

**EUROBOND TRANSACTIONS CONCLUDED IN APRIL AND MAY 2014:
SEVENTH VOLUNTARY DEBT EXCHANGE OFFER & NEW CASH ISSUANCE
AND
PRIVATE PLACEMENT WITH AUDI BANK
*A Brief Note***

I. SEVENTH VOLUNTARY DEBT EXCHANGE OFFER & NEW CASH ISSUANCE, APRIL 2014

1. Background and Objectives

In accordance with the Ministry of Finance's proactive debt management policy, MoF approached capital markets with a transaction that aimed to refinance market-issued Eurobonds maturing in 2014. The transaction mainly entailed rolling over the USD 676,902,000 7.375 percent Notes due in April 2014 through the issuance of new cash, and a voluntary exchange transaction of the US\$ 881,612,000 9.000 percent Notes due May 2014, aiming to:

- Increase the Republic's financial flexibility.
- Extend the redemption profile of maturing Eurobonds within the ceilings allowed under existing laws.

The proceeds of the issues were utilized pursuant to applicable laws and the transaction was the first market issuance executed by the Lebanese Republic in 2014 to refinance foreign currency maturing debt.

2. Transaction Summary

On March 13th, 2014, the Ministry of Finance mandated Audi Bank S.A.L, Byblos Bank S.A.L, and Deutsch Bank AG to act as lead managers in carrying out this transaction conducted under the Republic's Global Medium Term Note Program established on March 8th, 1999 and updated on March 23, 2012, June 11, 2012 and on November 9, 2012. The mandate was announced on March 24th, 2014.

The transaction was launched on April 2nd, 2014 and settled on April 14th, 2014.

The size of new issuances totaled US\$ 1.400 billion (exchange and new cash portion). This reflects achieving (1) more than the complete refinancing of the 676.902 million April 2014 Eurobond in terms of new cash and (2) an exchange participation rate achieved of 79.84 percent on the May 2014 Eurobond.

3. Target Securities for Exchange

Given that the Eurobond offered for exchange was 1 month from maturity as at transaction launch, the repurchase price of the bond was determined in accordance with the repurchase yield of the 1 month Libor. At the launch of the transaction, the 1 month Libor rate was at 0.15 percent, and by using a settlement date of April 14, 2014, the repurchase price was determined at 100.442 percent. This compared to a bid price of 100.46 percent on the May 2014 note in the secondary market at the launch of the exchange.

MoF also paid the accrued interest on these bonds from the last paid coupon date to settlement date.

Table 1: Exchange price of the 2014 Eurobond

Original Notes	Outstanding Amount (in original currency)	Bid/Offer Price*	Instrument Used for Pricing	Exchange Price
US\$ 9.000% May 2014	US\$ 881,612,000	100.46 / 100.61	One month Libor**	100.442

* On April 1st, 2014.

** One month Libor rate at launch of transaction stood at 0.15 percent

Source: Bloomberg.

The settlement of the premium and the resulting accrued interest were paid in cash. The premium represents the difference between the exchange price and par for the exchange on each of the exchanged notes maturing in 2014. In total, the premium amounted to US\$ 3.11 million for the USD Eurobonds. The accrued interest on the original notes amounted to US\$ 28.51 million. The accrued interest was calculated as per the 1,000 denominations and on the basis of 30/360.

The settlement of the premium and the accrued interest for the exchanged Eurobond was made from the proceeds of the new cash issuance in USD. These payments are detailed in Table 2 below.

Table 2: Accrued interest and cash premium paid on the Exchange Note

Original Note	Accrued Interest	Cash Premium
US\$ 9.000% May 2014	US\$ 28,506,249.00	US\$ 3,111,052.36

4. New Bonds

The Ministry of Finance issued two benchmark-size tenors, with one of these a re-opening of an existing bond. The choice for the new Eurobonds was based on the existing portfolio of the Lebanese Republic with the objective to spread out and extend the redemption profile under existing laws. The exchange transaction and the new issuances including the new 6-year note and the reopening of a long 12-year note extended the maturity profile of outstanding Eurobonds as detailed in Figure 1.

