TESOURO NACIONAL

Federal Public Debt Management

Annual Public Debt Report 2010

Annual Borrowing Plan 2011

February 2011

B R A S Í L I A

Annual Debt Report – ADR 2010

- Achieved Results
- Risk Assessment
- Advances in Public Debt Management

Annual Borrowing Plan - ABP 2011

- Assumptions and Guidelines
- Strategy and Expected Results

Achieved Results

Evolution of the Federal Public Debt (FPD) Main Indicators

- In 2010, the country had a robust recovery, with performance above the average of developed countries and compatible with all major emerging economies.
- Improved debt profile: historical peak (since 1990, the beginning of the series) of fixed rate bonds (36.6%), as percentage of FPD, as well the sum of fixed rate and inflation linked bonds (63.3%). In addition, lower share of floating and exchange rates, the ones subject to greater volatility.

Indicators	Dec-07	Dec-08	Dec-09	Dec-10	ABP -2010 Minimum	ABP -2010 Maximum
Stock of FPD held by the public (R$ Billion)	1,333.8	1,397.3	1,497.4	1,694.0	1,600.0	1,730.0
FPD Profile (%)						
Fixed Rate	35.1	29.9	32.2	36.6	31.0	37.0
Inflation Linked	24.1	26.6	26.7	26.6	24.0	28.0
Floating Rate	30.7	32.4	33.4	30.8	30.0	34.0
Exchange Rate	8.2	9.7	6.6	5.1	5.0	8.0
Others	1.9	1.4	1.1	0.8	0.0	1.0
FPD Maturity Structure						
Average Maturity (years)	3.3	3.5	3.5	3.5	3.4	3.7
Percentage Maturing in 12 Months	28.2	25.4	23.6	23.9	24.0	28.0

Source: National Treasury

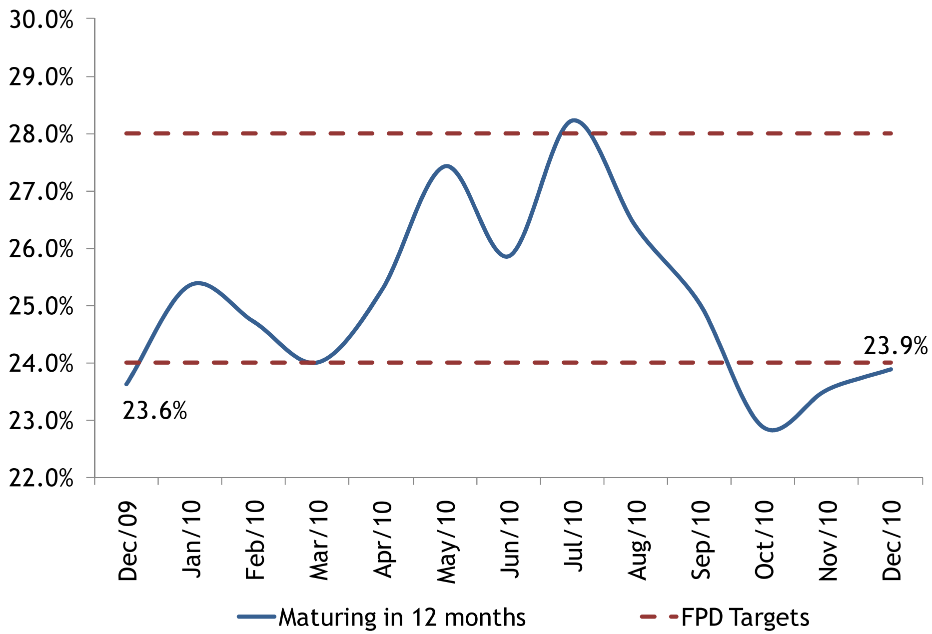
Achieved Results

Evolution of the Average Maturity and the % of FPD Maturing in 12 Months

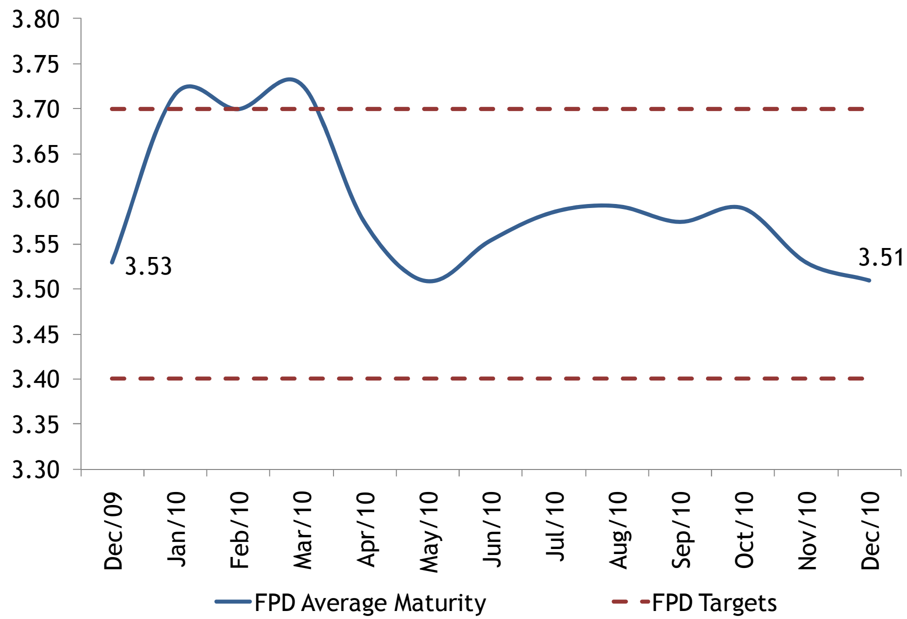
- The percentage of FPD maturing in 12 months was slightly lower than the limit of 24% set in the Annual Borrowing Plan (ABP) 2010. The National Treasury has been successful in keeping the short-term maturities of FPD below 25%, a historically comfortable level.

