Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)

Rating Type	Rating	Outlook	Last Rating Action
Long-Term Local Currency IDR	BB	Stable	Affirmed 4 May 2018
Long-Term IDR	BB	Stable	Affirmed 4 May 2018
National Long-Term Rating	AA(bra)	Stable	Affirmed 4 May 2018

Click here for full list of ratings

Financial Summary

(BRLth)	Dec 2015	Dec 2016	Dec 2017	Dec 2018F	Dec 2019F
Net Revenue	8,374,853	10,365,331	11,457,356	12,204,431	12,814,435
Operating EBITDAR Margin (%)	39.1	40.9	45.9	46.9	46.7
Operating EBITDAR	3,275,388	4,237,341	5,257,805	5,729,906	5,985,885
Total Adjusted Net Debt/Operating EBITDAR (x)	3.5	2.4	1.9	1.7	1.7
FFO Adjusted Net Leverage (x)	3.5	2.8	2.4	2.2	2.1

Source: Fitch Ratings.

Fitch Ratings affirmed Companhia de Saneamento Basico do Estado de Sao Paulo's (SABESP) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB' and its National Long-Term rating at 'AA(bra)'. The Rating Outlook is Stable.

SABESP's IDRs reflect the low business risk associated with its near monopolistic position as a provider of an essential service within its concession area, as well as the economies of scale obtained as the largest basic sanitation company in the Americas by number of customers. These characteristics combined with its mature operations allow SABESP to present predictable operational cash flow generation and strong EBITDA margins. The company's credit profile also benefits from its conservative capital structure, robust liquidity position and manageable debt maturity profile. Fitch believes the company will operate under adequate tariff adjustments combined with gradual recovery in water and sewage volumes billed in the coming years.

Fitch sees SABESP's expected negative FCF due to its significant capex plans and material FX debt exposure as limiting rating factors. The assessment also reflects the still developing regulatory environment for SABESP, the intrinsic hydrological risk of its business and the political risk associated with its position as a state-owned company subject to the potential changes in management and strategy after each election for the government of the State of Sao Paulo.

Key Rating Drivers

Reduced Business and Industry Risks: Fitch estimates total volume billed growth of around 2% for the next three years, following strong volume recovery in 2016–2017 after the reduction during the hydrological crisis. SABESP benefits from resilient demand as demonstrated during the 2013–2015 distressed operating environment when the company's volume billed dropped only by 8.5%, which enhances the predictability of its operating cash flow generation. Its activity in the State of Sao Paulo, which has the country's largest GDP, is also viewed as positive. The company has been able to implement adequate tariff adjustments, maintaining the economic and financial balance of its concession agreement, despite the developing regulatory environment.

Strong EBITDA Margins: SABESP's high operational scale is one of the pillars for the company to achieve EBITDA margins above its state-owned peers in Brazil. Fitch believes EBITDA margin will be around 45% in the coming years, which compares with 41% on average in the last five years, influenced by the distressed operating environment. During the LTM ended March 31, 2018, EBITDA was BRL5.3 billion, with a margin of 45%. Fitch estimates SABESP will sustain its strong cash flow from operations (CFFO), reaching BRL3.6 billion in 2018, supported by growth in volumes billed and adequate tariff adjustments.

SABESP's CFFO was strong at BRL3.2 billion during the LTM ended March 31, 2018, benefiting from a 5.4% increase in volumes and a 7.9% tariff increase in November 2017, despite significant working capital requirements.

Manageable Negative FCF: Fitch estimates SABESP's FCF at negative BRL121 million on average for the next three years and at approximately break-even in 2018. The company's FCF performance reflects the expected capex increase to BRL2.9 billion–BRL3.5 billion in 2018–2020. Positively, SABESP counts on favorable financial flexibility from debt issuances with multilateral agencies with reduced cost and lengthened amortization schedules, in addition to proven access to local and international debt markets to comfortably fund its negative FCF.

Fitch projects SABESP's annual dividends distribution to be manageable at approximately BRL720 million on average during 2018–2020. During the LTM ended in March 31, 2018, FCF was positive at BRL756 million, after reduced capex of BRL1.7 billion and dividends of BRL766 million.

Conservative Capital Structure: Fitch estimates SABESP's net leverage will be below 2.0x in the next three years, which is low for the industry and for its IDR. SABESP's conservative credit metrics should be supported by the expectation of sound EBITDA generation of BRL5.7 billion in 2018, up to BRL6.2 billion by 2020, and despite the estimated capex increase. At March 31, 2018, total debt/EBITDA and net debt/EBITDA of 2.4x and 1.8x, respectively, were improved from 4.0x and 2.8x, respectively, in 2015.

High FX Debt Exposure: SABESP is expected to continue carrying risks associated with its high percentage of foreign-currency debt (46% of total debt at March 31, 2018), given its strategy of accessing international funding. Risks are mainly linked to cash flow impact in the case of strong depreciation during significant foreign currency debt maturing periods and financial covenants calculations, as the company is subject to a 3.65x gross leverage covenant. Nevertheless, Fitch estimates that SABESP's financial headroom should moderate the effects of an eventual significant FX depreciation.

