

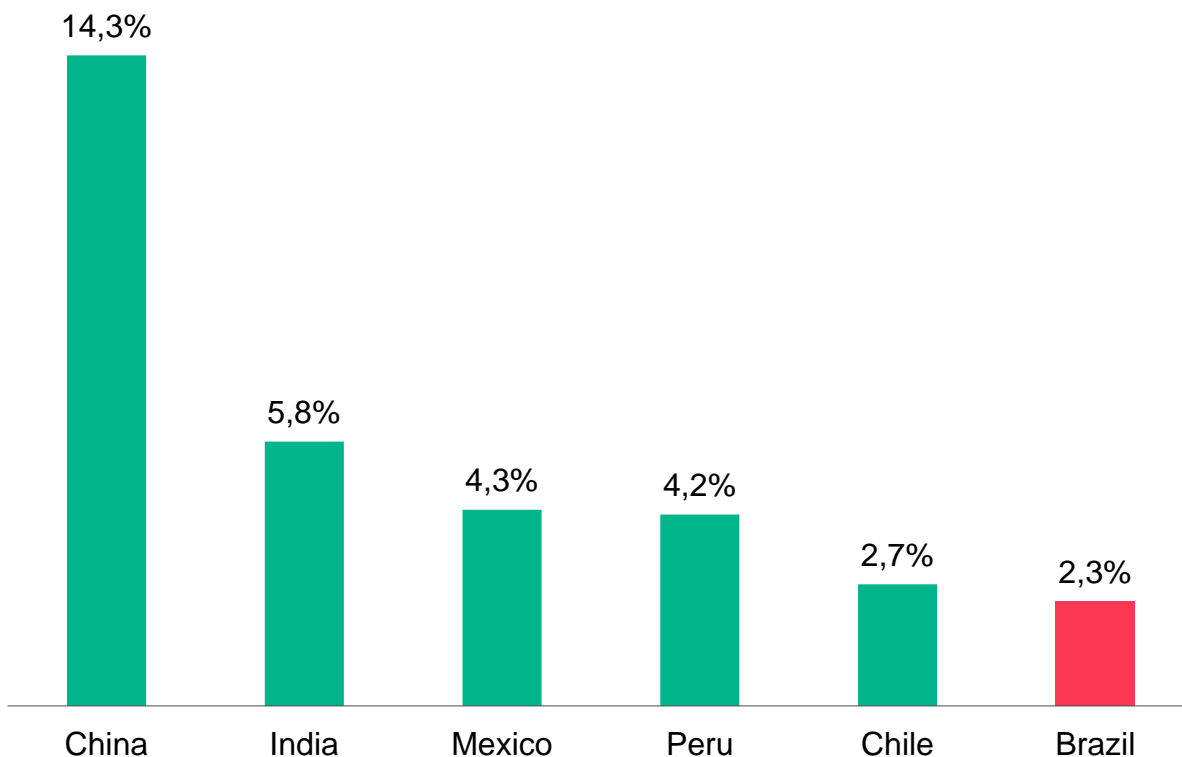


Brazilian Regional and Local Governments : Closing the Infrastructure Gap

Infrastructure Investment Rate Remains Low

Brazil's Investments Lag Behind Peers Hurting Competitiveness

Infrastructure Investments / GDP (%) (Avg 2010 - 2013)