- Average maturity of FPD remained stable at 3.5 years, ranging within the limits of 3.4 and 3.7 years established in the ABP 2010.

Percentage of FPD Maturing in 12 Months



Average Maturity of FPD



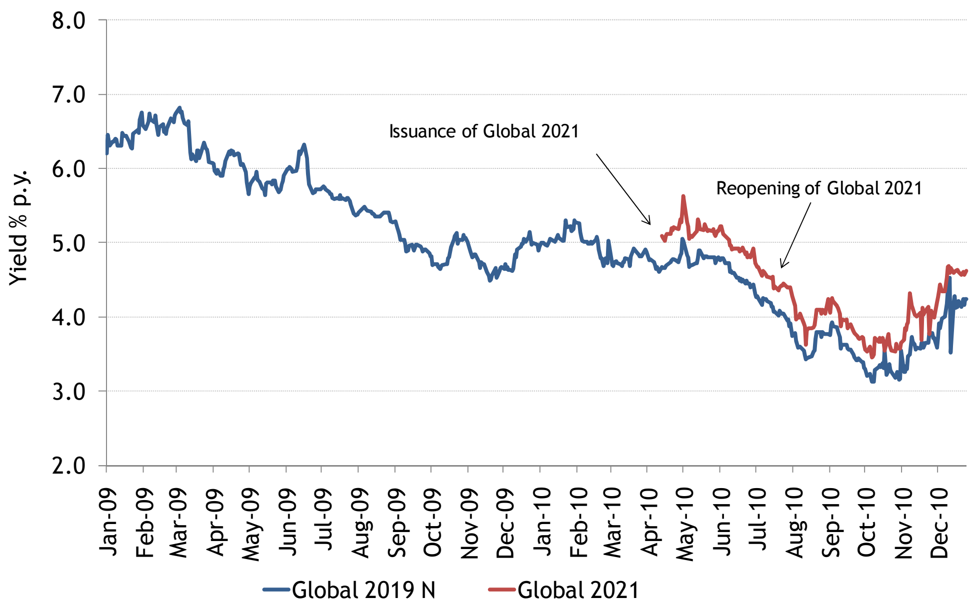
Source: National Treasury

Achieved Results

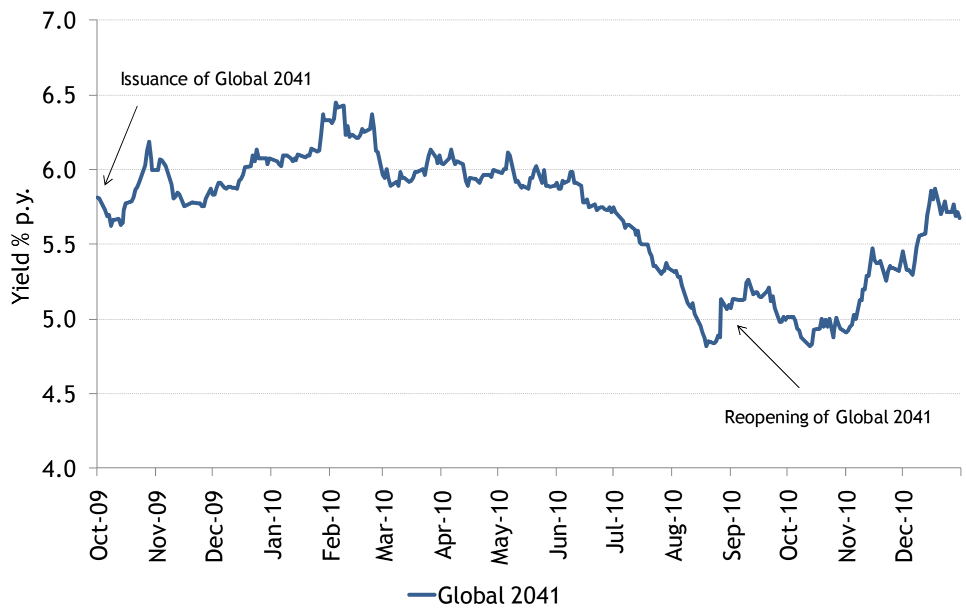
External Market

- The National Treasury conducted four external operations, three through bond issuances in U.S. dollars and one referred in BRL, raising a total of approximately US$ 2.8 billion.
- The reopening, in July, of the new ten years benchmark, Global 2021, after its first issuance in April, was held at the lowest issuance cost ever obtained for a Brazilian bond in U.S. dollars (4.55% p.y.).
- The reopening of the Global 2041, in September, was held at the lowest issuance cost ever recorded by a Brazilian bond in US dollars for 30 years (5.20% p.y.).

Globals 2019N and 2021 Yields



Global 2041 Yields



Source: Bloomberg

Achieved Results

External Market

- The reopening of Global BRL 2028 bond, at the rate of 8.85% p.y., in October, benefited from the yields reduction in the secondary market.

Source: Bloomberg

Achieved Results

External Market

Buyback Program

- With the buyback program, the volatility of FPD service has diminished, reducing market and refinancing risk, thus improving the yield curve.

