

## CREDIT OPINION

2 June 2016

Update

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### RATINGS

#### Vianorte S.A.

Domicile	Brazil
Long Term Rating	Ba3
Type	LT Issuer Rating - Dom Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Vianorte S.A.

### Update to Discussion of Key Credit Factors Following NSR Recalibration

#### Summary Rating Rationale

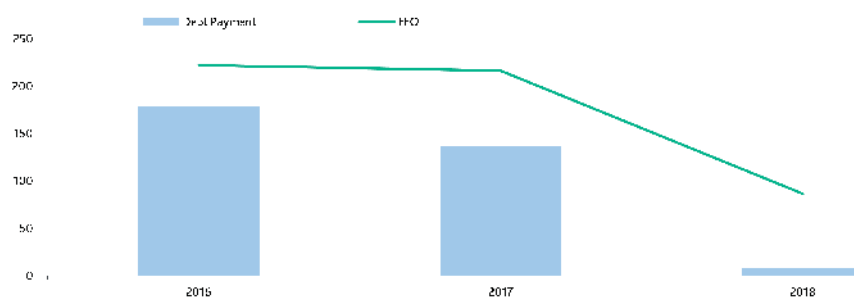
The Ba3/A1.br rating of Vianorte reflects the mature nature of the concession, as evidenced by its historically solid and stable tolling performance, driving the strong credit metrics for its rating category. The concession is located in a well-developed region although its toll road system serves a smaller area in the interior of the State of Sao Paulo (Ba2, negative) when compared to closely located toll roads. The A1.br national scale rating reflects the standing of the company's credit quality relative to its domestic peers.

Vianorte's concession contract expires in 2018 and we consider its renewal unlikely. During the remaining couple of years we expect the company to post relatively stable cash flows with very low CAPEX requirements due to its maturity. The track record of a generally supportive regulatory environment is also embedded in the rating but we do not consider in our projections any reimbursements from the Government of the State of Sao Paulo for the non-depreciated assets, as predicted in the concession contract.

Notwithstanding the strong fundamentals of the concession, the declining traffic volume will continue to pressure credit metrics as a result of the domestic GDP downturn bound to persist in the next 12 to 18 months. The ratings are also constrained by: (i) the traffic profile more concentrated on heavy vehicles, which are more volatile and highly correlated with GDP performance; (ii) short remaining life of concession, that matures in 2018; (iii) track record of high dividend distributions that will continue in the future and (v) significant amount of intercompany loans to be received from Arteris.

Exhibit 1

#### Proximity to Concession Maturity Boosts Credit Metrics



Source: Moody's Investors Service and Company's Financial

## Credit Strengths

- » Historically strong operating performance
- » Relatively stable and predictable operating cash flows
- » Strong credit metrics for the rating category

## Credit Challenge

- » Operates within a relatively small service area with a short remaining life of concession
- » High dividend distribution
- » Significant amount of intercompany loans to be received from Arteris

## Rating Outlook

The negative outlook reflects the domestic nature of the company's operations which are exposed to the deteriorating domestic economic conditions, which we expect to persist in the next 12 to 18 months.

## Factors that Could Lead to an Upgrade

In light of the negative outlook, an upgrade of the rating is unlikely in the near to medium term.

## Factors that Could Lead to a Downgrade

Further deterioration in the respective sovereign's rating could exert downward pressure on Vianorte's rating. A rapid or significant downturn in the company's credit metrics could also prompt a rating downgrade as well as the degradation of the liquidity and overall credit quality of Arteris S.A.. Additional political interference in the normal course of business or a deterioration in the supportiveness of the concession and regulatory framework could also prompt a downward action.

