

Rating Action: Moody's assigns Ba1/Aa2.br ratings to SANEPAR's debentures; outlook Stable

Global Credit Research - 23 Oct 2013

Approximately BRL 300 million of debt instruments affected

Sao Paulo, October 23, 2013 -- Moody's America Latina Ltda (Moody's) assigned a Ba1 issuer rating on the global scale and Aa2.br issuer rating on the Brazilian national scale to Companhia de Saneamento do Paraná (SANEPAR). At the same time, Moody's assigned a Ba1 rating on the global scale and a Aa2.br rating on the Brazilian national scale to senior unsecured amortizing BRL 300 million debentures to be issued by Sanepar in up to two tranches with maturities in 5 and 7 years. The outlook is stable for all ratings. This rating action reinstates SANEPAR's issuer ratings, which was withdrawn on June 2013.

RATINGS RATIONALE

The Ba1/Aa2.br issuer ratings reflect SANEPAR's strong credit metrics for the rating category along with its relatively predictable and stable cash flow supported by long-term contracts with most of the municipalities in the state of Parana to provide water and sewage services.

Sanepar's ratings are constrained by the early development stage of the regulatory framework for the two states where the company operates, its sizeable capital expenditure program and the track record of political interference by the state government of Parana which kept SANEPAR's tariffs frozen from 2005 through 2010.

Sanepar is considered a Government Related Issuer (GRI) as defined in Moody's rating methodology entitled "The Application of Joint Default Analysis to Government-Related Issuers". Moody's methodology for GRIs is to systematically incorporate into the rating both the stand-alone credit risk profile or Baseline Credit Assessment (BCA) of the Company as well as an assessment of the likelihood that its government owner would provide extraordinary support to the company's obligations.

Please refer to Moody's "Government Related Issuers: Methodology Update", published in July 2010, available at moody.com.br for additional information on GRIs.

In accordance with Moody's methodology for government related issuers, or GRIs, the Ba1 issuer rating of SANEPAR reflects the combination of the following inputs:

Baseline credit assessment (BCA) Ba2

- High-level dependence
- Moderate level of government support
- The Baa3 rating of the State Government of Parana, which has a stable outlook.

SANEPAR's stable outlook reflects our view that Sanepar will prudently manage its capital structure and finance its capital expenditure program and dividends in a way that keeps the Company's credit metrics compatible with the current Ba1/Aa2.br rating category, while improving its liquidity position through the settlement of the existing BRL1.1 billion in advances for capital increase. Part of this liability is expected to occur through the conversion of BRL 797 million into capital and the remaining portion to be paid off with the debenture proceeds.

There could be a rating upgrade if Sanepar strengthens its credit metrics on a sustainable basis as a result of stronger cash flow generation and lower leverage which would result in FFO to Net Debt above 25% and interest coverage above 4.5x. It will also depend on the maintenance of annual tariff adjustments and capital expenditures discipline. A rating upgrade could also be triggered by a perceived material evolution in the regulatory framework.

We would consider a downgrade rating action if the company fails in securing adequate long-term funding to finance its BRL 2.1 billion current capital expenditure program, leading to a deterioration in its liquidity position. A potential new tariff freeze could prompt a downgrade rating action that subsequently resulted in the FFO to Net

Debt ratio falling below 15% and interest coverage declining to 3.5 times or lower for an extended period.

Headquartered in Curitiba in the Brazilian state of Parana, Sanepar was founded in 1963. As of June 30, 2013 Sanepar had almost 2.8 million water connections and more than 1.6 million sewage connections to provide treatment and distribution of water to 10.2 million consumers and sewage service to 6.4 million consumers in 345 municipalities in the state of Paraná and one municipality in the state of Santa Catarina, which represents approximately 86% of the total municipalities in the State of Paraná. In the last twelve months ended June 30, 2013, Sanepar reported net sales of BRL 2.3 billion (USD 1.1 billion), EBITDA of BRL 911 million (USD 447 million) and net income of BRL 338 million (USD 166 million).

The methodologies used in this rating were Global Regulated Water Utilities published in December 2009, and Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com.br for a copy of this methodology.

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