Manageable Hydrological Risk: SABESP's reservoirs are at manageable levels to face the dry season during 2018. The company's actions to enhance water systems interconnection and higher supply capacity have improved its operating flexibility, which further mitigates hydrology concerns and should provide stronger resilience to the company's CFFO to face unfavorable operating environments.

Rating Derivation Relative to Peers

Rating Derivation Versus Peers	
Peer Comparison	SABESP's mature operations and its position as the largest water/wastewater utility in Brazil benefit its business profile in terms of economies of scale and capital structure when compared with Aegea Saneamento e Participacoes S.A. (BB/Stable), which has moderate leverage, reflecting its growth strategy. Aegea's credit profile benefits from its diversified concessions within Brazil, while SABESP operates exclusively in the State of Sao Paulo, which brings higher operational and regulatory risks. SABESP also carries a political risk, given its state-owned position. Both SABESP and Aegea have similar and strong EBITDA margins. Power transmission company Transmissora Alianca de Energia Eletrica S.A. (Taesa; BB/Stable) presents a better credit profile than SABESP due to its more predictable CFFO, strong financial profile and lower regulatory risk. In addition, Taesa does not carry hydrological, political and FX risks.
Parent/Subsidiary Linkage	No parent/subsidiary linkage is applicable.
Country Ceiling	No Country Ceiling constraint was in effect for these ratings.

Operating Environment	SABESP's activity in Brazil is influenced by the country's operating environment, which is subject to volatile macroeconomic environments. Fitch believes the company's sound credit profile and resilient demand supports its strong financial flexibility, which mitigates refinancing risks in the case of a challenging operating and macroeconomic environment.
Other Factors	None
Source: Fitch Ratings.	

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Regulatory Risk	Commodity Price and Market Risk	Market	Asset Base and Operations	Profitability	Financial Structure	Financial Flexibility
Companhia de Saneamento Basico do Estado de Sao Paulo	BB/Sta	bb-	bb+	bbb-	bb+	bbb	bb+	bb+	bbb+	bbb-
Agua y Saneamientos Argentinos S.A.	B/Sta	b+	b+	ccc	b-	bbb-	bb-	ccc	ccc	b-
Aegea Saneamento e Participacoes S.A.	BB/Sta	bb	bbb-	bb+	bb+	bbb	bb+	bb+	bb	bb
Companhia de Gas de Sao Paulo - COMGAS	BB+/Neg	bb	a-	bbb-	bb+	bbb	bbb-	bb+	a	bbb+
Energisa S.A.	BB/Sta	bb-	bbb	bb+	bb+	bbb-	bbb-	bb	bbb-	bb+

Source: Fitch — Importance: Higher / Moderate / Lower

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Regulatory Risk	Commodity Price and Market Risk	Market	Asset Base and Operations	Profitability	Financial Structure	Financial Flexibility
Companhia de Saneamento Basico do Estado de Sao Paulo	BB/Sta	-1.0	1.0	2.0	1.0	3.0	1.0	1.0	4.0	2.0
Agua y Saneamientos Argentinos S.A.	B/Sta	1.0	1.0	-2.0	-1.0	5.0	2.0	-2.0	-2.0	-1.0
Aegea Saneamento e Participacoes S.A.	BB/Sta	0.0	2.0	1.0	1.0	3.0	1.0	1.0	0.0	0.0
Companhia de Gas de Sao Paulo - COMGAS	BB+/Neg	-1.0	4.0	1.0	0.0	2.0	1.0	0.0	5.0	3.0
Energisa S.A.	BB/Sta	-1.0	3.0	1.0	1.0	2.0	2.0	0.0	2.0	1.0

Source: Fitch — Worse positioned than IDR / In line with IDR / Better positioned than IDR

Rating Sensitivities

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Sustainable positive FCF generation;
- Lower FX debt exposure.

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- EBITDA margins below 33%;
- Net leverage above 3.5x on a sustainable basis;
- Fitch's perception of higher political risk.

Liquidity and Debt Structure

Robust Liquidity Profile: Fitch's expectation is that SABESP will continue to benefit from its proven financial flexibility, maintenance of adequate liquidity position and lengthened debt maturity schedule. The company's financial flexibility is enhanced with its available free receivables (estimated at around BRL600 million monthly, or approximately 65% of total receivables) to be offered as collateral for debt issuances, if necessary, in addition to access to various sources of funding, including multilateral agency loans specific to the water/wastewater segment. At March 31, 2018, SABESP's cash balance of BRL3.0 billion comfortably covered short-term debt of BRL1.9 billion by 1.6x.

In the same period, SABESP's total debt of BRL12.5 billion consisted mainly of multilateral agency loans (BRL4.1 billion), debenture issuances (BRL3.7 billion) and bonds (BRL1.2 billion). Of its total debt, BRL5.8 billion, or 46%, was linked with FX variation without any hedge protection. There is BRL1.1 billion maturing in 2019 exposed to FX variation, and BRL1.5 billion maturing in 2020, mainly composed of the USD350 million bonds. At the same time, around BRL3.7 billion of the company's total debt was secured by future flow of receivables linked with Banco Nacional de Desenvolvimento Economico e Social (BNDES) and Caixa Economica Federal loans.