- In 2010, The National Treasury repurchased US$ 2.8 billion of securities denominated in U$ dollars and € 300 million denominated in euros, both in face value, equivalent to US$ 4.3 billion of financial value. Considering all issuances, maturity and repurchases, there were net redemptions equivalent to an outflow of about US$ 7.4 billion.

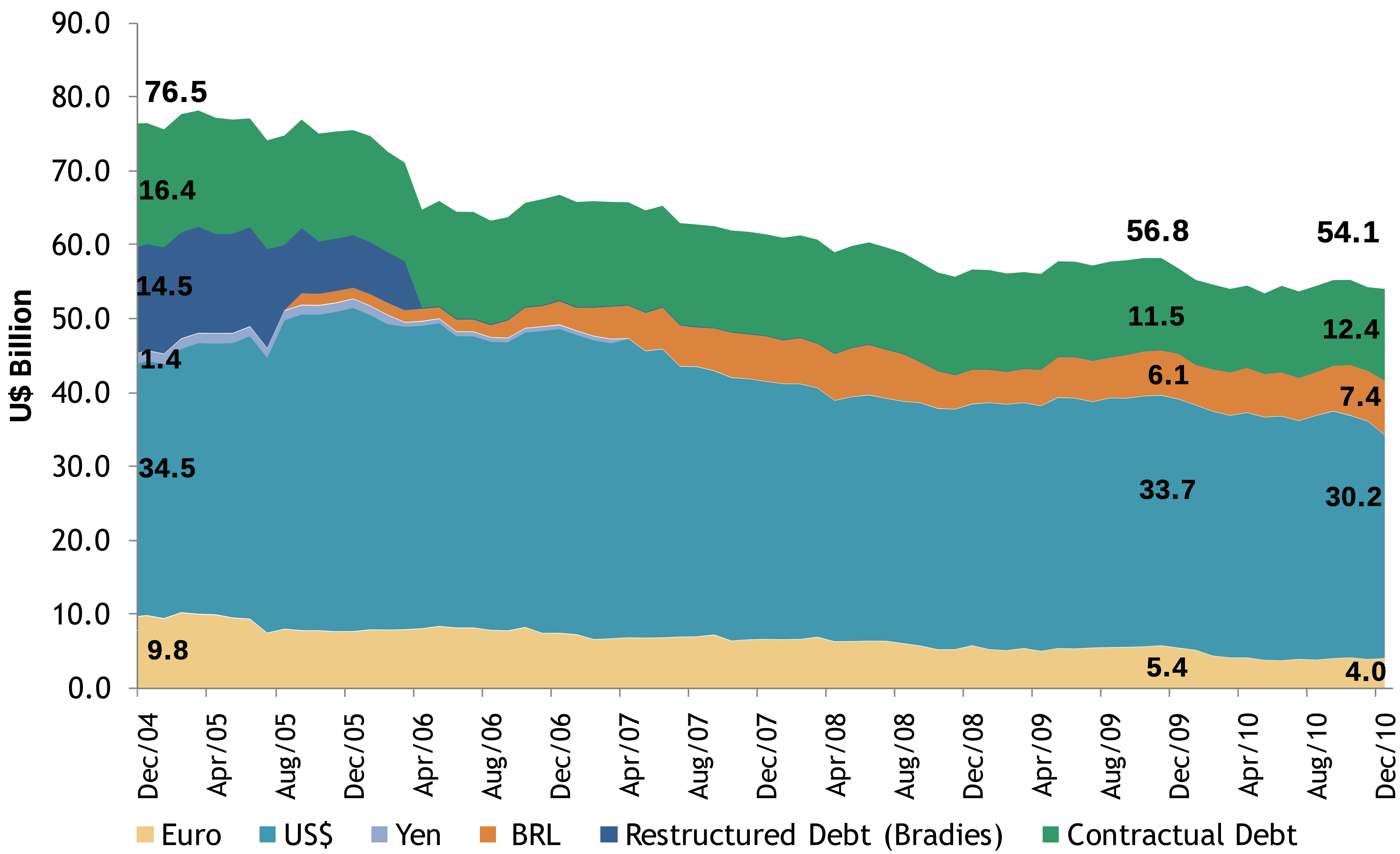
Contractual Debt

- Aiming at reducing the external contractual debt cost, the National Treasury carried out, as of August, the 2nd step of conversion of contracts with Inter-American Development Bank (IDB), which consisted on switching interest rates of the original contracts for a structure based on LIBOR plus a spread. Eventually, there was also a conversion of the principal to U.S. dollars substituting a basket of currencies.

- These operations involved US$ 508 million in outstanding contractual debt and resulted in reduction of the costs expressed in present value of US$ 61.7 million as well as in the market risk, providing more predictability and transparency to these liabilities.

Achieved Results

Outstanding External Federal Public Debt (EFPD)



