The Brazilian National Treasury Exchanges Securities with "FGTS"

On June 11th of 2012, the Brazilian National Treasury performed a securities exchange operation with the Assurance Fund for Period of Work (FGTS). This aimed to improve the Federal Public (FPD) profile through floating rate securities reduction (LFT) that typically brings more volatility to the debt and is in line with the National Treasury´s policy, expressed in its 2012 Annual Borrowing Plan.

As a result of an active approach with the main FPD holders, the National Treasury Secretariat performed on February, the first securities exchange operation with *Extramercado* Funds in order to adjust their portfolios. At that time, R$ 61.2 billion in securities linked to the *Selic* overnight rate (LFT) were exchanged to the inflation-linked or fixed rate bonds[1] with variable tenures.

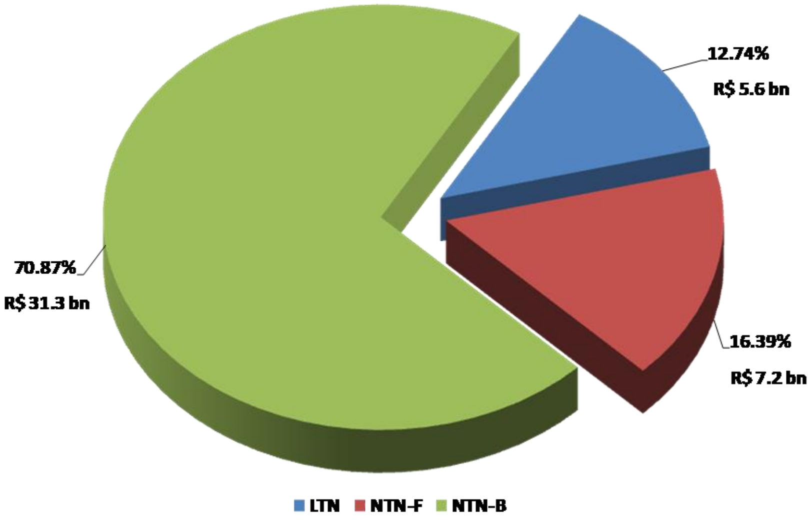
By the same token, the National Treasury took a second step towards that direction. The exchange with FGTS occurred according to the Resolution of its Counsel - CC/FGTS N. 687, 05/15/2012, stating that the Fund resources should be invested, preferentially, in fixed rate and inflation-linked public securities. Furthermore, the rule defines that the portfolio's rebalances will maintain consistency with the approved plan, seeking to respect the average term of five years.

This operation considered FGTS` short term disbursements while increasing returns of the remaining assets, associated to their medium and long term needs. In addition, the exchange contributes to the an ongoing process trying to break the indexation culture to the overnight rate that currently exists in the Brazilian economy and, at the same time, to motivate long-term savings.

There was a redemption of R$ 44.1 bn, of which R$ 38.1 billion in LFT and R$ 6 billion in short term fixed-rate securities (LTN), according to the official legal instrument STN n. 377, from 06/11/2012. The amounts and percentages of the securities issued in the exchange are presented in the graph below:

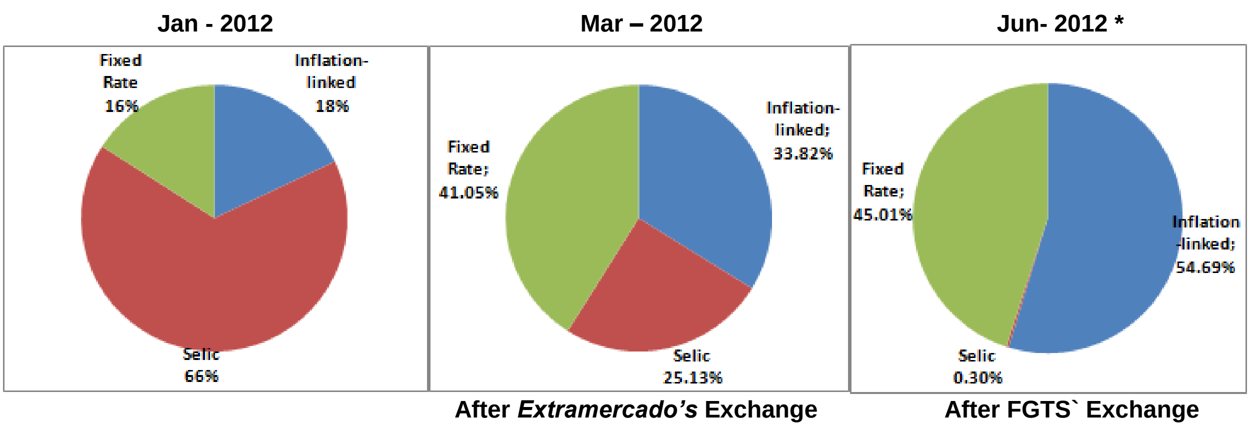
[1] In order to see more information, please access: http://www.tesouro.gov.br/english/public_debt/downloads/Informe_Extramercado_Ing.pdf

GRAPH 1: SECURITIES ISSUED IN THE FGTS EXCHANGE OPERATION [2]



As a result, the FPD holder known as "Government"[3], have been deeply transformed throughout the 1H 2012. After these two operations the portfolio's share linked to the floating rate decreased from 66% as of Jan-12 to only 0.3% in Jun-12, as can be observed on Graph 2.

GRAPH 2: GOVERNMENT AS A HOLDER: ALIGNING ITS PORTFOLIO TO FEDERAL DEBT GUIDELINES



*Forecast based on "Government" share on FPD of R$ 152.2 bn, as of Apr-12.
Source: Brazilian National Treasury

[2] Fixed rate Securities: NTN-F and LTN. Inflation-linked security: NTN-B.

[3] "Government" includes funds and other assets managed by the Public Administration, such as FAT, (Labor's Fund), FGTS, the Sovereign Fund and other Guarantee Funds. The historical series of this segment stated to be published on the FDP Monthly Report as of Feb-11. The document can be seen on http://www.tesouro.fazenda.gov.br/english/hp/public_debt_report.asp .

The impact of the FGTS exchange operation on the Federal Public Debt (FPD) is equivalent to a decrease of close to 2.0 p.p. in the share of securities linked to the Selic rate (considering the outstanding as of April 2012) or 7.98% of the outstanding LFT. The overall impact, considering also the *Extramercado* Funds operation, was a reduction of roughly 5.3 p.p. on FPD's linked to the floating rate.

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