In addition to the new notes issued via the voluntary exchange offer, which amounted to US\$ 703,858,000 the Republic issued additional notes for cash amounting to US\$ 696,142,000 resulting in benchmark size new issuances. The total amounts issued under each series consisted of:

- US\$ 600 million 5.80 percent coupon Notes due April 2020 (Series 72).
- US\$ 800 million 6.60 percent coupon Notes due November 2026 (Series 61, Tranches 4 and 5) to be consolidated and form a single series with the US\$ 725 million 6.60 percent Notes due 2026 (series 61, Tranches 1, 2, and 3)¹.

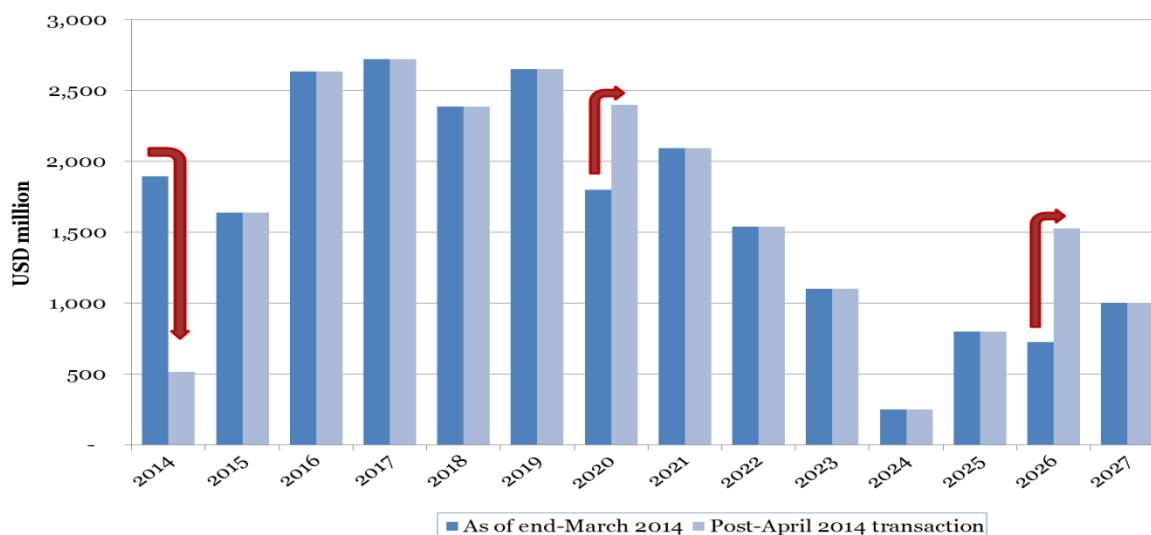
By selecting medium and long term tenors, the Republic succeeded in pushing the weight of the maturity profile towards the longer end of the curve, in addition to keeping the weighted average cost of outstanding Eurobonds relatively low given the issuance of a 6-year tenor. The average weighted cost of the aggregate issued Eurobonds as part of the exchange and in new cash was 6.31 percent.

International orders accounted for 23.4 percent of the total issued amount of new cash. They were allocated around 10.1 percent of subscriptions on the April 2020 tranche and 36.3 percent of the November 2026 tranche.

As MoF re-opened the US\$ 725 million 6.600 percent Notes due November 2026, subscribers in the additionally issued US\$ 800 million owed MoF 136 days of accrued interest from the last coupon date of 28 November 2013 to the settlement date of 14 April 2014. The amount of accrued interest on the USD 2026 tap issued as part of the exchange amounted to US\$ 11,101,054.77, whereas the amount of accrued interest on the new cash amounted to US\$ 8,844,127,60. The former was netted out from the cash amounts owed by the Republic of Lebanon listed in Table 2 and the latter was received by MoF in the net proceeds. Since the tap of the November 2026 bond was at a yield of 6.70 percent and thus a price of 99.147 percent, MoF owed the difference between this price and par on the amount exchanged into the 2026 bond. This difference was added to the cash amounts in Table 2.

