

**Rating Action: Moody's places the third issuance of senior debentures issued by MGI -- Minas Gerais Participacoes on review for downgrade**

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Global Credit Research - 11 Dec 2015

Sao Paulo, December 11, 2015 -- Moody's America Latina has placed the Ba1 (sf) global rating and Aa2.br (sf) national scale rating of the third issuance of senior debentures backed by re-performing ICMS taxes issued by MGI- Minas Gerais Participacoes (MGI) on review for downgrade.

The rating action follows Moody's decision to place the rating of the State of Minas Gerais on review for downgrade, following a similar rating action on the Government of Brazil's bond rating.

Issuer: MGI - Minas Gerais Participações S.A. third issuance of debentures backed by re-performing ICMS taxes  
-Senior Debenture, Ba1 (sf) and Aa2.br (sf) ratings placed on review for downgrade;

The senior debentures are backed by the right to receive 60% of collections resulting from monthly payments of renegotiated ICMS taxes (Imposto sobre Operações Relativas à Circulação de Mercadorias e Prestação Serviços de Transporte Interestadual e Intermunicipal e de Comunicação) originally owed to the State of Minas Gerais.

MGI is a public limited company almost wholly owned (99.8%) by the State of Minas Gerais (Ba1, on review for downgrade).

#### RATINGS RATIONALE

The rating of the State of Minas Gerais was placed on review for downgrade as a result of the ongoing deterioration of Brazil's economy and of the federal government's fiscal position that have a direct impact on the operating environment of the State, as it relates to the Government of Brazil's government bond Baa3 rating being placed on review for downgrade.

Although MGI is the sole obligor under the debentures and investors have no recourse to the State of Minas Gerais under the transaction, MGI and the State of Minas Gerais are closely related given the extent of the state's ownership of MGI and the portion of the transaction's subordinated debt it holds.

The transaction has performed within expectations, with an average debt service coverage ratio (DSCR) of 2.24x from January 2015 to September 2015, above the minimum requirement of 1.8x. The asset coverage ratio as of September 2015 was 320%, higher than the 200% trigger level.

#### FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING:

Factors that would lead to a downgrade include a deterioration of the collateral performance and a downgrade of the rating of the State of Minas Gerais.

#### RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Future Receivables Transactions," published in June 2015. Please see the Credit Policy page on [www.moody.com.br](http://www.moody.com.br) for a copy of this methodology.

Moody's national scale credit ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's credit rating methodology published in June 2014 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings".

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not receive or take into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of this transaction in the past six months.

Moody's did not use any models, or loss or cash flow analysis, in its analysis.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows.

Information sources used to prepare the rating are the following: parties involved in the ratings, and public information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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The date of the last Credit Rating Action was 03/11/2015.

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