

Rating object	Rating information	
Brisa Concessão Rodoviária, S.A. Creditreform ID: 400988007 Incorporation: 1992 Based in: Cascais, Portugal Main (Industry): Road infrastructure sector / motorway operation CEO: Vasco Mari Guimaraes José de Mello	Corporate Issuer Rating: BBB / negative	Type: Update Unsolicited Public rating
	LT LC Senior Unsecured Issues: BBB / negative	Other: n.r.
	Rating date: 26 February 2021 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Government Related Companies" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	
<u>Rating objects:</u> Long-term Corporate Issuer Rating: Brisa Concessão Rodoviária, S.A. Long-term Local Currency (LT LC) Senior Unsecured Issues		

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Summary

Brisa Concessão Rodoviária, S.A., hereinafter referred to as 'BCR' or 'the Company', is a Portuguese road infrastructure company and motorway operator, headquartered in Cascais, Portugal. It was incorporated in 1992 as a subsidiary of Brisa Auto-Estradas de Portugal, S.A. Group (Brisa, established in 1972). BCR is the leading company in the road and transport sector in Portugal, holding concessions from the Government of Portugal for 12 motorways to manage Portugal's major toll road infrastructure, including construction, maintenance and operation of motorways. The end of the concession contract is presently fixed at 31 December 2035. The road network extends from the North to the South and from the East to the West. The motorways are linked between the most important metropolises of Portugal, Oporto and Lisbon. The currently operating motorways of BCR have a total length of 1,100 km; 1,014 km of them are tolled. When the construction of the motorway to the New Lisbon Airport is finished, then the network of the 12 concessions will be complete, covering a total length of 1,124 km.

In 2019, the Company generated revenues of EUR 648.0 million (2018: EUR 610.6 million) and an annual net profit of EUR 204.5 million (2018: EUR 166.8 million), showing an increase of 6.1% and of 22.6% in comparison with 2018, thanks to a growing economy and the increasing volume of tourism. In 2020, in the wake of travel and social restrictions to contain the COVID-19 pandemic, which caused an overall decrease in social and economic activity, the average daily traffic (ADT) slumped massively, so that in 2020 BCR recorded revenues of EUR 495.4 million and a net profit of EUR 122.9 million, representing a decrease of 23.5% and of 39.9% in comparison with 2019.

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Rating result

The unsolicited Corporate Issuer Rating of BBB attests BCR a highly satisfactory level of creditworthiness, representing a low to medium default risk.

The result is based on the following: BCR has a leading and well-established position in the Portuguese road and transport sector based on its operation of the largest motorway concession network in Portugal. It has fundamentally sound financial ratios, good capital market access, and sufficient credit facilities. In addition, the Company developed a sophisticated set of special agreements and financial guarantees in favour of its senior creditors, which ensure a gradual deleveraging over the term of the concession agreement (through financial covenants), as well as a ring-fencing of the Company from the larger Brisa Group. The ring-fencing construction

ensures a degree of financial autonomy for BCR. Nevertheless, a possible deterioration of the creditworthiness of Brisa could have a negative impact on BCR's rating, due to the existing service agreements between the companies and the influence of Brisa on the dividend policy of BCR, despite the limitations on dividend distributions. Given the concentration of the Company in the Portuguese market, we assume its exposure to the overall economic situation in Portugal to be considerable; hence the rating of BCR is constrained to a certain extent by the sovereign rating of the Republic of Portugal (CRA: **BBB / stable** as of 18 September 2020)¹. Overall, the biggest risk for the Company would be an early termination of the concession agreement, which we currently consider improbable given the experience and importance of the Company, as well as the persisting construction, widening, and repair work plans for the coming years.

Outlook

We revise the outlook for BCR from stable to negative following further governmental containment measures in 2021, which will have a detrimental effect on the Portuguese economy and on average daily traffic (ADT), thus continuing to impact BCR's operating performance. It is currently very uncertain when a sustained recovery will occur. The further course of the pandemic is uncertain, as a more contagious variant in Europe and delays with vaccination programs postpone a rapid economic recovery.

