

Brazilian Federal Public Debt



Annual Debt Report 2014

Annual Borrowing Plan 2015

Brasília – DF
February 2015

Annual Public Debt Report – ADR 2014

Annual Borrowing Plan – ABP 2015

All FPD Indicators Finished the Year within the ABP's Targets

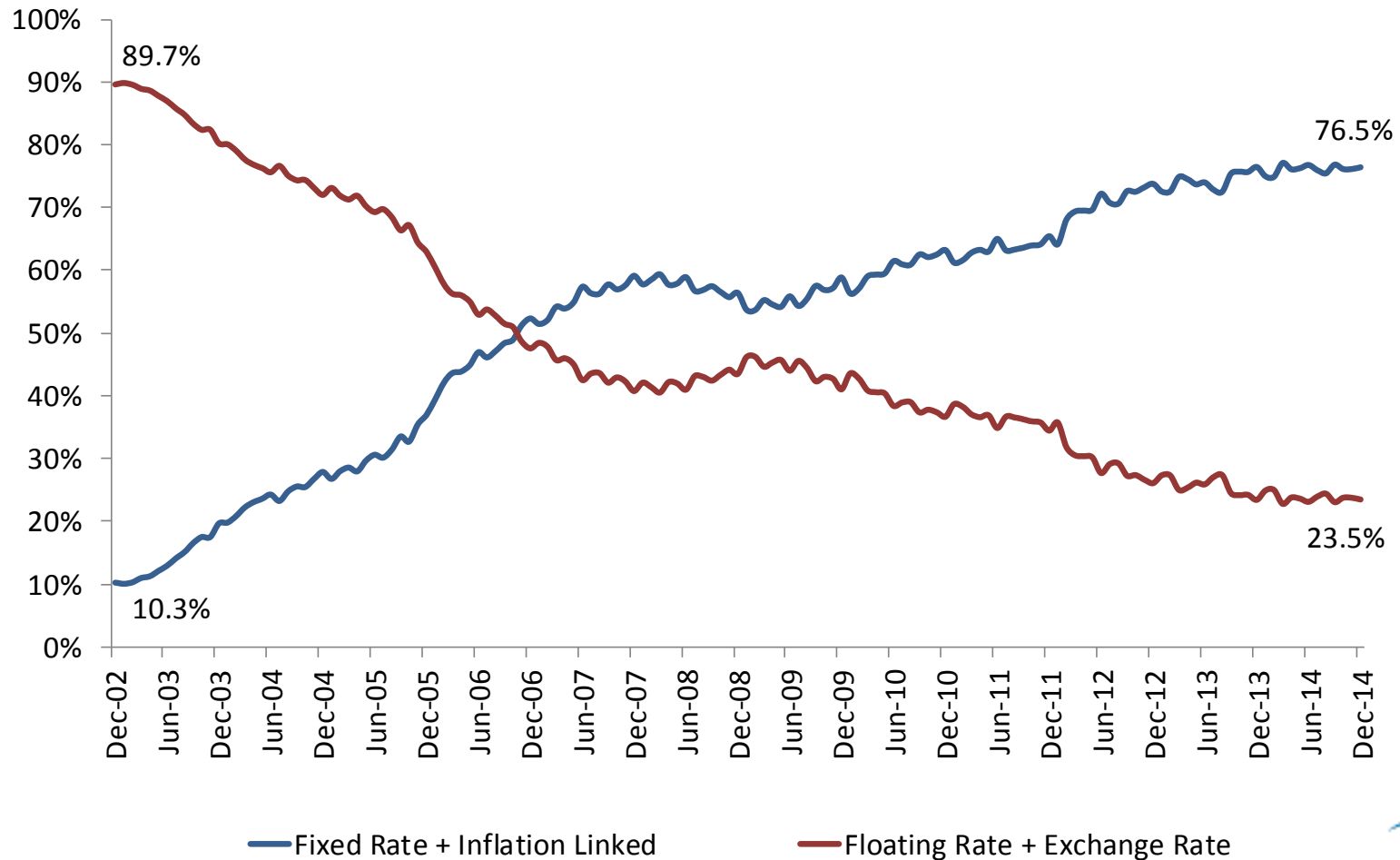
Evolution of Federal Public Debt (FPD) Indicators

Indicators	Dec-13	Dec-14	ABP-2014	
			Minimum	Maximum
FDP Stock (R\$ bn)	2,122.8	2,295.9	2,170.0	2,320.0
Composition				
Fixed Rate (%)	42.0	41.6	40.0	44.0
Inflation Linked (%)	34.5	34.9	33.0	37.0
Floating Rate (%)	19.1	18.7	14.0	19.0
Exchange Rate (%)	4.4	4.9	3.0	5.0
Maturity Structure				
Average Maturity (years)	4.2	4.4	4.3	4.5
% Maturing in 12 months	24.8	24.0	21.0	25.0

