

Rating Action: Moody's takes rating actions on specific issuers of the Brazilian infrastructure sector

Global Credit Research - 05 Jul 2016

Action follows the downgrade of the state of Minas Gerais to B1 from Ba3 with a negative outlook, and the outlook change on the state of Parana (Ba3/A1.br) to negative from stable.

Sao Paulo, July 05, 2016 -- Moody's America Latina Ltda. ("Moody's") took the following rating actions on specific electric and water utilities as a result of the downgrade of the global scale issuer rating of the state of Minas Gerais to B1 from Ba3 with a negative outlook, and of the outlook change for the issuer ratings of the state of Parana (Ba3/A1.br) to negative from stable. For more information, please see [https://www.moody's.com/research/Moodys-downgrades-Minas-Gerais-issuer-rating-to-B1-from-Ba3--PR_351488] and [https://www.moody's.com/research/Moodys-downgrades-ratings-of-the-state-of-Bahia-to-Ba3A2br--PR_350980]

The issuers and ratings impacted are as follows :

Companhia Energética de Minas Gerais (CEMIG)

Issuer ratings downgraded to B1/Baa1.br from Ba3/A1.br (on the global scale and on the national scale, respectively) with a negative outlook on all ratings.

CEMIG Distribuição S.A. (CEMIG-D)

Issuer ratings downgraded to B1/Baa1.br from Ba3/A2.br.

Ratings of backed senior unsecured Brazilian debentures downgraded to B1/Baa1.br from Ba3/A2.br, with a negative outlook on all ratings.

CEMIG Geração e Transmissão S.A. (CEMIG-GT)

Corporate Family Ratings (CFR) downgraded to B1/Baa1.br from Ba3/A1.br

Ratings of backed senior unsecured Brazilian debentures downgraded to B1/Baa1.br from Ba3/A1.br, with a negative outlook on all ratings.

Companhia de Saneamento de Minas Gerais S.A. (COPASA)

CFRs downgraded to B1/Baa1.br from Ba3/A2.br.

Ratings of senior unsecured Brazilian debentures downgraded to B1/Baa1.br from Ba3/A2.br, with a negative outlook on all ratings.

Companhia de Saneamento do Paraná -- (SANEPAR)

Issuer ratings affirmed at Ba3/A1.br.

Ratings on senior unsecured Brazilian debentures affirmed to Ba3/A1.br.

Outlook changed to negative from stable on all ratings.

RATINGS RATIONALE

The downgrade of ratings for CEMIG, CEMIG-D, CEMIG-GT and COPASA reflects primarily the downgrade of the state of Minas Gerais to B1 from Ba3 with a negative outlook as a result of the quick deterioration of the state's fiscal position. Likewise the outlook change for the ratings of SANEPAR follows the change in the outlook of the Ba3/A1.br ratings for the state of Parana to negative from stable.

Moody's believes that because of the strong influence the regional government as the controlling shareholder

exerts on these utilities' governance and financial condition, the rating of these utilities is constrained by the ratings of their controlling parent, respectively the Brazilian states of Minas Gerais for CEMIG, CEMIG-D, CEMIG-GT and COPASA; and the state of Parana for SANEPAR.

Those issuers are Government-Related Issuers or GRIs, as defined in Moody's rating methodology "Government-Related Issuers: Methodology Update", published in October 2014. Moody's methodology for GRIs incorporates 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.

In addition to the impact from the change in the supporting regional government's ratings, the downgrade of CEMIG, CEMIG-GT and CEMIG-D's ratings also reflects materially lower operating margins, as a result of the ongoing challenging domestic economic conditions, as well as significantly higher leverage and cost of capital, which we expect will continue throughout the next 18 -- 24 months. According to Moody's standard adjustments, in the last 12 months ended on 31 March 2016, CEMIG's Net Debt to EBITDA increased to 4.7x from 3.0x in FY2015, while cash flow from operations (CFO) pre-working capital (W/C) to Debt decreased to 21.0% from 24.7%, and interest coverage ratio decreased to 3.4x from 3.8x. The ratings also reflect a more pressured liquidity position. As of 31 March 2016, CEMIG reported cash and cash equivalents of BRL1,989 million against debt maturing in the next 12 months of BRL4,911 million.