Reference:

The relevant rating factors (key drivers) mentioned in this section are predominantly based on internal analyses, evaluations of the rating process, the derived valuations of the analysts participating in the rating and, if applicable, other rating committee members. The fundamental external sources used are specified in the section "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Relevant rating factors

Table 1: Financials | Source: Brisa Concessão Rodoviária, S.A. Annual Report 2019, standardized by CRA

Brisa Concessão Rodoviária, S.A. Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IFRS)	CRA standardized figures ²	
	2018	2019
Sales (million EUR)	610.55	647.96
EBITDA (million EUR)	440.92	469.34
EBIT (million EUR)	306.68	356.20
EAT (million EUR)	166.80	204.51
EAT after transfer (million EUR)	166.80	204.51
Total assets (million EUR)	2,553.52	2,455.93
Equity ratio (%)	5.53	6.15
Capital lock-up period (days)	15.27	15.05
Short-term capital lock-up (%)	40.30	36.43
Net total debt / EBITDA adj. (Factor)	4.50	4.00
Ratio of interest expenses to total debt (%)	2.76	2.63
Return on investment (%)	9.14	10.80

¹ Source: Sovereign Ratings, status of 21/09/2018, by Creditreform Rating AG.

² For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

Excerpts from the financial key figures analysis 2019:

- + Increase in revenues and results
- + High profitability
- + Debt reduction
- + Improvement of Interest expenses to total debt
- + Improvement of Net total debt / EBITDA adj.

- Equity ratio
- Pay-out-ratio
- High capital intensity

General rating factors summarize the key issues that – according to the analysts as per the date of the rating – have a significant or long-term impact on the rating, whether positive (+) or negative (-).

Current rating factors are the key factors that, in addition to the underlying rating factors, have an impact on the current rating.

General rating factors

- + Leading motorway operator in Portugal
- + Long-term concession contract with the Portuguese Government
- + Major motorway network in Portugal
- + Systemically important business model for the national economy
- + Good access to financial markets
- + Far-reaching ring-fencing from the Group due to financial covenants and special agreements: restricting distribution policy and gradual reduction of the debt until the end of the concession contract
- + Continuously improving financial performance in recent years until COVID-19

- Capital-intensive business (high fixed asset intensity)
- Competitive environment due to alternative toll-free roads
- High dependence on overall economic situation and on fuel prices
- High supplier dependence due to outsourcing
- Counterparty and interest risk
- Vulnerability to road damage and bad weather conditions

Current rating factors

- + Compliance with the financial covenants and ongoing debt reduction
- + Decreasing infection numbers due to successful lockdown measures
- + Some financial relief through capex reduction
- + Applying for the recognition of COVID-19 as force majeure
- + Sufficient internal financing power, cash reserves and short-term credit facilities
- + Vaccine licensing in Europe

- High dividend payments agreed in 2020, affecting cash flow
- High debt repayment period
- Immense drop in traffic volume in the wake of social and travel restrictions, significantly affecting revenue and earnings
- State of emergency in Portugal: Rising infections, renewed domestic hard lockdown
- Supply bottlenecks for vaccinations, and more contagious variant in Europe affecting containment prospects
- Generally high degree of uncertainty as to the further economic consequences as well as the further course of the pandemic
- Significant maturities in 2021

Prospective rating factors are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing, or positive effect (+), or a weakening, or negative effect (-) on future ratings if they occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors, whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

ESG factors are factors related to environment, social issues and, governance. For more information, please see the "Regulatory requirements". CRA generally takes ESG relevant factors into account, when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

Prospective rating factors

- + Successful containment and significant economy recovery as of H2 2021
- + Rebound effects in tourism volume after successful containment measures
- + Compliance with contractual obligations and financial covenants
- + Legal consent of a force majeure in connection with COVID

