

Result of External Debt Security Exchanges

On August 3rd, the National Treasury announced the results of the *Exchange Offer* on the Federal External Bonded Debt - DPMFe denominated in US dollars. Based on the proposals received between July 27th and August 2nd, it was announced that up to US\$ 1.5 billion in principal involving five sovereign bonds would be exchanged for Global Bonds 2037. The maturities of the five bonds will vary between 2020 and 2030 (Global Bonds 2020, 2024, 2024B, 2027 and 2030).

The operation involved the issuance of US\$1,000 in Global 2037 (face value) for each US\$ 1,000 (face value) in bonds received. The prospectus of the operation stated that the price spread between these securities would be paid in the settlement date (August 16th) to those investors who adhered the exchange. The resources used in this operation were withdrawn from the Central Bank international reserves. In the same way, it would be paid the difference between the interest on the bonds received and the interest on Global 2037.

The main objective of the operation was to redeem high coupon bonds since they distort Brazil's external yield curve. The underlying reason for this is that interest rates on these bonds are quite high and, as a result, their market prices are much

higher than their face value. Besides that, these bonds generate larger short-term disbursements as interest coupon payments.

As a result of the exchange, managed by *Citigroup Inc. and Deutsche Bank AG*, the National Treasury issued US\$ 500.3 million in Global 2037 bonds. Additionally, US\$ 253.5 million were disbursed, corresponding to the difference between the prices of the securities exchanged and the Global 2037 reopening price (92% of the total in cash), as well as to payment of accrued interest (8% of the total), as shown in the table below.

Exchange Offer Result

Bonds	Face Value Accepted	Difference Paid in Cash	Outstanding
Global 2020	8.7	4.4	760.2
Global 2024	44.3	8.8	2,060.8
Global 2024B	62.9	12.5	740.4
Global 2027	48.6	16.4	3,434.8
Global 2030	335.8	211.3	1,017.1
TOTAL	500.3	253.5	8,013.3

The Global 2037 was issued with a yield of 7.15% p.y. at the price of 99.68% of its face value, higher than the amount obtained in the bond original issue on January 10th 2006, when it was sold at 94.856% of face value. The bond will pay a semi-annual interest coupon of 7.125% p.y., with a 205

b.p. spread over the US Treasury 2031 benchmark. This was the second lowest level in the history of the country's issuances on the Global market, since the country returned to the international market in 1995.

With this US\$ 500.3 million issuance, the outstanding Global 2037 on the market will come to approximately US\$ 2 billion. This operation will allow the bond to have greater liquidity in secondary market trading, thus making it possible to improve its pricing and increase the investors base.

With this measure, the National Treasury reinforces the volume of these bonds on the market in order to make it a benchmark on the Brazilian sovereign curve, working as reference for new issuances by the National Treasury and Brazilian companies. Furthermore, the average maturity of the DPFe was also lengthened as a result of the greater duration of the Global 2037 (11.60 years) when compared to the average duration of the bonds received in the exchange (9.5 years).

From the financial point of view and considering that the bonds received had higher interest coupons than those of Global 2037, the National Treasury reduced

its average interest payments by approximately US\$ 20 million per year.

Finally, comparing the prices of the securities accepted in the exchange with the fair yield curve considered for each security, the operation generated more than US\$ 3 million in present value savings.

The operation volume was less than originally foreseen. This can be explained in a great deal by the fact that the National Treasury adopted a conservative stance in terms of the securities pricing involved in the operation. At the same time, this fact demonstrates foreign investors interest in maintaining their positions in Brazilian assets, since the exchange operation anticipated in cash between 20% and 63% of their investments.

Public Debt Strategic Planning Office Investors Relation

Staff:

Manager: Jeferson Luis Bittencourt

Deputy: André Proite

Fabio Guelfi Pereira

Flávia Fernandes Rodrigues Barbosa

Karla de Lima Rocha

Leandro Enrique Pereira Espino

e-mail: brazildebt@fazenda.gov.br

fax: ++ 55 61 3412-1565

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