

Wednesday 16th February 2005



Republic of Portugal
€3bn 3.85% OT due 15 April 2021
Issue price: 99.847%, Reoffer yield: 3.862%

Press Release

The Republic of Portugal (AA/Aa2/AA) issued today its first syndicated OT in 2005. The new €3billion benchmark matures on 15 April 2021, pays a coupon of 3.85%, and was priced at a spread of +12.5bp over the 4.25% OAT due 25 April 2019 (equivalent to mid-swap – 2.5 bp). Joint lead managers were Banco Espírito Santo, BNP Paribas, Calyon, Deutsche Bank and Morgan Stanley.

Background/rationale

- In January 2005, the IGCP announced that it planned on issuing two new syndicated OT benchmarks in 2005.
- On the back of strong demand seen at the long end of the Euro curve, Portugal decided to fulfil investor interest by extending its yield curve and issuing its first 15-year OT since the introduction of the Euro.
- Having built a liquid yield curve with benchmarks in all maturities from 2005 to 2014, the launch of this OT marks a new step and will be the longest OT outstanding.

Transaction execution

- The IGCP announced the mandate on Thursday 10th February with the intention to launch a new €3 billion 15-year syndicated OT in the near future.
- The bookbuilding process started the following Monday with a first price indication of mid-swaps -1 to -3 bp and OAT 4.25% April 19 +12 to +14 bp.
- The price guidance was in line with secondary market levels (OT 4.375% June 2014 quoted at ASW – 3.6 bp at the time of pricing) and reflected the strong performance of OT over the past year, especially relative to core markets.
- The order book grew very quickly from the outset and reached €4.8 billion at the end of the first day. Limited price sensitivity in the book led to a revision of the price guidance to mid-swaps -2 to -3 bp and OAT 4.25% April 19 +12 to +13 bp.
- Books closed on Tuesday afternoon (3 pm) with a total final size of €6 billion (including co-leads).
- The transaction priced on Wednesday at +12.5 bp over the OAT. The IGCP chose not to price the issue at the tighter end of the range in order to provide investors with performance in the secondary market.
- The IGCP intends to bring the final size of this new OT benchmark close to €6 billion.
- The new OT 2021 will be immediately traded on MTS Portugal, EuroMTS, TradeWeb and BondVision.

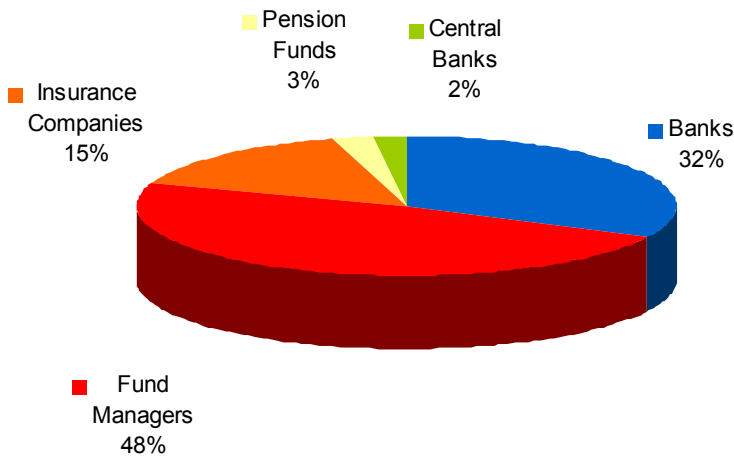
Market impact

- The strong investor response to the transaction highlights the strength of current market demand for the longer end of the Euro curve.
- The 15-year OT provides investors with an opportunity to obtain both duration and yield pick-up to the underlying 15-year OAT.
- The transaction has allowed Portugal to target a new range of investors such as insurance companies and pension funds, thereby broadening the distribution of Portuguese Government paper.
- Together with France, Austria and Italy, Portugal has been the only genuine issuer of 15-year paper in the Euro zone this year.
- The 15-year OT provides attractive credit diversification in the long end of the Euro curve.
- The 2021 maturity (16-year) will allow the bond to retain a 15-year benchmark status for a longer period.

Distribution

- With an order book twice oversubscribed, over 122 investors participated in the transaction, of which 28% of accounts that have never bought Portugal before.
- Strong demand came from United Kingdom (28%), Germany (20%), France (15%), Portugal (10%) and United States (8%).
- 90% of the bonds were placed outside the domestic market highlighting Portugal's strongly diversified investor base.

Breakdown by type of investor



Geographical breakdown