- Traffic volumes further significantly impaired in 2021
- After relaxation of measures, new large waves of infections
- Further vaccination delays and spread of COVID-19 variants
- Weakened domestic economy with a significant shift in economic recovery
- Trigger event with distribution restrictions released
- Uncertainty regarding the further development of BCR key metrics

ESG-factors

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Brisa Concessão Rodoviária, S.A., we have not identified any ESG factor with significant influence, primarily due to the Company's low CO2 emissions, which are also comparably low for the industry. We do not see any increased risks linked to the Company's CO2 pricing in the short to medium term. In the long term, however, operating performance could decline somewhat due to a CO2 related traffic change (see chapter "Business risk"). The Group is committed to adhering to its environment policy statement released in 2003 to promote biodiversity in order to preserve the environment. To this end, BCR has an environmental management team with a goal to build, maintain and operate its motorways more sustainably.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Rating-methodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

Best-case scenario: BBB

In the best-case scenario for one year, we expect financial ratios to deteriorate in the first half of the year compared with pre-crisis levels due to the ongoing lockdown, but with a significant recovery in the second half of the year after successful containment and vaccination measures, which will also have a positive impact on economic recovery.

Worst-case scenario: BBB-

In the worst-case scenario, we take into account a further decrease in revenues and earnings as well as increasing leverage, impacting the Group's financial key figures, without prospect of short-term recovery, due to a severely impaired domestic economy with further lockdown measures as a result of delayed vaccinations and new waves of infection. The weakened operating performance could also cause a trigger event, restricting distribution.

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Business development and outlook

The Company has developed positively during the recent years, mainly due to the ongoing recovery of the Portuguese economy and high level of tourism, so that again in 2019 a significant improvement in revenues and earnings was achieved. Analytical revenues and EAT increased by 6.1% (2018: 8.0%) and 22.6% (2018: 22.6 %) respectively in comparison with the previous year. While in 2018 average daily traffic (ADT) grew by 4.3%, in 2019 ADT recorded growth of 3.7%. In addition to the favorable development of ADT in 2019, toll rises by 1% also contributed to the revenue improvement.

Table 2: Revenue development of Brisa Concessão Rodoviária, S.A. | Source: Brisa Concessão Rodoviária, S.A. Annual Report 2019

EUR million	2018	2019
Revenues from tolls	592.6	622.9
Revenues from services	17.9	25
Other revenues	5.7	5.8
Total	616.2	653.8

EBIT improved from EUR 306.7 million in 2018 to 356.2 million in 2019, an increase of 16.1%, due to lower amortization and depreciation, while other operating expenses as a total value in relation to revenues remained relatively stable. Amortization and depreciation decreased from EUR 133.3 million to EUR 113.1 million in 2019 (-15.1%/ million) due to a change in method. As of 1 January 2019, the method for calculating the amortization of concession rights is based on traffic levels. Financial expenses decreased to EUR 81.8 million (2016: EUR 104.4 million), a decline of 21.7%, mainly due to repayments of a EUR 300 million bond in April 2018, mainly paid from operating cash flow. BCR recorded a net income of EUR 204.5 million (2018: 166.8), thus recording an improvement of 22.6% in comparison with the previous year.

Capex increased from EUR 48.6 in 2018 million to EUR 66 million in 2019 by 35.8%. The increase is mainly a result of repair and structural reinforcement measures.

