



Management Report

Financial Statements

2016

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Presentation

Sanepar, Companhia de Saneamento do Paraná, presents its 2016 Management Report, including the company's financial statements and, for the second year running, information on sustainability. The document, aimed at showing how the company has worked on ensuring business continuity and generating value for society, sets forth Sanepar's key strategies, as well as its main financial, social and environmental results during the year.

The following pages describe the advances and the challenges during the year in relation to the nine topics considered to be most material for the company and its stakeholders. The organization of the information is based on the four perspectives of the company's strategic planning: Sustainability, Processes, Customers and People.

In addition to being a key management tool, the report reaffirms Sanepar's commitment to providing its strategic stakeholders with transparent information, a means of consolidating this relationship.

Message from Management

With the end of another year, it is possible to clearly evaluate the progress made in the different dimensions of the business. In 2016, Sanepar enhanced its operating processes and its relations with customers, maintaining its belief in the potential of its employees, investing in their development, while ensuring excellence in management to reinforce the company's financial robustness.

Despite the adverse conjuncture, with a strong retraction in economic activity in Brazil, the company maintained its investment strategy. Investments totaled R\$ 742.4 million in 2016 and drove expansion works and technological modernization. Particularly worthy of mention is the finalization of the first stage of the expansion of the Belém sewage treatment plant, which generated operating improvements and ensured the conditions necessary for the execution of the second stage, due to come up for tender in 2017. When this is concluded, annual treatment capacity will be multiplied by a factor of three.

With innovation as a business driver, the company also focused on economically feasible and environmentally adequate alternatives to enhance its processes, an example being CS Bioenergia, a high technology biodigestion unit installed in the Belém wastewater treatment plant, which is scheduled to start producing energy from sewage sludge and organic material from 2017.

The company's financial sustainability was made clear in its 2016 results. Net income increased by 43% compared with 2015, reaching R\$ 626.8 million. Net operating revenue grew 17% over the previous year, the result of the 10.48% rate increase in April, the expansion of the customer base and the volume billed. The number of connections to water supply services increased by 46,000, while sewage collection and treatment connections grew by 94,000.

Throughout the year Sanepar maintained its efforts to ensure regulatory compliance, and in 2017 will present the first tariff rate aligned with the new basic sanitation regulatory framework. By working with long-term contracts and being present in approximately 90% of the state of Paraná, the company believes that transparent relations with the regulatory bodies and public authorities (municipalities) are essential for business continuity. All the initiatives implemented throughout the year culminated in the success of the RE-IPO, with the issue of new company shares and the transfer of shareholders' stock in the amount of R\$ 1.98 billion. This way only possible due to Sanepar being recognized as an excellent company by the financial market and by investors.

The constant concern with public health and safety and the quality of the services the company provides was reflected in the most recent end consumer satisfaction rates, including those measuring satisfaction with water supply and sewage collection and treatment services, which increased from 77% to 83.5%.

The year also saw the enhancement of corporate governance and compliance, demonstrating our commitment to the highest ethical standards and reinforcing transparency as a value that permeates all company activities. In terms of social and environmental management, a series of partnerships aimed at protecting water resources and promoting environmental education initiatives were maintained.

All this progress is made possible by the unrestricted support of the Paraná state government, the company's controlling shareholder, and by the commitment of our employees, who are dedicated to providing efficient, quality environmental sanitation services on a permanent basis. To further develop our human capital, the Distance Education School was added to existing training initiatives, while the Gender Equality Program was introduced to foster an even more balanced workplace.

In 2017, the Sanepar business model will once again be focused on initiatives aimed at controlling losses, reducing expenses with energy acquisition and further enhancing operating and environmental efficiency and the quality of our services, prioritizing value generation for our stakeholders and driving business continuity.

Sanepar

Founded in 1960 and currently one of the biggest companies in operation in the state, the Companhia de Saneamento do Paraná (Sanepar) is a publicly traded joint stock corporation controlled by the state of Paraná. The company provides treated water supply, sewage collection and treatment and solid waste management services.

Responsible for the provision of sanitation services in 345 cities in Paraná and another 291 smaller areas, in addition to the Santa Catarina municipality of Porto União, it has an 84,600 kilometer network for the withdrawal and distribution of drinking water, for sewage collection and for the discharge of treated sewage. Regarding solid waste, it operates landfills in Apucarana, Cornélio Procópio and Cianorte – the latter also serving the municipalities of São Tomé, Terra Boa, Guaporema and Indianópolis.

Headquartered in Curitiba with a work force numbering over seven thousand, Sanepar is a reference in sanitation in Brazil. It provides a universal water supply network in all the municipalities it serves. 100% of the sewage it collects is treated before discharge into water bodies.

The company invests constantly to maintain service excellence. In 2016 alone, R\$ 742.4 million was invested in technological updating, improvement and expansion works for the Sanepar operating complex – comprising water treatment plants (WTP), wells, water reservoirs, wastewater treatment plants (WWTP) and other assets –, that drive financial gains for the company and society as a whole. During the year, Sanepar implanted 46,000 new water connections and 94,000 new sewage connections.

The company posted net earnings of R\$ 626.8 million in 2016, up 43% on the previous year, a demonstration of its robustness and capacity to create value.

Sanepar also has a 40% stake in CS Bioenergia S.A., a special purpose enterprise incorporated in partnership with Cattalini Bioenergia to exploit sewage-based energy generation at the biodigestion unit implanted next to the Belém wastewater treatment plant in Curitiba. The activities of CS Bioenergia will comply with Brazil's national solid waste policy governing the non-generation/reduction, reuse, treatment and disposal of waste.

Reach

100% supply of treated water by Sanepar in the urban regions it serves, above the average for Brazil, 93.08%¹

Sanepar collects 77% of sewage, above the national average of 58.03%¹

100% of the sewage collected is treated, above the 74.02% average for the country¹

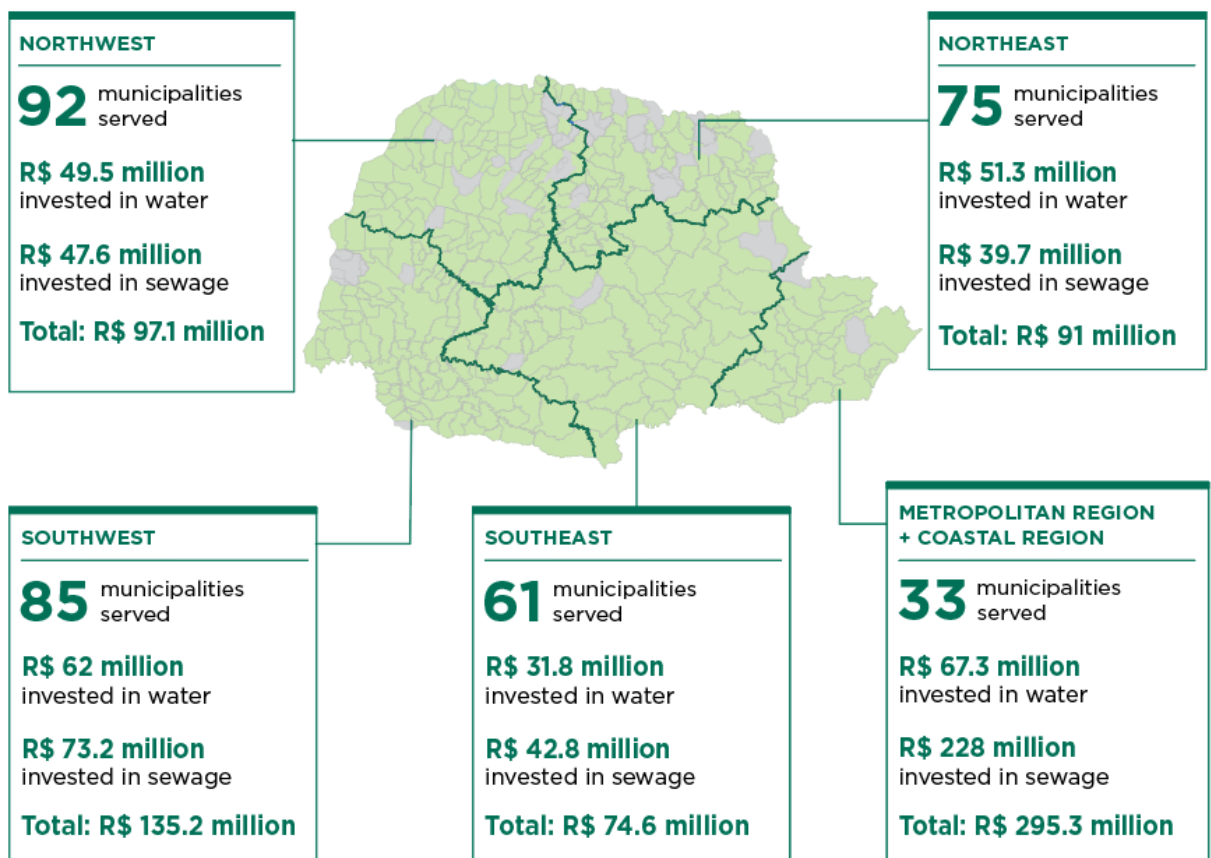
¹ Data from National Sanitation System (SNIS 2015).

Operating context

According to the State Water Resources Plan, water availability in Paraná is 1,153,170 l/s, a volume that greatly exceeds the estimated demand of 51,364 l/s. The most critical point in the system is the Curitiba Metropolitan region. Even here the supply/demand situation is considered to be comfortable with demand corresponding to around 23% of the total volume available in the Curitiba and Metropolitan Region Integrated Water Supply System (SAIC).

In spite of this favorable conjuncture, which includes high rainfall levels in recent years and a diversified withdrawal infrastructure, Sanepar invests in long-term planning, in management excellence and in quality to ensure service stability in the event of any droughts and to stay abreast of the gradual increase in demand. Sanepar is also investing in the expansion of sewage collection and treatment services, enabling the discharge of treated effluent into water bodies and reducing negative impacts.

REGIONS OF PARANÁ SERVED AND INVESTMENTS UNDERTAKEN



Performance highlights

In 2016, Sanepar once again gained recognition for its focus on efficiency and results. In the National Sanitation Quality Award (PNQS in the Portuguese acronym) organized by the sanitary and environmental engineering association (ABES - Associação Brasileira de Engenharia Sanitária e Ambiental), considered to be the most important award in the sector, Sanepar received four trophies (*read more in the sub-chapter Strategy and management – Recognition of excellence*).

In the *Exame* magazine 2016 Biggest & Best ranking, the company came first in the sanitation sector in the Southern region and received honorable mentions in the categories Growth (3rd place), market leadership (4th), current liquidity (5th), profitability (5th) and wealth generated per employee (8th).

In the *Época Negócios* magazine listing of the 300 Best Companies in Brazil, Sanepar was placed second in the sector classification and 89th overall.

For the fourth time, the company won the Transparency Trophy (*read more in the chapter Corporate Governance*) and in the Public Services category of the magazine *Revista Amanhã* Champions of Innovation award, Sanepar was classified as one of the 50 best companies in the South of Brazil for its work in research and innovation.

Sanepar also received the Lúcio Costa Award granted by the Chamber of Deputies Urban Development Commission for initiatives aimed at improving living conditions. This was in recognition of the company's work to increase public access to sanitation.

Business model

The following figure shows how Sanepar uses the different capitals in its operations and what it contributes to society, in accordance with a mapping exercise based on the International Integrated Reporting Council's (IIRC) Integrated Reporting guidelines.