## Key Indicators

Exhibit 2

### Key Indicators

Vianorte S.A. [1]

	3/31/2016(L)	12/31/2015	12/31/2014	12/31/2013
Cash Interest Coverage	7.2x	6.5x	6.3x	8.0x
FFO / Debt	98.4%	67.5%	42.9%	48.6%
Moody's Debt Service Coverage Ratio	1.8x	1.3x	1.2x	1.6x
RCF / Capex	4.0x	3.1x	4.2x	8.2x
Concession Life Coverage Ratio	1.9x	1.4x	1.3x	1.8x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Financial Metrics

## Detailed Rating Considerations

### Asset Type and Service Area

Vianorte has a 20-year concession to operate the toll road services of four small adjacent roads in the interior of the State of Sao Paulo, the largest state in the country that contributes to around 32% of Brazil's GDP with a population of 43 million people. The concession was granted by the State's regulatory agency (ARTESP) in March, 1998, consisting of 223 kilometers and 4 toll plazas that presented annual traffic volume of 37 million equivalent vehicles (VEQ) in the FY2015. Vianorte has the lowest average traffic volume

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(VEQ) when compared to other Arteris' assets located in the region, which is incorporated in the Ba rating for this factor. Although the company operates within an economically robust service area, its demographics are relatively smaller and less diversified than the peers.

The most populated cities along Vianorte's concession area are Ribeirao Preto, Jardinopolis and Sertaozinho, where the main agricultural commodities are orange and sugar cane. Vianorte also benefits somewhat from the traffic of industrialized products between the North region of the State of Sao Paulo and the South region of the State of Minas Gerais.

### Traffic Profile and Performance Trends

Vianorte has an eighteen year history of tolled traffic showing that user profile remained relatively equivalent with heavy vehicles responding for 56% of the traffic volume in VEQ and light vehicles for 44% as reported in the first quarter of 2016 (1Q2016). The heavy vehicles traffic tends to be more volatile than commuter traffic since it is highly correlated with the industrial production performance and therefore the country's GDP.

The company reported a negative traffic volume growth in 2015 (-3.9%) after posting strong growth between 2010-14 of average 6.4% compared to Brazil's GDP of 3.3% in the same period. The reversal of the positive trend was mainly driven by the contraction of national industrial production and GDP of 8.3% and 3.8%, respectively in 2015. As per the 1Q2016 results, traffic decreased an additional 2.2% on a yearly basis, which compares to a 2.3% average decline for the country's toll roads according to the Brazilian Association of Toll Road Concessionaires (ABCR).

We expect Vianorte's traffic volume growth to remain negative from 2016-2017 at around 36 million VEQ, relatively in line with the FY2015 results. Also, as we consider the concession will mature in the first half of 2018, our projection presents a remaining traffic volume during these few months, which is slightly positive on a comparative basis given the expected GDP recovery.

### Concession and Regulatory Framework

We have historically considered the regulatory environment stable and supportive for privately managed concessions, specifically in the State of Sao Paulo, but recent actions by both the Brazilian Federal Government as well as the State's transportation regulatory agency - ARTESP, have changed our opinion about the quality and the predictability of the sector legal and regulatory environment.

Although ARTESP has historically been generally supportive of toll road concessionaires, in our view, the most recent example of the sector's deteriorating regulatory environment has taken place in the State of Sao Paulo. The regulator opened a judicial process to review the contract amendment granted to some concessionaires in 2006, including Intervias, another Arteris' concession. The aforementioned amendment extended the concession maturity in order to restore the economic/financial equilibrium of the concession to compensate additional investments and tax charges that have not been contemplated in the original contract signed in 1998. In the case of Intervias, the matter is in first instance trial court, which has not come to a conclusion as of the date of this credit opinion, and we expect will not do so in the medium term.

Another example of political interference occurred in 2013 when the Governor announced the suspension of the annual tariff adjustments until July 2014, allegedly as a result of protests and civil unrest.

In order to preserve the financial-economic equilibrium of the concession contracts of the toll road concessionaires, the main compensatory measures announced by the Governor were: (i) 50% reduction of the variable concession fees, payable to ARTESP to 1.5% from 3.0% of gross toll revenues; (ii) idle truck axles would begin to be charged; and (iii) reduction or exemption of the fixed concession payments to the grating authority for some concessionaires.

Although the decision to restore the economic/financial equilibrium of the affected concessions signaled ARTESP's support of toll road framework, in July 2014 the Government did not authorize the full-inflation tariff adjustment, as contemplated in the concession contracts, which led several concessionaires to file lawsuits against the regulator. Furthermore, in March 2015, the Federal Government enacted Law 13,103, which suspended the charge for idle axles for unloaded trucks that had been authorized by the State Government in 2013, and, at the same time, increased the overload weight limit to 10% from 5%, thus increasing maintenance expenses of the toll road concessionaires.