Table 3: Business development of Brisa Concessão Rodoviária, S.A. | Source: Brisa Concessão Rodoviária, S.A. Annual Report 2019, standardized by CRA

EUR million	2016	2017	2018	2019
Revenues	523.12	565.27	610.55	647.96
EBITDA	365.36	401.80	440.92	469.34
EBIT	232.68	267.93	306.68	356.20
EBT	128.28	186.20	240.11	295.58
EAT	91.68	136.08	166.80	204.51

While the 2019 financial year was characterized by growth, there was a trend reversal in 2020 in the wake of the COVID-19 Pandemic. For the containment of the pandemic, the Portuguese Government declared a state of emergency as of March 18 2020 and implemented a hard lockdown. Social and travel restrictions caused a significant traffic decrease (ADT: -32.2%) compared with the same period in the prior business year, especially in March, April and May, resulting in slumps in revenue and profit in the first half of 2020. Although the situation recovered rapidly from June onwards, social distancing recommendations and travel warnings were still in place in the second half of 2020, leading to a significant drop in the number of tourists in the peak season compared to the previous year. This not only directly affected the traffic volume, it also

had subsequent consequences by weakening the domestic economy, considering that the domestic situation of Portugal has a significant impact on the Company's performance. In addition, from the autumn onward, containment measures were increasingly tightened due to the worsening pandemic developments. The entire year was thus impacted by the consequences of the prevailing COVID-19 pandemic, which negatively affected ADT, causing significant declines in BCR operational performance, as shown in Table 3. In 2020, ADT declined by 25.2%, Revenues by 23.4%, EBIT by 34.1% and EAT by 39.9% in comparison with 2019. Lower operating costs (-1.7%) and financial expenses (-7.3%) could slightly dampen the detrimental effect on the Group's results. The change in the amortization method proved particularly beneficial during the crisis, relieving EBIT after a reduction in D&A by 17.8% (see column 4 [absolute delta]). In the first half of 2020 the operating cash flow was recorded at EUR 110.6 million, (H1 2019: 179.3) a deterioration of 38.3% year-on-year. Capital expenditure was reduced by 21.1% from the prior year, giving some financial relief.

Table 4: Business development of Brisa Concessão Rodoviária, S.A. |2020 | Source: Brisa Concessão Rodoviária, S.A. Press release 2020 Annual Results

EUR million	2019	2020	Δ	Δ %
Revenues	648.0	495.4	-152.6	-23.5
EBITDA	519.9	369.2	-150.7	-29.0
EBIT	356.2	234.6	-121.6	-34.1
EAT	204.5	122.9	-81.6	-39.9

The consequences of COVID-19 are still affecting BCR's fiscal year 2021. As infection figures continued to rise massively despite the measures taken, the Portuguese government again announced a hard lockdown on 15 January 2021, which we expect to lead to another significant drop in traffic volumes and a possible postponement of the economic recovery. Portugal has been significantly affected by the more contagious COVID virus mutation discovered in the UK; however, the infection figures are currently decreasing rapidly thanks to the lockdown, which is still in place.

Overall, we believe that the Group will continue to underperform this year against the 2019 business year based on the present containment measures, which adversely affect ADT and the Portuguese economy. Additionally, a high degree of uncertainty remains as the further course of the pandemic and of economic recovery is difficult to assess. Both depend on the further success of the containment measures and on how quickly and widely the vaccinations can be carried out.

Structural risk

Brisa Concessão Rodoviária, S.A. is an indirect subsidiary of Brisa Auto-Estradas de Portugal, S.A. (Brisa). Brisa is one of the oldest and largest private road operators in Portugal. In 2010, Brisa prompted a spin-off of BCR with the objective of strengthening creditworthiness for the issuance of secured bonds on the Luxembourg Stock Exchange and Euronext Lisbon. Hence, Brisa Concessão Rodoviária, SGPS, S.A. (SGPS) became the sole shareholder of BCR. SGPS was founded in 2009 and is the guarantor for the financial obligations of BCR. SGPS does not have shareholdings in other companies, so that the economic activity is indirectly the same as the activity carried out by the issuer. Brisa holds 70% of SGPS and thus of BCR indirectly. The remaining 30% are held by various Portuguese and Brazilian investors. The voting rights of the shares are not limited, however the concession agreement between the Portuguese Government and BCR limits

the transferability of the shares. A sale or transfer is only possible if the concession grantor agrees to this and the new issuer assumes the contractually agreed obligations and debts.