Allocation of resources and access to the capitals

Financial capital

Net equity: R\$ 4.8 billion

Cash generation: R\$ 1.1 billion

Natural capital

Water availability: around 1.2 million l/s

Energy: 2.6 million GJ in 2016

Human capital

7,344 employees

Intellectual capital

398,600 hours of training undertaken

R\$ 4.6 million invested in research and development

Social capital

88.1% of Sanepar customers want the company to continue to serve their municipalities

Community relations

Relations with authorities (municipal governments)

Value generation

Governance – the expertise of private partners and the social commitment of Paraná state

Strategy – robust strategic planning, focused on long-term contracts and business diversification

Presence and capillarity – 346 municipalities served

Investments – R\$ 742.4 million in 2016

Environment – Management of impacts and preservation of water bodies

Quality – 99.87% conformance in water distribution and more than 77,800 metric tons of pollutants removed annually in wastewater treatment plants

Competitive advantages

Abundance of water sources

Predictable and resilient business, with a diversified customer base

Financial performance superior to peers in the sector

Dividend payments and cash generation

Operational excellence, driven by efficiency improvement measures

Businesses

Water supply

Strategic focus: maintenance and improvement

164 water treatment plants

1,037 wells

4 reservoirs

3,025,780 connections

51,558 km of distribution network

100% coverage

3,735,242 active accounts¹

Sewage

Strategic focus: universal service, monitoring of service quality and the lowest possible environmental impact

239 wastewater treatment stations

1,953,484 connections

33,069 km of sewage network

69.1% coverage

100% of sewage collected treated

2,622,983 active accounts¹

Solid urban waste

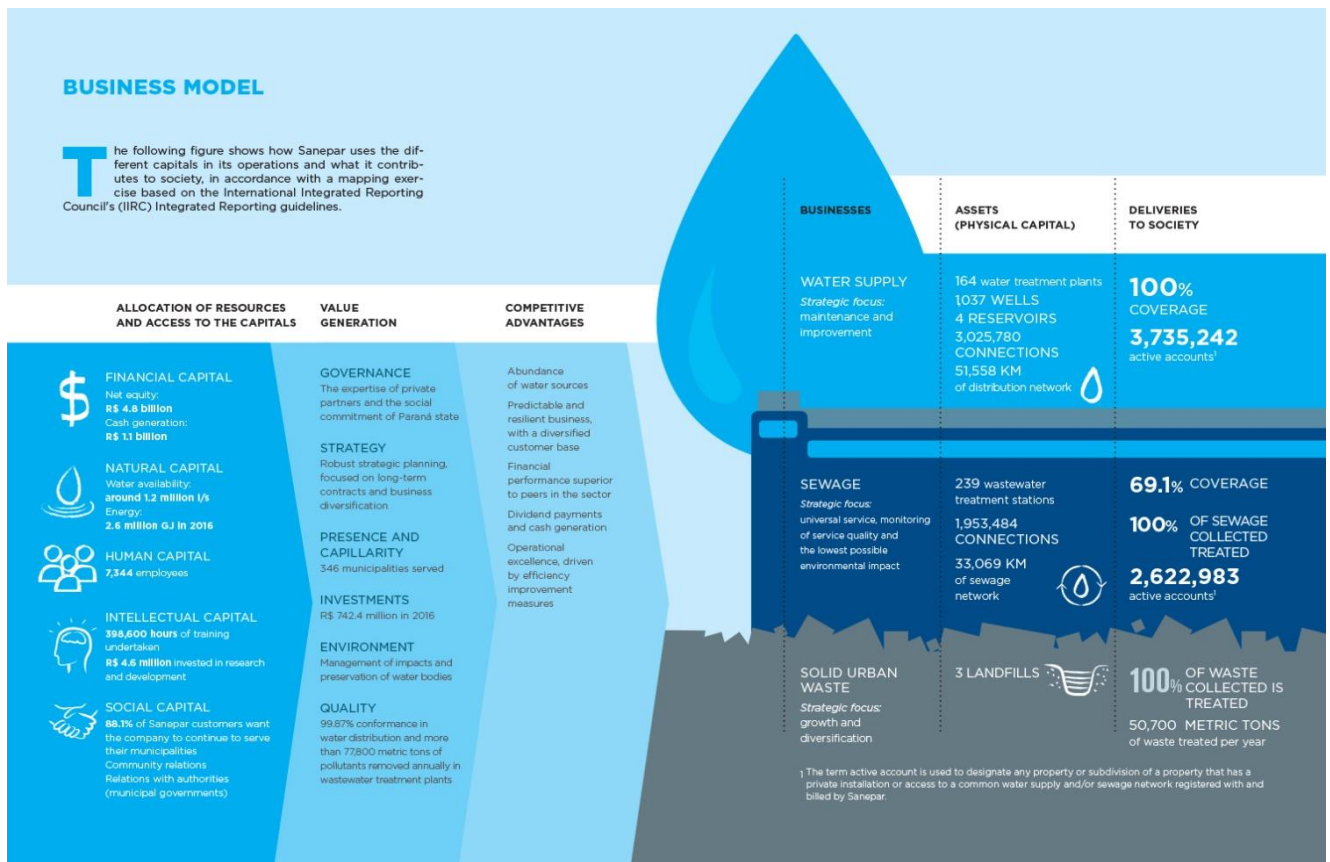
Strategic focus: growth and diversification

3 landfills

100% of waste collected is treated

50,700 metric tons of waste treated per year

¹ The term active account is used to designate any property or subdivision of a property that has a private installation or access to a common water supply and/or sewage network registered with and billed by Sanepar.



Corporate governance

Sanepar has a consolidated management body, governed by rigorous standards of ethics and conduct. The company prides itself on its transparent decision making, as well as the fairness and respect with which it conducts relations with stakeholders.

To drive ongoing improvement in governance, in 2016 the company adopted a series of measures aligned with Level 2 governance in the capital market. These measures also ensure compliance with Brazil's law n.º 13.303/2016, which regulates business activities for state controlled and joint stock companies – which is Sanepar's case – and their subsidiaries.

They included the creation of the Audit Committee, the Indication and Assessment Committee and the Corporate Governance Support area. The company also incorporated three independent members indicated by the minority shareholder into its Board of Directors.

Sanepar's commitment to best management and conduct guidelines was instrumental in its winning the Transparency Trophy, which acknowledges quality and best governance practice in the presentation of financial statements. This is the fourth time that Sanepar has received the award, granted by Brazil's National Association of Finance, Administration and Accounting Executives (Anefac) in partnership with the Institute of Accounting, Actuarial and Financial Research (Fipecafi) and Serasa Experian.

<p>Mission To provide sustainable environmental sanitation services, driving improved quality of life.</p> <p>Vision To achieve excellence as a company, committed to driving universal environmental sanitation.</p> <p>Values Responsibility Innovation Competence Respect Commitment Professionalism Transparency Ethics</p>
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Shareholder breakdown

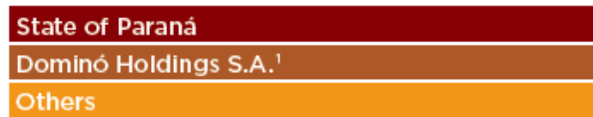
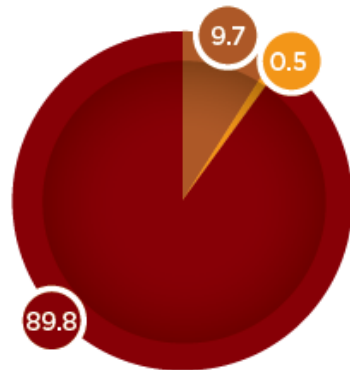
Sanepar is listed at Level 2 corporate governance on the BM&FBovespa exchange, which drives the voluntary adoption of best practices in governance and communication with investors and the market.

The company is controlled by the state of Paraná, which holds 29.9% of the total capital and 89.8% of the voting capital. Another portion of the shares belongs to minority shareholders. Currently the percentage of free float shares, those traded openly on the capital market, is 70.1%. In December, Sanepar concluded a public share offer in the market estimated at approximately R\$1.98 billion.

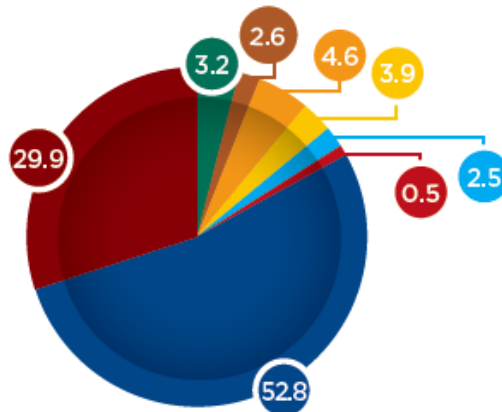
Shareholder Breakdown

SHAREHOLDER BREAKDOWN

VOTING CAPITAL (%)



TOTAL CAPITAL (%)



¹ Dominó Holdings S.A. comprises Copel and Andrade Gutierrez Concessões.

Decision making structure

The Board of Directors, responsible for business strategy, comprises nine effective members, one of whom is elected from among the employees and 25% of whom are independent. There are also nine alternates in the same proportion. All members have voting rights and are elected by the General Meeting for a two-year term, with reelection limited to three consecutive terms.

The board meetings are held monthly and may also be convened under extraordinary circumstances. The Board's attributions include: the provision of directives for the business, drafting policy, managing risk management, defining strategy and overseeing the conduct of the Executive Board, in addition to selecting independent auditors and approving tender and procurement processes in excess of the amount determined in the company bylaws.

The company also has a Technical Committee which provides support for the decisions taken by the Board of Directors. After the 2017 Ordinary General Meeting, a Statutory Audit Committee and an Indication and Assessment Committee will be implanted, these measures having been approved in the 105th Extraordinary General Meeting held on November 21, 2016.

The Fiscal Council oversees company-related tax and accounting matters and its annual financial statements. It has five members, with one indicated by the minority shareholder and one by the preferred shareholder. Council members are elected annually at the General Meeting and are limited to two consecutive reelections. The body sits permanently and meets on a monthly basis.

Charged with executing business strategy and the general directives established by the Board of Directors, the Executive Board has nine members who are fully qualified to carry out their functions and have unblemished reputations. The Executive Board meets weekly or under extraordinary circumstances when convened by the CEO or by two directors.

GENERAL SHAREHOLDERS' MEETING



2/3
State of
Paraná

1/3
Minority
shareholders

BOARD OF DIRECTORS

Decisions taken by majority vote
9 members



STATE OF PARANÁ
indicates 5 members



DOMINÓ HOLDINGS S.A.
indicates 3 members



SANEPAR EMPLOYEES
indicate 1 member

AUDIT COMMITTEE

3 members



FISCAL COUNCIL

Monitors and approves accounts
5 members



STATE OF PARANÁ
indicates 3 members



DOMINÓ HOLDINGS S.A.
indicates 1 member



PREFERENCE SHAREHOLDER
indicates 1 member

TECHNICAL COMMITTEE

Responsible for reviewing budget, loans and finance, destination of profits, business plan and investments
5 members



STATE OF PARANÁ
indicates 3 members



DOMINÓ HOLDINGS S.A.
indicates 2 members

INDICATION AND ASSESSMENT COMMITTEE

3 members



EXECUTIVE BOARD

9 members



STATE OF PARANÁ
Indicates 6 members



MINORITY SHAREHOLDERS
Indicate 3 members

CEO
Office
of the CEO

Administrative area
Commercial area
Financial area
Investment area
Legal area
Environment and Social
Action area
Operations area and Investor
Relations area

Investor relations

To enhance communication and relations with providers of capital, the company releases communications, quarterly reports, annual financial statements, material fact declarations, share prices and notifications for shareholders. Market analysts, investors and shareholders also receive information on sector regulation and the destination of Sanepar earnings. This information is available on the website www.sanepar.com.br/investidores.