Source: National Treasury

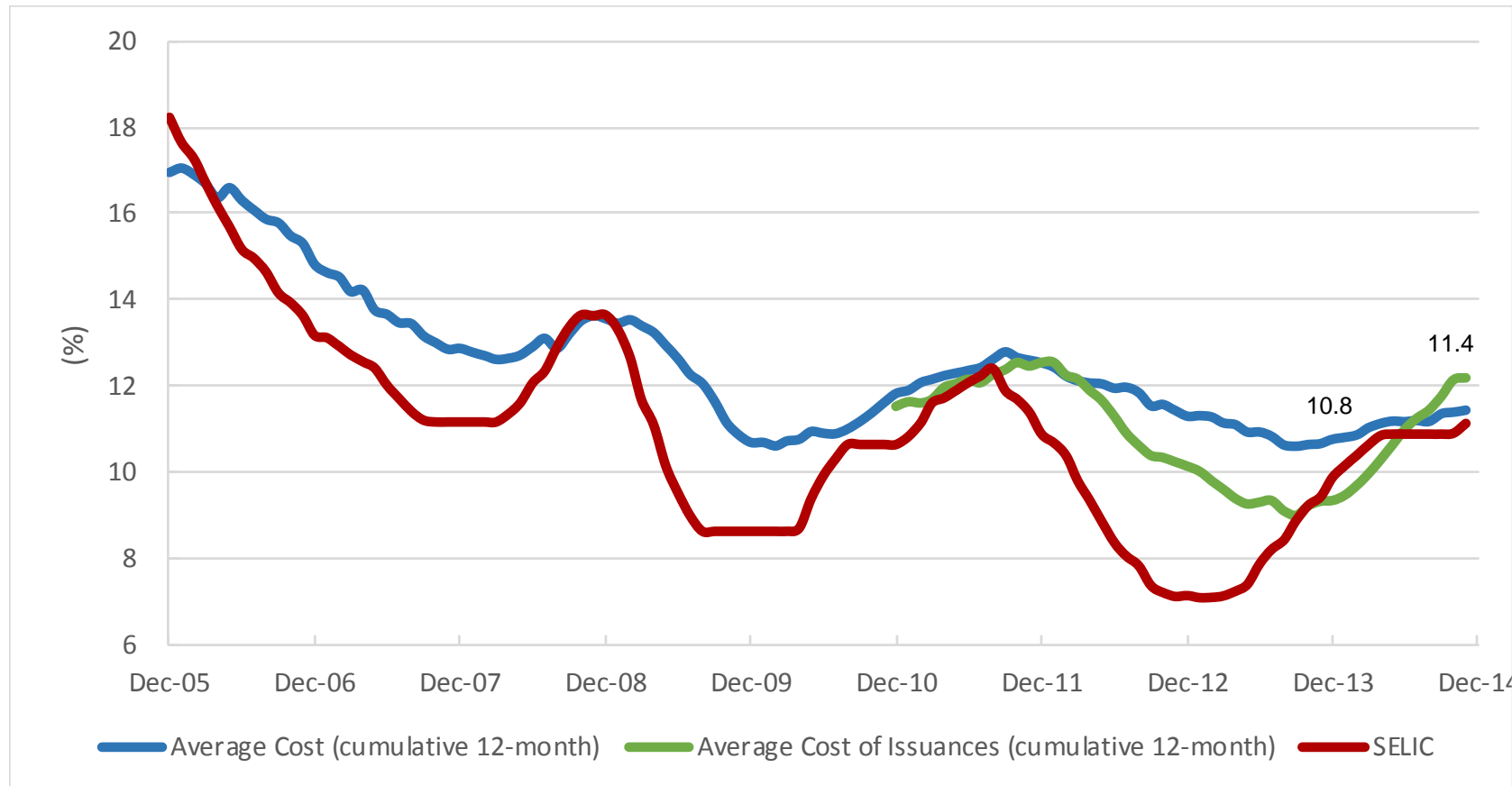
Share of Fixed Rate and Inflation Linked Bonds in FPD above 75%

Evolution of FPD Composition - %



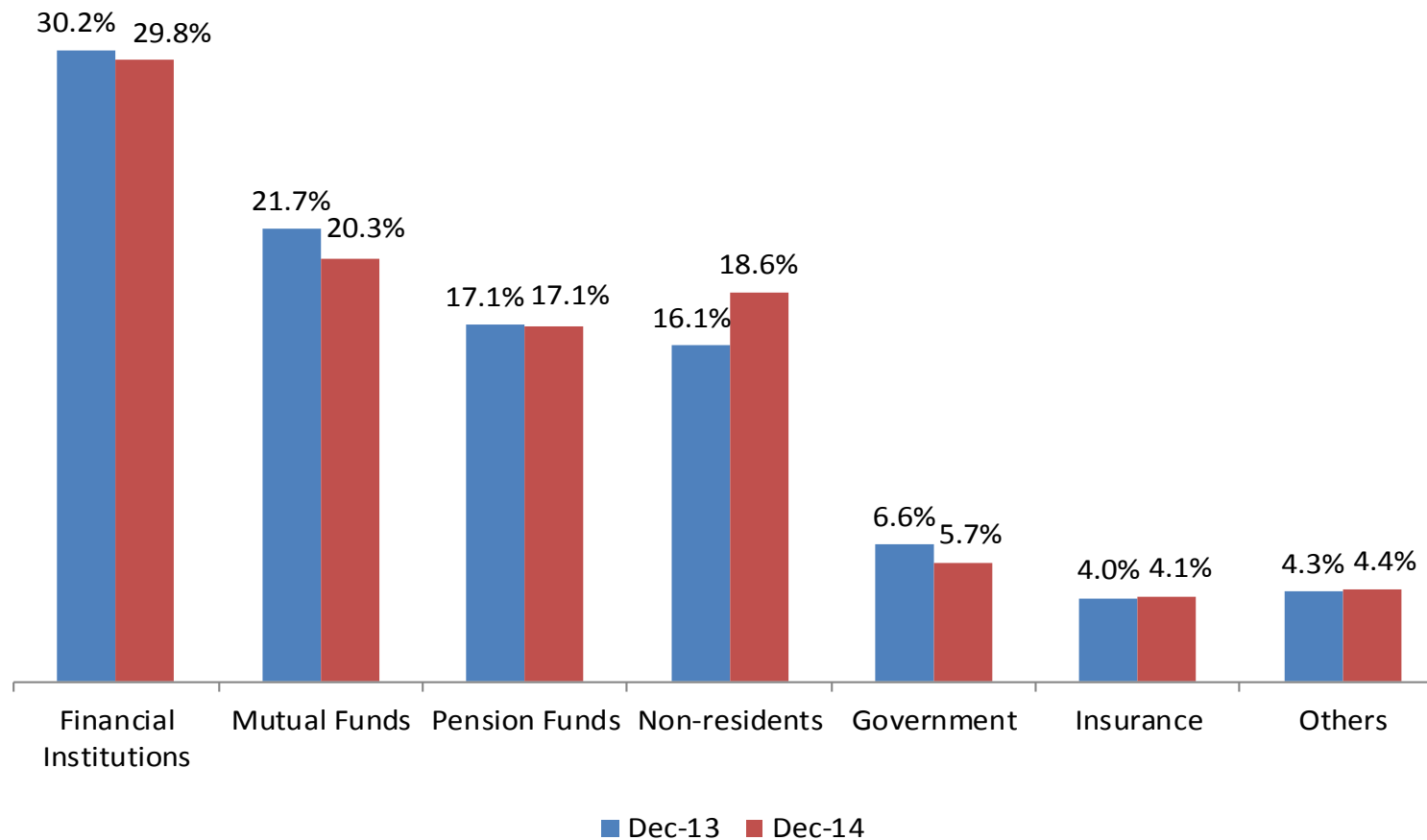
Debt Profile Has Smoothed Out the Monetary Cycle Impact on Overall Costs

