

FIFTH VOLUNTARY DEBT EXCHANGE OFFER AND NEW CASH ISSUANCE EUROBOND EXCHANGE (MATURING IN 2012) AND EUROBOND NEW ISSUANCE (EUR 2018, USD 2019, AND USD 2026)

A Brief Note

I. Background and Objectives

As part of the Ministry of Finance's objective to conduct proactive debt management operations, MOF approached capital markets with a voluntary exchange transaction of market Eurobonds maturing in 2012, specifically the following three Eurobonds: US\$ 600,000,000 7.500% due March 2012 Notes, US\$ 600,000,000 7.750% due September 2012 Notes, and €535,639,000 5.875% due April 2012 Notes. Given record low UST interest rates, this exchange transaction aimed to:

- proactively refinance 2012 market-issued Eurobond maturities (amounting to US\$ 1.2 billion and EUR 535.639 MN),
- increase the Republic's financial flexibility, and
- extend the redemption profile of maturing Eurobonds within the ceilings allowed under existing laws.

II. Transaction Summary

On November 1st, 2011, the Ministry of Finance mandated Deutsche Bank AG, Fransa Invest Bank S.A.L. and Standard Chartered Bank to act as lead managers in carrying out this voluntary debt exchange transaction conducted under the Republic's Global Medium Term Note Program established on March 8th, 1999 and updated on May 12th, 2011 and July 21, 2011. The transaction was launched on November 16th, 2011 and settled on November 28th, 2011.

III. Target Securities for Exchange

In accordance with secondary market prices, the 2012 market Eurobonds were trading above par. As such, and as usual, the Ministry of Finance had to buy back the bonds at a premium. Also, in accordance with market practices, MoF had to pay the accrued interest on these bonds from the last paid coupon date to settlement date. Table 1 shows the Bid/Offer Prices of the three bonds one day period to announcement, i.e. on November 15th, 2011:

Table 1: Exchange prices of the 2012 Eurobonds

Original Notes	Outstanding Amt (in original currency)	Bid/Offer Price*	Exchange Price	Exchange Price to Bid
US\$ 7.500% March 2012	US\$ 600,000,000	102.000-102.625%	102.100	+10.00 bps
US\$ 7.750 September 2011	US\$ 600,000,000	104.150-104.875%	104.150	0 bps
EUR 5.875% April 2012	€ 535,639,000	101.000-101.750%	101.100	+10.00 bps

* On November 15th, 2011 (1 day prior to announcement)

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 original notes maturing in 2012. In total, the premium amounted to US\$ 21.46 million for the USD Eurobonds and €4.63 million for the EUR Eurobond. The accrued interest on the original notes amounted to US\$ 10.72 million and €15.54 million on the USD and EUR bonds, respectively.

The accrued interest was calculated as per the 1,0000 denominations and on the basis of 30/360 for the USD bonds and Actual/Actual (ISMA) for the EUR bond.

The settlement of the premium and the accrued interest for the two USD bonds exchanged were made from the proceeds of the new cash issuance in USD. Similarly, the settlement of the premium and accrued interest on the EUR bond were made from the proceeds of the new cash issuance in EUR. These payments are detailed in Table 2 below.

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

Original Notes	Accrued Interest	Cash Premium
US\$ 7.500% March 2012	US\$ 4,415,364.62	US\$ 6,448,029.00
US\$ 7.750 September 2011	US\$ 6,307,542.24	US\$ 15,009,346.50
EUR 5.875% April 2012*	€ 15,541,178.64	€ 4,630,362.00

* Accrued interest and cash premium were directly paid in EUR.

