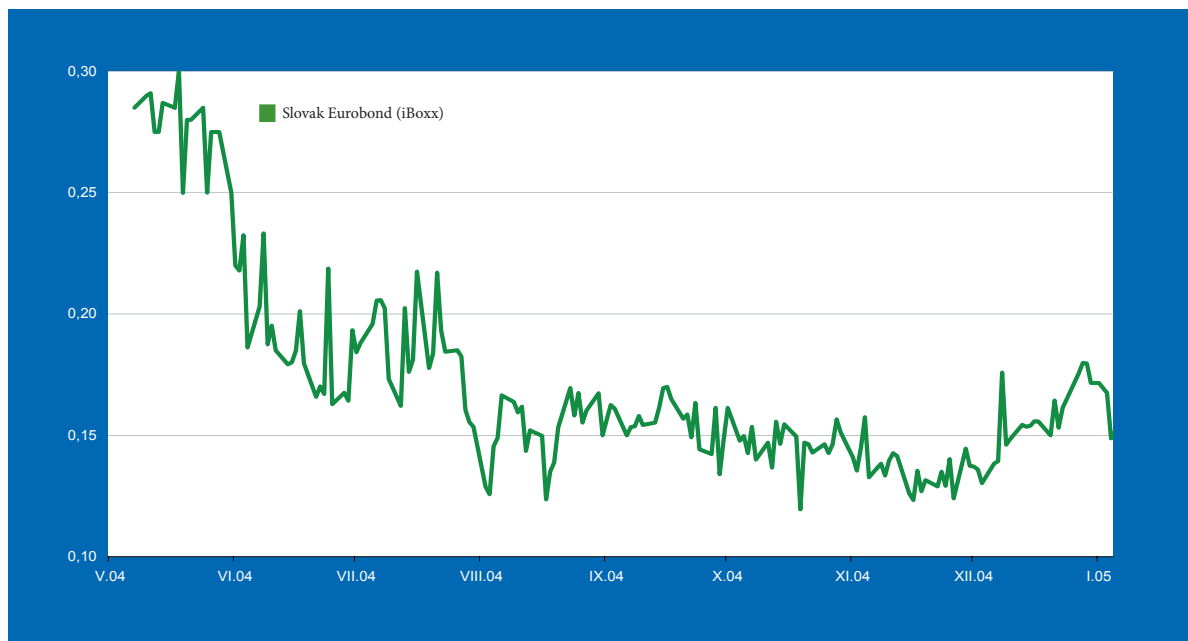
Considering the present conditions on the EU capital market and regarding the Slovakia's accession into the EU and probable EMU entry in 2009, the approach to the T-bonds issues denominated in foreign currencies has been modified. In compliance with the "State Debt Management Strategy until 2006", the Eurobond at the nominal value of EUR 1 billion with the 10-yr maturity and the fixed coupon interest rate was issued on May 23, 2004. The issue timing was adjusted to the foreign bonds issues payable in 2004. The issue was executed by the Bank House Syndicate led by Morgan Stanley, Dresdner Kleinwort Wasserstein and ABN AMRO that became the public tender winners. The T-bond was issued at the highest ever nominal value of EUR 1 billion at the total demand amounting to almost EUR 2.6 billion. In the light of difference against the benchmark (the EUR yield curve), it has been the best Eurobond in the Slovakia's history. Foreign analysts and expert journalists rated it among the three most successful issues of the CEE countries in 2004. The difference achieved against the EUR yield curve benchmark represented 0.18 per cent (approx. 0.32 % against bund – the German benchmark T-bond with the same maturity). The closest difference value against the EUR yield curve benchmark of the newly-accessed EU members with the similar maturity was also achieved due to the issue timing in the month of the Slovakia's accession into the EU and the repute which Slovakia has earned through its reforms. Due to the continuing EU integration of the new members and ongoing reforms in Slovakia, the above-mentioned difference ranged around the value of 0.10 per cent by the end of 2004. Eurobond has been actively traded on the NewEuro market MTS electronic platform, whilst the bid – offer difference got from the value of 0.30 % to 0.16 % at the end of 2004. The Slovak Eurobond was the most traded by Lehman Brothers, KBC, UBM and Dresdner KW. Quotation criteria were most observed by UBM, Dresdner KW, Fortis and KBC.