¹Tranches 1 and 2 of series 61 were originally issued as part of the exchange offer and new cash of the November 2011 voluntary exchange transaction for an aggregate amount of US\$ 375 million, whereas Tranche 3 represented a US\$ 350 million reopening of the series as part of the April 2012 issuance.

Figure 1: Redemption profile of Outstanding Eurobonds as of end-March 2014 and 14 April 2014.



i. Pricing Strategy and Success Ratios

The yields for the new issues were determined based on market conditions including the secondary market prices of comparable maturities of the Lebanese Republic and its sovereign ratings, and in line with yields on the 5Y UST and 10Y UST benchmark yields.

On April 4th, 2014, the Lebanese Republic released the New Notes Minimum Yield Announcement, indicating the following minimum yields (the associated indicative yield ranges are in Table 3):

- 5.80 percent for the USD 2020
- 6.70 percent for the re-opening of the USD 2026

Table 3: New Notes minimum yields

New Notes	Min Yield 4 April 2014	Indicative Yield Range (announced 2 April 2014)
USD due April 2020	5.800%	5.800% - 6.000%
USD due November 2026	6.700%	6.600% - 6.800%

The aggregate participation rate in the exchange transaction reached an average of 79.84 percent. The detailed results of the exchange offer are as follows:

Table 4: Terms and Conditions of the Exchange

Original Notes	US\$ 881,612, 000
Issue Date	May 02, 2008
Maturity	May 02, 2014
Coupon rate	9.000%
Coupon payment	Semi-annual
Principal payment	Bullet payment at maturity
ISIN	XS0361558413
Repurchase Price	100.442% (plus accrued interest since November 02, 2013)
Exchanged Amount	US\$ 703,858,000
Participation Rate	79.84%
Lead Managers	Audi Bank S.A.L, Byblos Bank S.A.L, and Deutsch Bank AG

ii. Final Terms of New Notes

In sum, the exchange offer and issuance of new notes have resulted in the following new issues:

Table 5: Summary of New Notes

New Notes	Yield	Coupon	Amount issued via exchange	Amount of new notes issued	Total notes issued
USD due April 2020	5.80%	5.80%	US\$ 258,569,000	US\$ 341,431,000	US\$ 600,000,000
USD due November 2026	6.70%	6.60%	US\$ 445,289,000	US\$ 354,711,000	US\$ 800,000,000
		Total US\$	US\$ 703,858,000	US\$ 696,142,000	US\$ 1,400,000,000

Table 6: Detailed Terms and Conditions of the USD due April 2020

Series (tranche)	72 (1)	72 (2)
Issue size (in USD)	US\$ 258,569,000	US\$ 341,431,000
Issue date	April 14, 2014	April 14, 2014
Maturity	April 14, 2020	April 14, 2020
Coupon rate	5.80%	5.80%
Coupon payment	Semi-annual	Semi-annual
Principal payment	Redemption at par at maturity	Redemption at par at maturity
Issue Price	Issued in connection with exchange offer	100.00%
Re-offer Yield	5.80%	5.80%
ISIN code	XS1052421150	XS1052421150
Benchmark Bond on April 09, 2014*	5Y UST	5Y UST
Benchmark Yield on April 09, 2014*	1.699%	1.699%
Re-offer Spread vs. Benchmark	410.1bps	410.1bps
Lead Managers	Audi Bank S.A.L, Byblos Bank S.A.L, and Deutsch Bank AG	

*Pricing date.

