MOODY'S
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Rating Action: Moody's downgrades the third issuance of senior debentures issued by MGI -- Minas Gerais Participacoes

Global Credit Research - 25 Feb 2016

Sao Paulo, February 25, 2016 -- Moody's America Latina has downgraded the ratings of the third issuance of senior debentures backed by re-performing ICMS taxes issued by MGI- Minas Gerais Participacoes (MGI) to Ba3 (sf) from Ba1 (sf) on the global scale and to A2.br (sf) from Aa2.br (sf) on the national scale.

The rating action follows Moody's decision to downgrade the rating of the State of Minas Gerais to Ba3 (negative outlook) from Ba1 (under review for downgrade), following Moody's February 24, 2016 rating action in which Brazil's government bond rating was downgraded to Ba2 (negative outlook) from Baa3 (under review for downgrade).

Issuer: MGI - Minas Gerais Participações S.A. third issuance of debentures backed by re-performing ICMS taxes

-Senior Debenture, ratings downgraded to Ba3 (sf) from Ba1 (sf) (global scale, local currency) and to A2.br (sf) from Aa2.br (sf) (national scale).

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 (Ba3, negative outlook).

RATINGS RATIONALE

The rating of the State of Minas Gerais was downgraded 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 rating being downgraded to Ba2, negative outlook.

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 2.41x in 2015, above the minimum requirement of 1.8x. The asset coverage ratio as of December 2015 was 304%, 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.

POTENTIAL MAPPING RECALIBRATION FROM GLOBAL SCALE TO NATIONAL SCALE RATINGS

With the recent downgrade of the government of Brazil on the global rating scale and other issuers whose risk profiles are affected by related credit considerations, the distribution of national scale ratings (NSRs) among issuers in Brazil has become compressed, particularly at the Aa2.br level. As a result, the current mapping of global scale ratings to national scale ratings may no longer be adequately serving one of its intended purposes, which is to provide greater credit differentiation among issuers in Brazil than is possible on the global rating scale. However, if Moody's NSR methodology is revised as proposed in the Request for Comment (RFC) entitled "Mapping National Scale Ratings from Global Scale Ratings" published on January 20, the resulting new Brazilian scale would likely imply that many Brazil global scale ratings would be remapped to higher ratings on the national scale.

While the RFC included a new proposed national scale map for Brazil, given the aforementioned ratings changes, the new map design for Brazil will likely differ from the specific map proposal included in the RFC. In addition to the proposed Brazilian map, the RFC comprised a proposed update to our methodology for mapping national scale ratings from global scale ratings, including guidelines for the design of new national scale maps and changes to existing maps, as well as proposed new national scale maps for each of the other countries in which we currently offer NSRs. The comment period for this RFC closed on February 22.

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 Ratings Methodologies page on www.moodys.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 did not use any stress scenario simulations in its analysis.

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.

Please see the ratings disclosure page on www.moodys.com.br for general disclosure on potential conflicts of interests.

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The date of the last Credit Rating Action was 11/12/2015.

Moody's ratings are constantly monitored, unless designated as point-in-time ratings in the initial press release. All

Moody's ratings are reviewed at least once during every 12-month period.

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Please see Moody's Rating Symbols and Definitions on the Ratings Definitions page on www.moodys.com.br for further information on the meaning of each rating category and the definition of default and recovery.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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