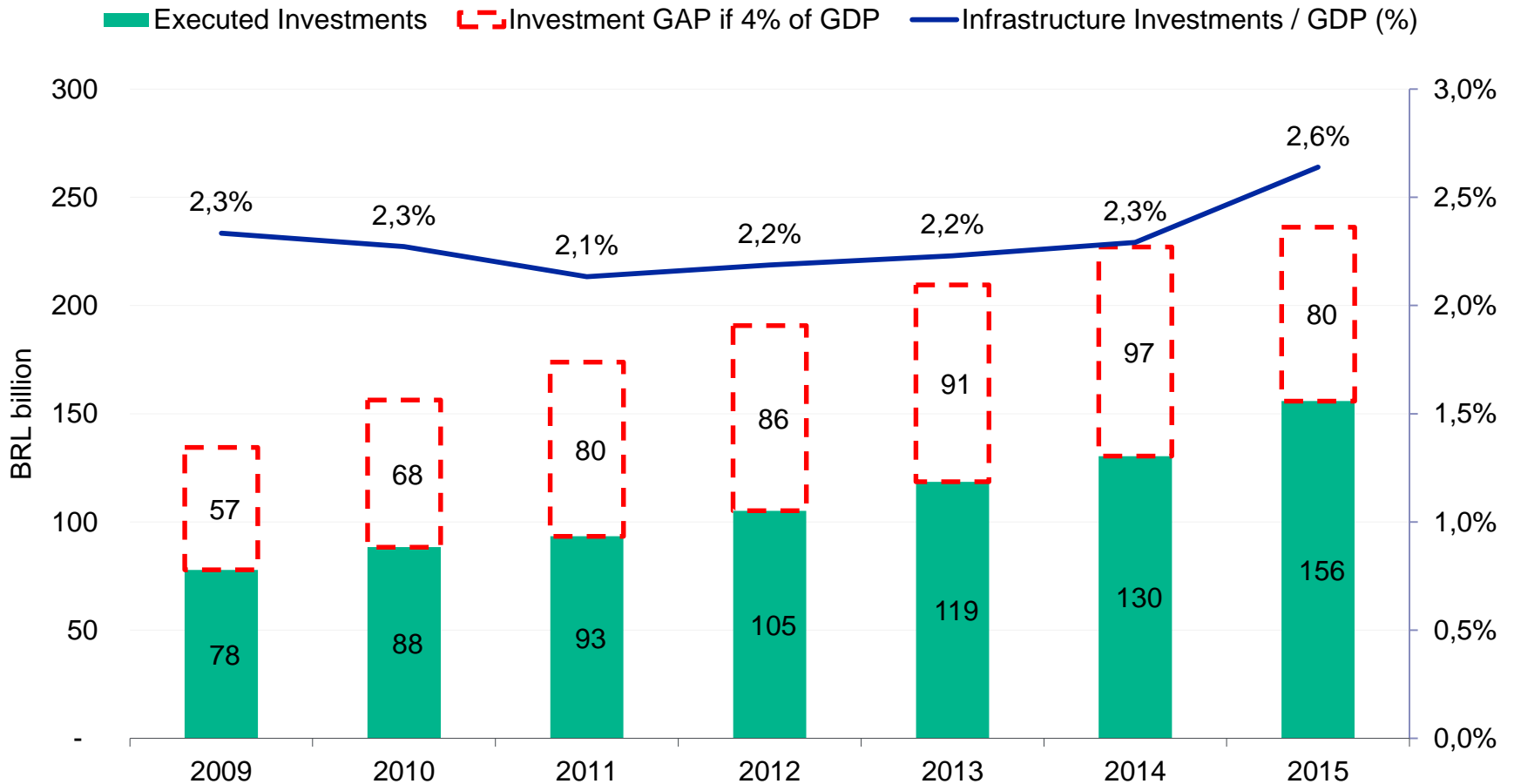
Quality of Infrastructure (WEF Rank)

Chile: 50
China: 64
Mexico: 69
India: 90
Peru: 105
Brazil: 120

Source: National Bureau of Statistics of China, Cámara Argentina de la Construcción, Camara Chilena de la Construcción, PwC, World Economic Forum, Moody's Estimates