While directly exposed to the continuing effects from Brazil's economic recession, Moody's expects some improvements in COPASA's credit metrics going forward driven by a return to revenues growth resulting from more favorable hydrology conditions and by the benefit of cost cutting measures taken by the company late in 2015. COPASA's ratings continue to be constrained by high leverage position, evidenced by a debt/EBITDA ratio (as adjusted by Moody's) of 4.3x in the last twelve months ended 31 March 2016. The Ba3/A1.br issuer ratings for SANEPAR have been affirmed, based on Moody's view that the company's credit metrics evidenced by a FFO to Net Debt ratio of 32% and an interest coverage ratio of 4.3x in the last twelve months ended 31 March 2016 remain strong for the rating category.

WHAT COULD CHANGE THE RATING UP/DOWN

In light of the rating actions with the maintenance of the negative outlook, an upgrade of the ratings is unlikely in the short to medium term.

A deterioration of Brazil's sovereign credit quality could exert downward pressure on the assigned ratings. Further deterioration in the respective sub-sovereign's credit quality could exert downward pressure on these issuers. A sustained deterioration in the relevant credit metrics of the issuers on a standalone basis and/or, perception of a material deterioration in the regulatory frameworks under which these companies operate could also exert downward pressure.

The principal methodology used in rating Cemig Distribuicao S.A. and Cemig Geracao e Transmissao S.A. was Regulated Electric and Gas Utilities published in December 2013. The methodologies used in rating Companhia Energetica de Minas Gerais - CEMIG were Regulated Electric and Gas Utilities published in December 2013, and Government-Related Issuers published in October 2014. The methodologies used in rating Companhia de Saneamento do Parana - SANEPAR and Companhia de Saneamento de Minas Gerais - COPASA were Regulated Water Utilities published in December 2015, and Government-Related Issuers published in October 2014. Please see the Ratings Methodologies page on www.moodys.com.br for a copy of these methodologies.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_189530 .

REGULATORY DISCLOSURES

Information sources used to prepare the rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Please see the ratings disclosure page on www.moody.com.br for general disclosure on potential conflicts of interests.

Moody's America Latina Ltda. may have provided Other Permissible Service(s) to the rated entity or its related third parties within the 12 months preceding the credit rating action. Please see the special report "Services provided to entities rated by Moody's America Latina Ltda." on our website www.moody.com.br for further information.

Entities rated by Moody's America Latina Ltda. (and the rated entities' related parties) may also receive products/services provided by parties related to Moody's America Latina Ltda. engaging in credit ratings activities. Please go to www.moody.com.br for a list of entities receiving products/services from these related entities and the products/services received. This list is updated on a quarterly basis.

The date of the last Credit Rating Action for Cemig Distribuicao S.A. was 25/2/2016

The date of the last Credit Rating Action for Cemig Geracao e Transmissao S.A. was 9/5/2016

The date of the last Credit Rating Action for Companhia Energetica de Minas Gerais - CEMIG was 9/5/2016

The date of the last Credit Rating Action for Companhia de Saneamento do Parana - SANEPAR was 9/5/2016

The date of the last Credit Rating Action for Companhia de Saneamento de Minas Gerais was 25/2/2016

Moody's ratings are constantly monitored, unless designated as point-in-time ratings in the initial press release. All Moody's ratings are reviewed at least once during every 12-month period.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody.com.br.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Please see ratings tab on the issuer/entity page on www.moody.com.br for the last rating action and the rating history. The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes

is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moody's.com.br for further information.

Please see Moody's Rating Symbols and Definitions on the Ratings Definitions page on www.moody's.com.br for further information on the meaning of each rating category and the definition of default and recovery.

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moody's.com.br, for each of the ratings covered, Moody's disclosures on the lead analyst and the Moody's legal entity that has issued the ratings.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moody's.com.br for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody's.com.br for additional regulatory disclosures for each credit rating.

Alexandre De Almeida Leite
VP - Senior Credit Officer
Infrastructure Finance Group
Moody's America Latina Ltda.
Avenida Nacoes Unidas, 12.551
16th Floor, Room 1601
Sao Paulo, SP 04578-903
Brazil
JOURNALISTS: 800-891-2518
SUBSCRIBERS: 55-11-3043-7300

Michael J. Mulvaney
MD - Project Finance
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's America Latina Ltda.
Avenida Nacoes Unidas, 12.551
16th Floor, Room 1601
Sao Paulo, SP 04578-903
Brazil
JOURNALISTS: 800-891-2518
SUBSCRIBERS: 55-11-3043-7300

MOODY'S
INVESTORS SERVICE

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S

PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE. MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate

Governance — Director and Shareholder Affiliation Policy.”

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000. MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.