Compliance, ethics and transparency

Sanepar is committed to compliance and ethical conduct and invests constantly in enhancing its internal structure to ensure the highest standards of business conduct. In 2016, the company bylaws were revised and incorporated a number of refinements in governance, including heightened compliance. The company also initiated its Integrity Program, which systematizes the anti-corruption measures set forth in law n° 12.846/2013 (Anti-corruption law) and detailed in article 41 and the following articles of federal decree n.º 8.420/15. The program is being developed based on the legislation and on informed references, such as the manuals of the Brazilian Comptroller General (CGU) and the corporate governance body Instituto Brasileiro de Governança Corporativa (IBGC). A number of measures are in progress and are expected to become effective in 2017. Worthy of note are:

- planning for the drafting of an institutional risk matrix to orientate a corporate risk management system (*further information ahead*);
- review and refinement of the Code of Conduct and Integrity, which provides employees and business partners with guidance on matters such as relations in the work place and with different stakeholders (suppliers, competitors, public authorities etc.), conflicts of interest, gifts and bribes; and
- improvement of the annual internal control report, which presents significant occurrences in this area.

These new measures are being implanted in parallel with ongoing processes in the company, such as the dissemination of information and the preparation of employees by means of periodic training sessions and campaigns, as well as process audits. In the course of the year, 750 employees received more than 3,000 hours of training. All Sanepar units were submitted to risk assessments, which included risk of corruption. Up until November, 45 risk and compliance-based management audits had been conducted. Additionally, contracts worth around R\$ 285 million were audited.

The Ombudsman received seven reports of corruption, but none of these cases were proven. As a cautionary measure, the suspected cases were channeled to the entities responsible for investigation and remediation. The suppliers involved in these supposed irregularities were disqualified preventively.

Shared knowledge

In 2016, Sanepar was one of the organizers of the 11th National Sanitation Company Internal Audit Encounter and of the bimonthly meetings of the Paraná Internal Auditors Group. The teams also participated in events related to specific audit matters, internal controls, compliance and risk management, such as the 37th Brazilian Internal Audit Congress (Conbrai) and training programs organized by the Paraná State Court of Audit.

Risk management and internal controls

The company exercises risk management systematically in a segmented manner whereby each risk owner is responsible for overseeing his/her specific area, in particular risks that could affect business, value generation and operating and financial performance.

At the end of 2015, Sanepar set up a Risk Management Commission comprising representatives of the Internal Controls, Strategic Planning and other areas. After diagnosis of corporate risks, a consultancy was hired to work on the implantation of a Corporate Risk Management System and the definition of an institutional risk matrix (based on the dimensions probability and impact), both of which are currently underway. Special attention is also being paid to monitoring the macroeconomic and industry conjunctures, as well as legal and regulatory aspects.

Another advance during the year was the implementation of the Environmental Risk Management System based on ISO 31.000, to identify, classify and address potential environmental risks.

Risk management is aligned with Brazil's National Quality Foundation's (FNQ) Management Excellence Model (MEG), a benchmark for best practices which has enabled Sanepar to identify and mitigate its risks, integrating the model's main guidelines and practices into the Risk Management Policy which is currently being drafted. In 2017, the company intends to identify the operating and strategic components involved in each risk more precisely.

In 2016, the main risks monitored and actions undertaken were:

- **Sector regulation**

Nature of risk: new rules and changes in existing regulations may impact business and the operations. Examples are law n° 11.445, dated January 2007, governing the regulatory framework for the sanitation sector, and the methodological adjustments required by the regulators of sanitation services in the state of Paraná.

In 2016: progress was made in the rate review process (*read more in the sub-chapter Economic and financial performance – The challenges of regulation*), which should result in the first regulatory technical rate in 2017. The Sanepar Regulatory area has been preparing to act in the event of any changes in the situation.

- **Contract renewal with municipalities**

Nature of risk: strategic in nature and key for the future of the business, the maintenance of concession and program contracts depends on continued interest on the part of the municipal governments.

In 2016: Sanepar worked actively on renewing the concessions – especially in the large municipalities – by means of the signature of program contracts, which have a determined duration and may be renewed (*read more in the chapter Customers*).

- **Loss of revenue**

Nature of risk: even having reasonable levels of water losses, Sanepar monitors the risk of potential lack of capital for investments in operating efficiency and loss reduction, impacting the company's cash flow and results.

In 2016: the company invested in the acquisition and installation of new higher performance water meters that can be read from a distance, in the rescaling and standardization of connections and in the maintenance and renewal of the network. The company has also been re-registering customers and combating fraud and irregularities, including clandestine connections.

- **Electricity**

Nature of risk: electricity represents a significant portion of Sanepar's operating costs and expenditures, 24% in 2016. Unexpected increases in price or interruptions in supply can negatively affect the company's operating and financial results. The company's main electricity supplier is Copel, which is a minority shareholder in Sanepar and is controlled by the state of Paraná. A change in this supplier could also have a negative effect on the business.

In 2016: electricity rates remained at high levels during part of the year. To mitigate financial impacts, the company worked on controlling equipment operation, using equipment at off-peak times, as well as controlling losses. Focused on alternative sources, Sanepar is investing in the generation of energy from sewage sludge (*read more in the chapter Processes – Sewage Process*) in the CS Bioenergia S.A. biodigestion unit.

- **Climate change**

Nature of risk: climate change may cause extreme meteorological events – drought, torrential rains and other harmful situations – which could affect the company's operating capacity and investment levels, compromising business results to varied extents.

In 2016: the company's strategic partnership with its controller, the state of Paraná, enabled preventive studies and analyses. Additionally, Sanepar has an agreement with the Paraná University Disaster Study and Research Center (Ceped) to enable it to better understand how to mitigate the losses and damages associated with climate-related disasters – such as the ones that occurred in Maringá, Londrina and neighboring municipalities at the beginning of 2016, which affected water supply to the public due to the structural damage caused.

Read more about these and other risks monitored by Sanepar in the 2016 Reference Form, available in Portuguese on the Sanepar website: www.sanepar.com.br/investidores.

Sustainability

Sustainability is one of the perspectives of Sanepar strategic planning and is aimed at driving shared value for all company stakeholders. More than a just a concept, sustainability increasingly permeates all levels of the company, with decision making incorporating environmental and social in addition to economic questions. The company pursues consistent financial results because that is the only way it will be able to maintain and expand the supply of quality drinking water, sewage collection and treatment services in an efficient and responsible manner. In parallel, Sanepar depends directly on water resources and recognizes that caring for the environment and for people is indispensable for the company's growth and future development.

This vision is what enables Sanepar to execute its mission of providing environmental sanitation services sustainably, driving improved quality of life for the public.

In the following pages, the company presents the main indicators for its financial performance in 2016, demonstrating its economic sustainability and its capacity to generate value for shareholders, employees and society as a whole. The remaining chapters address the advances this year in the social and environmental spheres – taking into account Sanepar's commitment to ethics and transparency, as well as process excellence –, equally fundamental for the success of the business.

Prioritization of topics

In an ongoing process to enhance management for and the communication of sustainability, in 2015 Sanepar assumed the commitment of systematizing both the internal and external topics with the greatest potential impact on the business and which, consequently, need to be tracked by means of associated indicators.

This definition of materiality took place in 2016 in a three-stage process based on global standards and methodologies. In the first phase, in addition to in-depth analysis of company strategic directives, a series of documents including regulations, best practices in the sanitation sector and trends in reporting processes was studied.

Following this, the company consulted its stakeholder groups: employees, customers, public authorities, investors and market analysts, suppliers, companies in the sanitation sector and partners in social responsibility initiatives. The online survey was conducted among 1,657 participants in the months of September and October.

In the final stage, the topics were validated and prioritized by senior management with a view to ensuring alignment and the applicability of the process to the overall business vision. Thus the nine topics presented ahead represent Sanepar priorities in managing for sustainability and help shape the shared efforts of the company and its strategic stakeholders. They are:

- Corporate governance, transparency and anti-corruption
- Legal compliance and relations with regulatory bodies
- Profitability and economic-financial balance
- Service quality
- Operating efficiency and infrastructure improvements

- Reduction of environmental impacts in the operation and the pursuit of energy efficiency
- Water resource management
- Access to water supply and sewage services
- Environmental education

The conclusion of the materiality process enabled the organization of the 2016 Management Report based on the priorities established. The most material topics are presented taking into account the way in which they are managed by Sanepar, their interconnections with company activities and the main results achieved during the year.

Economic and financial performance

Highlights

The economic recession in Brazil persisted throughout 2016, impacting the company's businesses. In this situation, company management intensified its cost and expense contention efforts, conducting strategy with organizational flexibility to enable an agile and efficient response to changes in the conjuncture and to new market demands.

Worthy of note are the resilience and predictability of Sanepar's revenues due to its long-term contracts and diversified customer base. The average contract term is 20 years, in accordance with the maturity rate (term remaining proportional to share in revenue of the 10 largest Sanepar contracts). The customer base is highly pulverized: 345 municipalities and 291 districts in Paraná and one municipality in Santa Catarina. Currently, 76.9% of the contracts expire after 2027, 17.9% by 2026 and only 5.2% are currently undergoing renewal after having expired.

In 2016, for the first time the Fitch ratings agency gave Sanepar a Long-Term National Rating of – AA(bra), with a stable outlook. In addition to the company's resilience, the Fitch report attributed this rating to its robust Cash Flow From Operations (CFFO) – tested in diverse economic situations – combined with a capital structure with a historically low leverage and adequate operating efficiency ratios, among other aspects. Whereas in February 2016, Moody's lowered the company's credit rating from Ba1/Aa2 to Ba3/A2. In July 2016, this agency reviewed the rating in the national scale, altering it from A2 to A1.

Another important advance during the year was the implementation of financial planning based on a 30-year horizon, enhancing the company's long-term vision. Similarly, Sanepar dividends, minimum cash and treasury risk management policies were updated with a view to including new governance concepts and enhancing return for shareholders. Also worthy of note was more robust management of actuarial liabilities, also called post-employment benefits.

In December 2016, after the re-IPO, the company started offering shares at BM&FBovespa level 2 of corporate governance, a special listing segment for corporations committed to high levels of corporate governance.

The challenges of regulation

Since 2013, Sanepar has been working towards adapting to a regulated environment, with a dedicated team for this question. With support from a specialized consultancy, the company prepared its rate readjustment and periodic rate review methodologies, updated its general service regulations and trained its employees, as well as undertaking diverse activities inherent to the regulatory process.

Sanepar proposes a model oriented to the economic realignment of rates, which includes the updating of the value of the company's asset base. The objective is to redefine the basis of regulatory remuneration, also taking into account the real need for investment, as well as recovering losses from inflation. Sanepar believes that this enhancement of the rate model will result in fair and adequate rates that will ensure the quality and balance of the system.