Debt Maturities and Liquidity at FYE 2017

Liquidity Summary

(BRL 000)	12/31/16	12/31/17
Total Cash and Cash Equivalents	1,910,299	2,301,869
Short-Term Investments	0	0
Less: Not Readily Available Cash and Cash Equivalents	24,078	18,822
Fitch-Defined Readily Available Cash and Cash Equivalents	1,886,221	2,283,047
Availability Under Committed Lines of Credit	0	0
Total Liquidity	**1,886,221**	**2,283,047**
Plus: Fitch Forecast 2018 FCF (post dividend)		3,771
Liquidity Score		NM
LTM EBITDA	4,237,341	5,257,805
LTM FCF	728,395	559,249

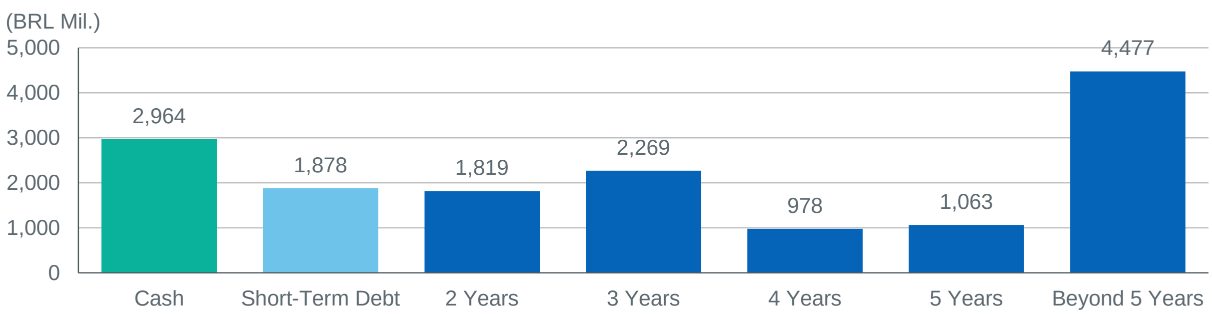
NM – Not meaningful.
Source: Fitch Ratings, company filings.

Scheduled Debt Maturities

(BRL 000)	12/31/17
Current Year	1,748,122
Plus 1 Year	1,818,196
Plus 2 Years	2,242,482
Plus 3 Years	858,401
Plus 4 Years	843,483
Thereafter	4,630,482
Total Debt Maturities	**12,141,166**

Source: Fitch Ratings, company filings.

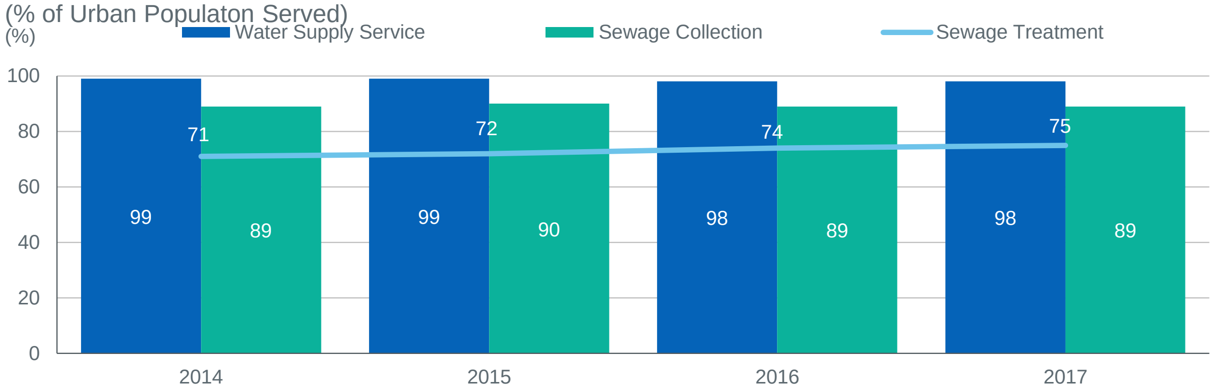
Liquidity and Debt Maturity Schedule
(As of March 31, 2018)



Source: Company reports, Fitch Ratings.

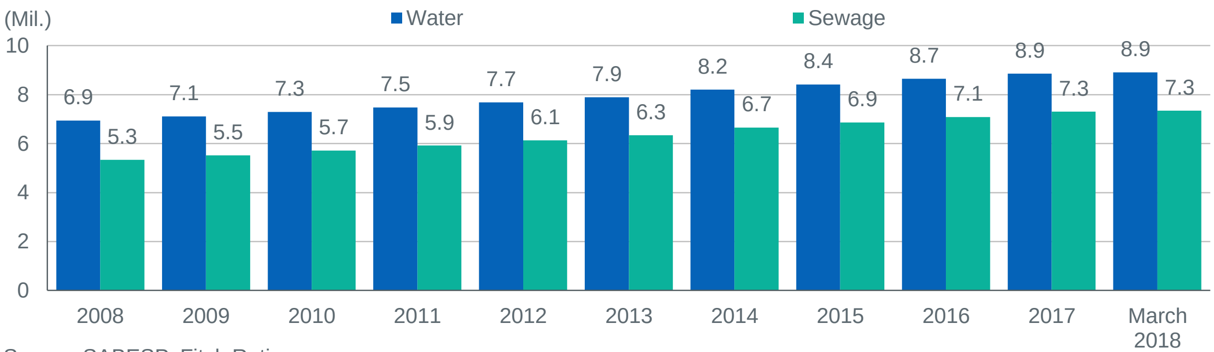
Charts

Evolution of Service Coverage Ratios
(% of Urban Populaton Served)