The task of BCR is to operate the original concessions of Brisa, which officially belong to BCR. This business includes the planning, development, and construction of motorways, along with maintenance and tolled operation of the motorways and the corresponding service. As the Company outsources most of its activities, it holds a staff of only 9 employees as of 31 December 2020. It operates domestic concessions as well as one connection to Spain. The concession contract is valid until 31 December 2035. The Portuguese Government is generally allowed to withdraw the concession at any time during the last five years of the concession period upon giving BCR prior notice of one year. Additionally, besides monetary penalties, the concession agreement can be terminated prematurely in the event of a serious or repeated breach of the obligations by the Issuer. As a result of the hard measures introduced by the government, it could be possible that dates of the contractual obligations cannot be met. In order to prevent a negative outcome, BCR has appealed to the Instituto da Mobilidade e dos Transportes, I.P. (Portuguese Institute for Mobility and Transportation) to categorize the negative impact associated with COVID-19 as a force majeure event; the appeal is still to be answered. The force majeure clause in the concession contract includes, among others, a release from liability for non-performance or delay, and may postpone or extend delivery dates and deadlines if the delays are caused by unforeseeable external factors beyond the Issuer's control. In addition, BCR evaluates the effects that Decree law no. 19-A/2020 of 30 April will bring. The Decree law no. 19-A/2020 is an exceptional and temporary regime of financial re-balancing of long-term contracts in the context of the COVID-19 pandemic, from which a rescheduling of the obligations could result. Nonetheless, BCR is continuing to ensure the regular operation of its motorway network and has estimated that the effects will not jeopardize the continuity of business operations or the fulfillment of the Issuer's financial obligations.

The ring-fencing-construction gives investors more financial protection due to financial independence from Brisa and its subsidiaries. To minimize financial risks, the financial construction also includes, among others, a comprehensive set of financial covenants, lock-up tests, trigger events, and a partial independence for the directors. The financial covenants in form of financial ratios serve to ensure debt reduction for the Company before its concession agreement expires. If the specific limit of a ratio is not met, it is considered to be a trigger event. If a trigger event occurs, BCR is not permitted to distribute dividends or free reserves. It would also be considered a trigger event if the rating of BCR fell to lower than investment grade, or if it does not pass the lock-up test. The board of directors must consist of 25% independent directors. Decisions such as distributions must be approved by the majority of the independent directors.

The independence based on the ring-fencing construction does not affect the operational aspect. Between Brisa and BCR there is a supplier dependency. The main activities of BCR - maintenance and construction work, collection of toll charges, engineering and technical services, and management consultancy relating to the concession, are carried out by Brisa and Brisa's subsidiaries on the basis of five main agreements between BCR and Brisa. These agreements have been concluded on an arm-length basis, e.g. the prices comply with the current market prices. The agreed prices are subject to control by Portuguese authorities. A default within Brisa would involve a structural risk which, however, would be offset by commissioning third-party enterprises, which is generally possible according to concession. In addition, although Brisa is financially slightly stronger than BCR, for the long term Brisa offers a well-placed and diversified portfolio, as well as a mature corporate identity and international presence.

Based on publicly available information on structural factors, we perceive BCR as a stable, well-organized business with a strong regulatory framework, thus reducing risk for BCR itself and for

its shareholders. In our opinion, the risk of an early termination of the concession contract by the Portuguese Government is low in the short and medium term due to the long-term and successful relationship, the know-how of BCR, and its importance for the country. Apart from the construction of the link to the New Lisbon Airport, no structural changes are to be expected in the near future due to the fact that the network is almost finished. With regard to the administrative tasks of risk management, corporate governance and compliance, we are not aware of any negative events which might influence the rating, but they cannot be ruled out entirely due to the current uncertain situation.

