Slovak Republic

Investor Presentation

October 2010

Agenda

1. **Slovak Republic at a Glance**
2. Low Indebtedness and Solid Macro Fundamentals
3. Prudent Debt Management and Funding Strategy
4. Proposed Bond Offering

Slovak Republic at a Glance

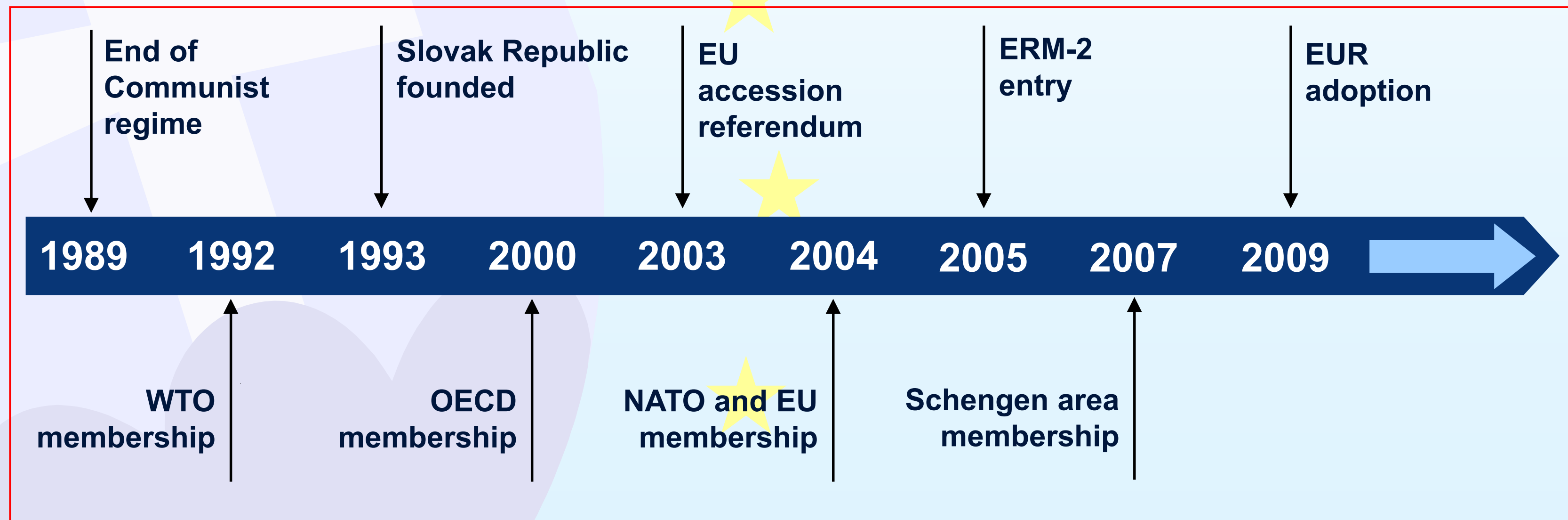
Territory: 49,035 km²

Population: 5.4 million

GDP per capita[1]: 72% of EU-27

Credit ratings: A1 / A+ / A+ (stable outlook)

Capital: Bratislava



Note:[1] In Purchasing Power Standard (PPS) in 2009. Nominal GDP per capita: EUR 11,700 in 2009, Source: Eurostat

CEE Convergence with Eurozone Creditworthiness

Medium-term convergence story	• The GDP growth reached 5.2% p.a. in 2002-09, highest in the EU • Slovakia outperformed Eurozone and CEE peers in 2002-09 • The convergence story should continue in the future along with the transfer of technology and know-how and institutional improvements
Latest Eurozone member	• Slovakia adopted euro in January 2009 • Only CEE country with membership in all major international organisations • Euro adoption shields Slovakia from balance-of-payments crisis • Negligible share of foreign-currency loans (3.0% of total loans as of July 2010) • Access to ECB's liquidity, a member of EFSF fund • Higher attractiveness for foreign direct investments (WB's Doing Business survey)
Low overall indebtedness	• One of the lowest public and private debt level in the EU at 35.7% of GDP (well below the Maastricht threshold) and 47.7% of GDP, respectively in 2009 • One of the lowest Loan/Deposit ratio at 86% in the banking sector inside EU
Strong ratings with stable outlook	• Second-best ratings in the CEE (only behind Slovenia) • A+ by S&P, stable outlook, affirmed on 16 December 2009 • A1 by Moody's, stable outlook, changed outlook on 27 March 2009 • A+ by Fitch, stable outlook, affirmed on 18 May 2010

