



**Rating Action: MOODY'S ASSIGNS A P-2 AND BR-1 RATINGS TO THE COMMERCIAL PAPER NOTES OF COMPANHIA DE SANEAMENTO DO PARANA AND ASSIGNS Baa1 AND Aaa.BR ISSUER RATINGS ON OUR LOCAL CURRENCY GLOBAL SCALE AND BRAZIL NATIONAL SCALE, RESPECTIVELY**

18 Jun 2001

**Approximately 74 Million of Debt Securities Affected.**

New York, June 18, 2001 -- Moody's Investors Service assigned Prime-2 (Global Local Currency Scale) and BR-1 (Brazil National Scale) ratings to R\$74 million of one year commercial paper notes to be issued by Companhia de Saneamento do Parana (Sanepar). Moody's has also assigned issuer ratings of Aaa.br (Brazil National Scale) and Baa1 (Global Local Currency Scale) to the company. Moody's rating outlook is stable. The notes are unsecured obligations.

An Aaa.br rating on Moody's Brazil National Scale indicates an issuer or issue with highest quality creditworthiness relative to other Brazilian issuers. The Baa1 rating on Moody's Global Local Currency Scale, which compares the issuer to all other issuers in the world and which incorporates the majority of Brazil-related risks (it includes the potential volatility of the Brazilian economy, but not the currency convertibility risk), indicates an issuer of investment grade character.

Sanepar is the water and sewer company that provides services to municipalities under long-term concession agreements. The company serves a population of over 7.5 million customers throughout the state of Parana. The company's voting shares are held 60% by the State of Parana, and 39.71% by Domino Holdings, a company formed by Vivendi Environnement (senior unsecured rating of A3); Andrade Gutierrez Concessoes S.A.; Opportunity Dalleth and COPEL (Parana's electric power company).

Sanepar will use the commercial paper proceeds for capital improvements. The company may access approved bank loans for additional resources, and may also issue preferred stock in the future.

The capital improvement program is intended primarily to improve processes for wastewater treatment to meet requirements for effluent discharge, to expand water production, treatment and distribution; for other general water and sewer operational systems improvements, following Sanepar's multi-year investment plan. Moody's believes that the size and scope of the capital program represents little risk to the company given the depth of the plan and the reliance on long-standing processes. In addition, the company is seeking to expand its coverage of sewer services to 60% of existing water customers.

Moody's ratings reflect Sanepar's:

- the essential service provided to a large population with a diverse customer base;
- 60% State of Parana ownership of voting shares;
- history of regular, and sometimes substantial, tariff increases, tempered by requirement for state governor's approval;
- near-monopoly rights with long-term concession contracts and clear limits to competition;
- good operations tempered by 38% (all in) water loss;
- adequate collections supported by aggressive service termination procedures;
- strong debt service coverages and the projected ability to cover debt service under downside stresses.
- the company's expected case financial analysis shows projected EBITDA of over R\$350 million in each of the next four years.

Companhia de Saneamento do Parana has its headquarters based in Curitiba, Parana, and is present over more than 600 hundred other localities throughout the state. It provides water supply, treatment and distribution, and wastewater collection and treatment services to retail residential, commercial and industrial customers under municipal concession agreements.

Moody's Investors Service assigned a Baa1 long-term debt rating to Companhia de Saneamento do Parana (Sanepar) for its issuer rating.

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