Uruguay *Debt Report*

A quarterly report issued by the Debt Management Unit January 2012

Executive

Uruguay executed a liability management transaction in December 2011 that allowed the Government to reduce foreign currency risk, reduce refinancing risk of the debt and to create a new UI benchmark bond.

In December 2011, Uruguay launched a liability management transaction designed to deepen the de-dollarization path of the Central Government debt, to create a new UI benchmark bond and to continue working in the reduction of the roll over risk of the debt through a smoother profile of amortizations over time.

The liability management transaction was structured within a four business day window to quickly access the market and reduce market risk during a period of high volatility and uncertainty. **The transaction was designed in three components.** The first component was the issuance of USD1.3 billion equivalent through a new UI Global Benchmark Bond due 2028 that pays capital in three nominally equal installments in the years 2026, 2027 and 2028 at par price with a coupon of 4.375%. The final oversubscribed orderbook was comprised of over 30 high quality accounts from the US, Latin America, and Europe. Next, Uruguay carried out a fixed price cash tender offer for various USD and Euro denominated bonds to purchase approximately USD1 billion in market value bonds with final maturity between 2012 and 2036. Finally, the Republic offered to exchange the outstanding 5% UI Global Bonds due 2018 into a reopening of the new Global UI due 2028 to improve the liquidity of the new bond and to diminish the amortizations in the year 2018, a year that presented a high concentration of amortizations.

The net result of the transaction included the issuance of its new UI Global 2028 Bond that totaled USD2.0 billion equivalent at a rate of 4.375% in UI that corresponds to USD1,275 million for new money and for the exchange of the Global UI 2018 the equivalent of USD725 million. The issuance was one of the largest local currency bonds ever issued by a sovereign in the region. It is also worth noting the timing in which the transaction took place within a context of international high volatility and uncertainty.

Also, Uruguay spent USD1 billion in market value of bonds (USD750 nominal amount) to buy back short and medium term debt in Euros and Dollars. The tender was conditional on the settlement of the new UI 2028 Global Bond offering and was capped at a USD1 billion cash spent amount. The eligible bonds in the tender offer were split into two groups, Group A, which included short term bonds due 2012-2019 and Group B, which included long-dated benchmarks. The Republic accepted the entire Group A bonds tendered, and accepted 25% of the tendered USD 2022 of the Group B (the bond with the shortest maturity within this group) reflecting a strong preference for eliminating shortest maturities. It is also important to highlight the strong participation of the benchmark bonds´ outstanding within Group A: USD Global 2015 (33% participation rate), EUR Global 2016 (40% participation rate) and USD Global 2017 (59% participation rate).

Finally, Uruguay accepted to exchange USD650 million equivalent in nominal value of the UI 2018 Global Bond reaching a participation rate of 53%. This allowed the Republic to create an effective new UI benchmark and a smoother debt profile.

This liability management transaction has a strong impact in the risk indicators of the debt. The transaction permitted Uruguay to successfully increase the share of UYU denominated debt in 6 percentage points of the total amount of the Central Government debt after this deal. At the end of 2011, the total amount of debt denominated in local currency reached 49%. It is important to note that regarding the foreign currency debt, 28% corresponds to multilateral debt. At the same time, after the transaction, the Central Government has USD1.8 billion liquid assets denominated in foreign currency, so that the percentage of debt denominated in foreign currency with effective exposure to foreign currency risk is slightly below 44%.

Another important result is the increase in the portfolio maturity. The average time to maturity of the Central Government debt, one of the largest among the world, is 12.3 years as of December 2011. This, in conjunction with the exchange, allowed smoothing the amortization debt profile. In the next four years, Uruguay will not have to pay bonds in foreign currency for an amount over USD200 million (approximately).

Finally, the amount of the new bond issue, USD2 billion equivalent, will constitute a benchmark for the UI curve, joining the benchmarks bonds: UI Global 2027, UI Global 2030 and UI Global 2037, each of which has an outstanding of around USD 1 billion.