DFPD Average Cost



Non Resident Investors have increased their relative share

Domestic Debt Holders (%)



Domestic Debt Management Highlights

Domestic Debt – DFPD

- » The National Treasury's actions in periods of high volatility: buy and sell extraordinary auctions in February, enabling demand and rates stabilization.
- » The NTN-F amount issued in public offerings reached R\$ 47.1 bn in 2014, exceeding by almost 20% the amount issued in 2013.
- » By reducing the supply of NTN-B while increasing the frequency of their repurchase auctions, the Treasury helped to reduce yield rates, which reached 7.0% p.y. in February, but throughout the year fell to about 5.5% to 6.0% p.y..

Long Term Securities Are More Attractive to Investors

Annual Profitability – IMA Sub-indices and CDI (interbank deposit rate)

	2010	2011	2012	2013	2014	Average 2010 -2014
Return	1st IMA-B 17.00%	IMA-B 15.10%	IMA-B 26.70%	CDI 8.10%	IMA-B 14.50%	IMA-B 12.66%
	2nd IRF-M 11.90%	IRF-M 14.50%	IRF-M 14.30%	IRF-M 2.60%	IRF-M 11.40%	IRF-M 10.94%
	3rd CDI 9.70%	CDI 11.60%	CDI 8.40%	IMA-B -10.00%	CDI 10.80%	CDI 9.72%