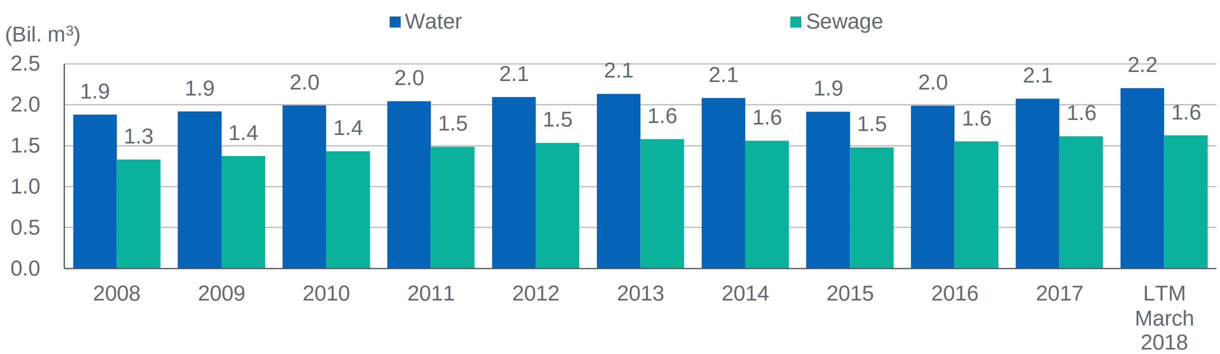
Source: SABESP, Fitch Ratings.

Number of Connections



Source: SABESP, Fitch Ratings.

Volume of Water and Sewage Billed



Source: SABESP, Fitch Ratings.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Total annual average volume billed growth of around 2% during the next three years, supported by expected population and connections growth;
- Annual tariff increases of 3.51% in 2018 and 4.3% thereafter in accordance with Fitch's expected inflation. Tariff increases have been adjusted with the X Factor of 0.89%;
- Average annual capex of BRL3.4 billion from 2018 to 2021;
- Dividend payout ratio of 30.5% of net profit, net of legal reserves.

Financial Data

(BRLth)	Historical			Forecast		
	Dec 2015	Dec 2016	Dec 2017	Dec 2018F	Dec 2019F	Dec 2020F
SUMMARY INCOME STATEMENT						
Net Revenue	8,374,853	10,365,331	11,457,356	12,204,431	12,814,435	13,439,648
Revenue Growth (%)	1.0	23.8	10.5	6.5	5.0	4.9
Operating EBITDA (Before Income from Associates)	3,275,388	4,237,341	5,257,805	5,729,906	5,985,885	6,243,338
Operating EBITDA Margin (%)	39.1	40.9	45.9	46.9	46.7	46.5
Operating EBITDAR	3,275,388	4,237,341	5,257,805	5,729,906	5,985,885	6,243,338
Operating EBITDAR Margin (%)	39.1	40.9	45.9	46.9	46.7	46.5
Operating EBIT	2,345,111	3,090,715	3,955,908	4,308,029	4,488,334	4,668,160
Operating EBIT Margin (%)	28.0	29.8	34.5	35.3	35.0	34.7
Gross Interest Expense	-453,667	-430,647	-408,880	-640,024	-681,216	-736,235
Pretax Income (Including Associate Income/Loss)	587,529	4,129,054	3,503,614	3,668,006	3,807,117	3,931,925
SUMMARY BALANCE SHEET						
Readily Available Cash and Equivalents	1,639,214	1,886,221	2,283,047	2,053,887	2,229,009	2,095,346
Total Debt with Equity Credit	13,158,676	12,010,297	12,141,166	11,893,044	12,274,848	12,315,699
Total Adjusted Debt with Equity Credit	13,158,676	12,010,297	12,141,166	11,893,044	12,274,848	12,315,699
Net Debt	11,519,462	10,124,076	9,858,119	9,839,157	10,045,839	10,220,353