Economy Impacted by Global Recession but Poised for Recovery

Budget deficit affected by crisis	• The general government deficit deepened in 2009 to 7.9% of GDP due to fall of revenues and capital injections (railways, hospitals) • In 2010, the continuation of fiscal stimulus suggests a deficit of 7.8% of GDP • The comprehensive fiscal package will reduce it to 4.9% of GDP as government cuts spending, hikes consumption taxes and removes exemptions • Deficit below Maastricht limit of 3.0% of GDP targeted by 2013
GDP fell due to global recession	• In 2009, the GDP declined by 4.7% y/y, but is sharply up this year at an estimated 4% • Sharp fall in foreign demand led to reduction of investments • Economy reached bottom in 1Q09 but has grown impressively since then (among the highest q/q growth rates in EU so far) • C/A balance improved significantly in 2009 and 2010
Positioned to benefit from recovery	• New investments launched (VW, AU Optronics, KIA Motors) despite the global crisis • Industrial output has bounced up sharply at 21.3% YTD (July 2010) • Sound banking sector, one of the lowest L/D ratios in the EU, no financial assistance by the state • Low labour costs and attractive business environment
Low inflation	• Inflation slowed down to zero by end of 2009 and is at low 1% at present • No currency fluctuations due to Euro adoption

Key Investment Considerations

- Highest real GDP growth in the EU in 2002-09
- Historically, one of the strongest earning power in the EU (nominal GDP growth vs. present 10Y interest rates)
- Public debt much lower compared to other EU countries at a given state of development (35.7% of GDP vs. a calculated average of 51.9% of GDP)
- Private debt much lower compared to other EU countries at a given state of development (47.7% of GDP vs. a calculated average of 97% of GDP)
- 2.5% of GDP fiscal package agreed upon by the coalition parties to be implemented in 2011
- Government's plan to cut fiscal deficit to below 3% of GDP by 2013
- Euro adoption prevents most FX fluctuations, almost no exposure of corporate and private sector to FX loans, a member of EFSF fund
- Second highest ratings in the CEE region, pension reform has been already implemented
- Highly integrated economy offers a perfect production outsourcing possibilities
- Low labour costs and 19% flat tax forms an attractive business environment for foreign investors and this could keep the economy going even in more difficult times
- Ability to attract foreign investment despite the global crisis
- Sound banking sector with no need for government assistance
- Predictability - the new government only starts its 4-year term

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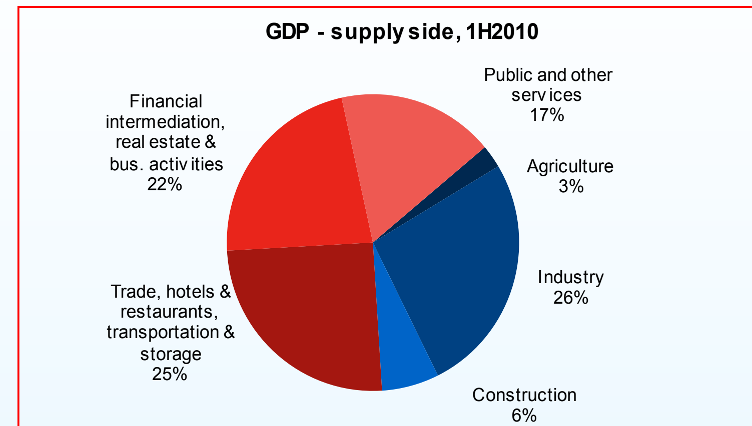
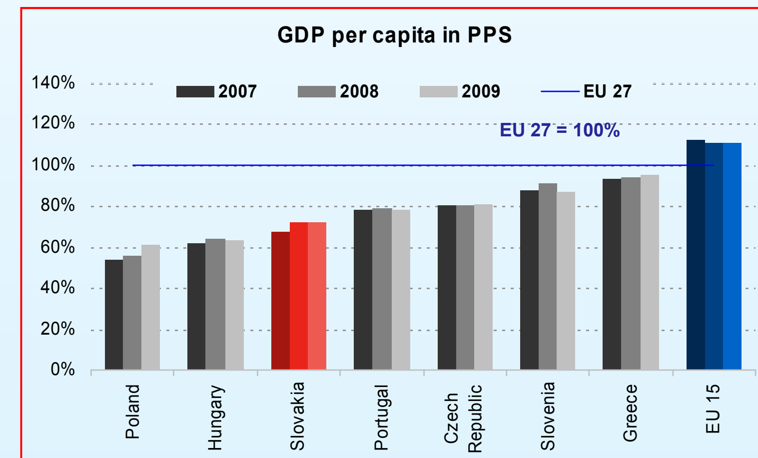
Quickly Converging Economy

- **Exceptional GDP growth in recent years**
  - Real GDP increased by 43% in 2002-09 (5.2% p.a.), compared to 7% (1.0% p.a.) in the Eurozone
  - Slovak GDP growth was the fastest in the EU during this period
  - Supported by reforms and improvement of business environment
  - GDP per capita at 72% of EU-27 GDP in PPS terms in 2009
- **Integrated economy**
  - Export-oriented economy (65% of value added in services, 26% in industry)
  - Auto and electronics clusters
- **Convergence story should continue**
  - Low labour costs should give some protection for Slovakia's cyclical sectors as the production adjustment should happen in more expensive countries
  - Technological gap has been closing
  - Public investment expansion into infrastructure (highways)