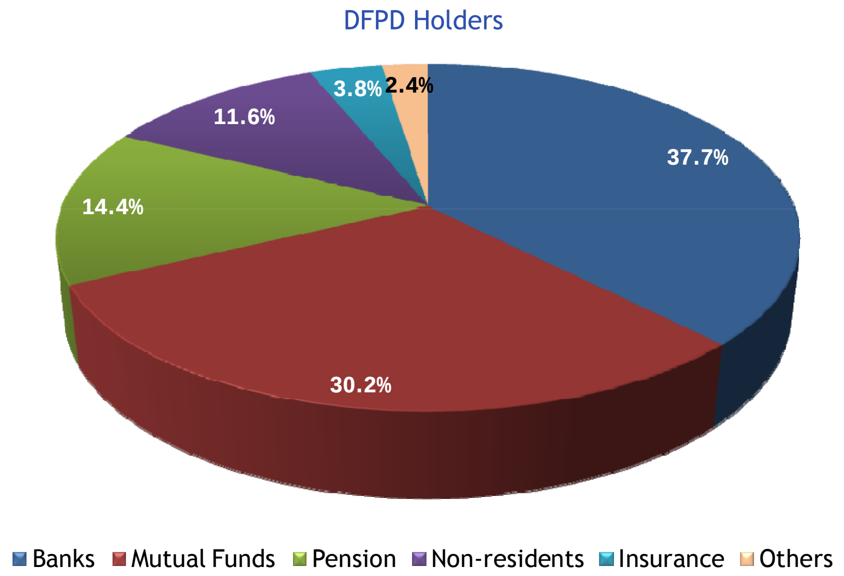
Source: National Treasury

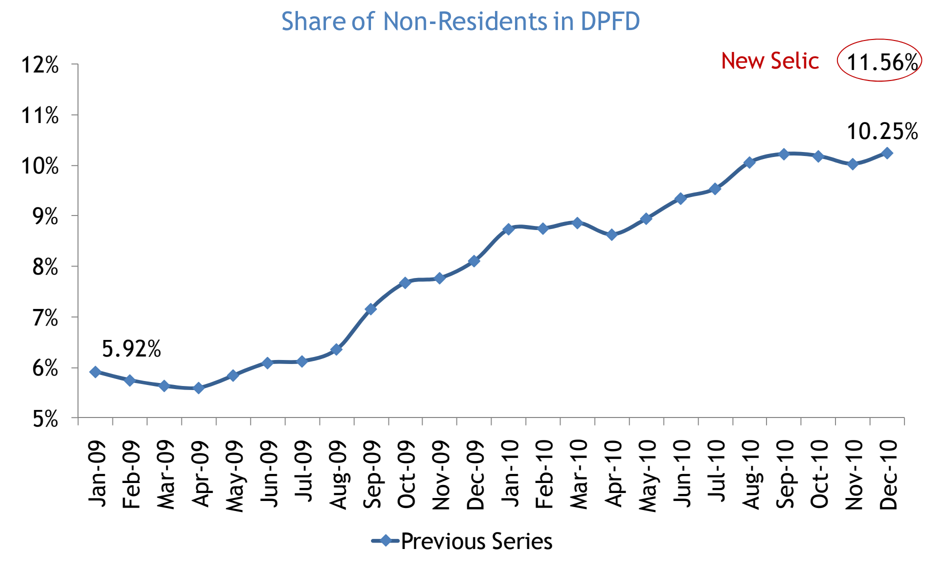
Achieved Results

Domestic Federal Public Debt (DFPD) Holders (Dec 2010)

A diversified investors base provides more stability and greater liquidity on securities' demand, which results in lower costs and risks to the issuer.

- The update of SELIC - clearing system were the government bonds are registered - allowed the final identification of the holders of public bonds deposited as collaterals in settlement and custody systems. Therefore, as of Dec-10, the increase in the share of non-residents (NRI) in DPFD to 11.6% was mostly due to the reclassification of bond's ownership which was previously registered under their custodian agents. Without this change, the share of non-residents would reach 10.25% of DFPD in December, compared to 10.03% in November.





Source: National Treausry

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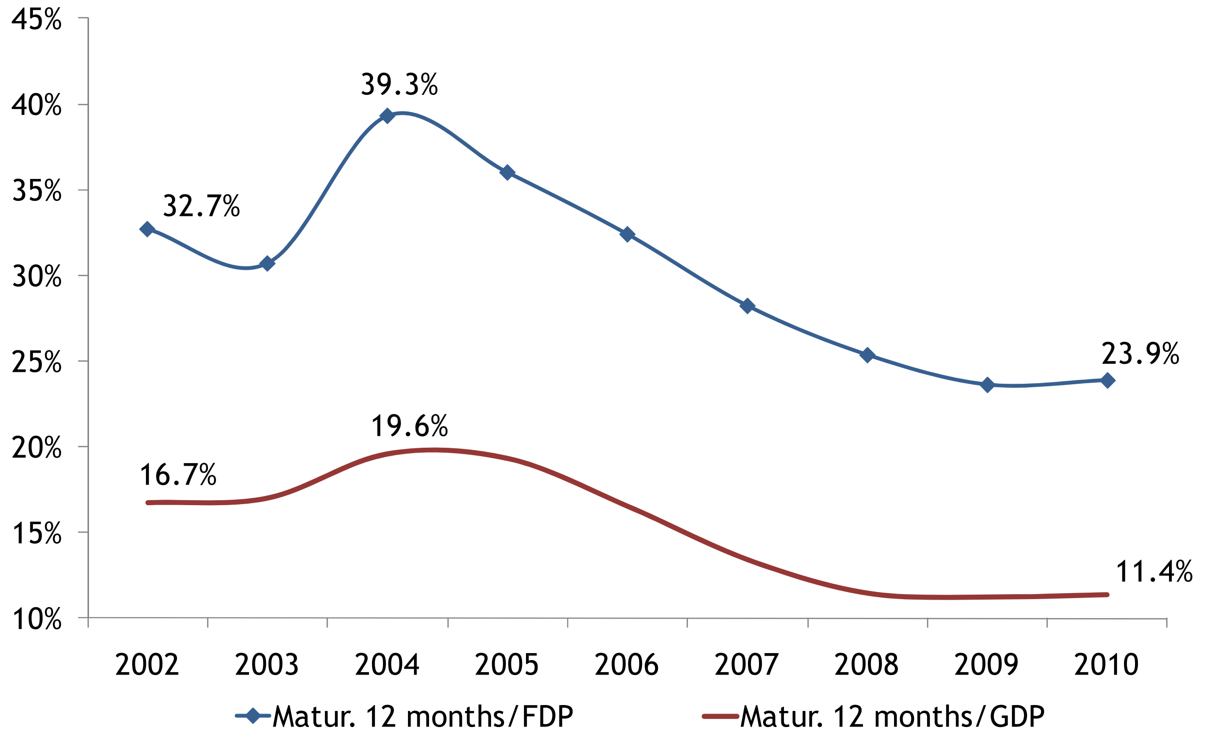
Risk Assessment