Given the aforementioned events, we have adjusted the rating of sub-factor 3b, "Protection Provided by the Concession and Regulatory Framework" of our methodology "Privately Managed Toll Roads" to Ba from Baa, which reflects our perception of higher political interference and increased uncertainty as to the consistency and predictability of the concession and regulatory framework in the toll road sector in Brazil. Nonetheless, we recognize that compensation for additional investments or changes in the business circumstances are generally subject to negotiation, which has occurred successfully with several concessions. The regulator may change the terms of the contracts, as long as it provides conditions to restore or maintain the economic and financial equilibrium of the original concession contract.

### Financial Policy

Arteris has a track record of making sizeable CAPEX investments and has historically implemented large dividend distributions for the state owned concessions, given their mature profile, through raising additional debt in the local capital markets.

Management estimates a significant BRL 7 billion CAPEX to meet the investment plan embedded in the current concession contracts, mostly related to Arteris' five federal concessions. The financing for the planned CAPEX is expected to come from a combination of dividends and intercompany loans of the state owned concessions, as well as new debenture issuances and BNDES funding. We consider Arteris to have a good access to the capital markets and BNDES, but the company reported relatively tight financial covenant of net debt to Ebitda minus fixed concession payments of 4.17x in the 1Q2016, compared to the 4.25x limit from the financial covenants and 3.23x in the same period of 2015. The increasing leverage could lead to a deterioration in Arteris' liquidity if the operational performance remains below expectations and further borrowing needs are somewhat hampered by less favorable capital markets. Nevertheless, we consider this credit risk relatively mitigated by the strong ultimate shareholders and their willingness to offer financial support if needed. Also, Arteris has a long term credit line with BNDES, of which BRL 3.5 billion were already disbursed with remaining BRL 228.5 million still available as of March 31, 2016.

The aforementioned relatively aggressive financial strategy is reflected in the Ba rating of the "Financial Policy" methodology factor, which partially constrains Vianorte's ratings due to the significant cash needs of Arteris, the parent company. We expect Vianorte will maintain the high dividend payout as well as the intercompany loans to fund the parents' planned CAPEX investments along the couple remaining years of the concession. Nevertheless, the following financial covenants embedded in the debenture issuances limit Vianorte's re-leveraging capability: i) net debt-to-Ebitda minus fixed concession payments equal or less than 3.5x and ii) debt service coverage ratio equal or higher than 1.2x. As reported in the 1Q016, Vianorte ratios were significantly loose at 0.47x and 2.45x, respectively and we expect the company to remain compliant with the same.

Also, the short remaining life of the concession somewhat limits the company's leverage capability in the absence of an extension of the concession maturity, which we deem unlikely. It additionally has a CAP of BRL 75 million for additional intercompany loans on top of the current BRL 212 million exposure as of March 31, 2016.

We forecast that until the end of the concession in 2018, Vianorte's operational cash flow generation will be around BRL 250 million per year and one third of this in 2018 while capital expenditures will range at BRL 32 million on average in the same period. Therefore, our projection shows that overall credit metrics are expected to remain strong for the rating category even if the company doesn't receive the full repayment of the outstanding amount of intercompany loan from Arteris.

### Coverage and Leverage

Vianorte has presented relatively strong credit metrics for the rating category, characterized by high debt coverage ratios as measured by the funds from operations to debt (FFO-to-Debt) of 98% and cash interest coverage of 7x in the LTM 3M2016, as per Moody's standard adjustments. In the next 12 to 18 months, we expect these ratios to average at 874% and 25.6x respectively.

The improvement in the aforementioned ratios compared to the historical data is a combined result of the lower CAPEX needs and decreasing indebtedness as the concession approaches its maturity in 2018, even considering weaker revenues due to the economic downturn.

Through the remaining life of the concession (from 2016-2018), we project approximately BRL 65 million in maintenance CAPEX, of which about BRL 64 million is targeted from 2016 to 2017. Also during this period, the company is required to pay approximately BRL

107 million of fixed concession payments to the granting authority (the Department of Highways of the State of Sao Paulo), which we add to the total debt amount for comparative purposes.