Brazil Faces a Large Investment Gap

Country Would Need to Double its Investment Ratio Compared to Latam Peers



Source: Banco Central, BNDES, Anbima, Moody's Estimates

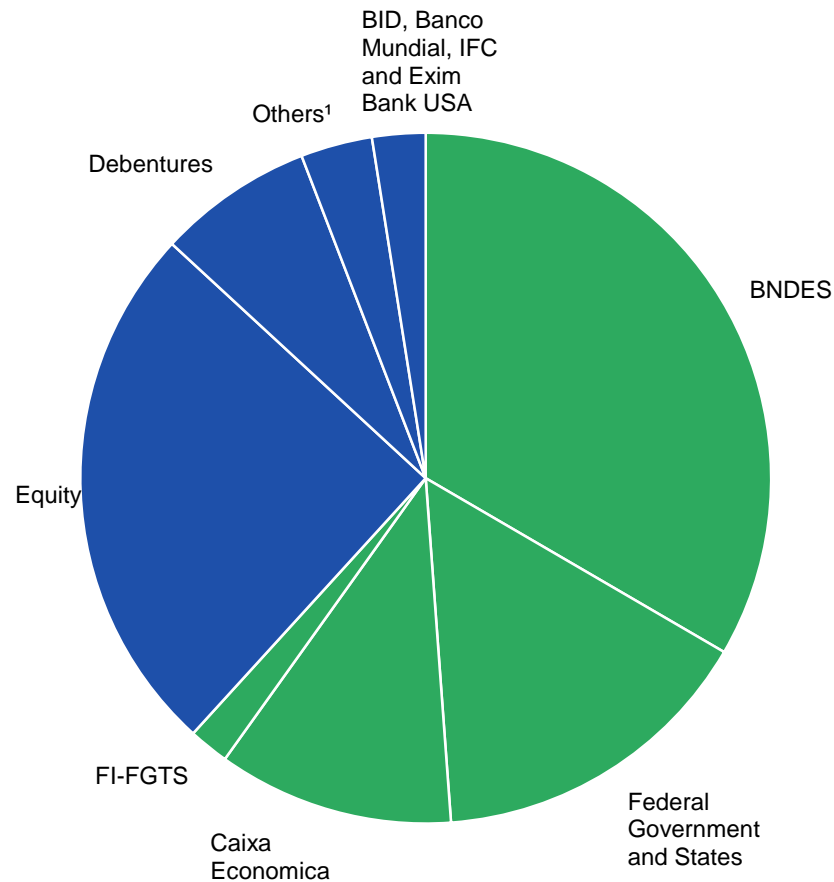
Public Sector Is the Main Financing Provider

Little Room from the Public Sector to Further Expand Financing