Business risk

Brisa Concessão Rodoviária, S.A. is exposed to a variety of risk factors typical for the sector. Overall, the business depends on the macroeconomic evolution of Portugal. Higher domestic GDP, more export-import activity, and more tourism signify higher ADT on the motorways. In April 2020, Creditreform Rating AG (CRA) confirmed its unsolicited long-term sovereign rating of Portugal at “BBB”, but revised the outlook from positive to stable due to an expected significant weakening of economic development in Portugal in the near term as result of the COVID-19 pandemic. In September 2020, both the sovereign rating and outlook were confirmed at **BBB / stable**, assuming economic recovery. Besides the adverse effects in traffic and tourism, there were also significantly lower car sales in 2020 due to the restrictions and economic recession. While 267,828 new registrations of light and heavy vehicles were registered in 2019, 176,992 were registered in 2020, representing a decline of 33.9%.³ The last month of 2020 also reflects the clouded market, with a decrease of 19.4% compared to December 2019.⁴ Whether there will be negative macroeconomic consequences in the medium term is currently unclear, but could be avoided by a timely and rapid recovery. Inflation risks are minimized by adjusting the tariff rates annually in line with inflation.

We also need to account for political risks such as changes in regulation, also with regard to environmental aspects, reputational and legal damages due to construction errors, as well as risks deriving from competition due to toll-free roads. However, the conditions on toll-free roads are much less favourable, and the time spent driving is much higher. Other competitors are transport by railway and air. As the railway network in Portugal is so far not well developed, we currently do not see any risk of losing large portions of market share. This could, however, change in the long term due to increasing state investment in rail traffic. Regulatory changes relating to environmental factors, with the aim of a transport turnaround towards climate-friendly transport, will generally be an important issue. Professional and private mobility on the roads could nevertheless be maintained through the alternative of more environmentally friendly technological solutions, which are increasingly the focus of development.

Construction, maintenance and the operation of infrastructures are also exposed to risks that may prevent or delay performance of the contract, such as weather conditions, natural disasters, acts of terrorism, or any damages incurred through unpredictable events. Natural disasters are covered by insurance; nevertheless, BCR points out that additional unexpected investments may be required to adequately fulfill the terms of the contract. The other risks could be categorized as force majeure events.

³ Source: ACAP - Associação Automóvel de Portugal: Estatísticas - “Matriculas de ligeiros e pesados (Resumo); Janeiro – Dezembro 2020”.

⁴ Source: ACAP - Associação Automóvel de Portugal: Estatísticas - “Matriculas de ligeiros e pesados (Resumo); Janeiro – Dezembro 2020”.

The credit risks, in line with interest risks, are counteracted by a sufficiently developed, experienced, and prudent financial management, using derivative financial instruments, in particular interest rate swaps, a high percentage of fixed interest rates, and the above-mentioned safety measures in line with the ring-fencing construction and deleveraging. Fuel prices and general climatic conditions also affect the motorway operations business, the latter mainly applicable to light vehicles traffic (tourism). In early 2020, the prices of diesel and gasoline dropped sharply in comparison with 2019 due to the global lockdown measures, but without a possibility of showing a significant compensation effect.

We believe that the business risk of the Group is currently increased. This is based on the fact that the income from toll-roads is heavily dependent from the domestic economic situation. With the current COVID-19 crisis, BCR is severely affected by a strong reduction in ADT following the implemented containment measures to curb the spread of the virus. This is in part offset by the fact that the Group realizes high margins, which provides BCR with some financial headroom. Despite elevated business risks in light of the current uncertain business environment, we see the Group as well-positioned due to its market position, systemic importance, and its long-time experience in dealing with crises.

Financial risk

For the purposes of its financial ratio analysis, Creditreform Rating AG ("CRA") adjusted the original values in the financial statements. The following representations and calculations are based primarily on these adjustments.