SUMMARY CASH FLOW STATEMENT						
Operating EBITDA	3,275,388	4,237,341	5,257,805	5,729,906	5,985,885	6,243,338
Cash Interest Paid	-710,688	-739,944	-676,087	-640,024	-681,216	-736,235
Cash Tax	-17,743	-1,029,737	-932,110	-1,247,122	-1,294,420	-1,336,855
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	0	0	0	0	0
Other Items Before FFO	225,045	557,070	-97,546	0	0	0
Funds Flow from Operations	2,772,002	3,024,730	3,552,062	3,842,760	4,010,249	4,170,248
Change in Working Capital	-130,602	-21,138	-250,180	-193,828	-141,479	-116,709
Cash Flow From Operations (Fitch Defined)	2,641,400	3,003,592	3,301,882	3,648,932	3,868,770	4,053,540
Total Non-Operating/ Nonrecurring Cash Flow	0	0	0			
Capex	-2,452,146	-2,135,798	-1,976,700			
Capital Intensity (Capex/Revenue) (%)	29.3	20.6	17.3			
Common Dividends	-202,115	-139,399	-765,933			
FCF	-12,861	728,395	559,249			
Net Acquisitions and Divestitures	0	0	0			
Other Investing and Financing Cash Flow Items	-81,890	-196,600	-71,437	0	0	0
Net Debt Proceeds	10,974	-284,788	-90,986	-248,122	381,804	40,851
Net Equity Proceeds	0	0	0	0	0	0
Total Change in Cash	-83,777	247,007	396,826	-229,160	175,123	-133,663
ADDITIONAL CASH FLOW MEASURES						
FFO Margin (%)	33.1	29.2	31.0	31.5	31.3	31.0
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	-2,654,261	-2,275,197	-2,742,633	-3,629,970	-4,075,451	-4,228,054
FCF After Acquisitions and Divestitures	-12,861	728,395	559,249	18,962	-206,681	-174,514

FCF Margin (After Net Acquisitions) (%)	-0.2	7.0	4.9	0.2	-1.6	-1.3
COVERAGE RATIOS						
FFO Interest Coverage (x)	4.7	4.8	6.0	7.0	6.9	6.7
FFO Fixed-Charge Coverage (x)	4.7	4.8	6.0	7.0	6.9	6.7
Operating EBITDAR/ Interest Paid + Rents (x)	4.6	5.7	7.8	9.0	8.8	8.5
Operating EBITDA/ Interest Paid (x)	4.6	5.7	7.8	9.0	8.8	8.5
LEVERAGE RATIOS						
Total Adjusted Debt/ Operating EBITDAR (x)	4.0	2.8	2.3	2.1	2.1	2.0
Total Adjusted Net Debt/Operating EBITDAR (x)	3.5	2.4	1.9	1.7	1.7	1.6
Total Debt with Equity Credit/Operating EBITDA (x)	4.0	2.8	2.3	2.1	2.1	2.0
FFO Adjusted Leverage (x)	4.0	3.4	3.0	2.7	2.6	2.5
FFO Adjusted Net Leverage (x)	3.5	2.8	2.4	2.2	2.1	2.1