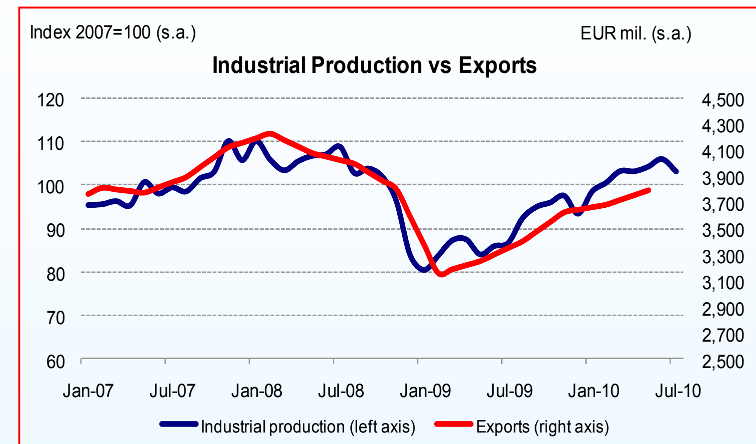
Source: Slovak Statistical Office, April 2010



Source: Eurostat, April 2010

Export Positioned for Recovery

- **Fall in foreign demand caused recession in Slovakia last year**
  - Spillover to drop in investments and domestic demand
- **Economy reached bottom in 1Q09, grew in the following quarters**
  - After the fall in 1Q09, the GDP grew by a strong 1% q/q on average in 2009-1H2010
  - Significant bounce in industrial output in 2H09
  - Launch of new investments in 2009-10 (Volkswagen, AU Optronics, KIA Motors)
  - Finance ministry expects 4.0% y/y growth in 2010, 3.3% y/y in 2011 due to the substantial fiscal tightening
  - Unemployment rate increased to 14% in 2010 but still remains well below average of the last decade
- **Export and Germany-oriented economy**
  - Small and open economy, focused at the EU
  - Exports and imports made up 140% of GDP
  - Germany is the biggest market for Slovak exports (20%), followed by the Czech Republic (13%), of which Germany is the biggest trading partner

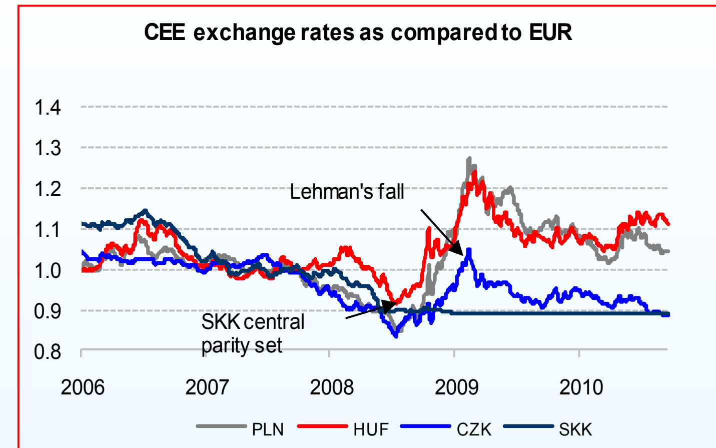


Source: Slovak Statistical Office, Eurostat, September 2010

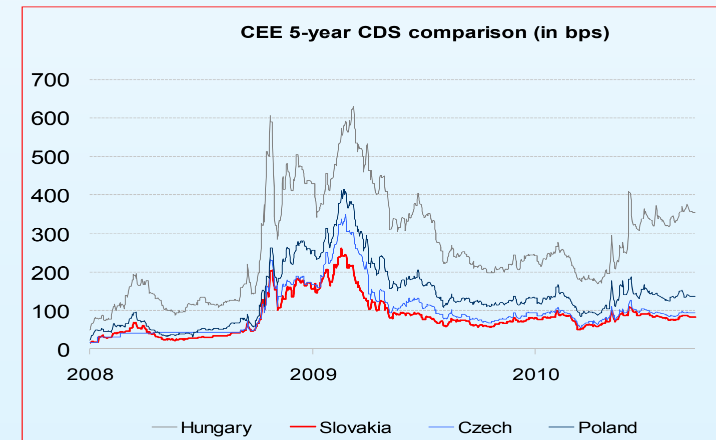
Source: Slovak Statistical Office, April 2010

Latest Addition to Eurozone

- **Slovakia adopted euro in January 2009**
- **More attractive for foreign investors**
  - Lower transactions costs (FX conversion costs, hedging, etc.)
  - Higher business predictability for foreign investors
  - Reduces FX risks for business
  - Better access to European markets
- **Most foreign-currency assets and liabilities became home currency**
  - Risks stemming from foreign currency fluctuations are low
- **Better access to capital markets through improved market risk assessment after EMU entry**