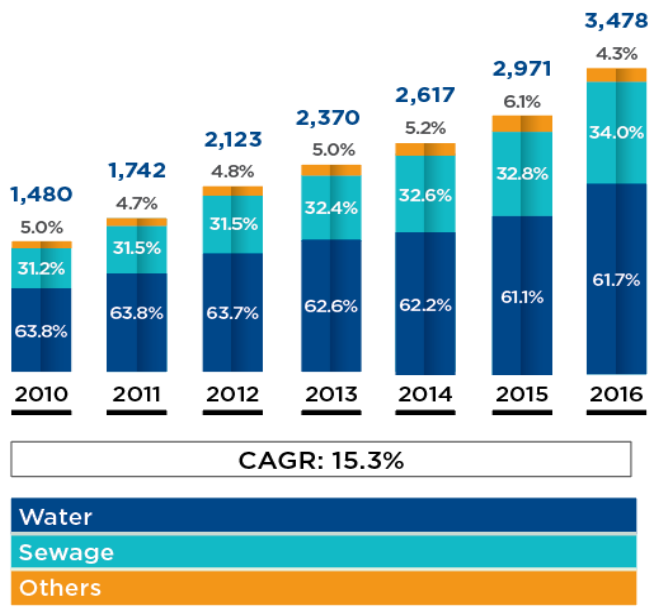
In 2016, the company's asset base of approximately 300,000 items was surveyed and assessed. In the first quarter of 2017, the updated rate will be submitted to the regulatory body. This should be Sanepar's first rate within the basic sanitation regulatory framework, with reviews scheduled for four-year intervals.

Revenues

Net operating revenue from the water, sewage and solid waste business segments grew 17% compared with 2015, driven mainly by the 10.48% rate increase applied to bills from April 2016. Other factors also influenced the increase, such as the expansion of the customer base, with 46,000 new accesses to treated water supply and 94,000 to sewage collection and treatment services, in addition to the increase of 0.8% in the volume of water billed and the 4.1% increase in sewage volume. Revenues for the solid waste business come under Other Revenues.

The delinquency rate grew in comparison with the company's historical average, impacted mainly by the increase in accounts receivable in the private sector, attributable to the country's economic situation.

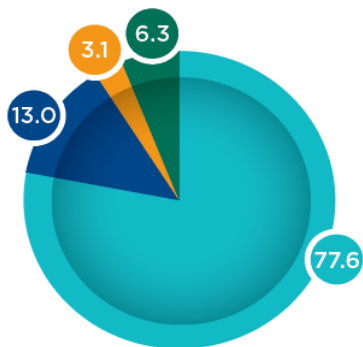
NET REVENUE (R\$ millions)



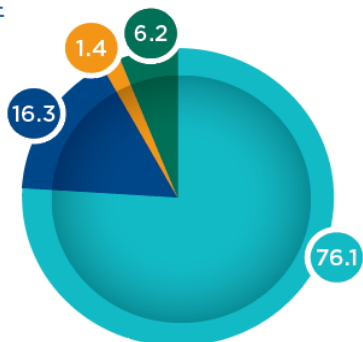
CAGR: compound annual growth rate, Period from 2010 to 2016

REVENUE BREAKDOWN 2016 (%)

WATER



SEWAGE



Delinquency rate	
2010	0.75%
2011	1.60%
2012	1.67%
2013	1.34%
2014	0.46%
2015	0.69%
2016	2.04%

EBITDA

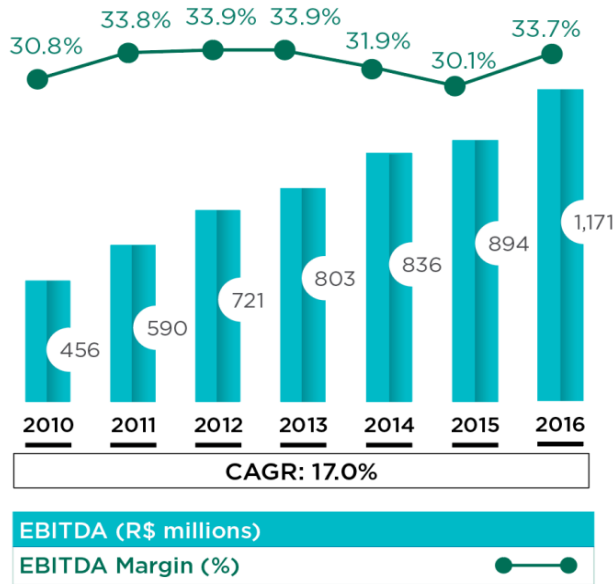
EBITDA, which represents operating cash generation, reached R\$ 1,171.0 million in 2016, compared with R\$ 894.0 million the previous year. This represents a growth rate of 31%. EBITDA margin also increased 3.6 p.p., from 30.1% in 2015 to 33.7% in 2016.

The positive result was due to the 17% growth in net operating revenue, against an increase in costs and expenditures of 12.2%. The cost of electricity, the company's main expense, remained stable in comparison with 2015. In the first quarter of 2016, Sanepar implemented a voluntary retirement program. 236 employees adhered to this program, with a R\$ 53.2 million impact on the company's result. The payback on the program will be approximately nine months.

EBITDA ¹ (R\$ thousands)				
Description	2014	2015	2016	Δ%
Net income	421,586	438,444	626,847	43.0%
(+) Taxes on income	129,608	101,870	162,738	59.8%
(+) Financial result	109,568	159,474	164,281	3.0%
(+) Depreciation and Amortization	175,017	194,194	217,111	11.8%
(=) EBITDA	835,779	893,982	1,170,977	31.0%
EBITDA Margin	31.9%	30.1%	33.7%	3.6p.p.

¹ The company calculates EBITDA in accordance with CVM (Comissão de Valores Mobiliários) ruling nº 527.

EBITDA AND EBITDA MARGIN

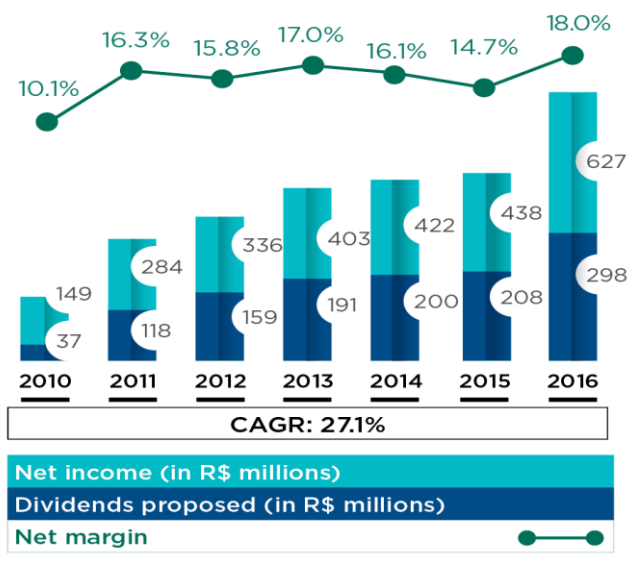


CAGR: Median percentage growth in EBITDA between 2010 and 2016.

Net income and shareholder compensation

Sanepar's net income grew 43% in relation to 2015, from R\$ 438.4 million to R\$ 626.8 million. This was influenced positively by the tax savings derived from the credit due to interest on own equity for shareholders instead of dividend payments, by the increase in revenue and by cost and expenditure management. Net margin was 18% compared with the 14.7% posted in 2015.

NET INCOME, NET MARGIN AND DIVIDENDS PROPOSED



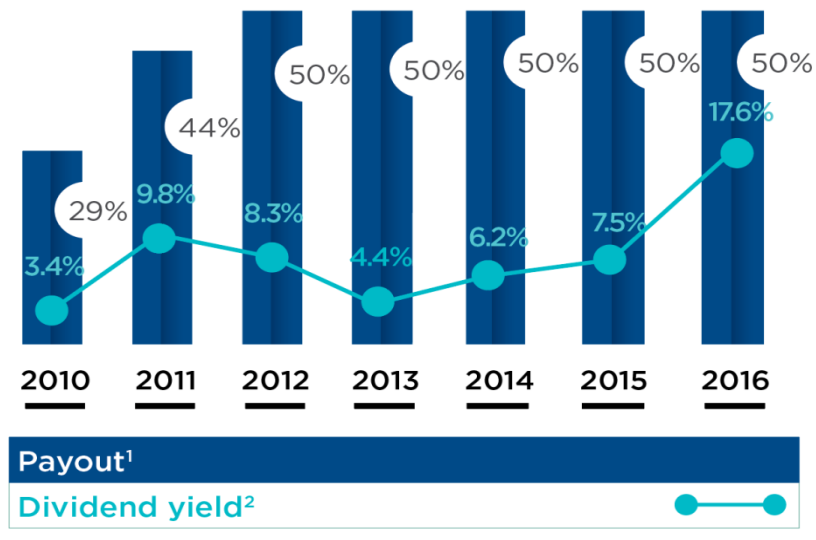
CAGR - Median percentage growth in net profit between 2010 and 2016.

The shareholders are entitled to a mandatory minimum dividend of 25% of the adjusted net income as determined by corporation law. The company's dividend policy provides for the distribution of 50% of net profit in the form of interest on own equity and/or dividends.

Company management is proposing the distribution of interest on own equity and dividends in the amount of R\$ 297.6 million, corresponding to the 2016 result. Payment will take place up to 60 days after the Ordinary General Meeting that will approve the 2016 accounts.

The yield for shareholders in 2016 was 17.6%, considerably higher than the previous year's 7.5%.

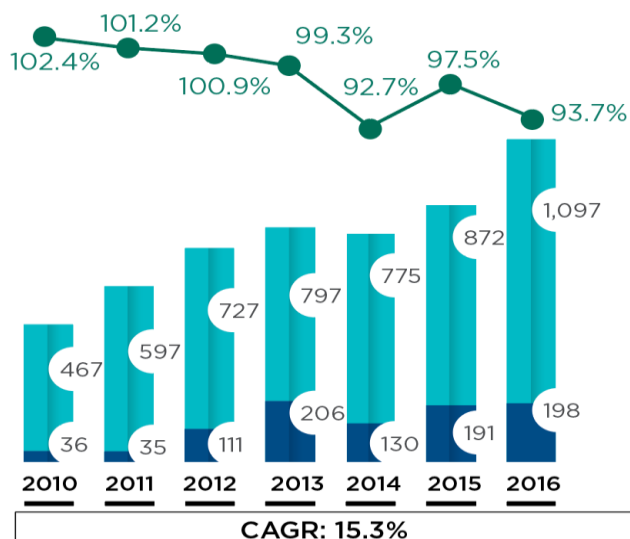
PAYOUT RATIO AND DIVIDEND YIELD



- 1** Payout: percentage of profit paid out
2 Dividendo yield: year on year evolution of profit paid out.

Operating cash generation in 2016 totaled R\$ 1,097 million, up 25.8% over the previous year. In the same period, R\$ 198 million was paid out in dividends and interest on own equity, compared with the R\$ 191 million in 2015.