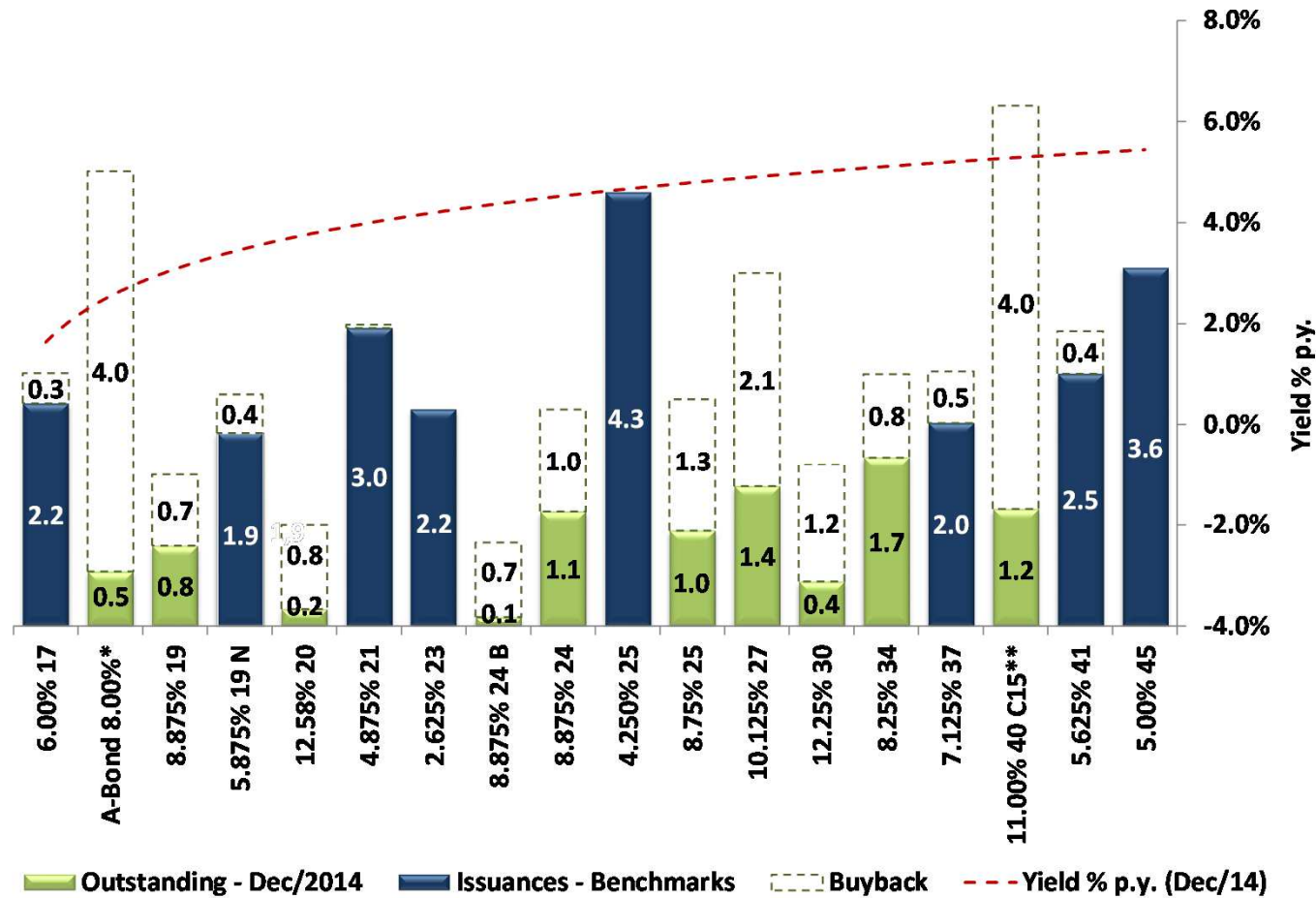
Source: Anbima e CVM

External Debt Management Highlights

- » **March:** EURO 2021, reaching **EUR 1.0 billion**, at 2.961% p.y., with a 165 bps spread over the US Treasury.
- » **July:** Global 2045, reaching **US\$ 3.55 billion**, at 5.131% p.y., with a 187,5 bps spread over the US Treasury.
 - » US\$ 1.55 billion was received in cash and approximately US\$ 2 billion were settled by exchange with foreign securities. Additionally, the National Treasury repurchased US\$ 100.2 million off-the-run securities using cash obtained from the issuance to clear the operation.
- » **September:** Global 2025, reaching **US\$ 1.05 billion**, at 3.88% p.y., with a 147 bps spread over the US Treasury.
- » Maintenance of the Buyback Program, **redeeming US\$ 0.74 billion** in securities (face value), an amount equivalent to **US\$ 0.94 billion** in financial value.

External Debt Strategy and Results

External Debt yield curve, outstanding volumes and buyback program (US\$ bn)