Due to higher net income, CRA's adjusted equity ratio increased from 5.53 in 2018 to 6.15 in 2019, which we nevertheless consider as very low. As a result of the high dividend payments and free reserves to BCR SGPS, S.A., representing up to 100% of net income, we do not expect any significant improvement of this ratio. This low equity ratio is somewhat offset due to contractually defined debt protection measures by the CTA (Common Terms Agreement) requiring prudent financial management. Based on the annually set limits of the financial covenants, a gradual reduction of debt takes place, which is also reflected in the constantly improving Net total debt / EBITDA adj. ratio. In 2019, the Company had a satisfactory Net total debt / EBITDA adj. ratio of 4.0 (2018: 4.50), showing a decrease of 50 basis points in comparison with 2018, mainly due to the improvement in EBITDA, but also through gradual debt reduction. For 2020 as well as 2021, we expect a deterioration in this key figure in comparison with 2019 due to the sharp decline in EBITDA as described above. Nevertheless, the constant reduction in debt counteracts this somewhat. At the end of 2020, BCR reduced gross and net debt, the former by 8.3% and the latter by 4.7%.

For the business year 2019 BCR had satisfactory headroom with regard to the financial covenants in the form of financial ratios which were in place. Despite significant impairment in operating performance in 2020, BCR still had enough headroom in its financial covenant. Due to the annually decreasing limits in the financial covenant ratios in connection with an actual deterioration of the performance compared to pre-crisis levels, we also expect decreasing headroom for 2021, however without triggering an event, provided that a significant recovery occurs in the second half of the year.

A further positive factor is that, mainly as a result of steady debt reduction, the Company shows a constant improvement in its key ratio of interest expenses to total debt. The ratio of interest expenses to total debt improved from 2.76 in 2018 to 2.63 in 2019 due to the debt reduction.

With regard to the debt structure, the Company is mostly financed through long-term bond issues. As of 31.12.2019 BCR had six bonds outstanding, amounting to a nominal value of EUR 1,420 million. In total, outstanding bonds account for around 61.3% of the total debt in accounting terms and with reference to CRA's structured balance sheet. Other important financing sources are bank loans from the European Investment Bank, amounting to a nominal value of EUR 429 million as of 31.12.2019 and accounting for roughly 17.9% of the total debt in accounting terms.

The maturity profile is well-balanced. The annual repayment rate of the EIB loans amounts to EUR 39 million. The bond loans are repaid in one instalment at maturity. The maximum repayment amount per year does not exceed the value of EUR 339 million, as due now in 2021.

As of 31 December 2020, BCR had undrawn credit lines amounting to EUR 400 million, as well as cash and cash equivalents of EUR 149.4 million, including reserve accounts for CAPEX and debt service purposes amounting to EUR 87.9 million after repaying first half of the EIB loan, amounting EUR 19.5 million.

Overall, we see possible slightly elevated short and medium-term financial risks for BCR due to the deterioration in internal financing power in 2020, as evidenced by its reduction in operating profit and cash flow. A further deterioration in internal financing power in 2021, in particular affecting net total debt /EBITDA, depending on the further course of the crisis could put pressure on the rating. Before COVID-19, however, BCR was able to generate strong, consistently improving operating cash flows, which we expect to continue as soon as the pandemic situation eases and the economic situation stabilizes at pre-crisis levels. The liquidity of BCR was sufficient as of 2020, and we do not expect significant liquidity shortages in the short-term due to the Company's good capital market access.

Issue rating

Issue rating details

The objects of this unsolicited issue rating are exclusively the long-term senior secured issues, denominated in euro, issued by Brisa Concessão Rodoviária S.A. and guaranteed by Brisa Concessão Rodoviária SGPS S.A., which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The notes have been issued within the framework of the Euro Medium Term Note (EMTN) programme, of which the latest base prospectus dates from 13 July 2020. This EMTN programme amounts to EUR 3 billion. The notes under the EMTN programme are senior secured, and rank at least pari passu among themselves and with all other present and future senior, unsubordinated and secured obligations of the issuer. Additionally, the notes benefit from a cross default mechanism and are secured by a security agreement and credit-protective provisions, which include a pledge over the BCR shares and its bank accounts, liquidity reserves, and financial covenants to ensure deleveraging until the termination of the concession agreement.