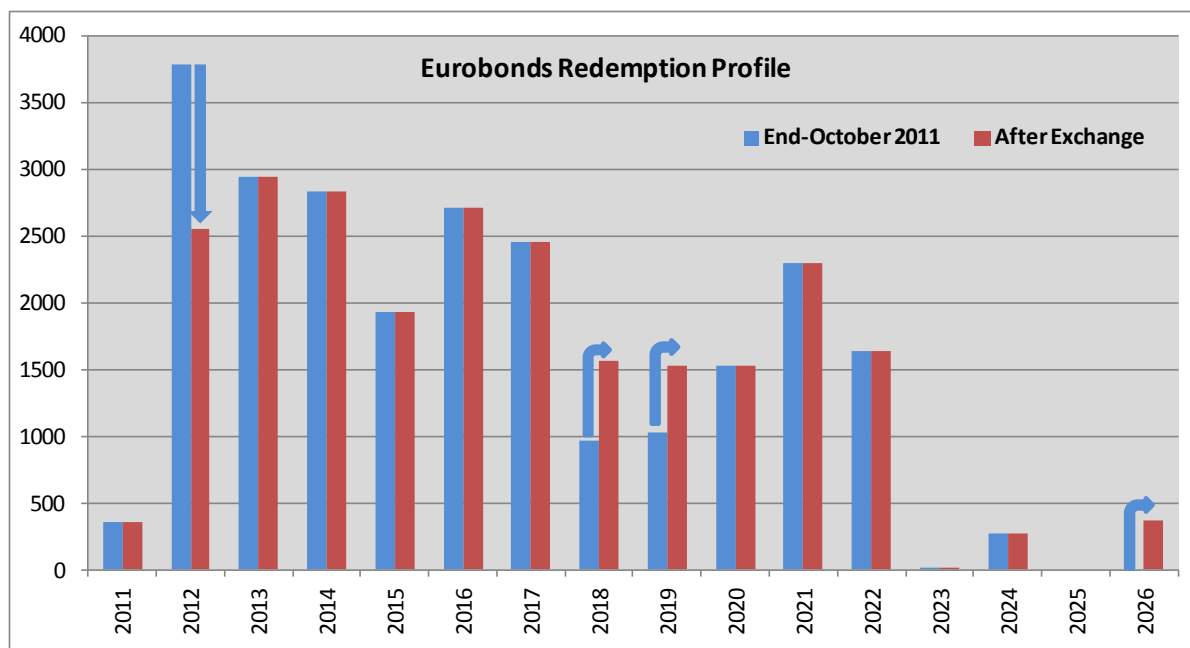
IV. New Bonds

The choice for the new Eurobonds was based on the Eurobond profile of the Lebanese Republic with the objective to smoothen the curve and extend maturities to the extent possible under existing laws. The eight-year USD bond was assessed as a natural fit for the bulk of bond holders to be combined with a longer-dated maturity. As of October 31, 2011, Eurobond maturities (principal and coupon) due in 2019 amounted to US\$ 1,030 million billion compared to US\$ 1,552 million due in 2020 and US\$ 2,290 million in 2021. Hence, an 8 year issuance smoothly fits into the 2019 profile. The new USD 2026 provided for a favorable maturity extension. This is the sixth 15-year tenor (second 15-year market issuance), with the last issuance performed in December 2009 and due in December 2024.

Regarding the EUR portion, market sounding indicated local appetite for Euro-denominated bonds. As a result and given the Eurobond maturities (principal and coupon) in 2018, which had amounted to US\$ 971 million as of end-October 2011, the EUR 2018 fits smoothly.

The exchange transaction and the issuance of new notes with maturities of 7 years, 8 years and 15 years have extended the maturity profile of the outstanding Eurobonds as detailed in Figure 1.

Figure 1: Redemption profile of Outstanding Eurobonds as of end-October 2011 and 28 November 2011



Note: To factor out the exchange rate effect, the same Euro exchange rate (1.3325 US\$/Euro rate dated 24 November 2011) was used for the plotting the Eurobond profile at both the end-Oct 2011 profile and post November 2011 issuance.

1. Pricing Strategy and Success Ratios

The yields for the new issues were determined based on the secondary market prices of comparable maturities of the Lebanese Republic and its sovereign ratings, and in line with yields on the 7Y UST, 10Y UST and 7Y German Government Bond (DBR) as a benchmark to the EUR Eurobond.

On November 21st, 2011, the Lebanese Republic released the New Notes Minimum Yield Announcement, indicating the following minimum yields (the associated indicative yield ranges are in Table 3):

- 5.35% for USD 2019
- 6.60% for USD 2026
- 5.35% for EUR 2018

In the afternoon of November 21, 2011, the Spanish 10 year bonds were yielding 6.55% and Italy's ten-year yields were trading at 6.66%. The secondary market level on the Lebanese bonds for the 6.000 USD2019 were at 5.34-5.51% and that 6.375 USD2022 were at 5.83-5.96%. As a result, and given volatile international markets and regional political turbulence, the Republic released a Revised Yield Announcement on November 23rd,

2011, revising the minimum yield on the USD 2019 up to 5.45%. Final yields were determined on 24 November 2012 as in table 5.

Table 3: Indicative Yield Range

New Notes	Min Yield 21 Nov 2011	Indicative Yield Range	Revised Min Yield 23 Nov 2011
€ due November 2018	5.30%	5.30%-5.65%	NA
USD due November 2019	5.30%	5.30%-5.65%	5.45
USD due November 2026	6.40%	6.40%-6.75%	NA

The participation rate in the exchange transaction reached an average of 64.3 percent, mainly driven by the 79 percent success ratio for the exchange on the EUR Note.

The detailed results of the exchange offer are as follows:

Table 4: Terms and Conditions of the Exchange

Original Notes	US\$ 600,000, 000	US\$ 600,000, 000	€535,639,000
Issue Date	March 19, 2009	September 7, 2004	April 12, 2006
Maturity	March 19, 2012	September 7, 2012	April 12, 2012
Coupon rate	7.500%	7.750%	5.875%
Coupon payment	Semi-annual	Semi-annual	Annual
Principal payment	Bullet payment at maturity	Bullet payment at maturity	Bullet payment at maturity
Issue Price	102.100% (plus accrued interest since September 19, 2011)	104.150% (plus accrued interest since September 7, 2011)	101.100% (plus accrued interest since April 12, 2011)
Exchanged Amount	US\$ 307,049,000	US\$361,671,000	€420,942,000
Participation Rate	51.2%	60.3%	78.6%
Lead Managers	Deutsche Bank, AG London Branch, Fransa Invest Bank S.A.L. and Standard Chartered Bank		

2. Final Terms of New Notes

In addition to the new notes issued via the voluntary exchange offer, which amounted to US\$ 1,229,625,215 the Republic has also issued additional notes for cash amounting to

US\$238,337,385. This new cash portion was almost three times oversubscribed, with international orders accounting for 19 percent of these subscriptions.