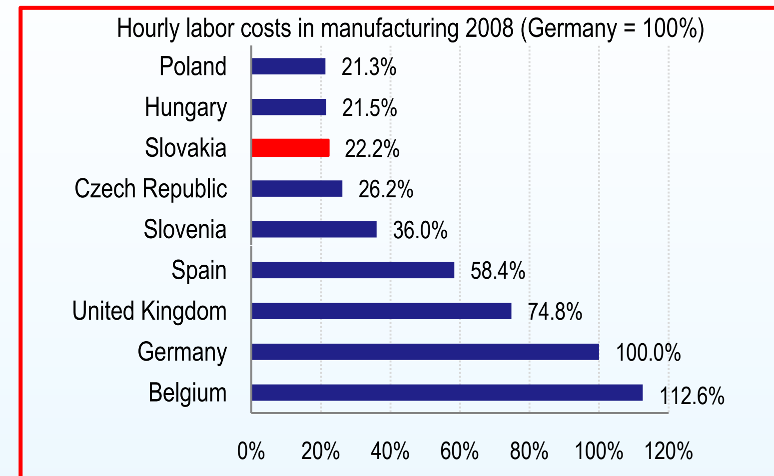
Source: Reuters, 2007 = 1.0



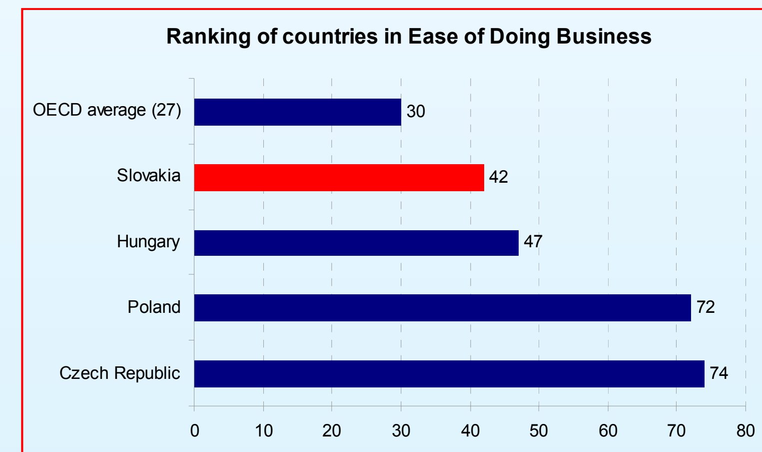
Source: Bloomberg

Competitive Business and Taxation Environment

- **Competitive tax regime**
  - Flat and low corporate and personal income tax rate at 19%, no taxation of dividends
  - Flat VAT rate at 19% (majority of goods), considering temporary increase to 20% as of 2011
- **Low labour costs, high productivity in manufacturing**
  - Slovak labour costs in manufacturing still very low at 22% of German level
  - Highly skilled labour workforce (secondary education above EU average)
  - Cluster infrastructure for autos and electronics
- **Improving business conditions bear fruits**
  - Business-friendly environment ranked Slovakia highest within CE-4 countries in World Bank's Doing Business 2010