Going forward, Vianorte is forecasted to post even stronger credit metrics that are significantly distorted by the above mentioned cash effects given the proximity of the end of the concession.

### Liquidity Analysis

Like other Brazilian companies, Vianorte does not have committed banking facilities to face unexpected cash disbursements. Nevertheless, the company has an adequate liquidity position with BRL 23.5 million cash position which compares to BRL 111 million of short term debt payments as of March 31, 2016. In order to repay its obligations, we consider that Vianorte will use its operational cash flow generation combined with the receivables of intercompany loan payments from Arteris (BRL 212 million), allowing the company to maintain an adequate liquidity and financial profile for its rating category.

Vianorte has a healthy cash generation, with a reported FFO of BRL 214 million in the LTM 032016, which we expect to average at BRL 221 million from 2016/17 and BRL 86 million in 2018 due the concession maturity, as per Moody's standard adjustments.

As a mature operating concession, capital expenditures primarily consist of maintenance requirements of approximately BRL 22 million per year from 2016-18. Going forward, we expect cash outlays mostly from dividend payments (100% payout) as we do not expect additional intercompany loans. Still, if operational cash flows are better than expected, Vianorte could provide more loans to Arteris if it has available cash after meeting the debt principal and interest payments.

A major credit risk would be if further borrowings to the shareholders, either through dividend distributions or intercompany loans, compromise Vianorte's liquidity position, specially in times when the capital markets are less favorable. However, we expect management will appropriately conduct the company's credit quality in the remaining couple years of the concession as they did historically. Moreover, the existing debt structure offers investors some debt protection by limiting the maximum level of debt to the equivalent of 3.5x EBITDA and cash coverage of short term debt obligations to a minimum of 1.2x.

According to Moody's standard adjustments, as of March 31 2016, Vianorte reported total debt of BRL 217 million and total receivables from the intercompany loans of BRL 212 million.

### Profile

Vianorte is an operating subsidiary of Arteris S.A. (Arteris, not rated). Arteris (f/k/a OHL Brasil S.A.) is a holding company with approximately 3,250 kilometers of operating toll roads under concession in Brazil, consisting of four concessions in the State of Sao Paulo and five federal concessions in the States of Sao Paulo, Minas Gerais (Ba3, negative), Rio de Janeiro (not rated), Parana (Ba3, stable) and Santa Catarina (not rated). In 2015, Vianorte reported net revenues excluding construction and adjusted EBITDA of BRL 295 million and BRL 231.7 million, respectively, which represent 13% and 16% of Arteris' consolidated results. Considering the LTM 032016, the company reported net sales of BRL 290 million, EBITDA of BRL252 million, and net profit of BRL 77 million, as per Moody's standard adjustments.

Vianorte is indirectly controlled by Abertis Infraestructuras S.A. (Abertis, not rated) and by Brookfield Brazil Motorways Holdings SRL, (Brookfield Brazil, not rated) through their respective ownerships of 51% and 49% in Participes en Brasil S.L. (Participes, not rated), which owns 69.3% of Arteris. Abertis is a company listed on the Spanish stock exchange for more than 25 years, having been included in the IBEX 35 since its creation and operates in two sectors in 12 countries: highway concessions and telecommunications infrastructure through PPP contracts.

Brookfield Brazil Motorways Holdings SRL is indirectly controlled by Brookfield Asset Management Inc. (Baa2, stable), a company listed on the NYSE and the Toronto Stock Exchange, with USD 15.2 billion revenues and total assets of USD 135 billion as of 9M2015 as per Moody's standard adjustments. Brookfield Asset Management has been operating in Brazil since 1899, with a direct or indirect presence in about half of the Brazilian states, which represents 6% of the group's total revenues and 7% of the total assets. In Brazil, it operates primarily in the real estate, renewable energy, infrastructure and private equity segments.

## Rating Methodology and Scorecard Factors

Exhibit 3

### Rating Factors

Vianorte S.A.