Sources of Financing (as of 2014)	Share (%)
BNDES	33%
Equity	25%
Federal Government and States	16%
Caixa Econômica	11%
Debentures	7%
FI-FGTS	3%
Others ¹	3%
BID, Banco Mundial, IFC and Exim Bank USA	2%

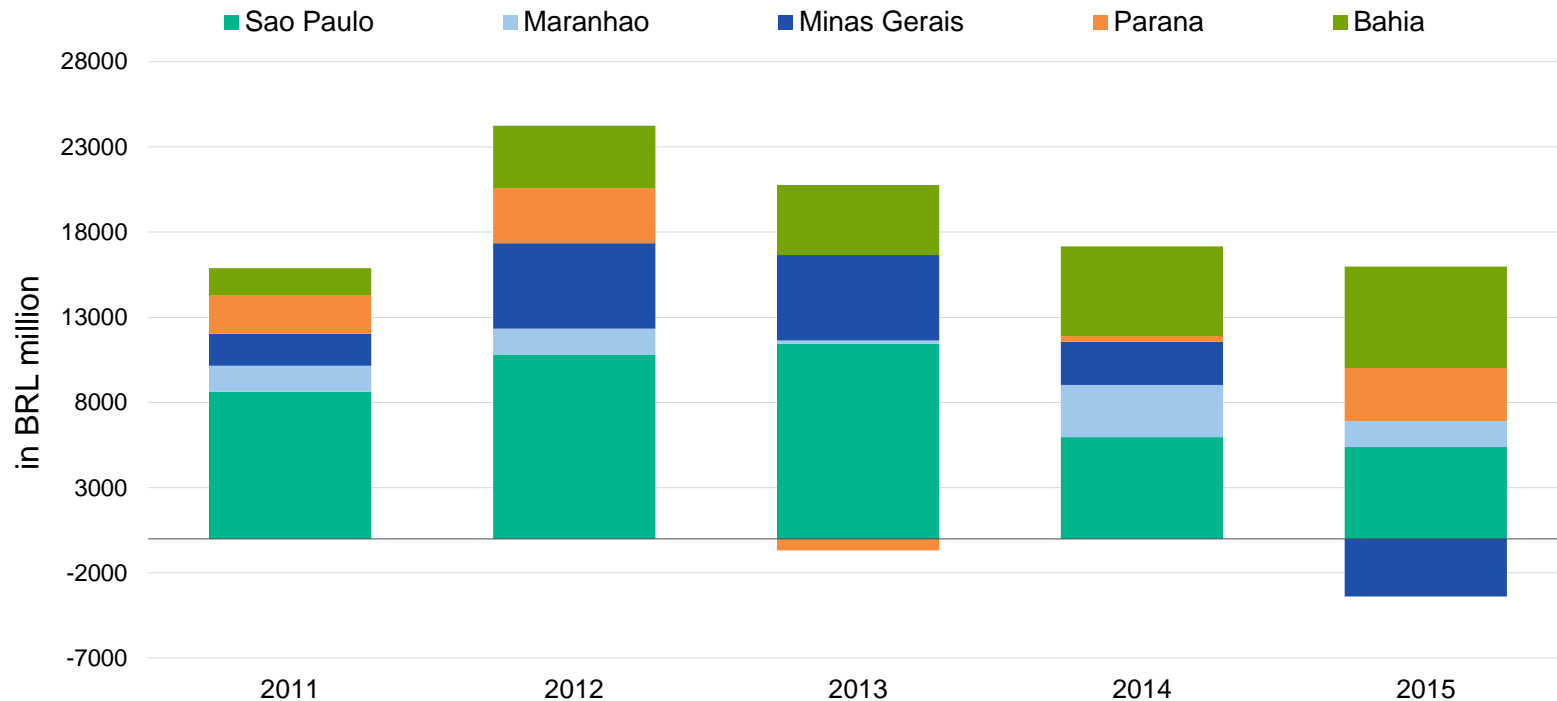
Others¹: FIPs, Infrastructure Funds, Private Banks, Project Finance