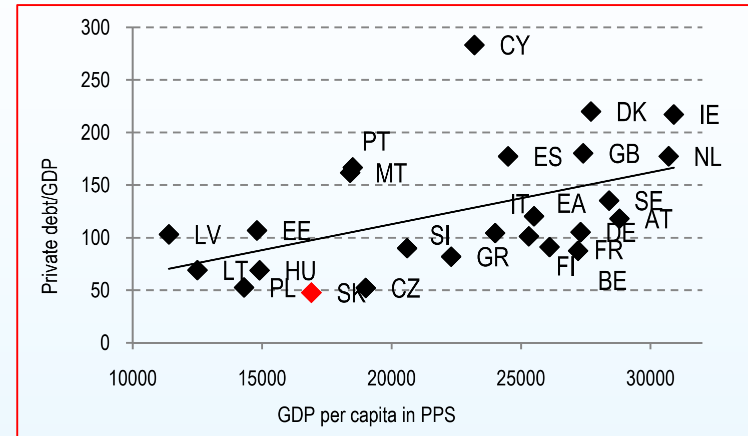
Source: Eurostat, September 2010



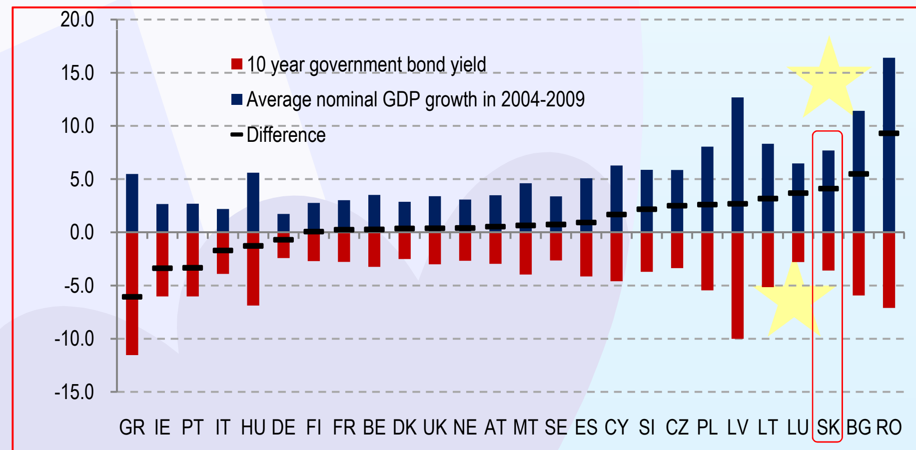
Source: World Bank, September 2010

Low Public and Private Debt

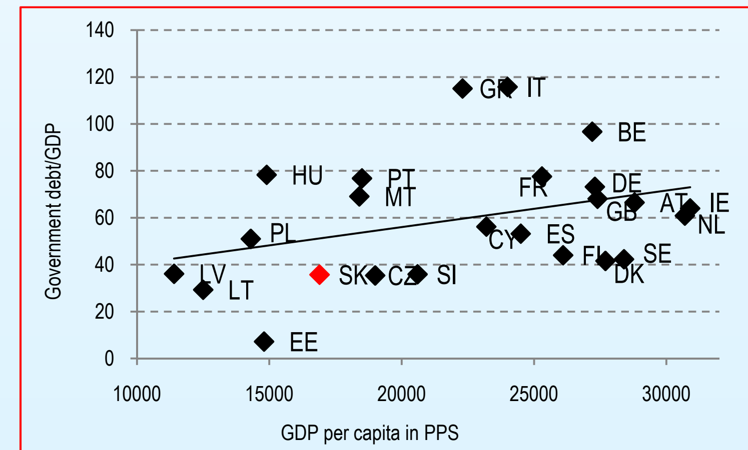
- **Low indebtedness level**
  - Comparing against the level of economic development, both public and private debt to GDP ratio are sizeably below EU average
  - Private debt ratio among the lowest in the EU
- **Above average debt repayment ability**
  - Past nominal economic growth (average 7.7% p.a. in 2004-2009) as well as estimated medium-term growth (average 6.5% p.a. in 2010-2013) well above the current 10 year government euro bond yield (3.7%) – one of the best earning powers in EU



Source: ECB, Eurostat, September 2010



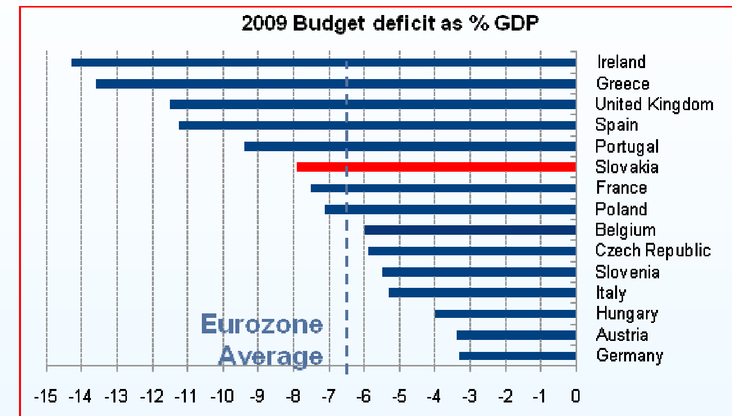
Source: Eurostat, September 2010



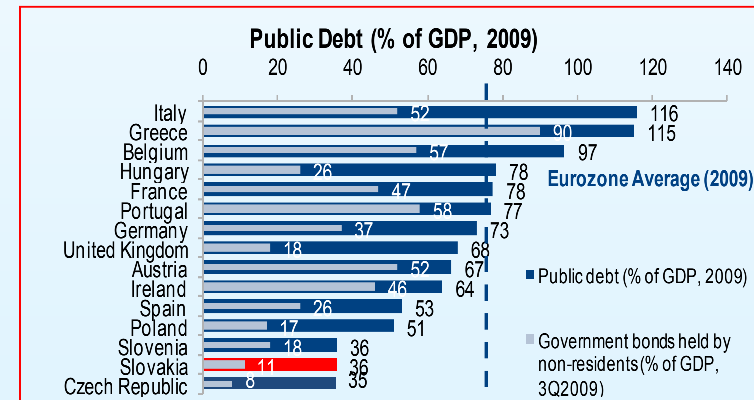
Source: Eurostat, September 2010

Low Indebtedness and Fiscal Deficit Consolidation

- **Low indebtedness in EU standards**
  - Public debt at 35.7% of GDP in 2009, well below Maastricht threshold
  - Second-best ratings among CEE countries (only behind Slovenia)
- **Deficit increased due to recession but consolidation is on track**
  - 2009 government deficit at 7.9% of GDP and estimate (Ministry of Finance) for 2010 at 7.8% of GDP
  - 2011 budget foresees consolidation to 4.9% of GDP with a plan to get fiscal deficit to below 3% of GDP by 2013
- **Share of foreign bondholders**
  - Non-resident share at only approx. 30% (as of 2009)
  - No impact of currency fluctuations, as 99.6% of outstanding public debt is euro-denominated



Source: AMECO, April 2010



Source: World Bank, Eurostat, ARDAL

Immediate short-term measures

- Fiscal package of 2.5% of GDP based on spending cuts (56%) and revenue increases (44%) comprised of consumption tax hikes and tax exemptions removal
- Fighting corruption
  - all contracts are effective only after the submission to the web
  - e-auctioning
  - online public services
- Human capital
  - shifting the tax burden from income to consumption taxes
  - compulsory English for all pupils starting elementary school
- Flexible labour market
  - labour code revision to make the labour market even more flexible
- Tax collection improvement examined
  - Steps considered to improve lower VAT tax collection

Fiscal package for 2011 – revenue increases

mil. EUR	
Excise taxes (beer, tobacco, elimination of exceptions)	**135,2**
VAT (from 19% to 20%)	**185,5**
Increasing the tax base for income taxes and SSC	**254,5**
Non-tax revenues	**199,1**
fees (decomissioning, oil storage, highways) and CO2	
TOTAL	**774,3**
as a % of GDP	1,1%

Note: these measures will have also positive impact on the expenditure side – EUR 12.7 mil.

