

*The Brazilian National Treasury calls option,
anticipating Brady Bonds redemption*

The Brazilian National Treasury announced today, February 23rd 2006, that the call option embedded on the outstanding Brady Bonds¹ will be exercised, at par value, on April 15th 2006. With this measure, the Brazilian National Treasury will eliminate all bonds related to the external debt restructuring, dated from 1994 (Brady Plan)².

The resources to accomplish the call will come from the Brazilian international reserves. Sound economic performance, associated with high international liquidity, resulted in an increase in the domestic international reserves from USD 16 billion in 2003 to roughly USD 56 billion in January 2006.

In this context, the National Treasury will take the opportunity to anticipate, through the call option, the payment of USD 6.64 billion regarding the outstanding Brady Bonds in the market (as of 31st January 2006), as shown below.

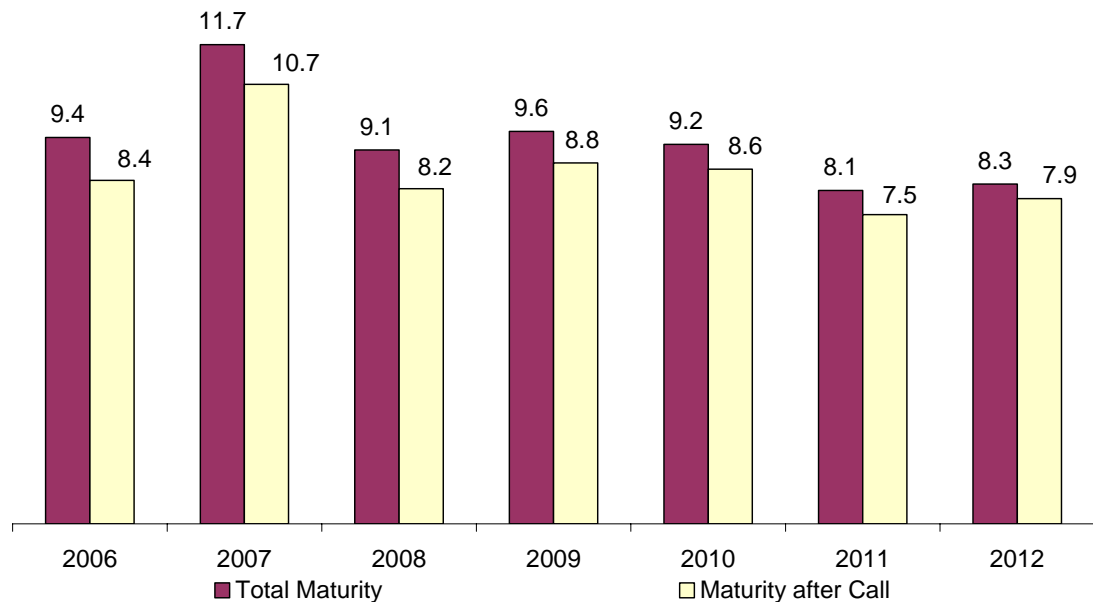
BOND	US\$ Bn
Par	1.42
Discount	1.29
FLIRB	0.33
DCB	2.87
NMB	0.73
TOTAL	6.64

Besides downsizing interest payments, the call aims at smoothing the short-term external debt maturity profile, as well as reducing even more the gross external debt foreign exchange exposure. The graph below shows this reduction.

¹ The EI call option won't be exercised, as this bond matures in April 15th 2006, at the same date of the early redemptions.

² The exception is the BIB, considered a "pre-Brady", which does not have a call option embedded and outstands at USD 247 million, representing less than 0.4% of the total Federal External Bonded Debt.

Federal External Public Debt – DPFe* (US\$ bn)



Source: National Treasury

* Includes Federal Public External Debt principal and interest bonds and contractual debt

The operation will free the PAR and Discount Bonds collaterals (US Treasuries) amounting about USD 1.5 billion, so reducing the need of international reserves to face those obligations.

Furthermore, this measure is in line with the external debt profile improvements, which have also included the C-Bond exchange executed in 2005. Typically, the Brady Bonds have lower liquidity and these early redemptions should have a positive impact in the sovereign yield curve and possibly with positive outcomes in the Brazilian private companies external issuances.

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