Refinancing risk - Short-term maturities of FDP (12months)



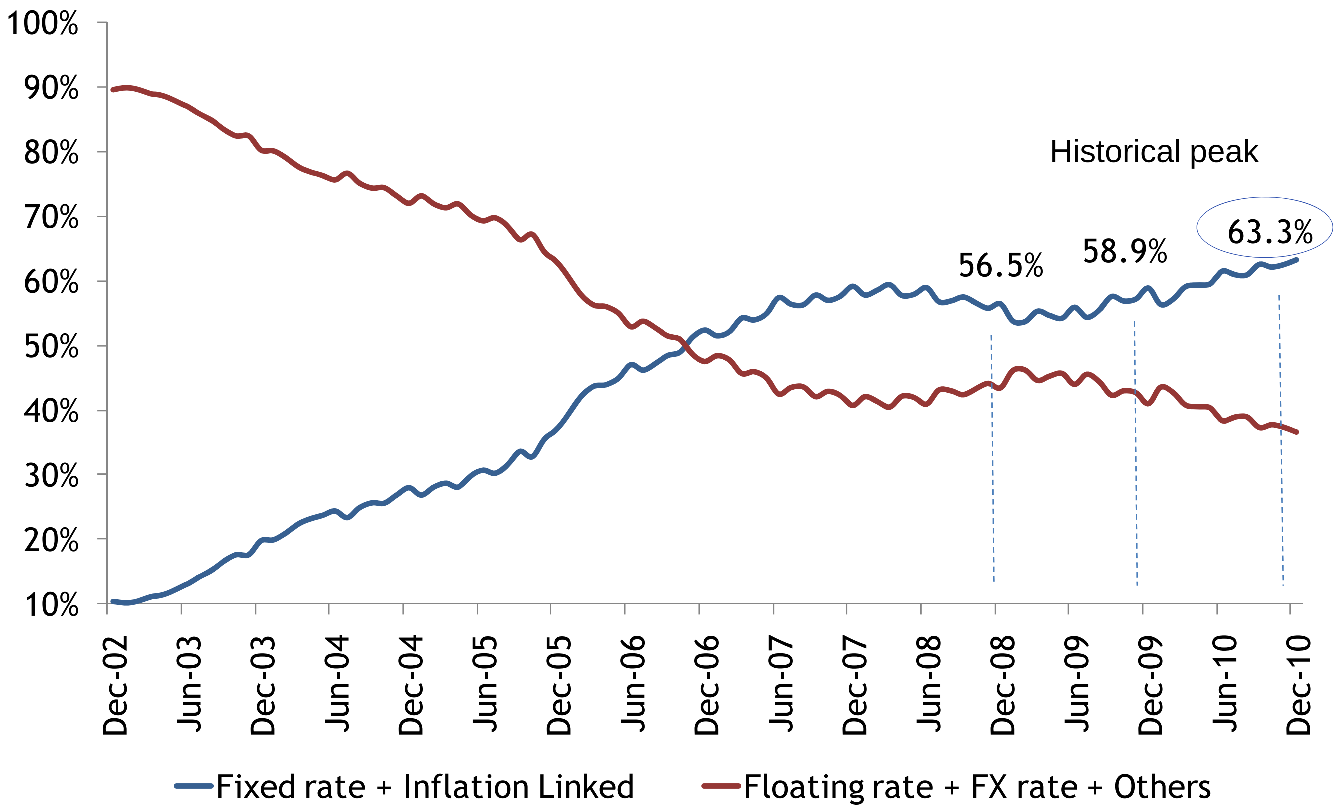
Source: National Treasury

The **refinancing risk** reduction is enhanced by:

- Comfortable size of the liquidity cushion, which allows the National Treasury to step out the market for about five months.
- Percentage of FPD outstanding in 12 months at historical comfortable level, bellow 25%, despite the turmoil in most financial markets.

Risk Assessment

Market Risk- FPD profile



Source: National Treasury

- Gradual change in FPD profile since 2002, with increasing participation of inflation linked and fixed rate securities, which, in aggregation, registered historical peak of 63.3% in 2010, coupled with a smaller share of floating and exchange securities, both susceptible to greater volatility.

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Advances in Public Debt Management

Permanent institutional strengthening of Federal Public Debt management

- Brazil in the LAC Debt Group: The National Treasury has actively participated in the meeting in Mexico City.

- Advances in the Integrated Public Debt System (SID): automation in computing the main statistics of the FPD.

- Sharing know-how: Representatives of the governments of Nigeria, Jordan, Lebanon, and technicians from the Finance Secretariat of the Federal District were received in workshops.