Graph N. 9: Development of Slovak Eurobond Spread against bund



iBoxx, Bloomberg - companies providing market information

Graph N. 10: Development of Slovak Eurobond Bid - Offer Spread



iBoxx - company providing market information

3.3.6. Calendar of the State Securities Auctions for 2005

On December 16, 2004, the MoF SR approved the draft schedule of the state securities auctions for 2005

Calendar of T-bills Issues in 2005

Issue Date	T-bills Maturity Date	Nominal Value
12.1.2005	12.10.2005	SKK 40.0 bln.
7.6.2005	6.6.2006	SKK 31.5 bln.
25.8.2005	24.8.2006	SKK 30.0 bln.

Calendar of T-bills Auctions in 2005

Auction Date	Issue Date
6.6.2005	8.6.2005
20.6.2005	22.6.2005
4.7.2005	6.7.2005
18.7.2005	20.7.2005
1.8.2005	3.8.2005
15.8.2005	17.8.2005
26.8.2005	31.8.2005
12.9.2005	14.9.2005
26.9.2005	28.9.2005
10.10.2005	12.10.2005
24.10.2005	26.10.2005
7.11.2005	9.11.2005
21.11.2005	23.11.2005
5.12.2005	7.12.2005

Calendar of T-bonds Auctions in 2005

	Auction Date	Issue Date	Issue
1.	7.2.2005	9.2.2005	5- year – fix (TB 203)
2.	21.2.2005	23.2.2005	Free
3.	7.3.2005	9.3.2005	15- year – fix (TB 204)
4.	21.3.2005	23.3.2005	Free
5.	4.4.2005	6.4.2005	5- year – float (TB 201)
6.	18.4.2005	20.4.2005	Free
7.	2.5.2005	4.5.2005	7-year – zerobond (TB 205)
8.	16.5.2005	18.5.2005	Free
9.	30.5.2005	1.6.2005	10- year – fix (TB202)
10.	13.6.2005	15.6.2005	Free
11.	27.6.2005	29.6.2005	5- year – fix (TB 203)
12.	11.7.2005	13.7.2005	15-year – fix (TB 204)
13.	25.7.2005	27.7.2005	5-year – float (TB 201)
14.	8.8.2005	10.8.2005	Free
15.	22.8.2005	24.8.2005	7- year- zerobond (TB 205)
16.	5.9.2005	7.9.2005	10-year – fix (TB 202)
17.	19.9.2005	21.9.2005	5-year – fix (TB 203)
18.	3.10.2005	5.10.2005	15-year – fix (TB 204)
19.	17.10.2005	19.10.2005	5- year – float (TB201)
20.	31.10.2005	2.11.2005	Free
21.	14.11.2005	16.11.2005	7- year - zerobond (TB 205)
22.	28.11.2005	30.11.2005	10-year – fix (TB 202)
23.	12.12.2005	14.12.2005	5-year – fix (TB 203)

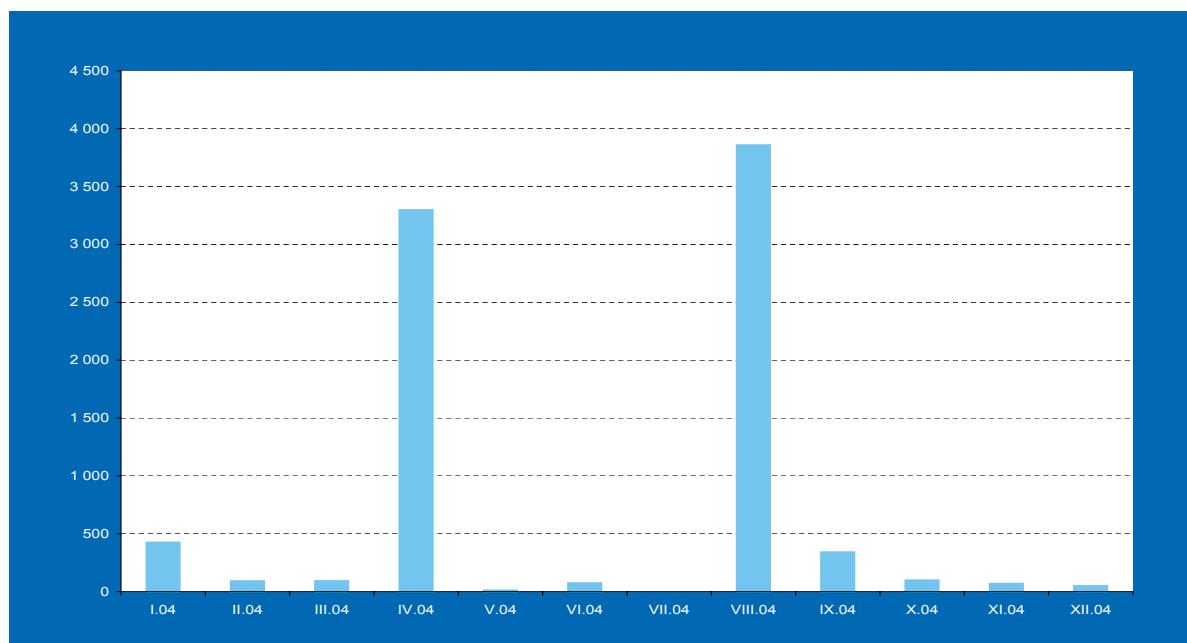
**Free issue – A week prior the notice of an auction ARDAL can make decision on the execution of an auction, whether a T-bill or a T-bond will be the traded in the auction, which security will be included into the auction.*

