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Rating Action: Moody's downgrades Votorantim Cimentos' ratings to Ba2, outlook is negative.

Global Credit Research - 26 Feb 2016

New York, February 26, 2016 -- Moody's Investors Service downgraded Votorantim Cimentos S.A.'s senior unsecured debt to Ba2 from Baa3. At the same time, Moody's withdrew Votorantim Cimentos' issuer rating and assigned a Ba2 Corporate Family rating. The outlook was changed to negative.

The rating action follows Moody's downgrade on February 24, 2016 of Brazil's government bond rating to Ba2 from Baa3. In addition to downgrading Brazil's government bond rating, Moody's also downgraded the country's senior unsecured debt rating to Ba2 from Baa3, and the senior unsecured shelf rating to (P)Ba2 from (P)Baa3. The outlook was changed to negative. The rating agency also changed Brazil's country ceiling that went to Ba1 from Baa2.

This rating action concludes the review for downgrade initiated on December 10, 2015. Please see "Moody's downgrades Brazil's issuer and bond ratings to Ba2 with a negative outlook" on moody's.com for more information.

Ratings downgraded:

- EUR 650 million senior unsecured notes due 2021: to Ba2 from Baa3
- EUR 500 million Senior unsecured notes due 2022: to Ba2 from Baa3
- USD 1150 million senior unsecured notes due 2041: to Ba2 from Baa3

Ratings assigned:

Votorantim Cimentos S.A.
Corporate Family Rating: Ba2

Ratings withdrawn:

Votorantim Cimentos S.A.
Issuer Rating: previously Baa3

The rating outlook was changed to negative

RATINGS RATIONALE

"The downgrade of Votorantim Cimentos' ratings was prompted by the downgrade of Brazil's government bond rating to Ba2 from Baa3," explained Moody's VP Senior Analyst, Marcos Schmidt.

Votorantim Cimentos' Ba2 ratings continue to reflect the company's leading position in the Brazilian cement market, strong credit metrics, adequate liquidity, as well as its large scale and integrated operations, that translates into leading market share and above-average Ebitda margins when compared to global peers. The ratings also take into consideration the company's affiliation with Votorantim S.A. (Ba2, Negative) and its relevance to the parent company, as it contributes with 57% of its total EBITDA generation, as of September 2015.

Votorantim Cimentos has a good liquidity profile, based on the maintenance of a large cash balance relative to short-term debt. Cash balance of BRL 3.6 billion as of September, 2015 covers short-term debt by almost 2.6x. Moreover, the company has revolving credit facilities amounting to USD 882 m (approximately BRL 3.5 billion) with maturity in 2019 and 2020.

Votorantim Cimentos also has a comfortable amortization schedule with an average debt maturity of 9.6 years

and funding mix mainly concentrated in bonds (54% of total reported debt) and debentures (22% of total reported debt), as of September, 2015.

Constraining the ratings are the still modest operating performance in the United States, Europe and Asia, economic slowdown and corruption investigations affecting the heavy construction market in Brazil, and CADE's (Brazil antitrust authority) decision to rule against the largest cement companies in the country, including Votorantim Cimentos, which was convicted for cartel formation and fined approximately BRL 1.5 billion. As part of CADE's decision the company would also be obliged to sell certain assets. The company denied its involvement in cartel practices and judicially appealed to the imposed sanctions, but it is uncertain how long the appeal process will take. In 2015 Votorantim Cimentos was granted with an injunction suspending the effects of CADE's decision until final judgment, however CADE may appeal.

The negative outlook reflects the change in outlook of Brazil's government bond rating to negative, and our expectations that market conditions for cement producers in Brazil will remain challenging.

An upgrade of Votorantim's ratings would depend on an upgrade of Brazil's government bond rating, and improvements in the conditions for the Brazilian cement industry in which the company is able to improve its operating performance such that adjusted EBIT to interest expense is sustained above 4.0x (2.0x in the LTM ended September 2015) and adjusted retained cash flow ("RCF") to net debt increases to levels above 20% (10.9% in the LTM ended September 2015), while decreasing leverage to below 3.5x (5.1x in the LTM ended September 2015). All ratios incorporate Moody's standard adjustments.

The ratings could be downgraded if Brazil's government bond rating should be further downgraded, or if the company's liquidity profile deteriorates or if its capital structure weakens, with adjusted Debt to Ebitda above 5.0x after the execution of the expansion plans without prospects for reduction. Performance falling below our expectations, indicated by retained cash flow ("RCF") to net debt below 10% for a sustained period could also lead to negative rating actions.

Headquartered in São Paulo, and one of the main subsidiaries of Votorantim S.A., Votorantim Cimentos S.A. (Votorantim Cimentos or VC) is the 7th largest cement company worldwide in terms of installed cement production capacity of around 55 million tons, excluding China capacity. In the last twelve months ended September 2015, Votorantim Cimentos reported consolidated revenues of BRL 13.5 billion. The company has operations in North and South America, Europe, Africa and Asia.

The principal methodology used in these ratings was Building Materials Industry published in September 2014. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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