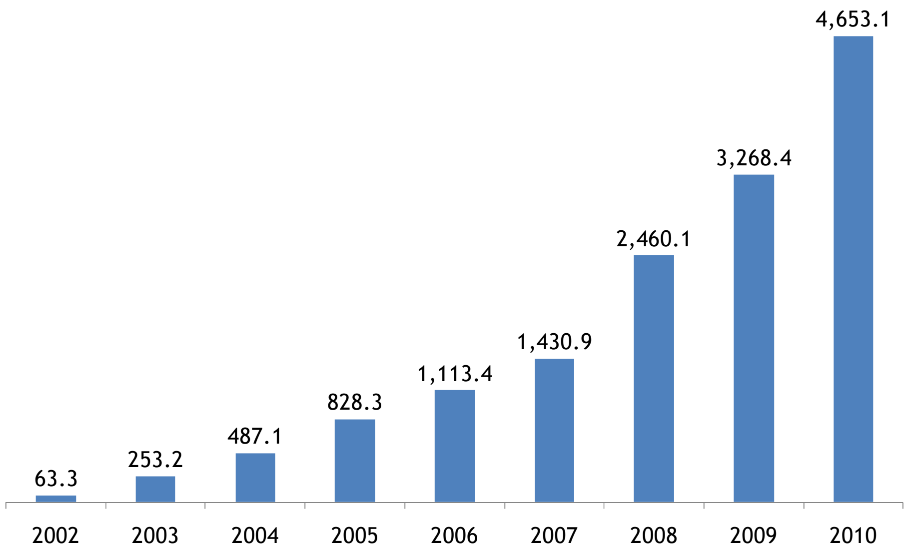
- Brazil continues to lead the ranking of Investors Relations Practices and Transparency, released by the International Institute of Finance (IIF), which evaluates more than 30 emerging countries.

Advances in Public Debt Management

Treasury Direct Program – 9 years broadening the access to Federal Government bonds

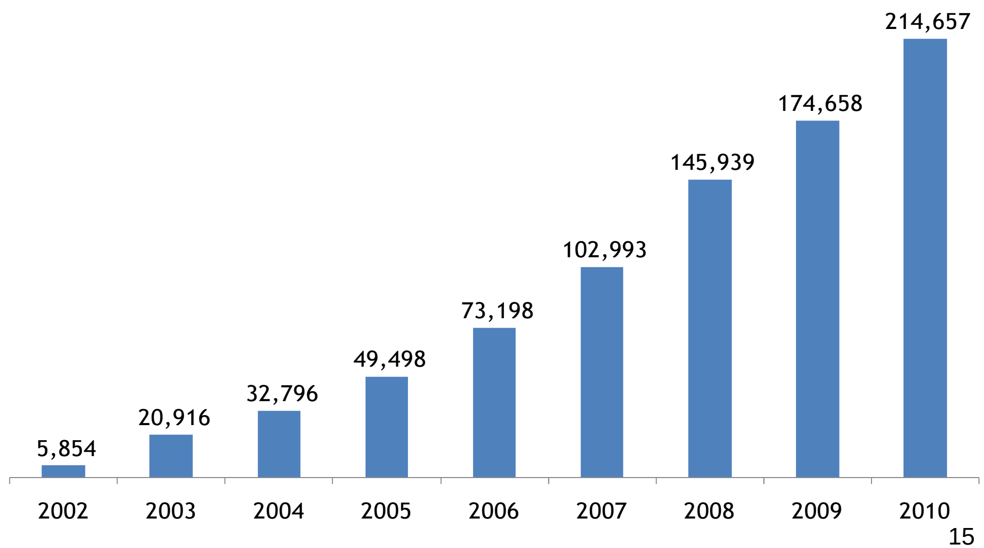
- In 2010, total sales reached R$ 2,235.62 million, which represented the best result ever since the beginning of the program (2002), and the outstanding debt reached R$ 4,653.14 million at the end of the year, an increase of 42.4% compared to 2009.
- At the end of the year, the number of registered investors reached 214,657, which represents an increase of 22.9% over the previous year.

Treasury Direct – Outstanding Debt



Source:National Treasury

Treasury Direct – Number of Registered Investors



Source: National Treasury

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Objective and Guidelines of Federal Public Debt Management