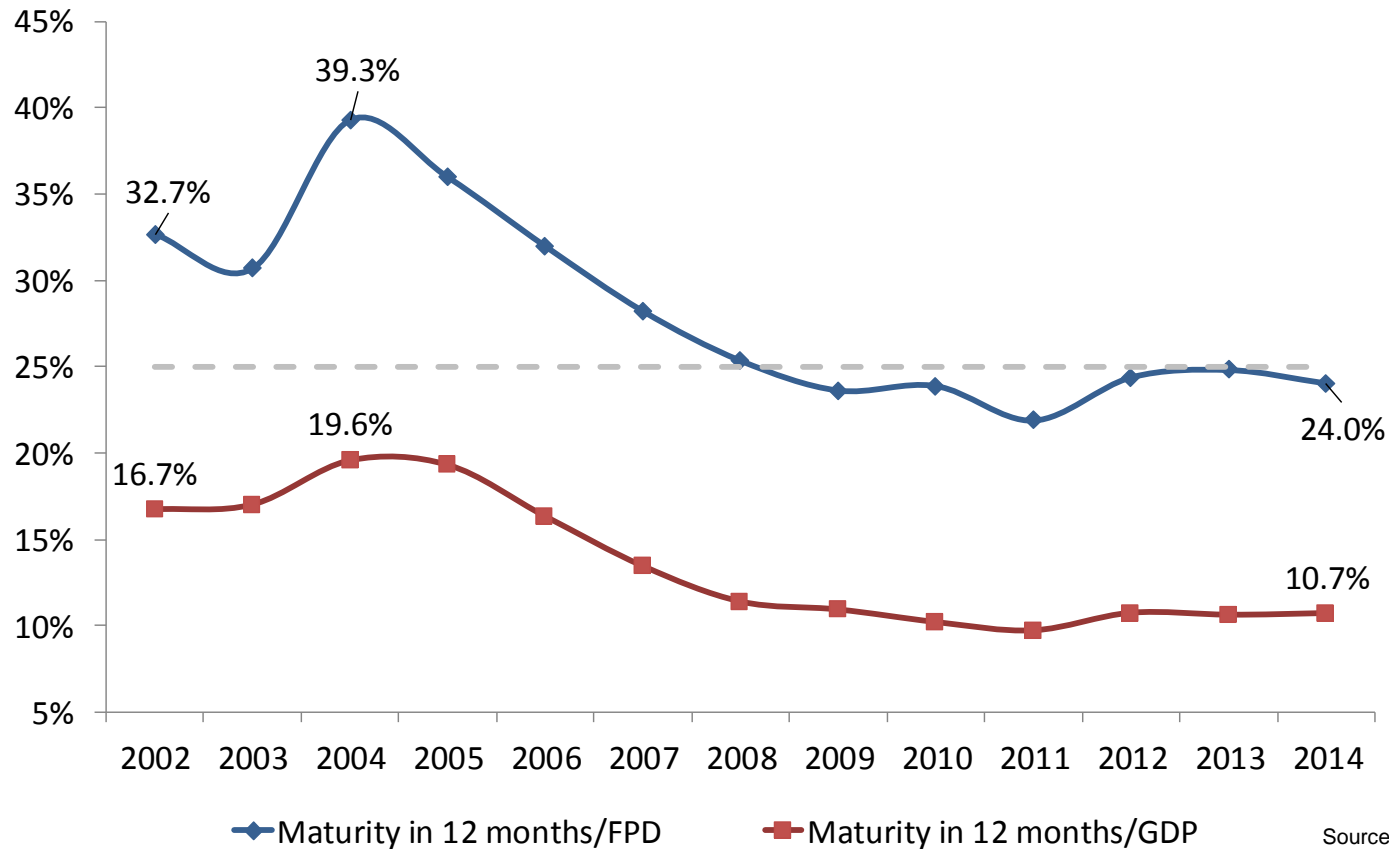


Source: National Treasury



Debt Structure is Relatively Stable

% of Debt Maturing in 12 months



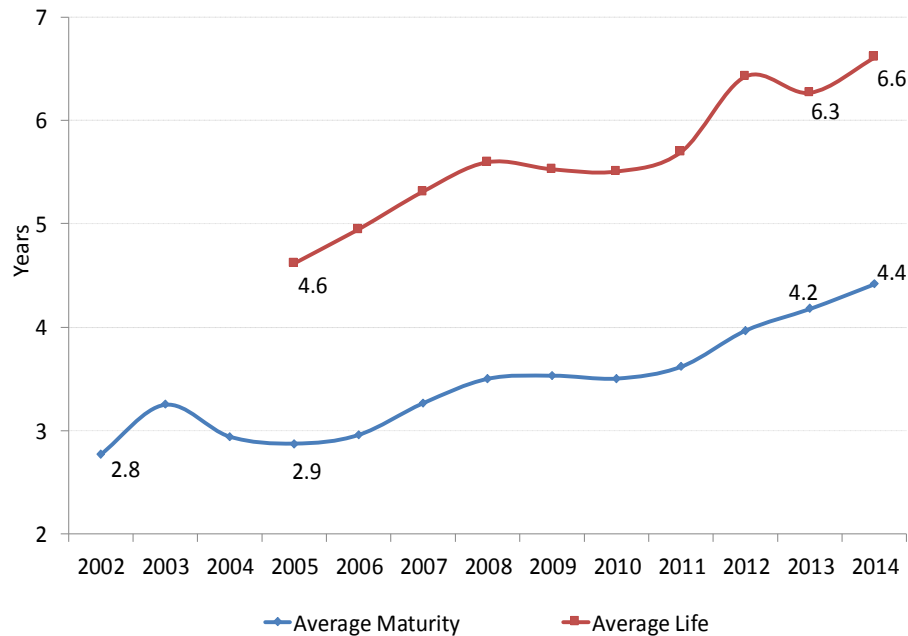
» Debt maturing in 12 months remains below 25% (around 10% of GDP), which is considered a comfortable level.

» The cash position mitigates the refinancing risk.

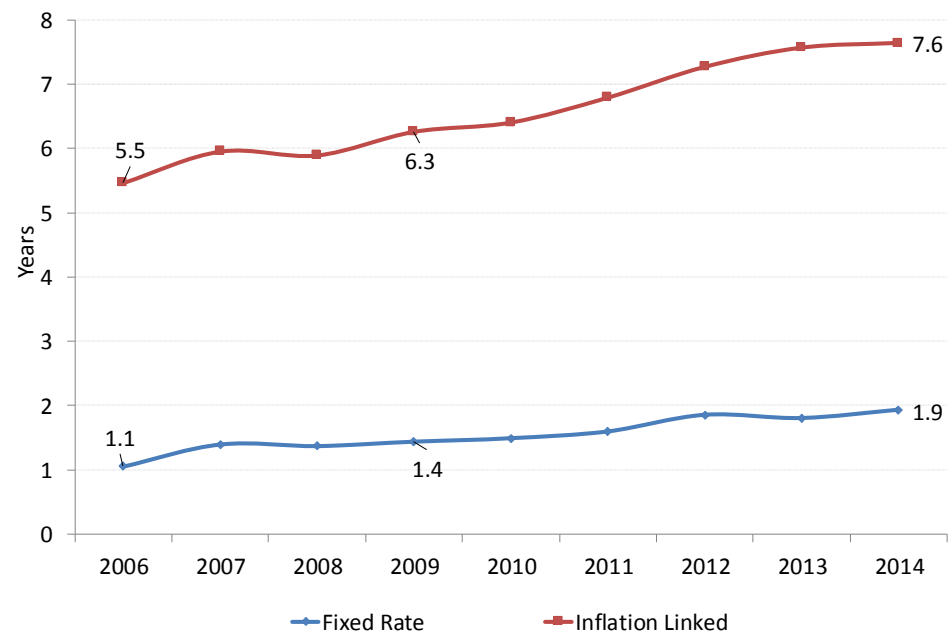


Gradual Debt Lengthening

FPD Average Maturity and Average Life (years)



Av. Maturity: Fixed Rate and inflation-linked Bonds (years)



Source: National Treasury

Source: National Treasury

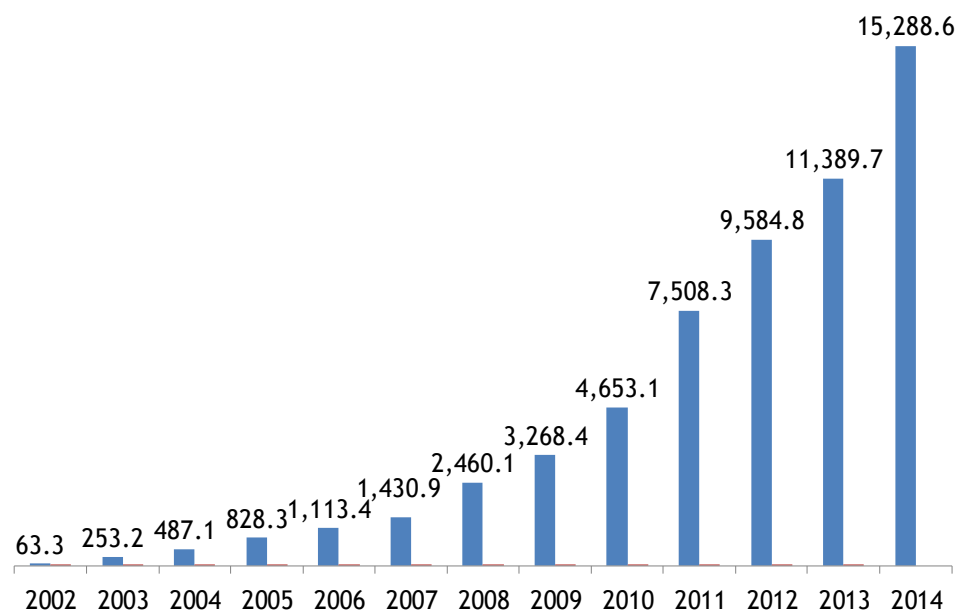
- » FPD Average Maturity reached its historical peak in 2014.
- » Average Life is currently in line with what is observed in other mature domestic debt markets.