Fiscal package for 2011 – expenditure cuts

	mil. EUR
Public sector wage bill (compared to 2010)	**-153,7**
Current expenditures on goods and services (ministries)	**-149,6**
Subsidies (housing, STV, TASR, floods from national funds, etc.)	**-104,4**
Savings in the healthcare sector (drugs, procurement, etc.)	**-84,9**
Unnecessary capital expenditures	**-79,9**
- Football stadium	-27,6
- State Reserves	-21,6
- Other ministries	-20,8
- Bratislava castle	-9,9
Agricultural subsidies	**-38,1**
Social Insurance Company – current expenditures	**-15,4**
National Nuclear Fund	**-37,6**
Environmental Fund	**-12,2**
Direct financing of municipalties through taxes (lower subsidies)	**-89,8**
Government reserves	**-46,8**
Correction on EU funds	**-37,6**
Investment subsidies (crisis)	**-76,4**
Other	**-59,2**
TOTAL	**-985,6**
as a % of GDP	-1,4%

Note: STV – Slovak Television, TASR – The News Agency of the Slovak Republic

Pension reform implemented, already in the fiscal figures

- **Pension reform improves longer-term sustainability**
  - Radical reform of 1st pillar (pay-as-you-go pillar) in 2004
  - Introduction of a strong 2nd pillar (private pension accounts invested in capital markets) in 2005:
    - Contribution rates on pension insurance divided equally between the 1st and 2nd pillar (9% each)
    - This lowers the future liabilities at the cost of today's deficits (liabilities spread more evenly)
    - Headline deficit already includes all pension deficit
  - Key fiscal medium-term goal – public deficit under 3% of GDP in 2013 and balanced budget after (incl. pension deficit)
  - Possible future changes to 1st pillar in terms of reduction of benefits (indexation rules based only on CPI) and postponement of pension age

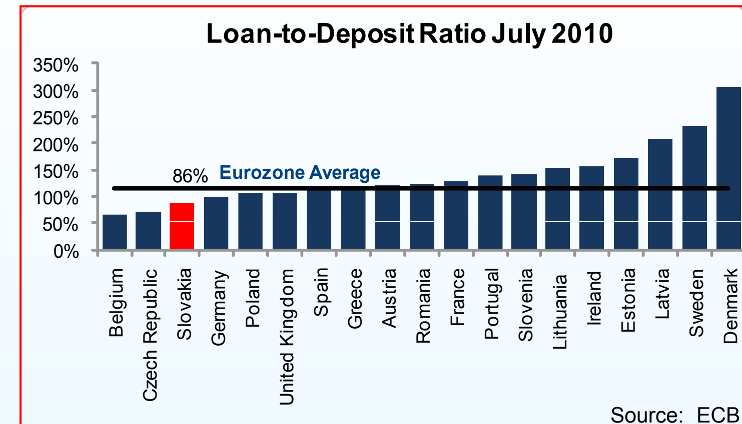
Introduction of the 2nd (fully-funded) pillar of pension scheme (ESA95, in % of GDP)

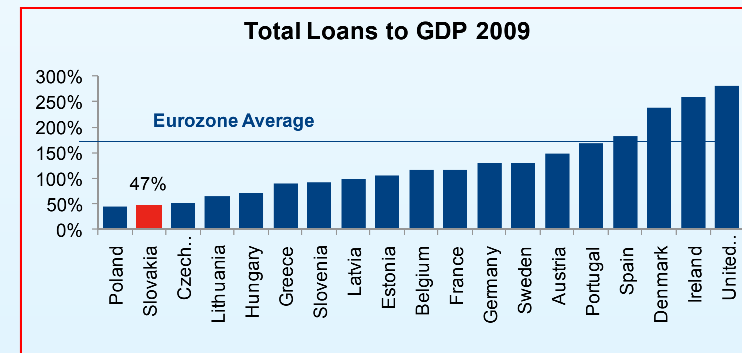
	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E
Impact of 2nd pillar on fiscal deficit	**0.8**	**1.2**	**1.3**	**1.2**	**1.3**	**1.2**	**1.2**	**1.2**	**1.2**

Source: ARDAL, September 2010

Conservative and Sound Banking Sector

- **No state assistance requested**
  - Conservative business model with limited exposure to the problematic assets
  - Capital adequacy at 12.7% (end of March 2010)
  - Strong funding of banks from domestic sources (loan-to-deposit ratio at 86% - end of July 2010)
  - Low but growing share of total loans to GDP (47% of GDP at the end of 2009)
  - Strong but not excessive growth of loans during pre-recession period
- **Euro adoption provided access to ECB liquidity**
  - Eurozone membership allows direct access of banks to ECB's liquidity
  - Almost non-existent foreign currency loans limit the risk of FX asset-liability mismatch





Source: ECB

Why is Slovakia Less Vulnerable to the Global Crisis?