Source: BNDES, ANBIMA, CNI, Moody's Estimates



Accumulating Deficits Are Taking Their Toll on the Liquidity Position of Brazilian States..

Cash position net of payment commitments 2011-2015

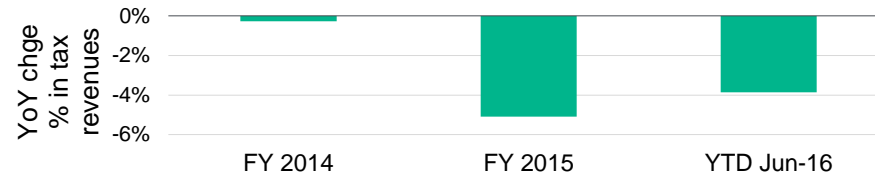


Note: Payment commitments are arrears due to third party (including suppliers)

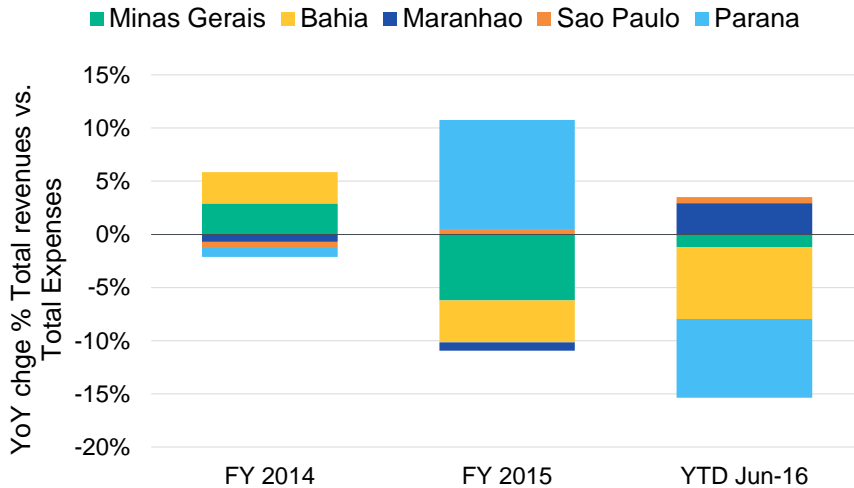
Source : States, National Treasury

..Limiting their Ability to Invest in Infrastructure Projects

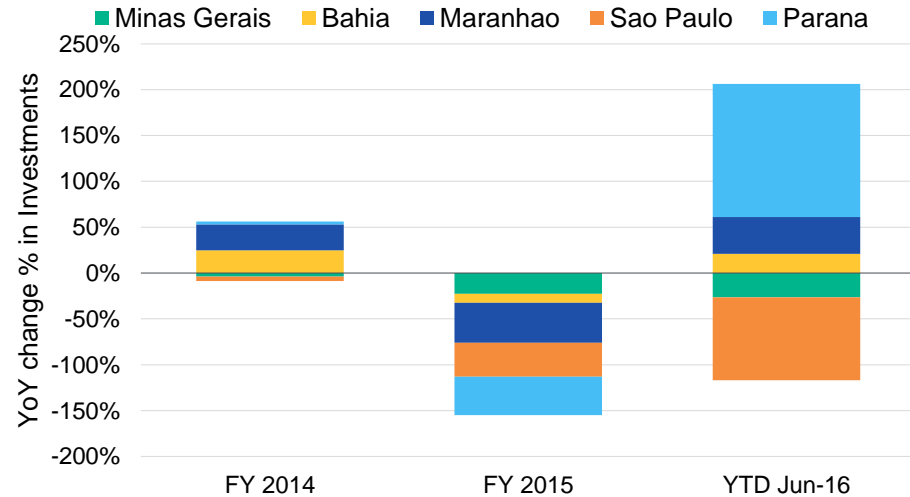
Faced with declining tax revenues..



..states continue to see their expenses grow faster than their revenues....



... leading them to reduce investments (with exception of Parana)



Source : States, National Treasury

Public Private Partnerships Offer a Valuable Alternative for Infrastructure Investments

Benefits

- Leverage on private funding to bridge the fiscal gap of public sector
- Adequation of sustainable funding type with long term nature of investments
- Operational and industry expertise from private partner

Challenges

- Credit quality of public partner is key to private sector's perception of risk
- High technical ability required to structure complex contracts
- Project-related risks (environmental, construction risk,..)

Yet Not Designed to Attend Near Term Liquidity Pressure




Cover Operating Expenses



-  Use of Judicial Deposits
-  Sale of Right to Provide Payroll Services
-  Sale of Assets
-  Debt Securitization Program