Tesouro Direto – The Internet Based Retail Sales Program

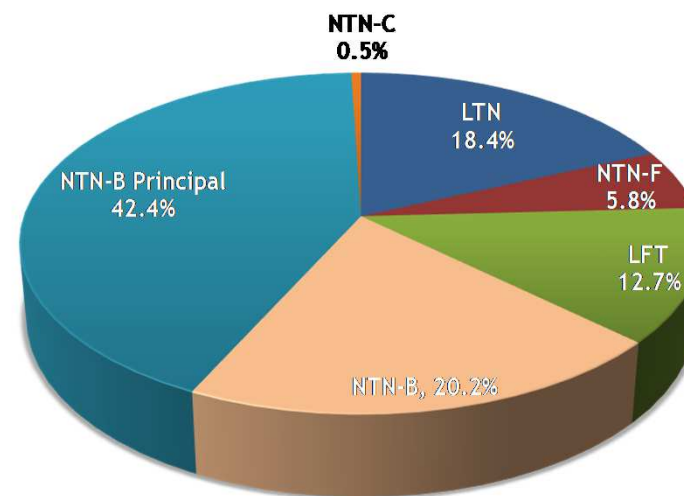
Record Sales in 2014

Outstanding Stock (BRL bn)



Source: National Treasury

Composition of retail Debt holdings (%)



Source: National Treasury

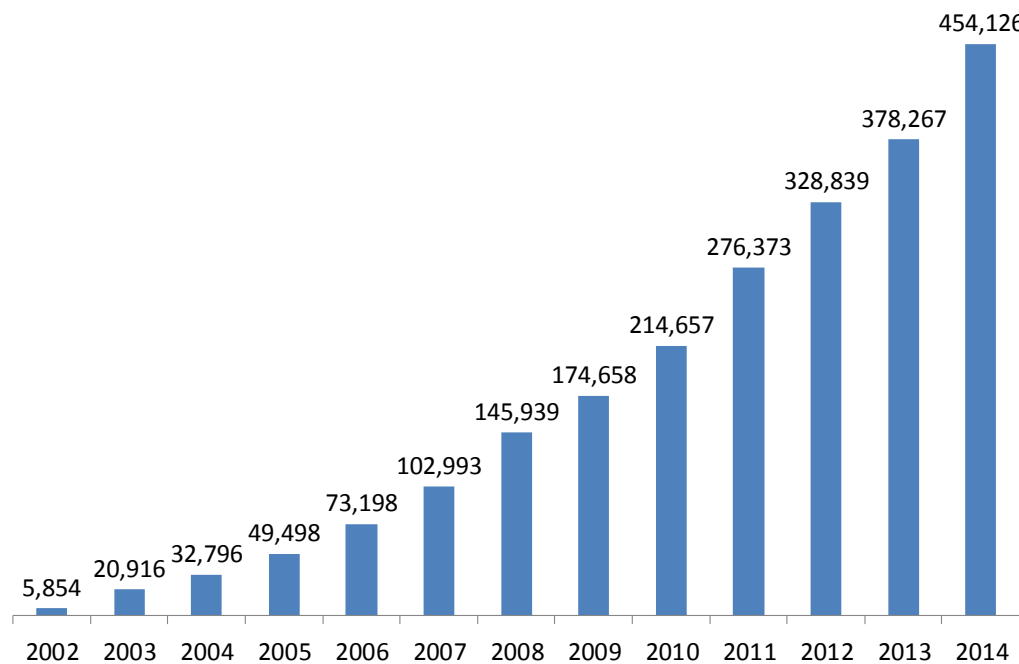
- » Tesouro Direto net and gross sales reached its historical peak in 2014.
- » In December, net sales reached a record of R\$ 330,32 million in a month.



Tesouro Direto – The Internet Based Retail Sales Program

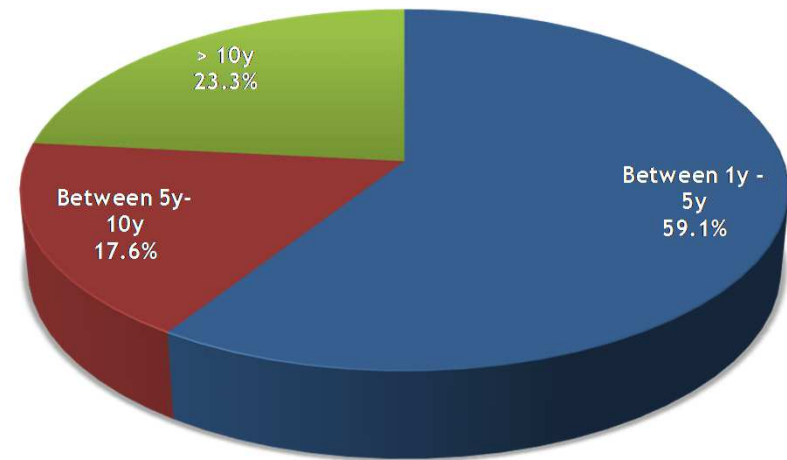
Investors prefer long term maturities

Number of people enrolled in the Program



Source: National Treasury

Sales Distribution by security (by tenure)



Source: National Treasury

- » Inflation Linked bonds are the most preferred by retail investors.
- » Broadening the investors base remains a challenge.