	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	IV.2009	IV.2010	I.2011	II.2011	III.2011	IV.2011
Roll Over Risk											
ATM (years) (1)	7,4	7,9	12,1	13,6	13,0	12,7	12,3	12,2	11,9	11,7	12,3
% debt due in one year	11,3%	16,0%	4,8%	2,9%	2,3%	3,6%	5,5%	4,1%	3,2%	2,8%	2,4%
Tax Revenues /Amortization Payments	1,4	2,6	1,6	6,0	4,6	17,9	7,6	7,4	5,7	5,9	6,8 (3)
Liquid Assets CG/Amortization Payments due in one year	0,3	0,3	0,4	0,7	1,6	1,4	0,7	2,4	1,9	1,1	4,0 (4)
Interest Rate Risk											
% debt that refixes rate in one year	32%	34%	22%	18%	20%	11%	15%	9%	9%	8%	6,4%
ATR (years) (2)	4,9	6,6	11,1	12,3	11,9	12,0	11,3	11,5	11,2	11,0	11,7
Duration (years)	5,6	8,0	8,9	10,5	9,9	10,3	10,4	10,2	9,9	9,6	10,3
% Debt with Fixed Rate	77%	78%	82%	83%	81%	91%	88%	91%	92%	93%	94%
% Debt with Floating Rate	23%	22%	18%	17%	19%	9%	12%	9%	8%	7%	6%
Foreign Currency Risk											
% debt in Local Currency	11%	11%	15%	26%	28%	31%	34%	41%	42%	41%	49%
% debt in Foreign Currency	89%	89%	85%	74%	72%	69%	66%	59%	58%	59%	51%
Debt Composition by Instrument											
Loans	44%	40%	0%	17%	19%	21%	19%	18%	17%	16%	15%
Bonds	56%	60%	0%	83%	81%	79%	81%	82%	83%	84%	85%
Debt Composition by Jurisdiction											
Local Market	22%	22%	23%	21%	16%	16%	18%	25%	24%	24%	25%
External Market	78%	78%	77%	79%	84%	84%	82%	75%	76%	76%	75%
Average interest rate (annual % by currency)											
Dollars	6,1	7,8	7,0	7,1	7,0	6,5	6,5	6,3	6,2	6,3	6,5
Units Linked to CPI	7,1	5,4	5,3	4,4	4,3	4,3	4,3	4,2	4,2	4,2	3,1
Uruguayan Pesos								9,4	9,4	9,6	10,6
Euros	6,9	6,9	6,9	6,9	6,9	6,9	6,9	6,9	6,9	6,9	6,9
Yens	2,5	2,5	2,5	2,3	2,3	2,3	2,3	2,2	1,9	1,9	1,9

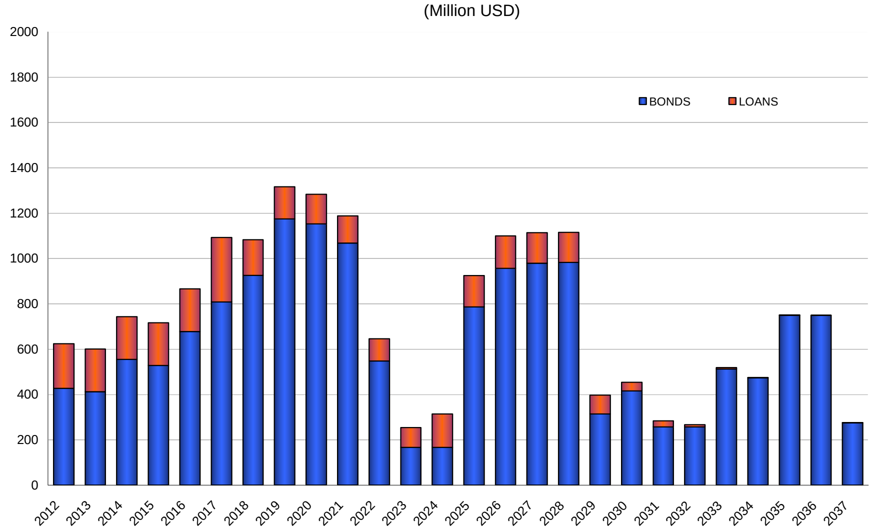
(1) Average time to Maturity

(2) Average time to Refix

(3) 12 month period ended Nov 2011

(4) Amortizations of the next 12 months starting in Dic 2011

Central Government Debt Profile
As of December 2011
(Million USD)



	2011	2012
USES	**3972**	**2094**
Interests Payments	1165	1177
Amortizations	2737	626
Loans	457	196
Bonds	2280	430
Others	70	291
SOURCES	**3972**	**2094**
Primary Surplus	800(1)	700(1)
Multilaterals Disbursements	237	196
Issuances	4611	1200
Others	120	83
Use of Assets*	-1796	-85

***Positive indicates a reduction in reserves**

(1) Source: Macroeconomic and Financial Advisory Unit

Source: Debt Management Unit

DEBT MANAGEMENT UNIT

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