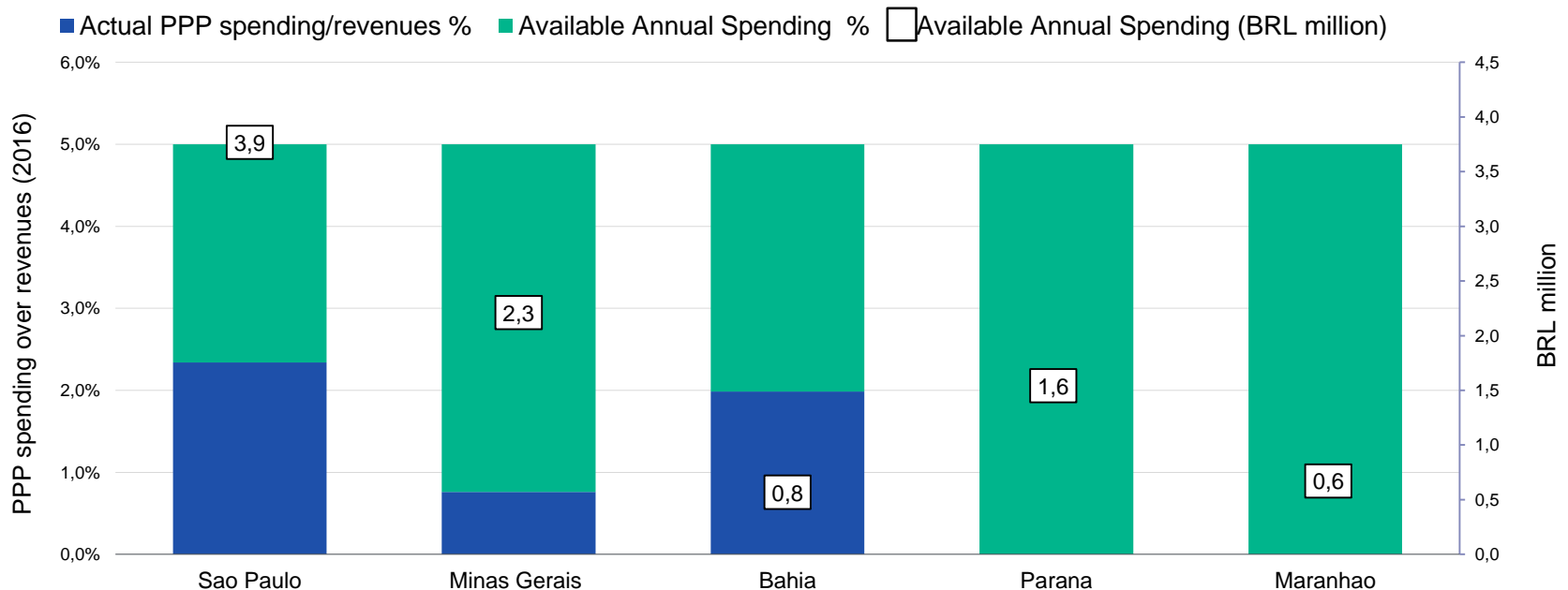
Fund Infrastructure Investments



-  Cash Financing Surplus
-  PPPs
-  Concessions

Ample Room for Growth Under the FRL Requirements

Expected 2016 spending on PPP as % of annual revenues

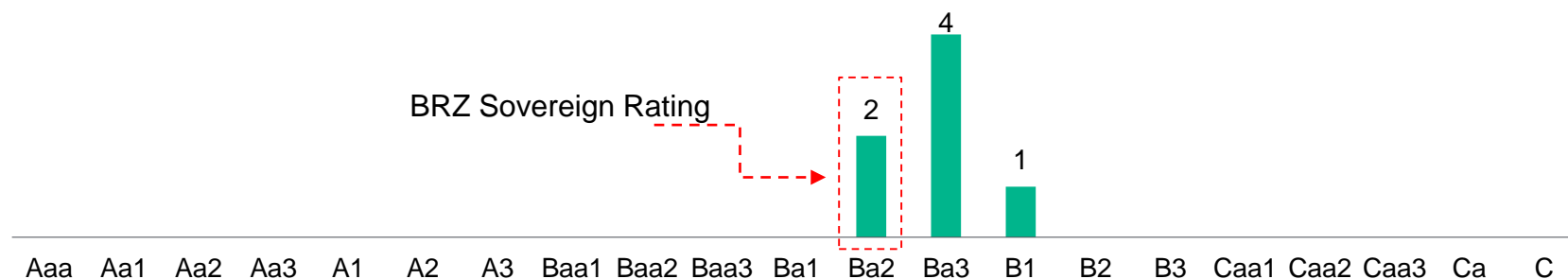


Source : National Treasury System (STN)