- The first series consisted of a US\$ 500 million 5.45% percent coupon Eurobond due November 2019 (Series 60).
- The second series was a US\$ 375 million 6.60 percent coupon Eurobond due November 2026 (Series 61) with international orders accounting for 32 percent of subscriptions on the new cash portion (second tranche).
- The third series consisted of a €445 million 5.35% due November 2018 (Series 62).

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
€ due November 2018	5.35%	5.35%	€420,942,000	€24,058,000	€445,000,000
USD due November 2019	5.45%	5.45%	US\$ 433,183,000	US\$ 66,817,000	US\$ 500,000,000
USD due November 2026	6.60%	6.60%	US\$ 235,537,000	US\$ 139,463,000	US\$ 375,000,000
		Total US\$*	US\$ 1,229,625,215	US\$ 238,337,285	US\$ 1,467,962,500

* Euro exchange rate (US\$/Euro) (24 November 2011 of 1.3325 EUR/USD)

The proceeds of the issue were utilized for refinancing operations. The transaction is the third market transaction executed by the Lebanese Republic in 2011 to refinance foreign currency maturing debt, following the US\$ 1.2 billion dual tranche transaction conducted on 2nd August 2011 and the \$ 1 billion dual tranche offering that was conducted on May 20th, 2011. On January 18th 2011, the Ministry of Finance also conducted a "Debt Replacement Agreement" with Banque du Liban consisting of a \$ 265 million re-opening of 6.10 percent Notes due October 2022.

Table 6: Detailed Terms and Conditions of the New US\$ due November 2019

Series (tranche)	60	60(2)
Issue size (in USD)	US\$ 433,183,000	US\$66,817,000
Issue date	November 28, 2011	November 28, 2011
Maturity	November 28, 2019	November 28, 2019
Coupon rate	5.45%	5.45%
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	5.45%	5.45%
ISIN code	XS0707819727	XS0707819727
Benchmark Bond on November 24, 2011 *	7Y UST	7YUST
Benchmark Yield on November 24, 2011 *	1.380%	1.380%,
Re-offer Spread vs. Benchmark	+407 bps	+407 bps
Spread to MidSwap	+348 bps	+348 bps
Lead Managers	Deutsche Bank, AG London Branch, Fransa Invest Bank S.A.L. and Standard Chartered Bank	

**Pricing date. Since this day was a Thanksgiving holiday in the US, the numbers quoted are as of close of business on 23 November 2011.*

Table 7: Detailed Terms and Conditions of the New US\$ due November 2026

Series (tranche)	61	61 (2)
Issue size (in USD)	US\$ 235,537,000	US\$ 139,463,000
Issue date	November 28, 2011	November 28, 2011
Maturity	November 27, 2026	November 27, 2026
Coupon rate	6.60%	6.60%
Coupon payment	Semi-annual	Semi-annual
Principal payment	Bullet payment at maturity	Bullet payment at maturity
Issue Price	Issued in connection with exchange offer	100.00%
Re-offer Yield	6.60%	6.60%
ISIN code	XS0707820659	XS0707820659
Benchmark Bond on November 24, 2011 *	10Y UST	10Y UST
Benchmark Yield on November 24, 2011 *	1.883%	1.883%
Re-offer Spread vs. Benchmark	471.7 bps	471.7 bps
Spread vs. MidSwap	+420 bps	+420 bps
Lead Managers	Deutsche Bank, AG London Branch, Fransa Invest Bank S.A.L. and Standard Chartered Bank	

**Since this day was a Thanksgiving holiday in the US, the numbers quoted are as of close of business on 23 November 2011.*

Table 8: Detailed Terms and Conditions of the New EUR due November 2018

Series (tranche)	62	62 (2)
Issue size (in USD)	€420,942,000	€24,058,000
Issue date	November 28, 2011	November 28, 2011
Maturity	November 28, 2018	November 28, 2018
Coupon rate	5.35%	5.35%
Coupon payment	Annual	Annual
Principal payment	Bullet payment at maturity	Bullet payment at maturity
Issue Price	Issued in connection with exchange offer	100%
Re-offer Yield	5.35%	5.35%
ISIN code	XS0707821467	XS0707821467
Benchmark Bond on November, 2011*	DBR 4.25% due July 2018	DBR 4.25% due July 2018
Benchmark Yield on November, 2011*	4.250%	4.250%
Re-offer Spread vs. Benchmark	+377.4 bps	+377.4 bps
Spread vs. MidSwap	+297 bps	+297 bps
Lead Managers	Deutsche Bank, AG London Branch, Fransa Invest Bank S.A.L. and Standard Chartered Bank	



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