

**Rating Action: Moody's assigns Baa3 rating to Construtora Norberto Odebrecht's proposed perpetual notes**

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Global Credit Research - 03 May 2010

**Approximately USD 200 million in debt securities affected**

Sao Paulo, May 03, 2010 -- Moody's Investors Service assigned a Baa3 foreign currency rating to the USD 200 million in senior unsecured perpetual notes to be issued by Odebrecht Finance Ltd (Cayman Islands) and irrevocably and unconditionally guaranteed by Construtora Norberto Odebrecht ("CNO"). The rating outlook is stable. The net proceeds from the issuance will be used to repay the outstanding USD 200 million perpetual notes issued in 2005, thus not increasing CNO's leverage. The deal is part of CNO's liability management strategy and aims at reducing its funding cost. The notes rating is not constrained by Brazil's sovereign ceiling of Baa2 with a positive outlook.

Rating assigned is as follows:

Issuer: Odebrecht Finance Ltd. (Cayman Islands)

- approximately USD 200 million senior unsecured perpetual notes guaranteed by Construtora Norberto Odebrecht: Baa3 foreign currency rating

Existing ratings:

Issuer: Construtora Norberto Odebrecht S.A.

- Senior Unsecured Issuer Rating: Baa3 (global scale); Aa1.br (Brazilian national scale)

Issuer: Odebrecht Finance Ltd (Cayman Islands)

- USD 500 million in senior unsecured guaranteed notes due 2020: Baa3 foreign currency rating

The outlook for all ratings is stable.

The rating of the proposed notes and the stable outlook assume that the final transaction documents will not be materially different from draft legal documentation reviewed by Moody's to date and assume that these agreements are legally valid, binding and enforceable.

CNO's Baa3 rating reflects its position as the largest construction company in Latin America, benefiting from a leading position in major markets supported by high entry barriers. The company has a conservative financial policy that translates into strong debt protection metrics relative to higher rated global peers, although we expect operating margins to decline in the near term, primarily because of the impact of lower oil prices on its oil exporting markets. While CNO has a strong management team with a solid track record of execution of complex projects and has a large backlog supporting near term revenues, its considerable exposure to countries with political risk and economic volatility, and the risk of cash transfer to CNO's holding company to support the group's investments in new projects are constraining factors to the rating.

The Baa3 senior unsecured issuer and debt ratings also incorporate effective subordination of the unsecured debt to CNO's secured debt and the structural subordination to debt at its subsidiaries and joint ventures, which do not provide upstream guarantees. Approximately 15% of CNO's consolidated debt is secured by specific assets and about 30% of its consolidated cash generation and assets are located at subsidiaries or joint ventures which do not generally guarantee CNO's senior unsecured debt.

The stable outlook reflects our belief that CNO will maintain efficient risk management and prudent financial policy in support of healthy liquidity. Although we anticipate that revenues will likely stabilize at current level and operating margins will decline in the near term, we expect that CNO will manage capital expenditures and dividends in order to maintain strong debt protection metrics for the Baa3 rating category, thus mitigating the risks inherent in operating in countries with high political risk and volatile economies.

Given CNO's high exposure to risky countries, our expectation of lower margins moderately affecting debt protection

metrics in the near term, and the cash drain risks deriving from the group's investments in new projects, upward pressure on the ratings or outlook is unlikely in the near term.

The ratings or outlook could come under negative pressure if CNO's credit metrics deteriorate with Retained Cash Flow less Capex to Total Adjusted Debt dropping to below 20% without expectation of improving in the near term, or if liquidity deteriorates, most likely due to cash drain to support new ventures of the group. A downgrade in the ratings or outlook could also be triggered by a substantial increase in secured debt at CNO or its subsidiaries or a proportional decrease in the percentage of consolidated cash generation or assets located at CNO, compared to those at the operating subsidiaries or joint ventures.

Moody's last rating action on CNO occurred on December 10, 2009 when senior unsecured issuer ratings of Baa3 on the global scale and Aa1.br on the Brazilian national scale were assigned.

The principal methodology used in rating CNO was Moody's Global Construction rating methodology available on [www.moody.com](http://www.moody.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Construtora Norberto Odebrecht S.A. is the largest engineering and construction company in Latin America, with revenues of about some BRL 19 billion (USD 9.4 billion converted by the average exchange rate) in 2009 primarily from large-scale construction projects, including highways, railways, bridges, power plants, tunnels, subways, buildings, port facilities, dams, manufacturing and processing plants, mining and industrial facilities.

CNO is a subsidiary of Odebrecht S.A. ("ODB"; unrated), the family-owned investment holding company for one of the largest non-financial Brazilian conglomerates that also controls Braskem S.A. (Ba1, outlook stable), the largest chemical company in Latin America producing olefins and polyolefins. ODB's consolidated net revenues attained BRL 35.9 billion (USD 17.9 billion) in 2009, thereof 51% generated by CNO, 42% by Braskem, and 7% by other subsidiaries mostly engaged in the infrastructure and energy sectors. The group has diversified its operations through significant investments in the oil & gas and energy sectors.

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