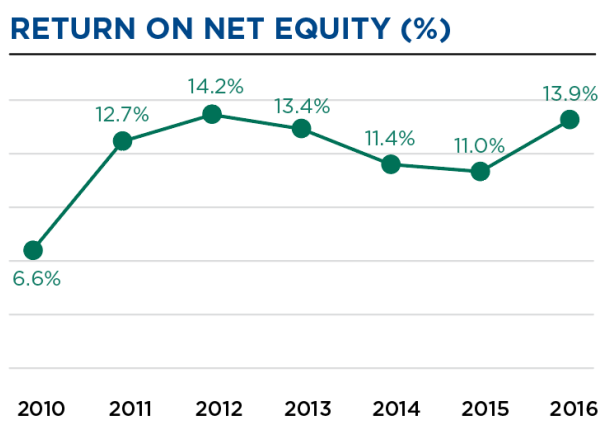
OPERATING CASH GENERATION, EBITDA CONVERSION AND DIVIDEND PAYMENTS



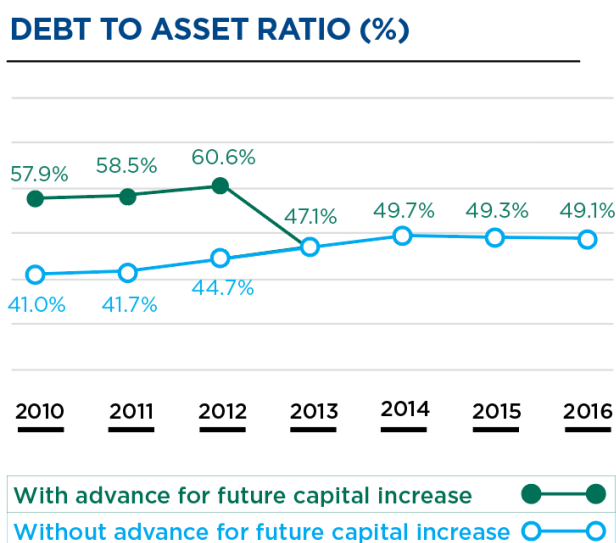
CAGR - median percentage of operating cash generation between 2010 and 2016.

Indebtedness and yield

The yield on net equity grew from 11% in 2015 to 13.9% in 2016. This was driven by the increase in the company's net income.



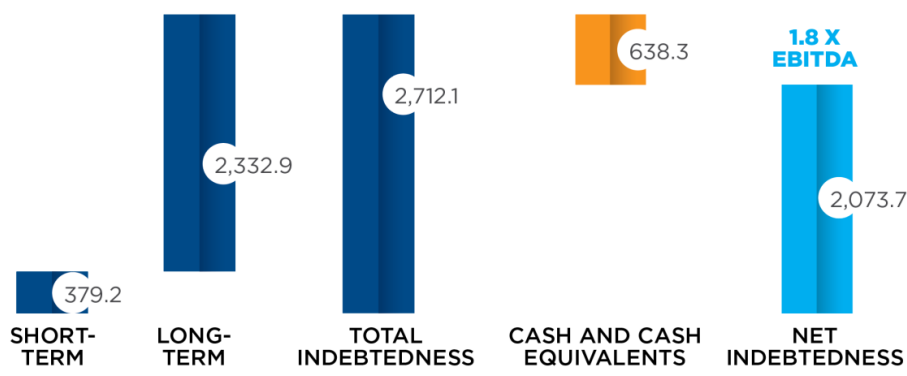
The company ended the year with assets valued at R\$ 9.5 billion and total debt of R\$ 4.6 billion. The debt to asset ratio remained stable, at 49.1%. Net equity at the end of 2016 was R\$ 4.8 billion.



Net debt and leverage

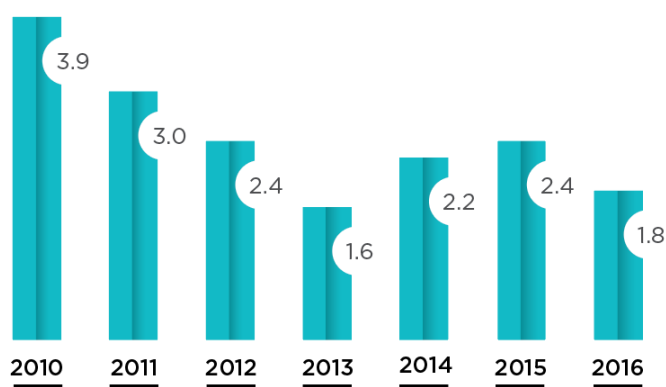
At the end of 2016 the company posted net indebtedness of R\$ 2,073.7 million. The Net Bank debt to EBITDA ratio was 1.8. Thus the company met its covenant obligations arising from loans, financing and debentures, which permit a ratio of up to 3.

NET DEBT AND LEVERAGE¹ (R\$ millions)



¹ Net debt to EBITDA ratio.

NET DEBT/EBITDA¹



¹ Net debt to EBITDA ratio.

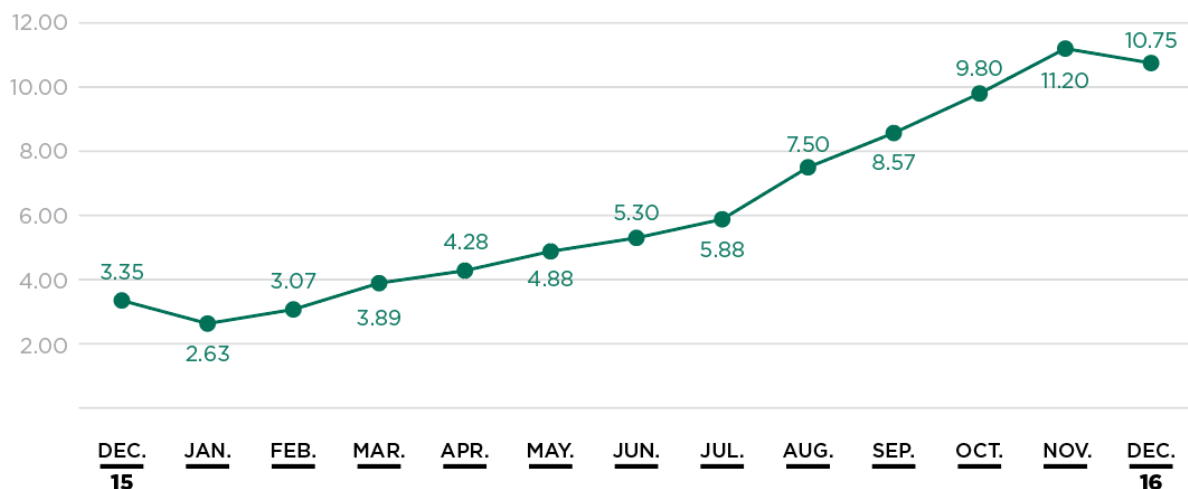
Capital Market

In December 2016, the nominative preferred Sanepar share – SAPR4 – closed at R\$ 10.75, compared with R\$ 3.35 in December 2015. Sanepar preferred shares (SAPR4) on the São Paulo BM&FBovespa exchange ended the year with a positive variation of 220.9%, compared with a drop of 42.2% the previous year.

The equity value of each share on December 31, 2016 was R\$ 9.55, compared with R\$ 8.77 in the year ago comparison.

The financial volume of Sanepar shares traded in 2016 was R\$ 1,257.9 million, compared with R\$ 102.2 million in 2015.

SANEPAR (SAPR4) SHARE PRICES IN R\$



Regulatory model

The company is disclosing a pro-forma regulatory model balance sheet and statement of income which take into account the non-manageable components of portion “A” of the rate model, which include electrical energy, chemical products, taxes and charges.

By means of the rate readjustment, during 2016 Sanepar recovered R\$ 101 million of the R\$ 131.9 million stemming from the portion “A” components of 2015. The rate cycle for recovering this amount covers the period from April 2016 to March 2017, with R\$ 24.7 million still to be recovered on December 31, 2016, based on the portion “A” components from 2016.

The regulatory asset base (RAB), which includes all the assets directly or indirectly linked with the water and sewage segments, was reassessed at a net value of R\$ 12.5 billion in December 2016.

Any differences between the information presented herein and in the financial statements should be analyzed taking the regulatory context into account and do not represent a mandatory accounting item.

REGULATORY BALANCE SHEET (IN THOUSANDS OF R\$)		
	2015	2016
ASSETS		
Current		
Portion "A" Compensation Account	131,928	27,400
Electrical Energy	122,096	693
Chemical Products	7,454	8,682
Taxes and Charges	2,381	18,025
Other unaffected current assets	738,383	1,307,240
Total Current Assets	870,311	1,334,640
Long-Term		
Portion "A" Compensation Account	-	-
Intangible and Immobilized, net	6,891,643	7,330,661
RAB Surplus Value	-	5,191,985
Other unaffected long-term assets	614,649	816,218
Total Long-Term Assets	7,506,292	13,338,864
TOTAL ASSETS	8,376,603	14,673,504
LIABILITIES		
Current		
Portion "A" Compensation Account	-	-
Other unaffected current liabilities	741,501	967,318
Total Current Liabilities	741,501	967,318
Long-Term Liabilities		
Portion "A" Compensation Account	-	-
Other unaffected long-term liabilities	3,322,867	3,678,128
Total Long-Term Liabilities	3,322,867	3,678,128
Net Equity		
Capital	2,597,360	2,847,664
Reserves	1,714,875	1,988,409
RAB Surplus Value	-	5,191,985
Total Net Equity	4,312,235	10,028,058
TOTAL LIABILITIES	8,376,603	14,673,504

REGULATORY STATEMENT OF INCOME (IN THOUSANDS OF R\$)		
	2015	2016
GROSS OPERATING REVENUE	3,183,352	3,741,006
Water	1,944,616	2,309,458
Sewage	1,044,242	1,270,631
Other Revenues	194,494	160,917
CHARGES PORTION "A"	131,927	(104,527)
DEDUCTIONS FROM OPERATING REVENUE	(212,167)	(263,481)
COFINS/PASEP TAXES	(212,167)	(263,481)
NET OPERATING REVENUE	3,103,112	3,372,998
NON-MANAGEABLE COSTS - PORTION "A"	(487,410)	(509,071)
Electrical Energy	(389,562)	(384,929)
Chemical Products	(66,377)	(72,624)
Taxes and Charges	(31,471)	(51,518)
RESULT BEFORE MANAGEABLE COSTS	2,615,702	2,863,927
% of Net Revenue	84.3%	84.9%
MANAGEABLE COSTS - PORTION "B"	(1,782,299)	(2,011,226)
Personnel	(980,425)	(1,085,731)
Materials	(62,765)	(67,176)
Third-Party Services	(475,086)	(509,974)
General and Taxable	(75,224)	(43,731)
Depreciation and Amortization	(194,194)	(217,111)
Other Expenses (Revenues)	5,395	(87,503)
RESULT FROM CONCESSION ACTIVITY	833,403	852,701
% of Net Revenue	26.9%	25.3%
OTHER RESULTS	(161,161)	(167,643)
Financial Revenues	51,999	80,526
Financial Expenses	(211,473)	(244,807)
Equity in Earnings of Subsidiaries	(1,687)	(3,362)
PROFIT (LOSS) BEFORE INCOME TAX AND CSLL	672,242	685,058
% of Net Revenue	21.7%	20.3%
Income Tax and Social Contribution	(101,870)	(162,738)
PROFIT (LOSS)	570,372	522,320
% of Net Revenue	18.4%	15.5%
EBITDA	1,025,910	1,066,450
EBITDA Margin	33.1%	31.6%
EBIT	831,716	849,339
EBIT Margin	26.8%	25.2%

Services provided by independent auditors

The company contracted Ernst & Young Auditores Independientes S/S to undertake independent auditing services for the 2016 financial statements and for the special review reports on the quarterly information for the 3rd quarter of 2016 and the 1st and 2nd quarters of 2017. The current contract is valid for 12 months, starting from October 15, 2016.

No services other than those listed above were undertaken by the independent auditors.

Strategy and management

Aligned with the company's institutional directives and values (responsibility, innovation, competency, respect, commitment, professionalism, transparency and ethics), Sanepar's strategic planning is organized under the following perspectives:

- **Sustainability:** pursuit of economic-financial and social and environmental sustainability;
- **Processes:** investment in institutional development, improved process efficiency, pursuit of product and service excellence and proper environmental management;
- **Customers:** maintenance and expansion of market, universalized access to sanitation, increased customer satisfaction and strengthened company image;
- **People:** evolution in knowledge management, increased satisfaction for people and the exercise of social and environmental responsibility.