Table 7: Detailed Terms and Conditions of the New USD due November 2026

Series (tranche)	61(4)	61 (5)
Issue size (in USD)	US\$ 445,289,000	US\$ 354,711,000
Issue date	April 14, 2014	April 14, 2014
Maturity	November 27, 2026	November 27, 2026
Coupon rate	6.600%	6.600%
Coupon payment	Semi-annual	Semi-annual
Principal payment	Bullet payment at maturity	Bullet payment at maturity
Issue Price	Issued in connection with exchange offer	99.147%
Re-offer Yield	6.700%	6.700%
ISIN code	XS0707820659	XS0707820659
Benchmark Bond on April 09, 2014*	10Y UST	10Y UST
Benchmark Bond on April 09, 2014*	2.702%	2.702%
Re-offer Spread vs. Benchmark	399.8bps	399.8bps
Lead Managers	Audi Bank S.A.L, Byblos Bank S.A.L, and Deutsch Bank AG	

*Pricing date.

II. US\$ 175 MILLION PRIVATE PLACEMENT WITH AUDI BANK, MAY 2014

1. Background and Objectives

Bank Audi had indicated interest to MoF to refinance an amount of un-exchanged Original Bonds due May 2, 2014 by tapping one or both series of New Notes through a private placement of additional notes in the April 2020 and November 2026 Eurobonds.

2. Issuance Size and Pricing

Given that the value of the May 2014 maturing Eurobond that was not exchanged amounted to US\$ 177,754,000, the Ministry of Finance and Bank Audi agreed to round new issuances to the latter party to US\$ 175 million of which US\$ 100 million would be invested in the 5.80% Notes due 2020, and US\$ 75 million in the 6.6% Notes due 2026 to be issued at the same conditions and yields as the April 2014 \$1.4bn transaction [Refer to Table 8].

3. Transaction Details and Final Terms of Issued Tranches

The notes were issued and settled on 2 May 2014 coinciding with the due date of the remaining US\$ 177 million from the 9.00% May 2014 bond.

The issued US\$ 100 million 5.80% Notes due 2020 were consolidated and formed a single series with the U.S.\$258,569,000 5.80% Notes due 2020 issued by the Lebanese Republic on 14 April 2014 (Series 72, Tranche 1) and the U.S.\$341,431,000 5.80% Notes due 2020 issued by the Lebanese Republic on 14 April 2014 (Series 72, Tranche 2)) (the “Series 72, Tranche 3 Notes”). The issued US\$ 75 million 6.60% Notes due 2026 were consolidated and formed a single series with (i) the U.S.\$235,537,000 6.60% Notes due 2026 issued by the Lebanese Republic on 28 November 2011 (Series 61, Tranche 1), (ii) the U.S.\$139,463,000 6.60% Notes due 2026 issued by the Lebanese Republic on 28 November 2011 (Series 61, Tranche 2), (iii) the U.S.\$350,000,000 6.60% Notes due 2026 issued by the Lebanese Republic on 12 April 2012 (Series 61, Tranche 3), (iv) the U.S.\$445,289,000 6.60% Notes due 2026 issued by the Lebanese Republic on 14 April 2014 (Series 61, Tranche 4) and (v) the U.S.\$354,711,000 6.60% Notes due 2026 issued by the Lebanese Republic on 14 April 2014 (Series 61, Tranche 5)) (the “Series 61, Tranche 6 Notes”).

Table 8: Detailed Terms and Conditions of USD 175 MN Placement with Audi Bank

Series (tranche)	72(3)	61(6)
Issue size (in USD)	US\$ 100,000,000	US\$ 75,000,000
Issue date	May 2, 2014	May 2, 2014
Maturity	April 14, 2020	November 27, 2026
Coupon rate	5.800%	6.600%
Coupon payment	Semi-annual	Semi-annual
Principal payment	Bullet payment at maturity	Bullet payment at maturity
Issue Price	100.000%	99.147%
Re-offer Yield	5.800%	6.700%
ISIN code	XS1052421150	XS0707820659



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