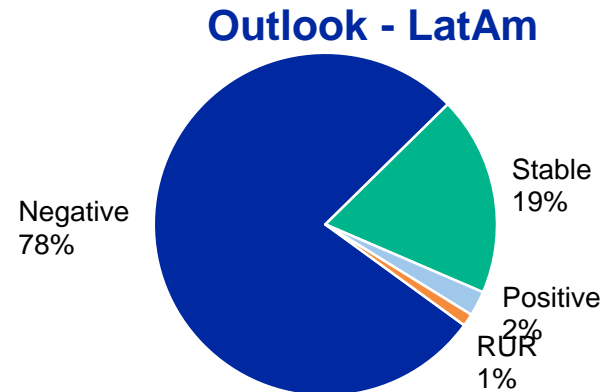
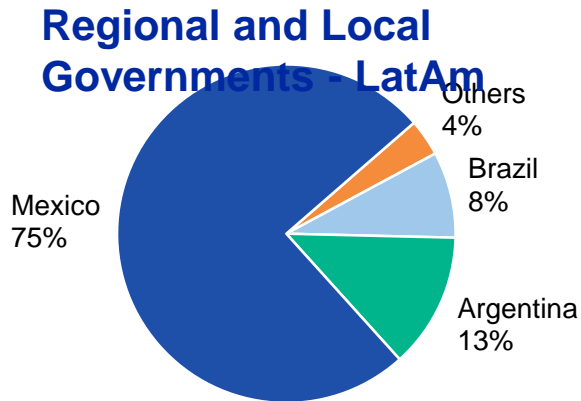
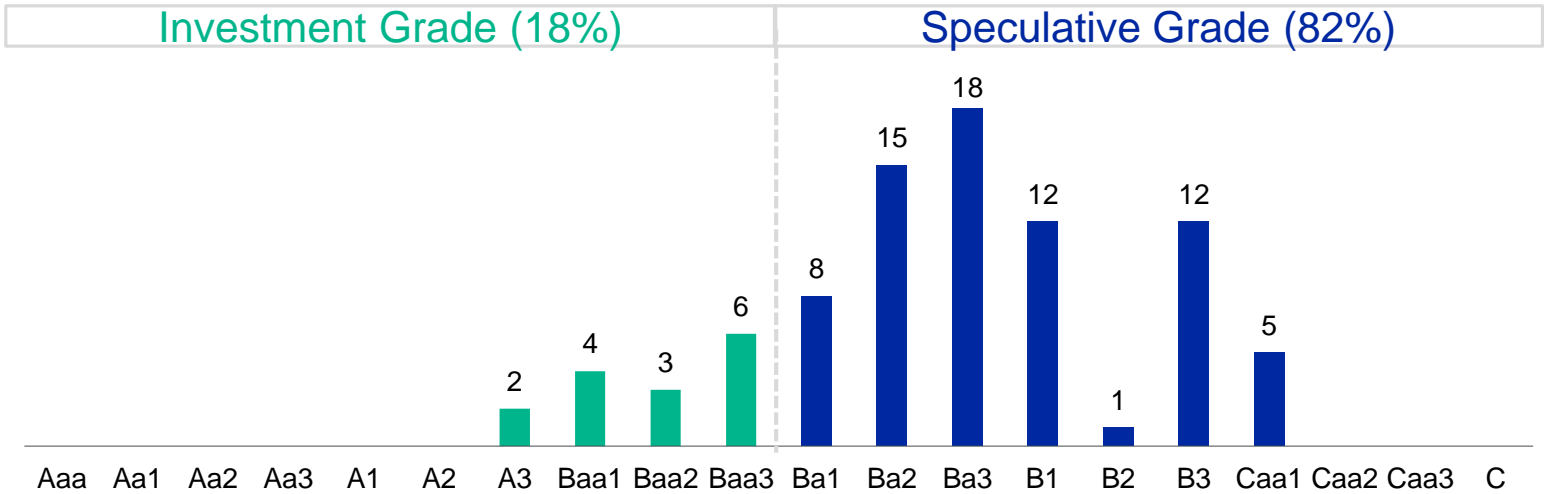
- Majority of states report future PPP commitments well below the authorized level of 5% of net revenues -

Our Regional and Local Governments (RLGs) Issuers in Brazil

Issuer	Methodology	Global Scale Rating	National Scale Rating	Outlook
Sao Paulo, State of	Regional and Local Government	Ba2	-	Negative
Rio de Janeiro, City of	Regional and Local Government	Ba2	Aa1.br	Negative
Belo Horizonte, City of	Regional and Local Government	Ba3	-	Negative
Parana, State of	Regional and Local Government	Ba3	A1.br	Negative
Bahia, State of	Regional and Local Government	Ba3	A2.br	Negative
Maranhao, State of	Regional and Local Government	Ba3	A3.br	Negative
Minas Gerais, State of	Regional and Local Government	B1	-	Negative



Our RLGs issuers in Latin America



MOODY'S
INVESTORS SERVICE

moodys.com

Paco Debonnaire

Analyst

São Paulo: +55 11.3043-7341

Paco.Debonnaire@moodys.com

Cintia Nazima

Associate Analyst

São Paulo: +55 11.3043-6091

Cintia.Nazima@moodys.com

Francisco Vázquez Ahued

Associate Vice-President Analyst

México: +52 55.12.53.57.35

Francisco.Vazquez-Ahued@moodys.com

Alejandro Olivo

Associate Managing Director

New York : +1 212 553-3837

Alejandro.Olivo@moodys.com



© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit 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 or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

For Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.