Slovakia has a low debt-to-GDP ratio. Its trend is supported by solid GDP growth potential and a low risk of banking contingent liabilities. The symptoms of vulnerability to the global credit crisis are thus not present:

Crisis symptom # 1: High debt levels

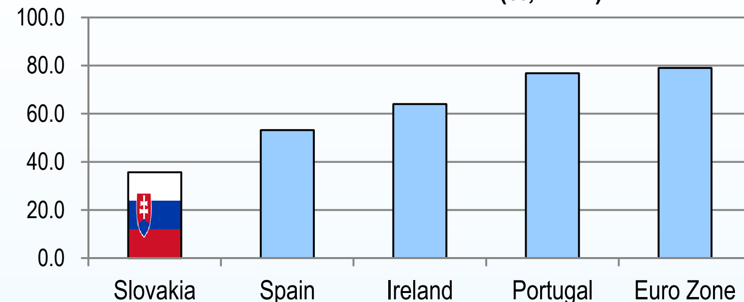
- ✓ SLOVAKIA´s debt is at a low 35.7%, half the EZ average. The debt is low even when taking into account its state of development. Also private debt is one of the smallest in EU.

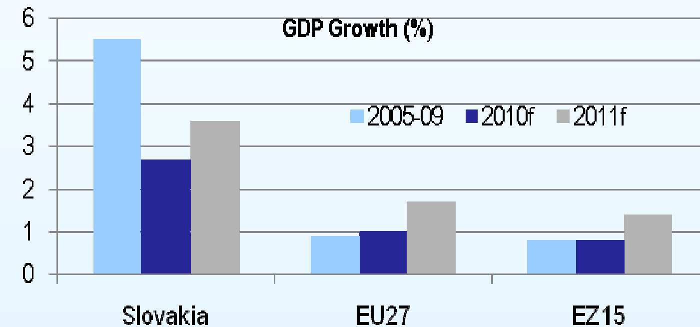
Crisis symptom # 2: Poor growth prospects

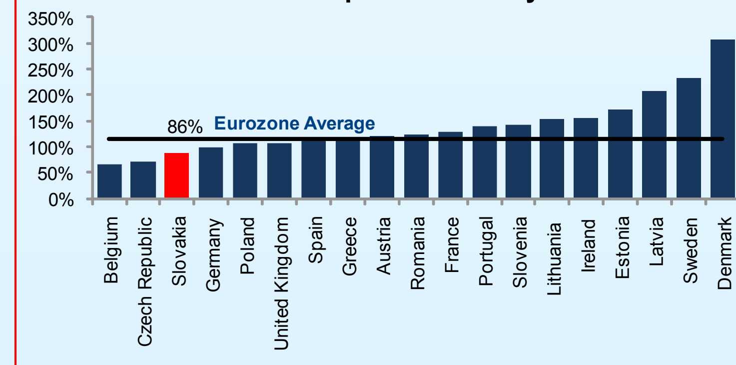
- ✓ SLOVAKIA´s record of structural reforms have increased competitiveness and GDP growth potential to well over twice the EZ

Crisis symptom # 3: Costly bank bailouts

- ✓ SLOVAKIA´s debt already includes a bank bailout 10 years ago, banking sector L/D ratio is one of the smallest in EU







Sources: Eurostat and ECB

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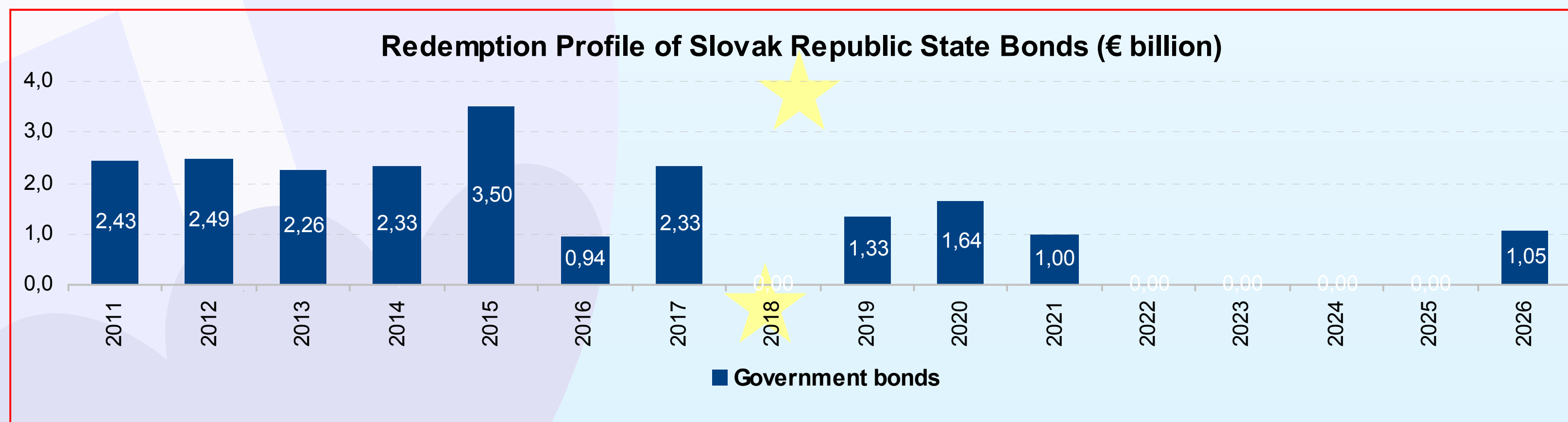
Prudent Debt Management and Funding Strategy