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Annual Borrowing Plan – ABP 2015

Objective and Guidelines of Federal Public Debt Management

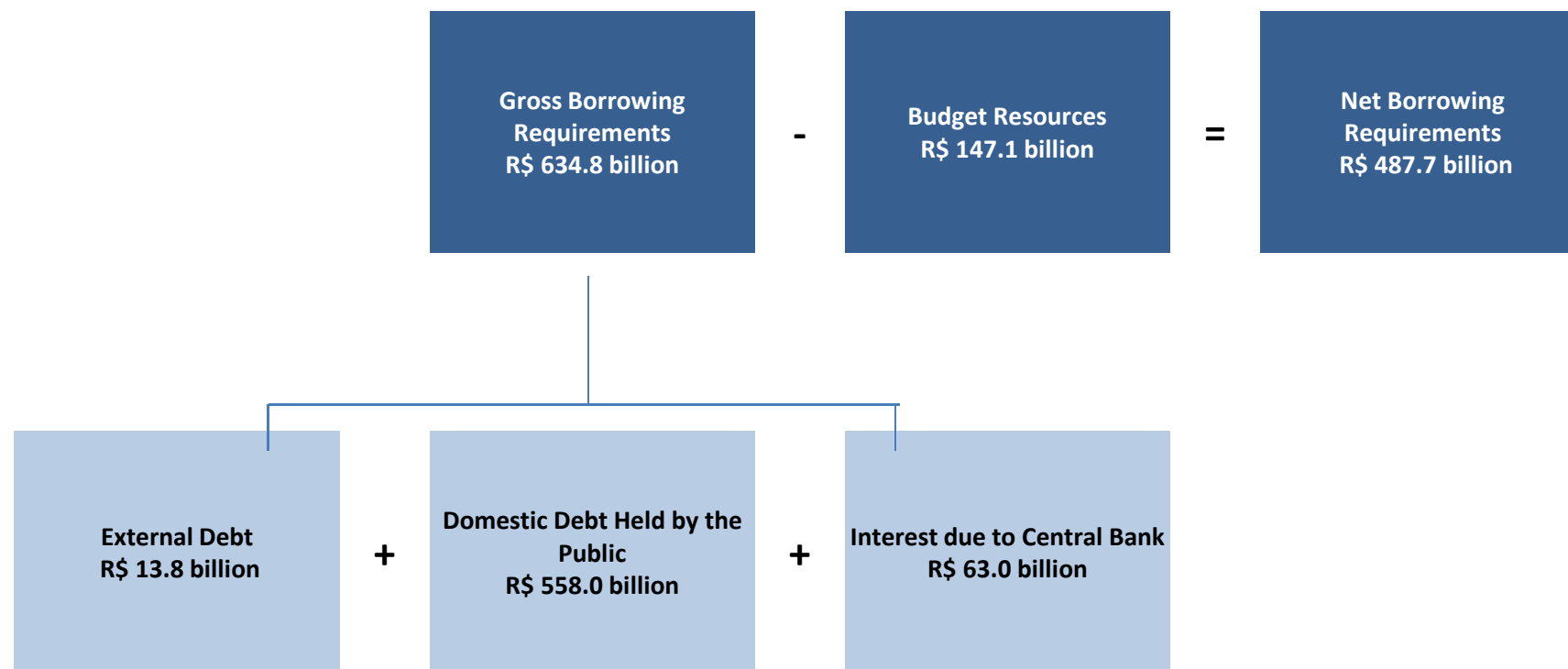
Objective

The objective defined for Federal Public Debt (FPD) management is that of efficiently meeting federal government borrowing requirements at the lowest possible long-term financing cost, while maintaining prudent risk levels. At the same time, FPD management seeks to contribute to the smooth operation of the Brazilian public bond market.

Guidelines

- Gradually replacing floating rate bonds with fixed rate instruments;
- Consolidating the share of inflation-linked and exchange rate-linked instruments on the outstanding debt, in accordance with long term limits.
- Smoothing the maturity structure, with special attention to short-term debt;
- Increasing average maturity of the outstanding debt;
- Developing the yield curve on both domestic and external markets;
- Increasing liquidity of federal public securities on the secondary market;
- Broadening the investor base;
- Improving the External Federal Public Debt -EFPD profile through issuances of benchmark securities, buybacks and structured operations.