We have assigned the long-term senior secured issues issued by Brisa Concessão Rodoviária S.A. a rating of **BBB / negative**. This decision is mainly based on the corporate rating of Brisa Concessão Rodoviária S.A. The conditions of the security agreement do not have additional influence on the issue rating. Other types of debt instruments or issues denominated in other currencies have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

The following tables provide an overview of the ratings issued by Creditreform Rating AG in this context.

Overview

Table 5: Overview of CRA Ratings | Source: CRA

Rating Category	Details	
	Date	Rating
Brisa Concessão Rodoviária S.A	26.02.2021	BBB / negative
Long-term Local Currency (LC) Senior Secured Issues	26.02.2021	BBB / negative
Other	--	n.r.

Table 6: Overview of 2020 Euro Medium Note Programme | Source: Base Prospectus dated 13.07.2020

Overview of 2020 EMTN Programme			
Volume	EUR 3,000,000,000	Maturity	Depending on respective bond
Issuer / Guarantor	Brisa Concessão Rodoviária S.A. Brisa Concessão Rodoviária SGPS S.A.	Coupon	Depending on respective bond
Arranger	Barclays	Currency	Depending on respective bond
Credit enhancement	Guaranteed by Brisa Concessão Rodoviária SGPS, S.A.	ISIN	Depending on respective bond

All future LT LC senior secured Notes issued by Brisa Concessão Rodoviária S.A. and which have similar conditions to the current EMTN programme, denominated in Euro and included in the list of ECB-eligible marketable assets, will, until further notice, receive the same ratings as the current LT LC senior secured Notes issued under the EMTN programme. Notes issued under the programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programmes (such as the Commercial Paper Programme) and issues that do not denominate in euro will not be assessed.

Appendix

Rating history

The rating history is available under <https://www.creditreform-rating.de/en/ratings/published-ratings.html>.

Table 7: Corporate Issuer Rating of Brisa Concessão Rodoviária, S.A. | Source: CRA

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	14.11.2018	26.11.2018	14.11.2019	BBB / stable

Table 8: LT LC Senior Unsecured Issues issued of Brisa Concessão Rodoviária, S.A.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	14.11.2018	26.11.2018	14.11.2019	BBB / stable

Regulatory requirements

The rating⁵ was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating, that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

The rating was conducted based on the following information.

List of documents

Accounting and controlling

- Annual Report 2019
- Interim Report first Half- 2020
- Press Release 2020 Annual Results

Finance

- EMTN Programme Base Prospectus 13 July 2020

Additional documents

- Brisa Integrated Report 2019
- Press Releases and Website

⁵ In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

A management meeting did not take place within the framework of the rating process.

The documents and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date	Website
Corporate Ratings	2.3	29.05.2019	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Corporate%20Ratings.pdf
Government-related Companies	1.0	19.04.2017	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Government-Related%20Companies.pdf
Non-financial Corporate Issue Ratings	1.0	October 2016	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Non-Financial%20Corporate%20Issue%20Ratings.pdf
Rating Criteria and Definitions	1.3	January 2018	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/CRAG%20Rating%20Criteria%20and%20Definitions.pdf

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Email-Address
Christina Sauerwein	Lead analyst	C.Sauerwein@creditreform-rating.de
Rudger van Mook	Analyst	R.vanMook@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Email-Address
Philipp Beckmann	PAC	P.Beckmann@creditreform-rating.de

On 26 February 2021, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 26 February 2021. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Rating-methodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With

respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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