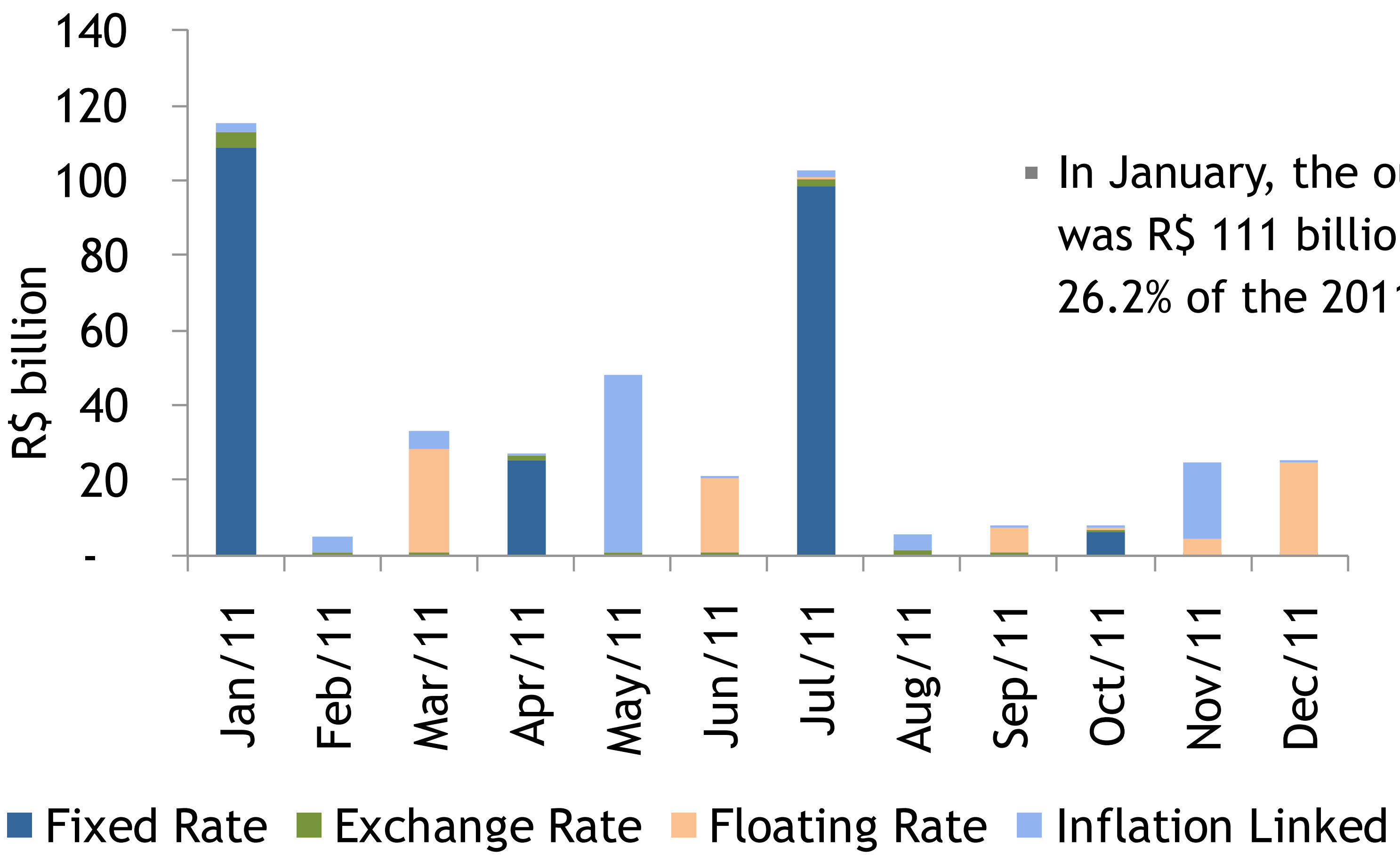
The objective of the Federal Public Debt Management is that of efficiently meeting the National Treasury Borrowing Requirements, at the lowest possible long-term financing costs, while ensuring the maintenance of prudent risk levels. Additionally, the aim is to contribute to the smooth operation of the Brazilian government securities market.

To achieve this objective, the guidelines underlying DPF management are as follows:

- Increase the average maturity of the outstanding debt
- Smooth the maturity profile, with special attention given to short-term maturities
- Gradual replacement of floating-rate securities by fixed-rate and inflation-linked instruments
- Improvement of the External Federal Public Debt (EFPD) profile through issuance of benchmark securities, buyback program and structured operations
- Development of the yield curve on both domestic and external markets and growth in the liquidity of federal government securities on the secondary market
- Broadening of the investor base

Assumptions and Guidelines

FPD Outstanding Debt in 2011 (Total = R$ 422,9 billion)



- In January, the outstanding debt was R$ 111 billion, representing 26.2% of the 2011 FPD maturity.

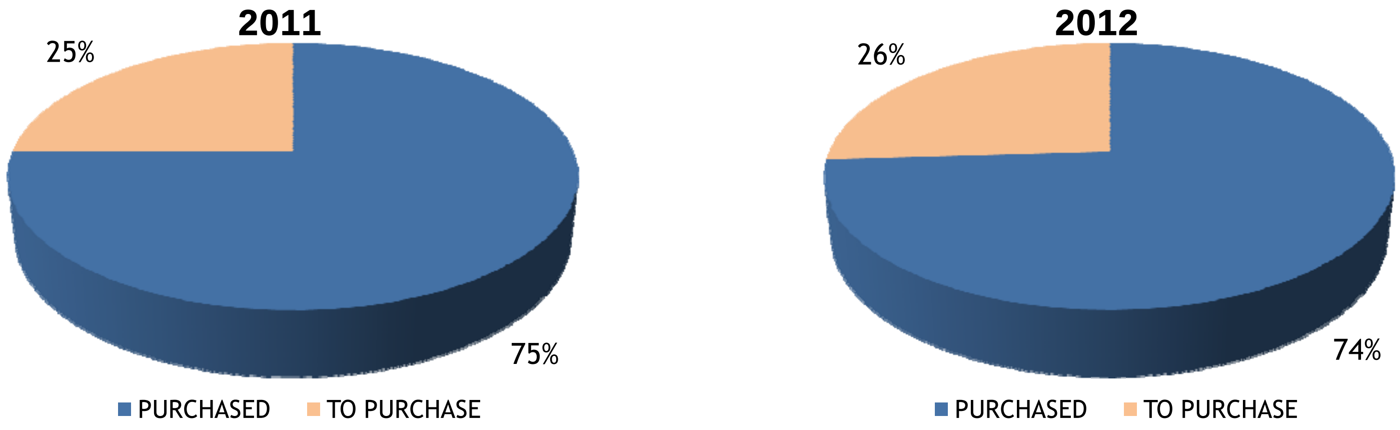
Source: National Treasury

Assumptions and Guidelines

External Debt Management

- Among the tools used in the management of external debt, the National Treasury purchased foreign currencies in advance for payment of the external debt outflows during 2010.
- Estimated External Debt maturity: US$ 7,6 billion, of which US$ 4,0 billion refer to interest and US$ 3,6 billion to principal.
- The National Monetary Council issued Resolution n° 3.911 on October 5, 2010, increasing the time period for anticipated purchases of foreign currency by the National Treasury from 750 to 1500 days