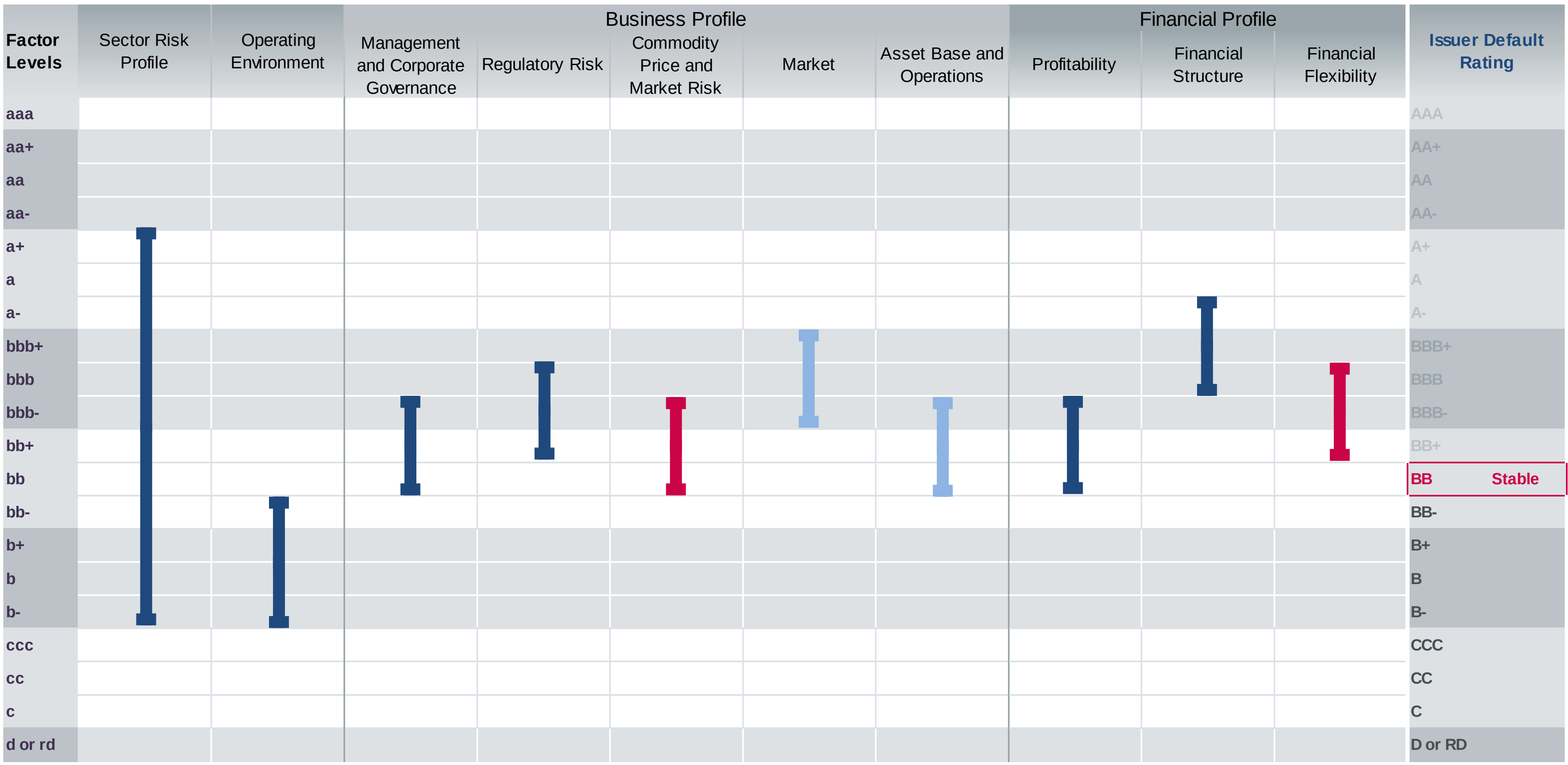
How to Interpret the Forecast Presented

The forecast presented is based on the agency's internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch's rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch's forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch's own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch's own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch's own internal deliberations, where Fitch, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch may update the forecast in future reports but assumes no responsibility to do so.

Rating Navigator

Companhia de Saneamento Basico do Estado de

Corporates Ratings Navigator
LATAM Utilities



FitchRatings

Companhia de Saneamento Basico do Estado de Sao Paul

Corporates Ratings Navigator
LATAM Utilities

Operating Environment

bb	Economic Environment	b	Weak combination of countries w here economic value is created and w here assets are located.
bb-	Financial Access	bbb	Average combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	bb	Systemic governance (eg rule of law , corruption; government effectiveness) of the issuer's country of incorporation consistent w ith 'bb'.
b-			
ccc			

Management and Corporate Governance

bbb	Management Strategy	bb	Strategy generally coherent but some evidence of w eak implementation.
bbb-	Governance Structure	bb	Board effectiveness questionable w ith few independent directors. "Key man" risk from dominant CEO or shareholder.
bb+	Group Structure	aa	Transparent group structure.
bb	Financial Transparency	bbb	Good quality reporting w ithout significant failing. Consistent w ith the average of listed companies in major exchanges.
bb-			

Regulatory Risk

bbb+	Independence	bb	Moderate government interference in utility regulations.
bbb	Balance	bbb	Regulatory framew ork is moderately biased tow ard the needs of end users at the expense of sector participants.
bbb-	Transparency	bbb	The tariff-setting procedure is transparent and includes the participation of industry players.
bb+	Recourse of Law	bb	Procedures to appeal rulings are lengthy; appeals could be untested; companies can comment on regulations.
bb	Timeliness of Cost Recovery	bbb	Moderate lag to recover capital and operating costs.

Commodity Price and Market Risk

bbb	Price and Volume Risk	bbb	Moderate exposure to price risk. Long-term contracts provide high revenue visibility and most costs variations are passed through.
bbb-	Counterparty Risk	bb	Weighted average credit quality of actual and potential offtakers is in line w ith 'BB' rating.
bb+			
bb			
bb-			

Market

a-	Consumption Growth Trend	bbb	Customer and usage grow th in line w ith industry averages.
bbb+	Customer Mix	a	Well diversified customer mix.
bbb	Geographic Location	bb	High sensitivity to extreme w eather or disaster disruptions.
bbb-	Supply Demand Dynamics	bbb	Moderately favorable outlook for prices and rates.
bb+			

Asset Base and Operations

bbb	Asset Diversity		n.a.
bbb-	Reliability of Operations and Cost Position	bbb	Reliability and cost of operations at par w ith industry averages w ith moderate operating losses.
bb+	Exposure to Environmental	bb	Significant exposure to environmental regulations.
bb	Capital and Technological Intensity	bb	Reinvestment concentrated in capital-intensive or unproven technologies.
bb-			

Profitability

bbb	Volatility of Profitability	bbb	Stability and predictability of profits in line w ith utility peers.
bbb-	Free Cash Flow	bb	Structurally negative FCF across the investment cycle.
bb+			
bb			
bb-			

Financial Structure

a	Lease Adjusted FFO Gross Leverage	bbb	3.5x
a-	Lease Adjusted FFO Net Leverage	bbb	3.0x
bbb+	Total Adjusted Debt/Operating	a	2.5x
bbb			
bbb-			

Financial Flexibility

bbb+	Financial Discipline	bbb	Less conservative policy but generally applied consistently.
bbb	Liquidity (Cash+CFO)/S-T Debt	a	Very comfortable liquidity. Well-spread maturity schedule of debt. Diversified sources of funding.
bbb-	FFO Fixed Charge Cover	a	5.0x
bb+	FX Exposure	b	Large FX exposure. No significant/ineffective hedging in place.
bb			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Navigator Version: RN 1.43.2.0

Simplified Group Structure Diagram

Organizational Structure — Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)

(BRL Mil., LTM Ended March 31, 2018)

Sao Paulo State Government — *50.3%*

Others — *49.7%*

Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)
IDR — BB/AA(bra)/Stable

Cash	2,964
Total Debt	12,484
EBITDA	5,303
Debt/EBITDA (x)	2.4
EBITDA/Interest (x)	8.1

Total Adjusted Debt: BRL12,484 Million:
- USD350 Mil. (BRL 1.2 Bil.) Unsecured Notes 2020, BB
- BRL 3,717 Mil. Unsecured Debentures
- BRL 7,606 Mil. Bank Debt

IDR – Issuer Default Rating.
Source: SABESP.