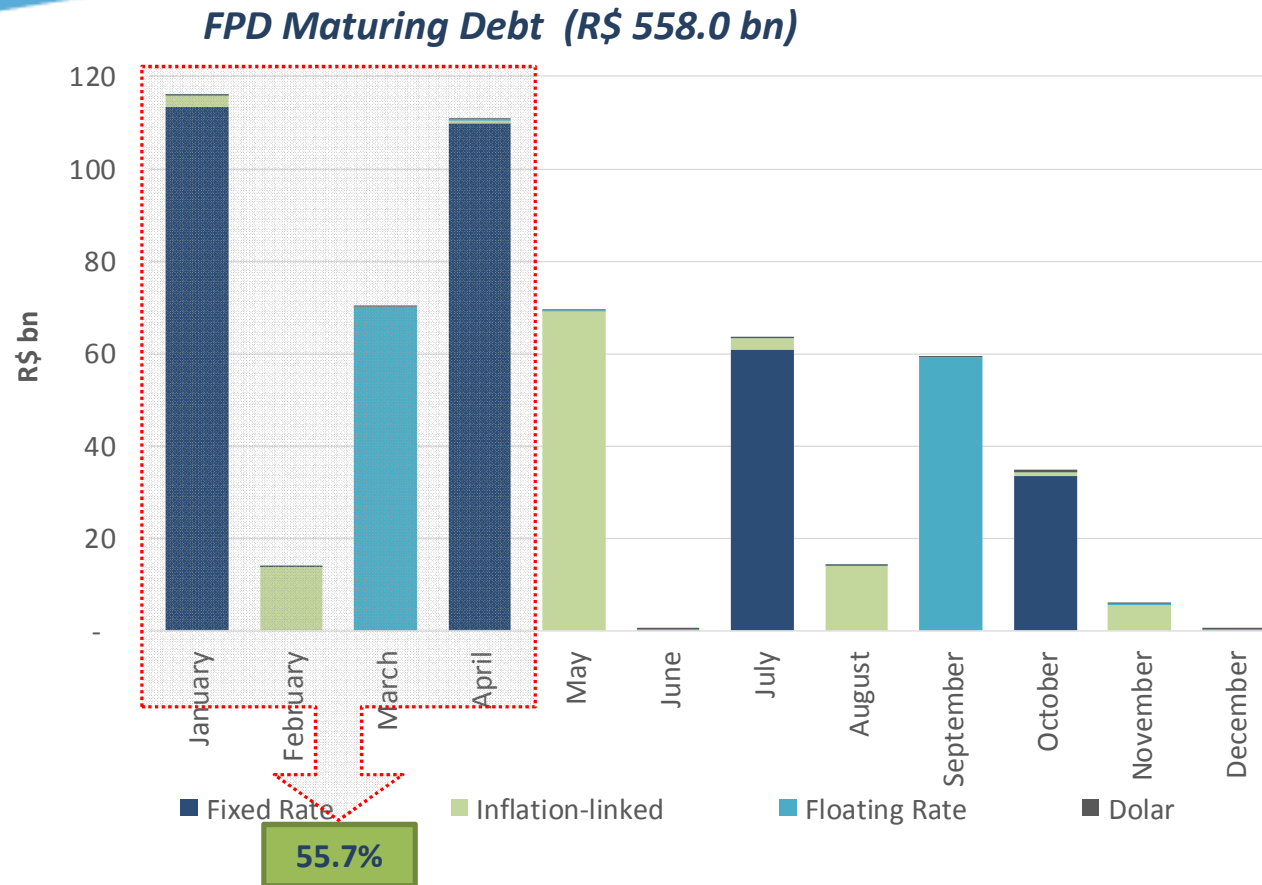




As a consequence of article 39 of the Fiscal Responsibility Law (Law no. 101, dated May 4, 2000), charges on the National Treasury bonds in the Central Bank securities can not be refinanced with the Central Bank and must be paid with budget resources (mainly the primary result or bond issuances on the market).



Around 50% of 2015's maturities are concentrated in the first 4 months



Source: National Treasury

- » Initial maturity reaches R\$ 558 bn, of which R\$ 116 billion matured in January (20.8%).
- » Fixed rate represent about 56.9% of FPD's 2015 total maturity.

Benchmark securities to be offered in 2015

Yield	Bond	Benchmark	Maturity *
Fixed Rate	LTN	Short and Medium-Term Up to 4 years (4 vertices)	Various
	NTN-F	Long Term 6 and 10 years (2 vertices)	January/ 2021 January/2025
Floating Rate	LFT	6 years (1 vertex)	March/2021 September/2021
Inflation-Linked (IPCA)	NTN-B	Group I – Short and Medium Term 5 and 10 years (2 vertices)	May/2019 May/2023
		Group II – Long Term 20 and 40 years (2 vertices)	May/2035 May/2055

For more details about DFPD characteristics, refer to Decree n^o 3.859, July 04 2001.

* For more information check the annual calendar of public offerings for 2015 on:

<http://www.tesouro.gov.br/en/web/stn/auctions>

** Exceptionally, there can be off-the-run bond auctions, as long as they are in line with the public debt administration guidelines



Frequency of auctions to be held by the National Treasury in 2015

Bond	Tradicional		Exchange		Early Buyback	
	Periodicity	Selection Criterion*	Periodicity	Selection Criterion	Periodicity	Selection Criterion
LTN	Weekly	Best Price	Semiannual	Best Price		
NTN-F	Fortnightly	Best Price	Semiannual	Best Price	Quarterly	Best Price
LFT	Monthly	Best Price				
NTN-B	Fortnightly	Uniform	Monthly	Best Price	Quarterly	Best Price

* Criterion for selecting proposal for the auctions: In the uniform criterion, all proposals with bids equal or greater than the minimum bid will be accepted. This will be applied to all winning proposals. In the best price criterion, the proposals accepted pay the price presented in the bid.

- » **Traditional Auctions:** have the main purpose of refinancing the Federal Public Debt through issuances of fixed rate, floating rate and inflation-linked public bonds;
- » **Exchange Auctions:** consist of exchanges of short-term securities for longer-term securities, with the objective of lengthening or improving the debt profile; and
- » **Buyback Auctions:** ensure liquidity to the bondholder.

The National Treasury discloses the annual calendar of public offerings on its website.

<http://www.tesouro.gov.br/en/web/stn/auctions>



Strategy for the External Debt

Issuance Strategy of External Debt - EFPD

- » Improvement of benchmarks in the external market yield curve;
- » Maintenance of the buyback program
- » Possibility of carrying out external liability management operations with the objective of enhancing the efficiency of the external yield curve;
- » For 2015, the External Debt maturity has been fully financed – (The Treasury already purchased USD 5.6 billion in cash).
- » Possibility of exercising the call option of the Global 2040, from August 2015, depending on market conditions.

Indicators	2014	Limits for 2015		Long Term Limits	
		Minimum	Maximum	Reference	
Stock of FPD (R\$ bn)					
FPD	2,295.9	2,450.0	2,600.0		
Profile (%)					
Fixed Rate	41.6	40.0	44.0	45.0	+/- 2.0
Inflation Linked	34.9	33.0	37.0	35.0	+/- 2.0
Floating Rate	18.7	17.0	22.0	15.0	+/- 2.0
Exchange Rate	4.9	4.0	6.0	5.0	+/- 2.0
Maturity Structure					
% Maturing in 12 months	24.0	21.0	25.0	20.0	+/- 2.0
Av. Maturity (years)	4.4	4.4	4.6	5.5	+/- 0.5
Av. Life (years)	6.6	–	–	–	–

- » The mid-range indicators for 2015's indicators show stability for the FPD profile towards the end of the year
- » Another important guideline relies on lengthening the average maturity, which is expected to reach a new record in 2015.

Tesouro Direto

- » In 2015 the “Tesouro Direto” Program will implement a package of enhancements which will make the Program even more accessible to current and potential investors.

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