3.3.7. Expected Functioning of the State Treasury System in 2005

Since 1 January, 2005 all the public sector clients have been integrated in the ST system, which will affect the increase in the ST primary sources. In respect of the state funds centralization and enhancement of the state budget revenues and expenditures planning, and thus the development of the ST system deficit, it will contribute to more effective utilization of the centralized state funds. In the area of raising deficit coverage sources it is possible to expect the substantial decline in the issued T-bills in 2005.

3.3.8. Loans

Graph N. 11: Overview of Government Loans using in 2004



Throughout 2004, government loans used in the total amount of SKK 8,431 million (NBS middle exchange rate as at 31 December, 2004) were realized. As at 31 December, the total value of the government loans payables amounted to SKK 49,716 million (NBS middle exchange rate as at 31 December, 2004). Since the end of the year the analysis with the view of the loan portfolio restructuring has been developing. The objective is to achieve the change in financial conditions of loans and if possible, to prepay unfavourable loans.

3.3.9. Structure of the Slovak Republic's Liabilities

Item	In SKK '000 as at 31 December, 2004
1. Treasury Bonds	397,622,965
TB issued in SKK	310,323,000
TB issued in a foreign currency	87,291,000
RehabilitationTB	8,965
2. Treasury bills	38,881,000
3. Government loans	16,252,291
4. Loans assumed from ŽSR and Žsp,a.s.	18,223,373
5. Loans assumed from ŠFCH	14,437,560
6. Other liabilities	1,061,077
7. The loan from the State Treasury	18,247,839
8. Short-term loans from financial institutions	10,850,000
Total state's liabilities	515,576,106

4. The ARDAL 's objectives for the forthcoming years

The general objective relating to the debt and liquidity management defined in the "State debt management strategy until 2006" is to manage the liquidity and ensure access to the market for financing the state 's needs by transparent, prudent and cost-effective manner, provided keeping the risks involved in the debt at an acceptable level. The role of ARDAL particularly involves:

- Implementing electronic state securities auctions,
- Ensuring the professional management of the debt and liquidity, thus optimizing the debt structure and related costs pursuant to the market analysis, debt portfolio analysis and developed risk management system,
- Allowing the separation of the operational debt and liquidity management from the policy defining and controlling observance of rules and directives,
- Improving significantly communication with the market and investors and in cooperation with the MoF SR and other institutions increasing the liquidity of the the state securities market,
- Ensuring flexibility of the operational debt management,
- Increasing share of automatization in processing payments relating to the state debt installments,
- Acting interactively in integrating financial market and public-finance financial management with the EU countries at the international level.

A significant change affecting the ST liquidity management in foreign currencies is in transferring foreign-currency nostro accounts from the NBS to the selected commercial bank. It is due to the obsolete NBS foreign payments system that is not suitable for the ST requirements.

Regarding the change in foreign payments systems, ARDAL has been preparing to the active management of the ŠP foreign exchange position and relating interbank deals.

The ARDAL 's objective in 2005 is to start up an execution of currency conversions, forwards, currency swaps, cross currency interest-rate swaps and other derivative operations aimed to ensuring the positions of the ST and MoF SR (SBCH) on the interbank market.

Another objective is to decrease credit risk that the Slovak Republic is subject to through the deposits in commercial banks. In 2005 ARDAL plans the gradual transfer from the deposit deals to REPO – state securities deals, whilst it is needed to clarify legislative aspects which have restrained the using of REPO deals as a standard product.