NATIONAL TREASURY COMPLETES EXTERNAL DEBT CLEANUP

On April 18th, 2006, the National Treasury exercised its call option at par involving the remaining stock of Brady Bonds on the market This measure, which was announced in February 2006, aims at eliminating all securities issued in the Brady Plan context. These bonds resulted from the external debt's renegotiation which had began in the 1980's and finished in 1994.

In July 1992, Brazil and its private creditors formalized an agreement on the restructuring of the external debt, all within the general lines of the so-called Brady Plan. This April 1994 agreement called for the exchange of the debt for which the public sector was liable, estimated at approximately US$ 55 billion, for a combination of seven types of securities denominated Brady Bonds.

Over the course of 2005 and the first quarter of the current year, the solid fundamentals of the nation's economy and the international liquidity readily available on the market generated consistently positive flows of external resources into the country, making it possible for Central Bank (Treasury's agent) to raise the international reserves stock to comfortable levels. This factor enhanced the government's flexibility in adopting positive attitudes related to external debt management. Among these, the Treasury decided to anticipate the redemption of the Brady Bonds, in the amount of US$ 6.6 billion through acquisitions of international reserves in operations with the monetary authority. Considering that the National Treasury had already acquired US$ 840 million on the market, the volume of reserves required for the operation dropped to US$ 5.8 billion.

Payment on Principal and Interest of Bradies

US$ Million

BONDS	PRINCIPAL	INTEREST	TOTAL
DCB	2,825.7	75.4	2,901.1
NMB	706.2	18.8	725.0
FLIRB	309.0	8.1	317.2
EI	246.7	6.5	253.2
PAR	1,134.9	34.0	1,168.9
DISCOUNT	1,236.2	32.6	1,268.8
TOTAL	6,458.6	175.6	6,634.1

Source: National Treasury

It is important to mention that the redemption of the Par and Discount bonds will release guarantees (Treasuries issued by the American Treasury) in an amount of approximately US$ 1.4 billion, which will later be incorporated into the Brazilian reserve position. Consequently, when the process is concluded, the impact on international reserves will be only US$ 4.4 billion and will result in gains of around US$ 0.34 billion in terms of Net Present Value, as seen on table below:

US$

	Net Present Value	Stock	Gain
DISCOUNT	117,427	1,236,196,000	215,433,364
PAR	108,398	1,134,852,000	95,314,902
NM	100,766	706,162,649	5,415,652
DCB	100,839	2,825,664,871	23,712,981
FLIRB	101,454	309,007,824	4,495,903
			344,372,802

Source: National Treasury

Emphasis should be given to the fact that, since 2005, when the National Treasury assumed full responsibility for security issues on the international market, it has taken a series of measures aimed at improving the profile of the Brazilian external debt. The first step was the partial exchange of the C-Bonds, considered at the time the most important security included in the debt restructuring process, for A-Bonds, followed by redemption of the remaining C-Bonds on the market, on October 15th, 2005.

In December 2005, Central Bank decided to effect early payment of its debt to the IMF and the National Treasury announced its intention to do the same with the Paris Club.

In January, the National Treasury initiated a program of early redemption of external debt bonds, prioritizing those scheduled to mature until 2010. By the end of March, this program had already redeemed US$ 3.7 billion.

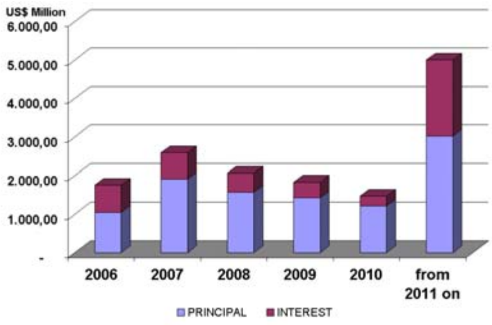
The reduction on the service of the External Debt achieved with the early redemption mentioned in the last paragraph and with the exercise of the Bradies call option will be of USS 14,7 billion, corresponding to USS 10,2 billion in principal and USS 4,5 billion in interest, as shown below.

US$ Million

	PRINCIPAL	INTEREST	TOTAL
2006	1,050.05	700.66	1,750.72
2007	1,907.37	679.24	2,586.60
2008	1,563.11	502.20	2,065.31
2009	1,421.89	404.05	1,825.95
2010	1,208.57	258.06	1,466.63
from 2011 on	3,023.30	1,980.54	5,003.84
TOTAL	10,174.29	4,524.76	14,699.04

Source: National Treasury

External Debt Service Reduction



Source: National Treasury

With prepayment of the Paris Club debt, early redemption of the bonds to mature up to 2010 and exercise of the call option involving Bradies, the external debt for which the National Treasury is liable will drop from US$ 75.9 billion in December 2005 to less than US$ 65 billion. Continued management of the current Central Bank's policy of rebuilding the nation's international reserve position, adopted toward the end of 2005, will result in a situation in which the Brazilian government will have a record volume of international reserves in December 2006, sufficient to pay off the totality of the external federal public debt - DPFe held by the public.

There is no doubt that this situation will contribute significantly to reducing country's risk and will have a highly positive impact not only on Brazilian government security issues : also those made by Brazilian corporations abroad. Expectations are that the major rating agencies will also improve their perceptions of the Brazil risk, thus contributing to the country's objective of achieving classification as an investment grade country.

At this historic moment, the National Treasury has eliminated the final traces of the period of enormous turmoil in the management of the

Brazilian public debt, initiating a new chapter as an important issuer of sovereign bonds on the major world markets.

In this context, the National Treasury has reaffirmed its fundamental guideline of maintaining a system of transparent debt management, built upon an austere fiscal policy committed to the objective of reducing the composition of the Net Public Sector Debt in relation to GDP to levels below 40% by the end of the decade.

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