Peer Financial Summary

Company	Date	Rating	Net Revenue (USDm)	Operating EBITDAR (USDm)	Operating EBITDAR Margin (%)	Total Adjusted Net Debt/ Operating EBITDAR (x)	FFO Adjusted Leverage (x)
Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)	2017	BB	3,464	1,590	45.9	1.9	3.0
	2016	BB	3,181	1,300	40.9	2.4	3.4
	2015	BB	2,145	839	39.1	3.5	4.0
Georgian Water and Power LLC	2016	BB–	48	28	57.5	1.2	1.4
	2015	BB–	47	26	55.5	1.1	1.1
	2014		56	26	47.2	1.5	1.5
Aegea Saneamento e Participacoes S.A.	2017	BB	375	204	54.4	3.1	6.5
	2016		305	142	46.6	3.3	4.5
	2015		204	103	50.5	2.9	5.5
Empresa de Acueducto y Alcantarillado de Bogota E.S.P. EAAB	2016	AAA(col)	580	221	38.2	-1.0	0.8
	2015	AAA(col)	549	206	37.5	-0.9	0.8
	2014	AAA(col)	681	224	32.9	-1.0	1.0

Source: Fitch Ratings.

Reconciliation of Key Financial Metrics

(BRL Thousand, As reported)	31 Dec 2017
Income Statement Summary	
Operating EBITDA	5,257,805
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	**5,257,805**
+ Operating Lease Expense Treated as Capitalised (h)	**0**
= Operating EBITDAR after Associates and Minorities (j)	**5,257,805**
Debt & Cash Summary	
Total Debt with Equity Credit (l)	**12,141,166**
+ Lease-Equivalent Debt	0
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	**12,141,166**
Readily Available Cash [Fitch-Defined]	2,283,047
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	**2,283,047**
Total Adjusted Net Debt (b)	**9,858,119**
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	**0**
Interest Received	195,992
+ Interest (Paid) (d)	**(676,087)**
= Net Finance Charge (e)	**(480,095)**
Funds From Operations [FFO] (c)	**3,552,062**
+ Change in Working Capital [Fitch-Defined]	(250,180)
= Cash Flow from Operations [CFO] (n)	**3,301,882**
Capital Expenditures (m)	**(1,976,700)**
Multiple applied to Capitalised Leases	**5.0**
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	**2.3**
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	**3.0**
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	**2.3**
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	**1.9**
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	**2.4**
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	**7.4**
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	**7.8**
Op. EBITDA / Interest Paid* [x] (k/(-d))	**7.8**
FFO Fixed Charge Cover [x] ((c-e+h-f)/(-d+h-f))	**6.0**
(FFO - Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c-e-f)/(-d-f))	**6.0**
(FFO - Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)	

* EBITDA/R after Dividends to Associates and Minorities
Source: Fitch, based on information from company reports.

