



BRAZIL OPENS A NEW 10-YEAR BENCHMARK: INTEREST RATE REACHES ITS HISTORICAL MINIMUM LEVEL

The Brazilian National Treasury issued, on September 5th, 2012, its new 10-year benchmark, the Global 2023, amounting USD 1.35 billion, of which USD 1.25 billion in the European and North American markets and USD 100 million in the Asian market. This issuance was managed by Deutsche Bank and BTG Pactual with Banco do Brasil Securities as co-manager.

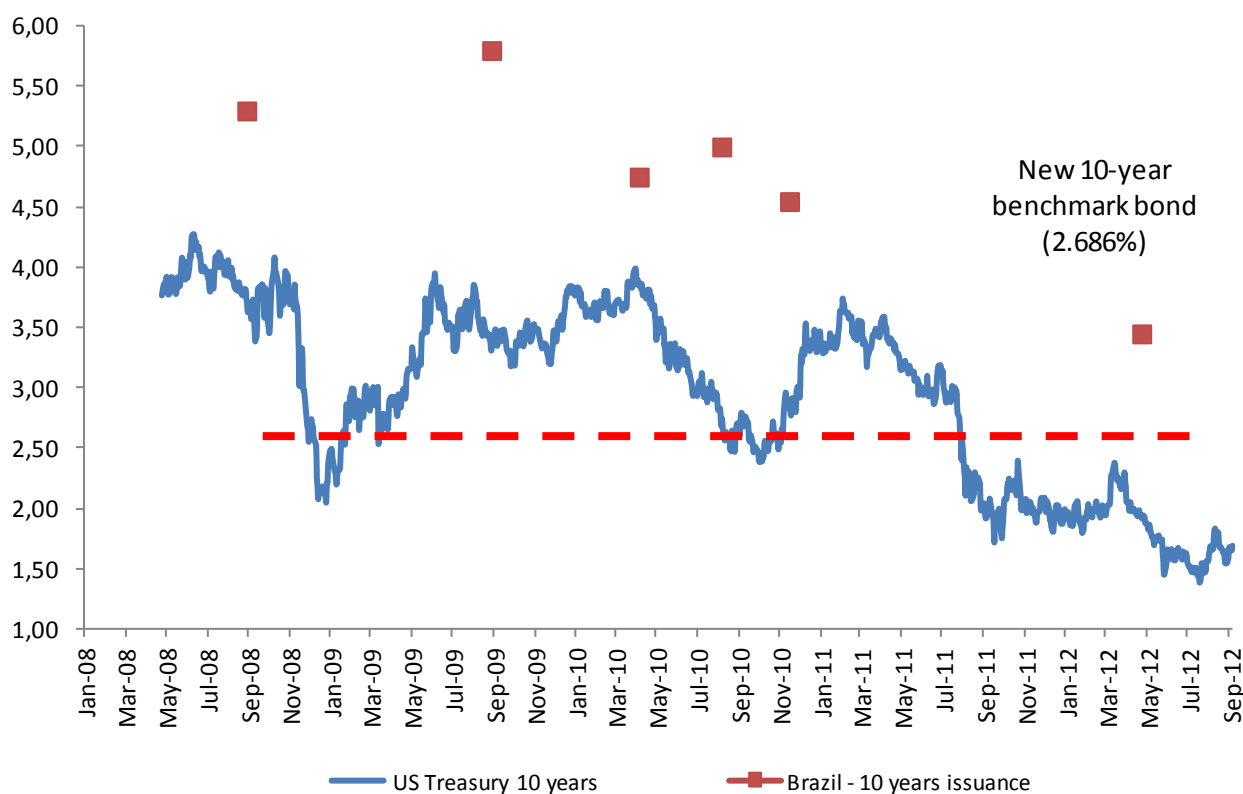
The 10-year bond was priced in 99.456% of its face value, with a 2.686% p.y. yield. Coupon reached 2.625% p.y. and will be paid semi-annually - January 5th and July 5th - up to its maturity in January 2023. This operation had a 110 bps spread over the reference US Treasury Bond (Aug-2022).

Aiming at enlarging the investor base, the Brazilian National Treasury adopted, once again, the so called green shoe mechanism. According to this strategy, the Brazilian National Treasury launches the operation in the North American and European markets and extended the issuance in the Asian market at predetermined conditions.

The government took the opportunity after the summer holidays in the northern hemisphere in order to issue the new benchmark. In addition, the lowest historical yields of the USA Treasuries - increased the appetite for traditional investors to pursue another asset classes with higher returns in a liquid environment.

The Global 2023 issuance was characterized by the lowest yield among all issuances ever made in US Dollars from the Republic. Before that, the lowest yield ever reached was the retap of Global 2021, issued in January 2012 – with a 3.449% p.y.. To illustrate this result, the graph below shows a comparative performance between the US 10y benchmark and this operation. It can be noted that, in absolute terms, this yield obtained in this operation was lower than the rates observed in the US Treasury for most of the time in the past 5 years:

Graph 1 – Yield Evolution of 10-years Benchmark Bonds and US Treasury



Source: Bloomberg and STN/Codip

This operation is part of the National Treasury’s strategy of qualitative issuances, since it aims at improving the external debt profile and consolidating the US Dollar-denominated curve, by the maintenance of benchmarks in the foreign market. Last but not least, this strategy of the federal government can be used as a reference for private companies that are interested in financing themselves with attractive rates.

The table below shows a resume with the issuance of Global 2023:

| Characteristics of the Global 2023 ,on 09/05/2012 | |
|--|-----------------------------------|
| Term | 10 years |
| Maturity | 01/05/2023 |
| Interest coupon | 2.625% p.y. |
| Issuance price | 99.456% of face value |
| Yield | 2.686% p.y. |
| Spread | 110 bps over the US Treasury 2022 |
| Principal payment | single payment, at maturity |
| Interest payment | semi-annual payments |
| Issued at Global Market | US\$ 1.25 bn |
| Issued at Asian Market | US\$ 100 ml |
| Total Issued | US\$ 1.35 bn |

Source: National Treasury - STN/ Codip

At the end of this transaction, the Global 2023 outstanding volume reached USD 1.35 billion, a volume that seeks to improve secondary market liquidity, confirming this bond as the on- the- run 10-year benchmark.



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