Privately Managed Toll Roads Industry Grid [1][2]	Current LTM 3/31/2016		Moody's 12-18 Month Forward View As of 5/31/2016 [3]	
	Measure	Score	Measure	Score
<b>Factor 1 : Asset Type and Service Area (25%)</b>				
a) Asset Type	Ba	Ba	Ba	Ba
b) Competing Routes	Aa	Aa	Aa	Aa
c) Economic Resilience of Service Area	Baa	Baa	Baa	Baa
<b>Factor 2 : Traffic Profile and Performance Trends (15%)</b>				
a) Traffic Profile	Ba	Ba	Ba	Ba
b) Track Record and Stability of Tolloed Traffic	A	A	A	A
c) Traffic Density	Baa	Baa	Baa	Baa
<b>Factor 3 : Concession and Regulatory Framework (10%)</b>				
a) Ability and Willingness to Increase Tariffs	Baa	Baa	Baa	Baa
b) Protection Provided by the Concession and Regulatory Framework	Baa	Baa	Ba	Ba
<b>Factor 4 : Financial Policy (10%)</b>				
a) Financial Policy	Ba	Ba	Ba	Ba
<b>Factor 5 : Coverage and Leverage (40%)</b>				
a) Cash Interest Coverage	7.2x	Aa	25.6x	Aaa
b) FFO / Debt	98.4%	Aaa	874%	Aaa
c) Moody's Debt Service Coverage Ratio	1.8x	Baa	7.9x	Aa
d) RCF / CAPEX	4.0x	Aaa	3.9x	Aaa
e) Concession Life Coverage Ratio	1.9x	Ba	8x	Aa
<b>Rating:</b>				
Indicated Rating from Grid Factors 1-5		Baa2		Baa1
<b>Rating Lift</b>				
a) Indicated Rating from Grid		Baa2		Baa1
b) Actual Rating Assigned				Ba3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 3/31/2016(L); Source: Moody's Financial Metrics

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics

## Ratings

Exhibit 4

Category	Moody's Rating
<b>VIANORTE S.A.</b>	
Outlook	Negative
Issuer Rating -Dom Curr	Ba3
Senior Secured -Dom Curr	Ba3
Senior Unsecured -Dom Curr	Ba3
NSR Senior Secured	A1.br
NSR Senior Unsecured	A1.br
NSR LT Issuer Rating	A1.br

Source: Moody's Investors Service

## Recent Developments

On May 17, 2016 Arteris held an auction for a public tender offer in order to delist the company from BM&FBOVESPA's Novo Mercado.

On May 09 2016, Moody's repositioned the national scale ratings (NSRs) of certain Brazilian infrastructure issuers, including Vianorte, as a result of the recalibration of the Brazilian national rating scale. This resulted in a repositioning of Vianorte's NSRs as follows: Issuer, Senior Unsecured and Senior Secured ratings to A1.br from A2.br.

On February 25, 2016, Moody's downgraded Vianorte's issuer ratings to Ba3/A2.br from Ba1/Aa2.br on the Global Scale and on the National Scale, respectively. At the same time, Moody's downgraded Vianorte's BRL150 million senior unsecured debentures and BRL 100 million senior secured debentures ratings to Ba3/A2.br from Ba1/Aa2.br. Outlook changed to negative from stable.

On February 24, 2016, Moody's downgraded Brazil's issuer and bond ratings to Ba2 from Baa3 with a negative outlook

In July 2015, Vianorte was granted a 4.11% tariff adjustment.

On March 2, 2015 Brazil's President Dilma Roussef approved Law 13.103 ("Lei dos Caminhoneiros"), which: (i) suspended the idle axles charge for unloaded trucks; (ii) defined the overload weight increase to 10% from 5%, which may result in more maintenance costs for the toll roads; (iii) created more "resting/supporting" areas for trucks/truck drivers; (iv) exonerated truckers from penalties from the last two years related to overload-weight.

On June 30, 2014, Vianorte had a 5.58% tariff adjustment approved to the period July 1st, 2014 up to June 30, 2015, 0.75% lower than the inflation rate for the period. Vianorte filed a lawsuit against the regulator to receive the full index adjustment provided in the concession contract which was the IPC-A of 6.37% for the period. ARTESP said the lower percentage was to counterbalance the benefits Vianorte had with the 50% reduction of the variable concession fees payable to ARTESP to 1.5% from the previous 3.0% of gross toll revenues and by the charge of idle truck axles since July 28, 2013.



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