These guide all company areas in elaborating and executing action plans to generate results that meet current and future challenges, that help to drive improved performance and to satisfy users.

Investment plan

Sanepar's short, medium and long term investments are set forth in its multiyear investment plan, which includes projects for which resources are guaranteed in the company budget or via financing and those for which funding must be raised.

With a time horizon of five years, the plan is drafted every two years, taking into account preliminary technical studies, sanitation steering plans, operational diagnoses and other requirements of supply systems in diverse locations, in addition to the commitments assumed by the company, such as the targets of the program and concession contracts, and any adaptations to fulfill supplementary environmental requirements.

In 2016, worthy of note were the investments to continue work on the Miringuava dam, which will reinforce the Sanepar reservoir system, and to conclude the first phase of the expansion of the Belém wastewater treatment plant, which serves Curitiba and part of São José dos Pinhais (*read more in the chapter Processes – Reservoir system*).

Recognition of excellence

Management focused on efficiency and results is a characteristic of Sanepar's administration. In 2016, four units gained distinction in the National Sanitation Quality Award (PNQS in the Portuguese acronym) granted by ABES, the Brazilian Sanitary and Environmental Engineering Association, which recognizes management excellence in the sanitation sector in Brazil. The management teams in Toledo and in the Curitiba Metropolitan and Coastal region received the Gold Level II trophy, while the Foz do Iguaçu and Cascavel teams were awarded the Silver Level II trophy.

The awards reflect adherence to the management model adopted by the company since 1997 –Modelo de Excelência de Gestão® (MEG) or Management Excellence Model, a methodology involving assessment, self-assessment and recognition of best practice developed by the Fundação Nacional da Qualidade (FNQ) and introduced in the sector by the National Sanitation Quality Award.

Employed in the company's units, the model encourages employees to pursue results that drive sustainability and competitiveness. In 2016, Sanepar conducted an internal assessment process based on the same criteria as the PNQS, generating a more accurate diagnosis of management quality in each area, resulting in improvements and encouraging the diverse company units to focus increasingly on excellence.

In parallel, the company contracted a consultancy to present a proposal for a new organizational structure aimed at driving greater management focus on efficiency and results, as well as rationalizing processes and optimizing costs.

Research, development and innovation

Sanepar invests constantly in innovation. Through the Research and Development Support Group, part of the Environmental and Social Action area, the company coordinates more than 80 initiatives aimed at providing sustainable and innovative technological solutions in water, sewage, solid urban waste, energy and management. The company has its Sustainable Technologies Center and partners with research centers in Brazil and overseas (Germany, Holland, Japan, Mexico, United Kingdom and United States, among other countries).

Using the tax benefits of Brazil's Lei do Bem, designed to foment technological innovation, the initiatives seek to enhance existing processes, such as energy efficiency projects, and to anticipate trends, an example being a study on the desalinization of sea water conducted in conjunction with researchers from the University of North Texas (United States), University College London (United Kingdom) and Ponta Grossa State University (UEPG).

To encourage innovation, in 2016 the company promoted the Sanepar Inova Award, exclusively for employees, and the Sanepar Sustainable Technologies Award, open to researchers from all over Brazil. The projects are presented in a recent company publication. Read more at www.premio.sanepar.com.br.

Processes

Operating efficiency, which Sanepar pursues on a constant basis, is a key element in the company's business model, driving service quality and business growth, even in the current conjuncture of economic retraction.

Underpinning this excellence is a team that undergoes constant training, a consistent investment plan aimed at maintaining and expanding the infrastructure network, commitment to energy efficiency and the reduction of social and environmental impacts, as well as a permanent focus on process innovation and the adoption of new technologies.

The company ended 2016 with 46 thousand new water supply connections and 94,000 new connections to sewage collection and treatment services.

Water Process

Sanepar's overriding commitment is to ensuring universal access to quality water supplies for 100% of the urban population in the municipalities in which it operates, as has been the case since 2008. Even benefiting from the natural advantage of high water availability throughout the state of Paraná, the company focuses rigorously on process improvement and excellence in maintenance.

A sanitation industry company's efficiency may be measured by its Water Loss Rate per Connection, which takes into account the volume of water not billed due to leakage, under-measurement, fraud and use by fire brigades. In 2016, the Loss Rate per Connection was 233.1 liters per connection per day, higher than the 2015 rate of 225.7 liters per connection per day –, but still better than the national average. According to the most recent survey by the National Sanitation Information System (SNIS 2015), the average water loss rate in Brazil is 36.7%, compared with 33.7% for Sanepar.

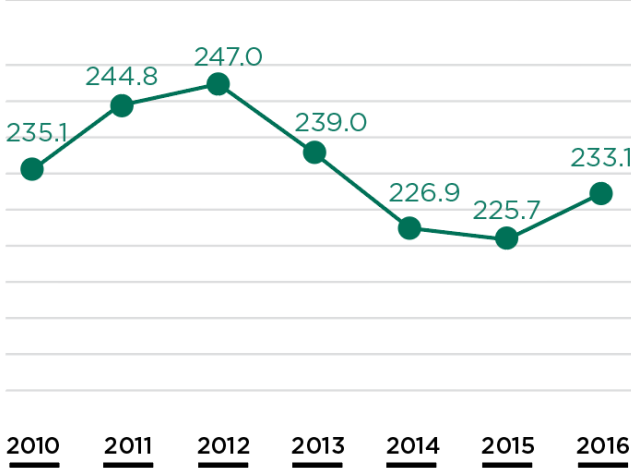
Improvement measures

To reduce the loss rate Sanepar invests constantly in updating its meter park, which currently comprises more than 3 million units. Around 400,000 meters are substituted every year, ensuring a working life of less than five years, which is when water meters begin to present measurement errors that cause losses for the company. In 2016, a pilot program involved the installation of 7,000 high technology water meters in high consumption residential areas in Curitiba and Londrina. This equipment enables the meters to be read at a distance and has an average working life of 15 years, preventing under-measurement and minimizing replacement costs.

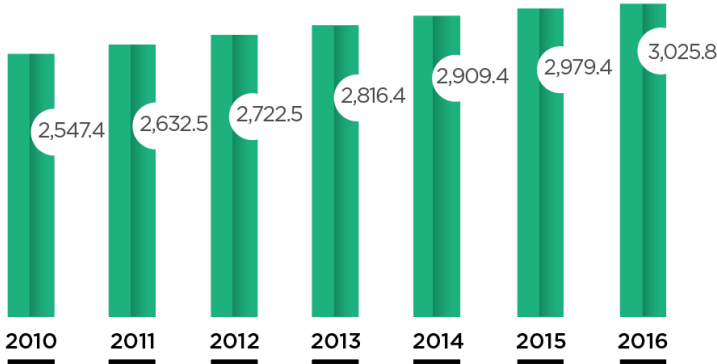
During the year, the company started using a new, more resistant material (high density polyethylene plastic) for new installations and repairs to water pipes on a larger scale, significantly reducing leakages. It is expected that this material will be introduced throughout the network gradually.

The efforts to reduce losses also include the operational control centers which manage water pressure in the water pipes and investigate leakages, as well as the fast, efficient work done by the maintenance teams.

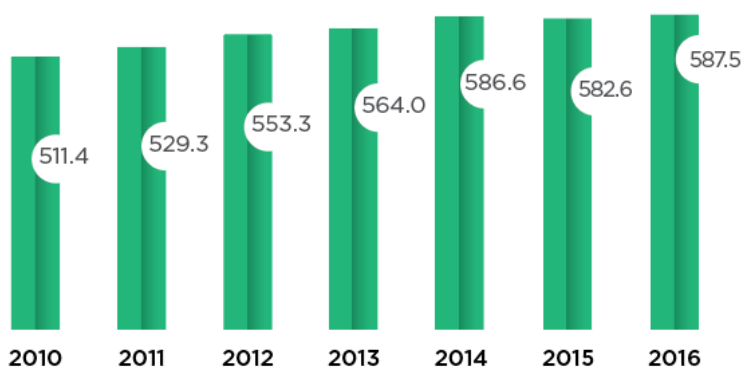
LOSS RATE PER CONNECTION (in liters/connection/day)



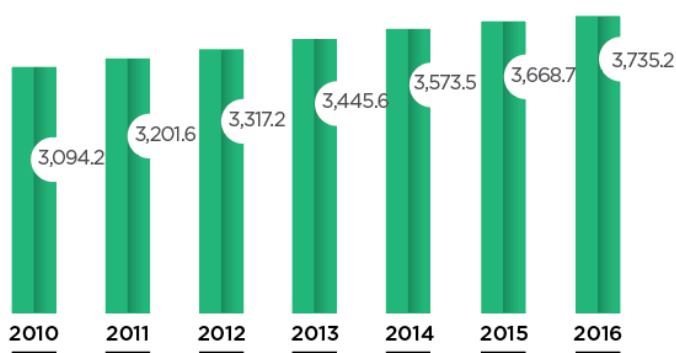
NUMBER OF CONNECTIONS | WATER (in thousands)



VOLUME BILLED | WATER (in millions of m³)



ACTIVE ACCOUNTS¹ | WATER (in thousands)



¹ The term active account is used to designate any property or subdivision of a property that has a private installation or access to a common water supply and/or sewage network registered with and billed by Sanepar.

Effective service plan

At the beginning of 2016, the Northwestern and Northeastern regions of Paraná were hit by heavy rainfalls that compromised the Sanepar integrated system and water supplies. The Maringá (Northwest) and Londrina (Northeast) regional teams were mobilized rapidly in a contingency plan aimed at reestablishing the service as quickly as possible and minimizing inconvenience for the local population. This experience led to the drafting of a preventive plan to ensure that future climate disasters do not have a significant effect on the company's operational infrastructure and services for users. The plan includes improvements to water withdrawal installations, a partnership with a meteorological institute to ensure earlier warning and closer relations with the press and community to provide information on the preventive measures taken.

Care with water resources

To preserve water resources – an indispensable natural capital –, the company partners with the Paraná state and municipal governments to ensure management of water basins with a preventive focus. One measure in place is the Water Source Conservation program intended to implement policies and practices that enable the shared management and conservation of water sources. The initiative involves local governments and receives technical cooperation from the Londrina State University (UEL) and Emater (Instituto Paranaense de Assistência Técnica e Extensão Rural).

The program encompasses nine priority water sources in the state. The Palmital river micro water basin, which partially supplies the town of Colombo in the Curitiba Metropolitan region, was chosen for the pilot phase. A conservation plan for the micro-basin is currently under development, focused on water quality, the reclamation of riparian vegetation, soil use and conservation, solid waste management, the review of legislation and social and environmental education measures, among others.

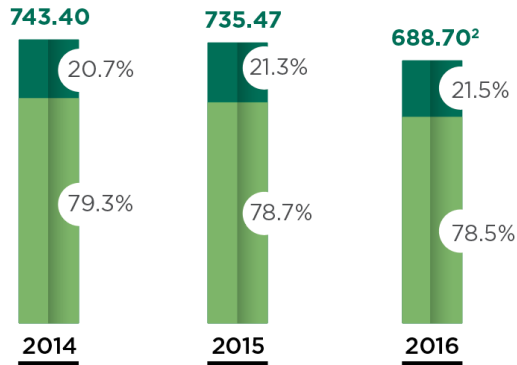
Sanepar also coordinates the Iguazu River Management Group, which is aimed at undertaking initiatives to depollute, revitalize, and preserve the state's largest river, which is 1,300 kilometers long and has a basin covering an area of 70,000 km². The Iguazu River, which has its source in Brazil's Serra do Mar coastal range and flows into the Paraná River on Brazil's frontier with Argentina and Paraguay, passes through 109 municipal districts which contain more than 40% of the state's population, including large cities such as Curitiba, Guarapuava, União da Vitória, Cascavel and Foz do Iguazu.