Acquired Foreign Currency for Payment of Debt Maturing in 2011 and 2012



Source: National Treasury

Assumptions and Guidelines

National Treasury Borrowing Requirement

Gross Borrowing Requirements
R$ 464.3 billion

-

Budget Resources
R$ 98.7 billion

=

Net Borrowing Requirements
R$ 365.6 billion

External Debt
R$ 12.8 billion

+

Domestic Debt Held by the Public
R$ 410.1 billion

+

Interest due to Central Bank
R$ 41.4 billion

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Issuance Strategy and Expected Results

Issuance Strategy of Domestic Debt - DFPD

- **Fixed Rate Securities:**
  - ✓ The LTN will have benchmarks of 6, 12, 24 and 36 months, and the NTN-F will have maturities of 5 and 10 years.
  - ✓ The 3-year NTN-F benchmark will be replaced by LTN with the same maturity.
  - ✓ The National Treasury will attempt to distribute outstanding fixed-rate securities in a uniform manner among the four maturity months (January, April, July and October) in each year.

- **Inflation Linked Securities:**
  - ✓ The maturities of NTN-B offered throughout 2011 will be 3, 5, 10, 20, 30 and 40 years.

- **Floating Rate Securities:**
  - ✓ The new bonds will have maturities in March and September.
  - ✓ The average issuance maturity will be superior to the FPD observed at the end of 2010 (around 3.5 years).

Issuance Strategy and Expected Results

Issuance Strategy of Domestic Debt - DFPD

Type of Yield	Bond	*Benchmark*	Maturities
Fixed Rate	LTN	6 months	April, October
		12 months	April, October
		24 months	January, April, July and October
		36 months	January
	NTN-F	5 years	January
		10 years	January
Floating Rate	LFT	Maturity greater than average FPD maturity	March and September
Inflation Linked	NTN-B	3,5,10,20,30 and 40 years	May - for maturities in odd numbered years August - for maturities in even numbered years

Issuance Strategy and Expected Results

Issuance Strategy of External Debt - DFPD

- Creation and Improvement of benchmarks in the external market yield curve through qualitative issuances (10 and 30 years benchmarks).
- Continuation of the buyback program for securities denominated in Dollars and Euros.
- **Inclusion of securities denominated in Real (BRL) in the buyback program.**
- Possibility of carrying out external liability management operations with the objective of enhancing the efficiency of the external yield curve.
- Monitoring of the External Contractual Debt, pursuing alternatives that generate financial gains for the National Treasury.
- Under highly volatile market conditions, the National Treasury will adopt the same strategy used in the local market: buyback BRL bonds, even the benchmarks, in order to guarantee stable prices in the secondary market .

Strategy and Expected Results

Additional Measures

- Search for advances in the functioning of the government securities markets, particularly with respect to the secondary market and broadening the investor base.
- The enhancement of the dealer system will continue during 2011 in order to develop the secondary market and to improve communication between National Treasury and investors.
- The National Treasury will keep his role in the propagation of IMA - Anbima Market Index and its sub-indices referenced in government bonds, to encourage its use as a fixed-income benchmark.

Strategy and Expected Results

Periodicity of the Auctions

Bond	Type of Auction		
	Traditional	Exchange	Buy Back
LTN	Weekly	Quarterly	
NTN-F	Twice monthly	Occasionally	Monthly
LFT	Twice monthly	Quarterly	
NTN-B	Twice monthly	Monthly	Monthly

- Traditional auctions: have the principal function of refinancing the Federal Public Debt through issuance of fixed rate, floating rate and inflation linked bonds.
- Exchange auctions: consist primarily of exchanges of bonds with shorter maturities for other longer-term bonds, with the overriding objective of lengthening the debt profile;
- Buy Back: to provide investors with greater liquidity.

The official schedule is published every month end at the web site:
http://www.stn.fazenda.gov.br/divida_pública/leiloes.asp.

Strategy and Expected Results

Evolution of the Federal Public Debt (FPD) Indicators

Indicators	Dec-07	Dec-08	Dec-09	Dec-10
Stock of FPD held by the public (R$ Billion)	1,333.8	1,397.3	1,497.4	1,694.0
FPD Profile (%)				
Fixed Rate	35.1	29.9	32.2	36.6
Inflation Linked	24.1	26.6	26.7	26.6
Floating Rate	32.6	33.9	34.5	31.6
Exchange Rate	8.2	9.7	6.6	5.1
FPD Maturity Structure				
Average Maturity (years)	3.3	3.5	3.5	3.5
Percentage Maturing in 12 Months	28.2	25.4	23.6	23.9

Strategy and Expected Results

Expected Results - FPD

Indicators	2010	Limits for 2011	
		Minimum	Maximum
Stock of FPD *(R$ bilhões)*			
	1,694.0	1,800.0	1,930.0
Profile (%)			
Fixed Rate	36.6	36.0	40.0
Inflation Linked	26.6	26.0	29.0
Floating Rate	31.6	28.0	33.0
Exchange Rate	5.1	4.0	6.0
Maturity Structure			
Average maturity (years)	3.5	3.5	3.7
% Maturing in 12 months	23.9	21.0	25.0

- Percentage of fixed rate securities + inflation linked securities near 60% of the outstanding, even with a more conservative strategy.
- Percentage maturing in 12 months below 25% and steady average maturity.

For additional information, please access:

www.tesouro.fazenda.gov.br

Or contact Investors Relations area:

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