Fitch Adjustment Reconciliation

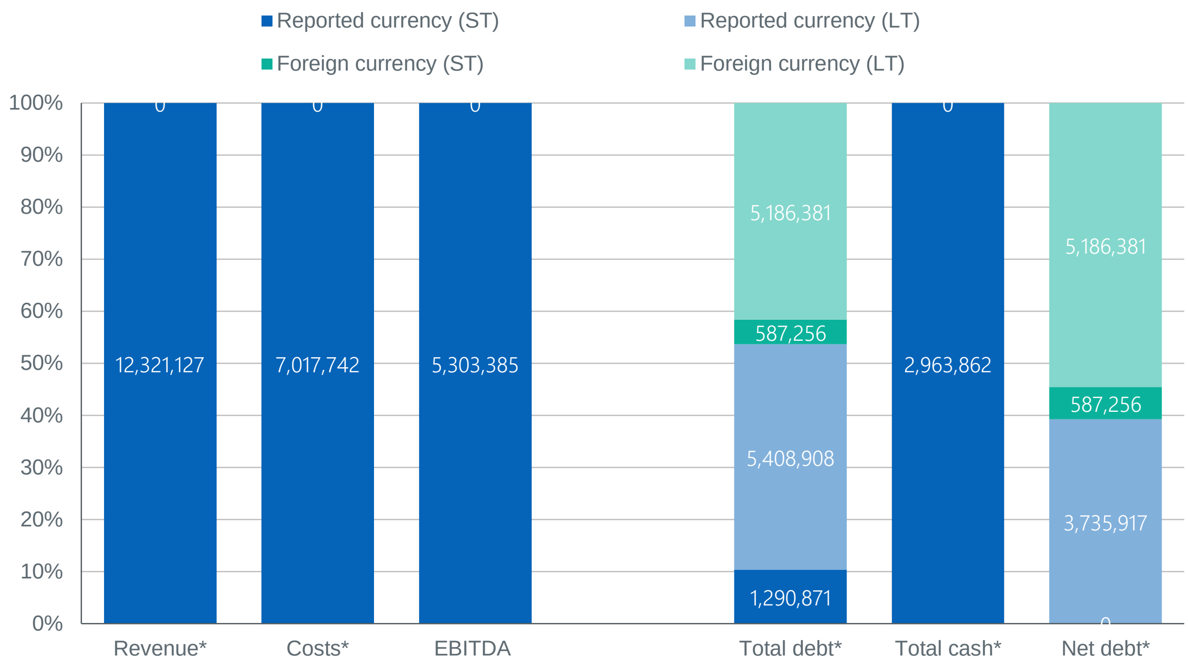
(BRL Thousand, As reported)	Reported Values 31 Dec 17	Sum of Fitch Adjustments	Other Adjustment	Adjusted Values
Income Statement Summary				
Revenue	14,608,233	(3,150,877)	(3,150,877)	11,457,356
Operating EBITDAR	5,257,805	0		5,257,805
Operating EBITDAR after Associates and Minorities	5,257,805	0		5,257,805
Operating Lease Expense	0	0		0
Operating EBITDA	5,257,805	0		5,257,805
Operating EBITDA after Associates and Minorities	5,257,805	0		5,257,805
Operating EBIT	3,955,908	0		3,955,908
Debt & Cash Summary				
Total Debt With Equity Credit	12,100,966	40,200	40,200	12,141,166
Total Adjusted Debt With Equity Credit	12,100,966	40,200	40,200	12,141,166
Lease-Equivalent Debt	0	0		0
Other Off-Balance Sheet Debt	0	0		0
Readily Available Cash & Equivalents	2,283,047	0		2,283,047
Not Readily Available Cash & Equivalents	18,822	0		18,822
Cash-Flow Summary				
Preferred Dividends (Paid)	0	0		0
Interest Received	195,992	0		195,992
Interest (Paid)	(676,087)	0		(676,087)
Funds From Operations [FFO]	3,552,062	0		3,552,062
Change in Working Capital [Fitch-Defined]	(250,180)	0		(250,180)
Cash Flow from Operations [CFO]	3,301,882	0		3,301,882
Non-Operating/Non-Recurring Cash Flow	0	0		0
Capital (Expenditures)	(1,976,700)	0		(1,976,700)
Common Dividends (Paid)	(765,933)	0		(765,933)
Free Cash Flow [FCF]	559,249	0		559,249
Gross Leverage				
Total Adjusted Debt / Op. EBITDAR* [x]	2.3			2.3
FFO Adjusted Leverage [x]	3.0			3.0
Total Debt With Equity Credit / Op. EBITDA* [x]	2.3			2.3
Net Leverage				
Total Adjusted Net Debt / Op. EBITDAR* [x]	1.9			1.9
FFO Adjusted Net Leverage [x]	2.4			2.4
Total Net Debt / (CFO - Capex) [x]	7.4			7.4
Coverage				
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	7.8			7.8
Op. EBITDA / Interest Paid* [x]	7.8			7.8
FFO Fixed Charge Coverage [x]	6.0			6.0
FFO Interest Coverage [x]	6.0			6.0

*EBITDA/R after Dividends to Associates and Minorities

FX Screener

SABESP's high FX debt exposure may present risks, particularly in the case of significant FX depreciation combined with meaningful debt maturity periods. SABESP's sound financial profile and financial flexibility, however, mitigates concerns. By March 31, 2018, the company had BRL5.8 bilion, or 46% of its total debt, exposed to the FX volatility, while all of SABESP's revenues are generated in local currency.

Fitch FX Screener
(Companhia de Saneamento Basico do Estado de Sao Paulo [SABESP] — BB/Stable, LTM Mar-18, BRLTh)



*Post hedge, absolute figures displayed are Fitch's analytical estimates, based on publicly available information
Source: Fitch Ratings.

Covenant Summary

The company is subject to a gross leverage covenant of 3.65x, which may limit its ability to issue debt for refinancing under distressed operating environments. The concern is mitigated, though, by its strong financial profile, which allows adequate headroom before covenants are breached.

Full List of Ratings

	Rating	Outlook	Last Rating Action
Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)			
Long-Term Local Currency IDR	BB	Stable	Affirmed 4 May 2018
Long-Term IDR	BB	Stable	Affirmed 4 May 2018
National Long-Term Rating	AA(bra)	Stable	Affirmed 4 May 2018
Senior Unsecured Bond/Note	BB	-	Affirmed 4 May 2018
21st Debenture BRL500 Mil.	AA(bra)	-	Affirmed 4 May 2018
22nd Debenture BRL750 Mil.	AA(bra)	-	Affirmed 4 May 2018

Related Research & Criteria

Corporate Rating Criteria (March 2018)

Government-Related Entities Rating Criteria (February 2018)

National Scale Ratings Criteria (March 2017)

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The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.