Urban River Revitalization

Another water resource preservation initiative is the Urban River Revitalization Program (PRRU), in which Sanepar professionals measure the oxygen content dissolved in different stretches of rivers, streams and galleries that cut the cities served by the company. The initiative speeds up the identification of problems and irregular sewage discharge, optimizing maintenance operations and reducing environmental impacts. The program also promotes participative monitoring whereby members of the public in nearby communities are trained to communicate any alterations in water bodies.

The program has already verified 65 water basins in the Greater Curitiba region. In addition to the findings and analyses produced, it has driven clean up initiatives in parts of the Belém River, the Uvu, Bacacheri and Bacacheri Mirim rivers and the Vila Izabel, Campo Comprido, Muller, Água Verde and Henri Ford streams.

WATER CONSUMPTION¹, BY SOURCE (millions of m³)



1 Total water withdrawn in accordance with macro measurement system. The calculation takes into account the consumption informed on electricity bills corresponding to the period from January to December of each year.

2 Partial information. Not all the information for the month of December was available at the time of publishing.



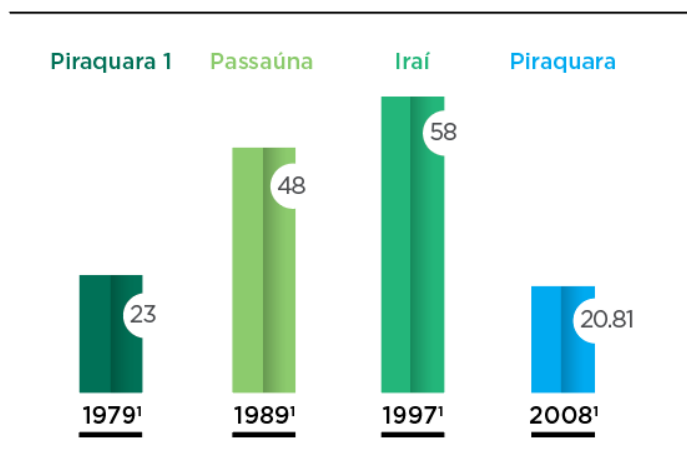
Reservoir system

Sanepar has four reservoirs to accumulate water supplies. All of them (Piraquara I, Piraquara II, Iraí and Passaúna) are located in the Curitiba Metropolitan Region and are part of the Curitiba Integrated Water Supply System (SAIC). The region's water steering plan provides for the construction of another two dams, Miringuava and Faxinal, projected to meet water demand for the next 25 years.

The levels of the reservoirs are monitored continuously to ensure full production capacity. The physical integrity of the dam structures is also monitored systematically in compliance with safety legislation for dams, with full reports sent to the Instituto das Águas do Paraná on an annual basis.

Curitiba Integrated Water Supply System (SAIC)

CURITIBA INTEGRATED SYSTEM (SAIC) (capacity in millions of m³)



¹ Year concluded.

New technology employed in reservoirs

Sanepar has been using a system which employs vitrified steel instead of concrete in its reservoirs. The advantages include: easy and fast implantation, greater durability, lower maintenance costs, with the additional benefit that the structure may be transported.

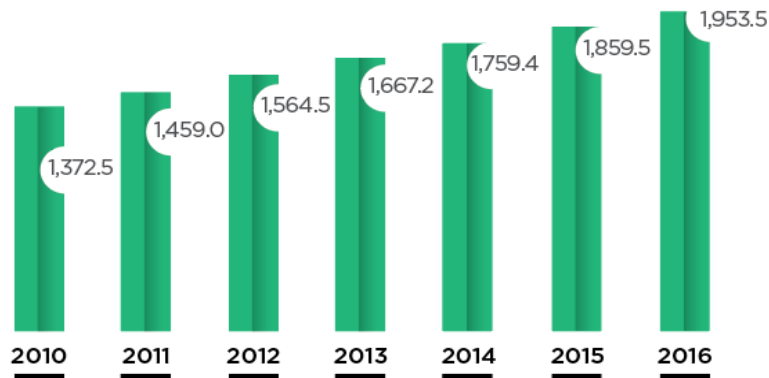
Sewage Process

Focused on enhancing its services – which directly affect public health and quality of life –, Sanepar invests continuously in the expansion and modernization of its sewage collection and treatment system.

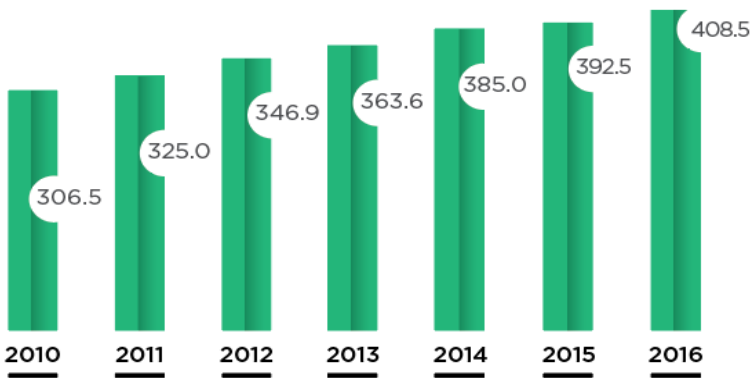
From 2015 to 2016, the collection network was expanded by 6%, from 31,000 km to 33,060 km, as a result of the medium and large scale works in progress. Particularly worthy of note was the conclusion of the first phase of the expansion of the Belém sewage treatment plant, involving an investment of R\$ 45 million. The second phase is scheduled for 2017, with a projected investment of R\$ 60 million. When concluded, the sewage collection and treatment capacity of the Belém wastewater treatment plant, which serves Curitiba and part of the municipality of São José dos Pinhais, will be tripled, reaching 2,520 l/s. Also in the Curitiba Metropolitan Region, work was completed on the Atuba Sul wastewater treatment plant, boosting reception and treatment capacity from 1,120 l/s to 1,680 l/s. This expansion enabled the municipality of Colombo, located to the north of the metropolitan region, to be included in the network.

Currently underway in the Paraná coastal region is the implantation of the Pontal do Paraná and Matinhos sewage network, with 25,000 new connections. The project, involving an investment of R\$ 252 million and scheduled to be finalized by 2019, is aimed at ensuring the beaches in the region are apt for bathing. The sewage collection and treatment rate in Matinhos should reach 85%, compared with 54.03% currently. In Pontal do Paraná, the rate will increase from 26.98% to 75%.

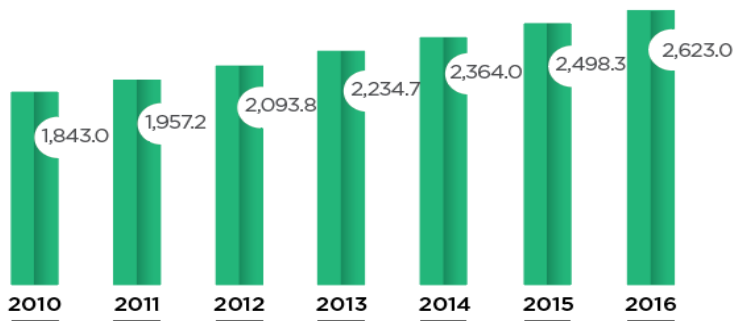
NUMBER OF SEWAGE CONNECTIONS (in thousands)



VOLUME BILLED | SEWAGE (in millions of m³)



ACTIVE ACCOUNTS¹ | SEWAGE (in thousands)



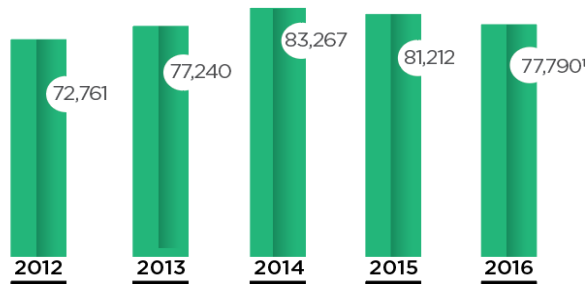
¹ The term active account is used to designate any property or subdivision of a property that has a private installation or access to a common water supply and/or sewage network registered with and billed by Sanepar.

Effluent discharge

Effluent from the sewage process is discharged into water bodies after being subjected to different treatment technologies. The plants are supposed to remove the pollution load and the standard used for discharge is concentration. There is no fixed limit for the discharges effectively undertaken given that the permits take into account the dilution studies and specific limits for each treatment plant, meaning it is impossible to establish reference parameters for grouped data.

With a view to assessing its real contribution and advances in quality, Sanepar does not restrict itself to monitoring the pollution load discharged. In 2016, the company also measured the load removed during the treatment processes. The indicator used takes into account the standard limits of all the parameters assessed and the organic load measured in accordance with the biochemical oxygen demand (BOD).

ORGANIC LOAD REMOVED (tons per year)



¹ Amount estimated. The data on the volume treated and on BOD had not been finalized at the time of publication.

Note: the calculation is based on the theoretical volumes processed in the wastewater treatment plants in accordance with the total number of sewage connections and the average generation per connection, plus the estimated leakages from infiltrations in the sewage networks. The average annual concentration of BOD and the theoretical efficiency of the wastewater treatment plants were estimated in accordance with a study conducted by the University of São Paulo (USP). For the coming years, Sanepar is studying the possibility of increasing the accuracy of the calculation by including data on the real efficiency of the wastewater treatment plants.

Sludge in agriculture

In Brazil, the sewage sludge generated in sewage/wastewater treatment plants is predominantly disposed of in landfills, a process which, in addition to representing around 60% of the operating costs of a plant, generates environmental impacts with respect to the handling of urban waste, especially in large cities.

As a result of the research undertaken by the company in partnership with institutions in Brazil and abroad, Sanepar is now able to improve the disposal of the sludge produced in its sewage treatment plants, recycling part of it for agricultural use, in compliance with Brazil's national solid waste policy and benefiting a number of farms in the state. In 2016, 25,400 metric tons of cleaned sludge was used by 36 agricultural producers to fertilize diverse crops in an area totaling 1,867 hectares.

The project was recognized as best practice in the sustainable management of natural resources by a specialized United Nations Organization Environment Program (UNEP) publication.

WASTEWATER TREATMENT PLANT RESIDUES 2016		
Type	Destination	(t)
Primary treatment residues (screening ¹)	Landfill	9,036
Primary treatment residues (grit removal ²)	Landfill	22,854
Sludge	Landfill	45,471
	Agricultural use	25,422
TOTAL		102,783

1 Coarse solid debris (garbage), removed during screening when sewage arrives at the WWTP.

2 Sand and grit removed by sedimentation when sewage arrives at the WWTP.

Green curtains around the wastewater treatment plants

Green curtains are being planted around Sanepar's wastewater treatment plants with species of bushes adapted to the local climate and soils. The objective is to form a green belt to divert the winds in these areas and decrease the dispersion of the odors generated during the sewage treatment process. Up until September, more than 17,500 seedlings had been planted in the diverse regions.

Solid waste process

In an initiative to diversify its sources of revenue, Sanepar has been consolidating its solid urban waste management business, complementing the environmental sanitation circle. Currently, the company manages three sanitary landfills, in Apucarana, Cianorte and Cornélio Procópio. All the waste collected is treated and disposed of in accordance with Brazil's national solid waste policy.

