Debt Report

TESOURONACIONAL

Partial Results for the Federal External Debt Buyback Program — *June, 2006*

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The Brazilian National Treasury has implemented a set of measures to improve the Federal Public Debt profile, in particular, regarding to the Federal External Debt in bonds. This has reduced sharply the country's risk perception. Among the measures taken are the C-Bond/A-Bond exchange, the issuance of the first sovereign debt bond denominated in BRL, the anticipated payment of Paris Club and IMF debt (this one paid by the Central Bank), the call of Brady bonds, and the external debt buyback program.

On this occasion, the Brazilian National Treasury would like to inform, once again, about the results achieved up to this moment as regards the buyback program of Brazilian bonds in the international market.

This medium-term program draws on the international reserves and has the Central Bank as the National Treasury agent. It aims at bonds with maturities up to 2010, as well as at Brady Bonds[1], amounting of up to US$ 20 billion.

In financial terms, from the beginning of this year until May 26th, USD 11.7 billion has been employed in this buy-back. The Bradies call operation, on April 18th, accounted for USD 6.6 billion of this amount.

Considering only the buyback program, the National Treasury bought up to this moment approximately USD 5.09 billion (financial value). That represents a face value of USD 4.4 billion.

The table below shows that, as regards the Global bonds, about one third of the debt maturing between 2007 and 2009, and 24.9% of bonds with maturity in 2010, were object of the buyback. As concerns the Euro bonds, approximately 10% of the debt maturing in 2007, and 16.5% of the bonds with maturity in 2010, were included in the program.

Buyback Results

(Million)

	Asset	Outstanding (before the buyback)	Buyback
BRADIES	NMB	1,770.75	55.86
BRADIES	FLRB	607.07	33.22
BRADIES	DCB	3,754.62	59.59
BRADIES	PAR	1,488.53	333.00
BRADIES	DISC	1,285.95	19.28
GLOBALS	BR07N	1,000.00	389.54
GLOBALS	BR07	1,500.00	485.02
GLOBALS	BR08N	1,250.00	630.03
GLOBALS	BR08	1,250.00	205.89
GLOBALS	BR09F	750.00	227.43
GLOBALS	BR09	2,000.00	720.69
GLOBALS	BR10	1,000.00	358.65
GLOBALS	BR10N	1,500.00	262.80
	Total in face value (USD)		*3,780.99*
			(Million)
EUROS	EU06	688.00	54.48
EUROS	EU07	750.00	113.04
EUROS	EU07DEM	511.29	30.24
EUROS	EU08DEM	383.47	40.33
EUROS	EU09	500.00	50.00
EUROS	EU10	750.00	144.00
	Total in face value (EUR)		432.08
	Total in face value (USD)		*533.85*
			(Million)
JPY	JP07	80,000.00	14,850.00
	Total in face value (JPY)		14,850.00
	Total in face value (USD)		*125.30*
			(Million)
	Total in face value (USD)		*4,440.14*
	Total in finantial value (USD)		*5,092.67*

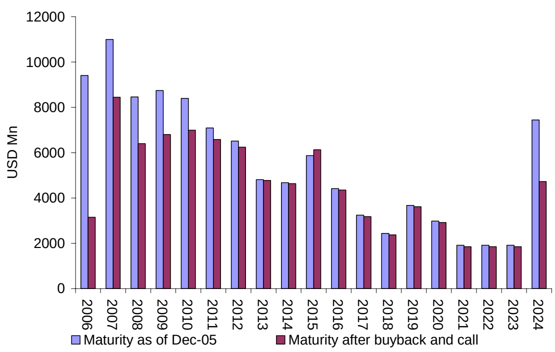
[1] The Bradies have been extinguished as the call option was exercised in April.

National Treasury: http://www.stn.fazenda.gov.br/

The resources used in the buyback operations are drawn from the international reserves. Considering that the reserves earn yields close to those of US Treasuries, the operation represents around US$ 520 million net savings in present value. This corresponds to the interest rate differential between the Treasuries and the Brazilian bonds object of buyback, since those are always issued with a spread over the US bonds.

Another positive impact of the program is the longer maturity profile of public debt, since the focus of buyback was on short-term instruments. As a consequence, refinancing risk is reduced, as well as sovereign risk perception from the market. This impact is illustrated in the following chart, which pictures the bonded Federal External Debt maturity profile until 2024 before and after the buyback and call operations from December 31st 2005 to May 26th 2006.

Graph I – Federal External Debt Maturity Profile in Bonds



* in 206, the current maturity also reflects the redemptions already performed

Global 2030 for Global 2034 Exchange

The Global 2030 for Global 2034 bond exchange operation was another measure recently implemented. It has the same goals of improving the Federal External Debt (in bonds) profile and of increasing the Brazilian sovereign yield curve liquidity and efficiency. In this operation, which began in February 15th and will be settled on June 2nd, an amount of roughly USD 205 million (financial value) was exchanged, which is equivalent to 9.25%y.y. of the outstanding volume of the Global 2030[2].

This operation will bring about increased efficiency as regards the Brazilian sovereign yield curve, since it partly corrects a distortion in the Global 2030 (considered a high dollar price bond, with a 12.25%y.y. coupon). Bonds with high coupon are normally traded with yields above the Brazilian yield curve. Although a longer debt maturity profile was not the primary aim of this operation, it has contributed to this goal, as well. Finally, a comparison of financing costs reveal the exchange will result in gains of approximately US$ 1.2 million in net present value.

By means of this new set of measures, the National Treasury reinforces the goals defined in its latest Annual Borrowing Plan with a reduction in the cash flow payments (principal and interest) associated to Federal External Debt, reduction in its size and increase in its average maturity. The

[2] In terms of face value, the Treasury bought USD 148 million of the Global 2030, and issued USD 198 million of the Global 2034.

achievement of those goals will result in improved indicators considered by rating agencies to rate Brazilian sovereign debt, such as the ratio of both public and total external debt service to exports and the gross external debt to exports ratio. Completing this virtuous circle, better risk evaluation reflects itself in lower borrowing costs for the government.

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