- Funding conducted in line with Government Debt Management Strategy for the Years 2007 – 2010
- 2010 gross borrowing requirement of EUR 9.1 billion vs. 6.9 billion in 2009
- Restrictive policy on provisions of new state guarantees and gradual repayment of the obligations with the state guarantee – expected 2.2% of the debt as of end of 2010
- Well diversified and balanced structure of funding sources: 95.7% of the general government debt in the form of the government securities
- 99.7 % of the government debt denominated in EUR
- Balanced redemption profile, minimising re-financing and liquidity risks



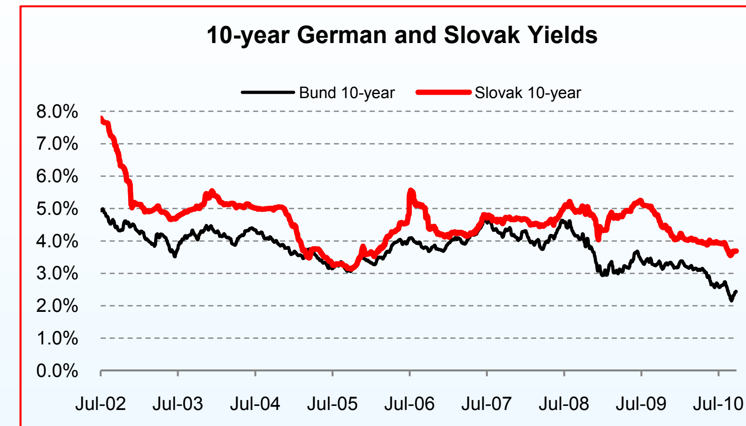
Source: ARDAL, August 2010

Active Debt and Liquidity Management

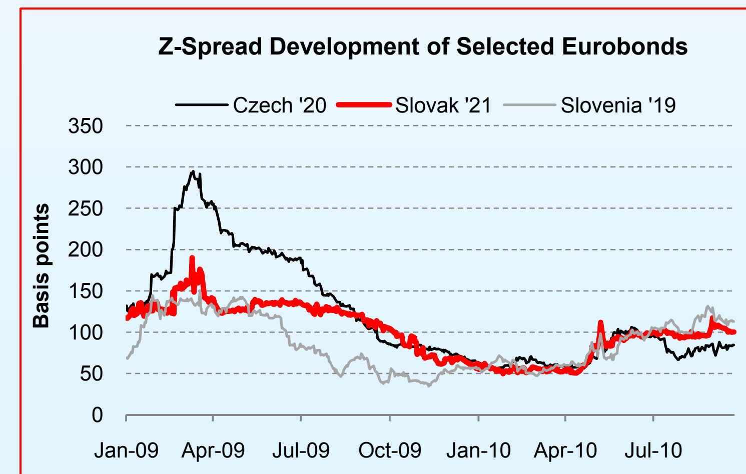
- Active management of the government debt, which represents 96.5% of the public debt as of end of 2009
- Reduce number of issues and repurchase or exchange of the government bonds
- Syndicated issues under Slovak law to be increased later via auctions up-to the contemplated amount to ensure sufficient liquidity
- Transparent communication with the market and implementation of the primary dealers system
- Expected further reduction of the non-tradable debt reduced to 4.3% of the general government debt
- Keep the cumulative debt maturing within 1 year and within 5 year at respectively 22.5% and 60% of the total debt
- Average duration of the debt is of about 3.5-4 years
- Average time to maturity of the debt portfolio – close to 5 years
- The lowest relative costs of funding in history: 3.5% p.a.

Active Debt and Liquidity Management

- **Well-developed domestic financial market**
  - 75% of outstanding state debt covered by domestic market (as of August 2010)
  - Stable financial system
- **Stable, low interest rate environment**
  - Significant decrease in benchmark yields over the last decade
  - Narrow trading spread to Bund interest rate levels
- **Limited reliance on international markets**
  - Foreign debt currently approx. 30% of total state debt (as of August 2010)
- **Solid trading performance of outstanding Slovak Eurobonds**



Source: Bloomberg



Source: Bloomberg

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Transaction Rationale

- Diversify funding sources in line with the announced debt management strategy
- Enhance liquidity position with respect to near-term funding requirements
- Create a new Slovak Republic benchmark in the capital market
- Improve debt maturity profile

Key Terms and Conditions

Issuer	Slovak Republic
Rating	Moody's A1 stable, S&P A+ stable, Fitch A+ stable
Ranking and Format	Senior unsecured, Reg S only
Currency	EUR
Size	Benchmark
Maturity	15 years
Documentation	Offering Circular dated October [6], 2010
Denominations	EUR 1
Listing	Bratislava Stock Exchange
Settlement	Centrálny depozitár, Clearstream, Euroclear
Law	Slovak
Joint Lead Managers	HSBC, SG CIB, Tatra banka (RZB Group), UniCredit Bank Slovakia

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