In Apucarana, Sanepar manages the stages of receipt, treatment and final disposal. In Cornélio Procópio, the process is more complex, involving the stages prior to receipt: collection, transportation and transshipment.

The first landfill to be managed by a state sanitation company, the Cianorte landfill serves the municipalities of São Tomé, Terra Boa, Guararema and Indianópolis. This was also the first state-operated sanitary landfill in Brazil to obtain ISO 14.001 environmental management certification.

WASTE DISPOSAL (t)	2016
SANITARY LANDFILL¹	49,321
Apucarana	22,363
Cianorte	19,820
Cornélio Procópio	7,138
RECYCLING	1,447
TOTAL	50,767

¹ Partial data. The Apucarana unit did not have scales available from January 19 to April 14. Cornélio Procópio had no scales from January 1 to April 10.

Environmental management

Sanepar manages its processes based rigorously on the principles of sustainable use of natural resources and legal compliance. The company has a strategic vision underpinned by these principles and seeks to use natural resources in a balanced, efficient manner to ensure environmental preservation. This question is handled with full transparency at all levels, including senior management, with ongoing efforts to drive awareness of the importance of environmental conservation for business continuity throughout the work force.

This principle is supported by the Corporate Environmental Management System implanted in 2014, which drives compliance with legal standards and requirements, the establishment of goals, targets and monitoring indicators, training for employees and the improvement of internal controls for environmental management.

Based on the requirements of the ISO 14001 standard, an internal certification process was implanted. This currently encompasses the Coastal Region Unit, the Southeast Electromechanical Unit and all the Southeast region sewage treatment plants and pumping stations. The Foz do Iguaçu water and sewage system and the Cianorte landfill have external 14001:2004 certification.

The company was in the forefront of the sector with the adoption of its Environmental Risk Management system based on ISO 31000, which enables the identification, classification and handling of environmental risks with the potential to generate emergency situations. The Curitiba Integrated Water Supply System (SAIC), the Londrina, Ponta Grossa, Foz do Iguaçu and Cianorte water and sewage systems and the Cianorte landfill are certified by the company's internal audit.

Participation in consultation and decision making forums

Sanepar participates in diverse consultation and decision making forums at municipal, state and federal levels, such as councils, technical chambers and water basin committees. The company shares its know-how with other social actors (public authorities, other companies, non-governmental organizations and the Public Prosecution service), participates in key discussions and decisions, and in return has access to new information and trends that enable it to drive improved management for sustainability and ensure compliance with pertinent legislation.

For example, Sanepar is on ten water basin committees linked with the Instituto das Águas do Paraná: Alto Iguaçu e Afluentes do Alto Ribeira (COALIAR); Tibagi; Jordão; Paranapanema; Pirapó, Paranapanema III and IV (Piraponema); Cinzas, Itararé, Paranapanema I and II (Norte Pioneiro); Paraná 3; Baixo Iguaçu; Baixo Ivaí and Paraná I; and Litorânea. The organizations promote debates and discussions on effective water management with diverse social sectors. In the committees, Sanepar makes a direct contribution to the drafting of technical studies and the implantation of new policies.

ENVIRONMENTAL PROTECTION INVESTMENTS ¹ (in R\$)	2015	2016
External social and environmental education	3,641,293	4,285,815
Internal social and environmental education	2,353,661	2,622,679
Urban Rivers Revitalization Program (PRRU)	314,501	272,060
Water sources signposting project ²	493,864	427,935
Research and development ³	4,311,110	4,628,142
Greenhouse gas (GHG) management	161,483	189,813
Reservoir management	845,563	566,524
ISO 14001 and ISO 31000 certification	1,152,349	998,515
TOTAL	13,298,217	13,991,487

¹ Takes into account expenses - including personnel, third-parties and travel - related to environmental protection and conservation initiatives beyond legal obligations.

² Posting of signs on roads in the areas surrounding water basins used for public water supply. The objective is to warn drivers, in particular those carrying hazardous loads, of the risks of contaminating water courses in the event of accidents or spillages.

³ Projects developed by the Centro de Tecnologias Sustentáveis (Sustainable Technologies Center). Lines of research: biogas, renewable energy, water process sludge, sewage process sludge, odor control, water quality, sewage treatment process, water treatment process, water reuse.

Energy efficiency

One of the major challenges for sanitation companies is energy consumption. At Sanepar, approximately 91% of all the energy consumed is related to the water withdrawal, treatment and distribution stages, the reason it constitutes the business's main cost (*read more in the sub-chapter Economic and financial performance*).

Sanepar invests in energy consumption reduction measures, an example being the decrease in operational activities at some treatment plants during peak hours, when energy rates are higher. Furthermore, it ensures periodic maintenance at operating units, to identify and repair potential leaks, and monitors energy supply contracts closely.

These measures produced results, with a reduction in energy intensity in the Water process compared with 2015 and a growth in consumption at a lower rate than the overall expansion of company activities.

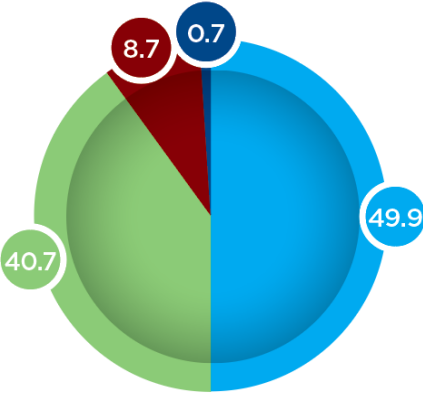
Another initiative in progress is the operation of the pilot system to generate electricity from biogas at the Ouro Verde wastewater treatment plant in Foz do Iguaçu, which may be replicated at other units in the future. The company is also negotiating an external line of financing to invest in the expansion of the sewage network and sludge treatment, impacting energy efficiency and greenhouse gas emissions.

ENERGY CONSUMPTION (GJ)	2015	2016	Variação %
NON RENEWABLE	113,448	112,082	-1.2%
Gasoline	76,064	72,705	-4.4%
Natural gas for vehicles (GNV)	-	388	4.3%
Diesel oil	37,384	38,991	4.3%
RENEWABLE (Ethanol)	10,962	16,801	53.3%
ELECTRICAL ENERGY¹	2,436.120	2,514.268²	3.2%
TOTAL	2,560.530	2,643.153	3.2%

¹ Measured by means of electricity bills for the period.

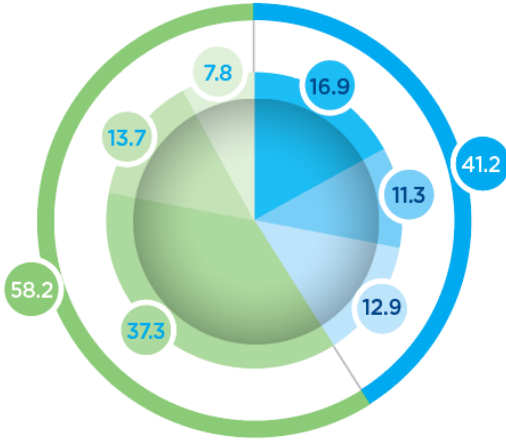
² Consumption measured from January to November. The figures for December were estimated because they were not available at the time of publication.

ELECTRICITY CONSUMPTION (%)



Water process (production)
Water process (distribution)
Sewage process
Other activities

ELECTRICITY - SOURCES¹ (%)



Renewable
- Cane biomass
- Hydraulic
- Others
Non-renewable
- Petroleum and derivatives
- Natural gas
- Others

¹ Based on Brazil's 2016 National Energy Balance (BEN), published by the Ministry of Mines and Energy.

Sanepar acquires energy on the captive market, consequently the company's energy matrix reflects the overall Brazilian energy matrix.

ENERGY INTENSITY ¹	2014	2015	2016 ²
Water process (kWh/m ³ produced)	0.847	0.849	0.840
Sewage process (kWh/m ³ treated)	0.163	0.171	0.180

¹ Energy consumption calculated based on the totals indicated in electricity bills from January to December of each year.

² Takes into account the consumption measured from January to November (in accordance with note 1), plus the estimated consumption in December, since these data were not available at the time of publication.

CS Bioenergia

In a high technology biodigestion unit built in the Belém wastewater treatment plant in Curitiba, it will be possible to produce electrical energy from sludge and other organic materials, an environmentally sound solution that will also reduce Sanepar's waste disposal costs. The project will be managed by CS Bioenergia S.A., a special purpose company involving a partnership between Sanepar and Cattalini Bioenergia. The installed capacity should reach 2.8 MW, with a projected annual power generation of 22.4 GW/h. This will be used by the company itself, and, any surplus will be commercialized. Sanepar has a 40% stake in the business.

Emission reduction

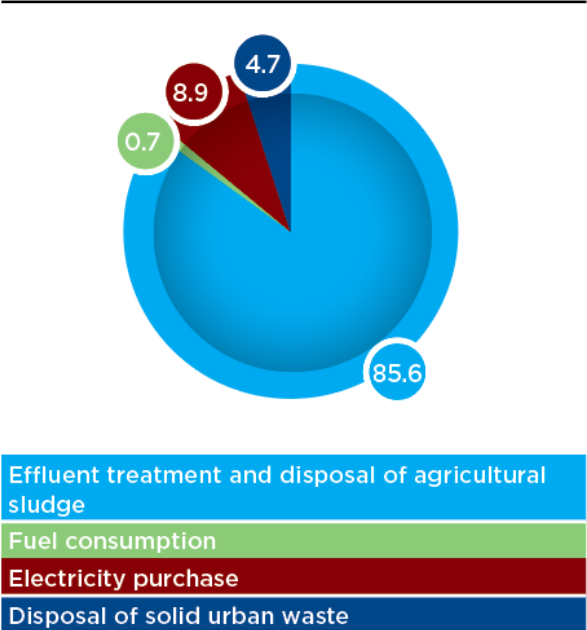
In 2009, Sanepar was the first sanitation company in Brazil to carry out and disclose a greenhouse gas emissions inventory. Since then the company has monitored its emissions on an annual basis using Intergovernmental Panel on Climate Change (IPCC) 2006 methodology and the guidelines of the Brazilian GHG Protocol program. In 2016, the company progressed in emissions management and set up a cross-functional working group to establish carbon intensity reduction targets (CO₂e for each m³ of sewage treated, m³ of water treated and metric ton of waste disposed of) and initiatives to ensure they are achieved.

According to the most recent inventory – published in 2016 based on 2015 data –, the company's direct emissions corresponded to 866,300 tCO₂e, a 2.7% increase over 2015, resulting from increased service coverage. Indirect emissions during the year decreased by 8.7% to 84,200 tCO₂e, mainly due to the reduction of the emission factor in the Brazilian national grid (SIN) through which the company acquires energy.

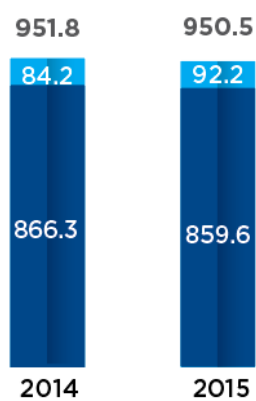
Sewage treatment stands out as the main source of emissions: methane and nitrous oxide emissions generated by effluent treatment corresponded to 93.9% of the company's direct emissions and 85.6% of total emissions. Regarding emission intensity, the process with the highest impact is treatment of solid urban waste, with emissions of 759.3 k CO₂ for each metric ton of waste disposed of. This represents a rise of almost 9% over 2014, driven by the increase in the overall total waste accumulated in the landfills. The carbon intensity from the sewage process presented a slight increase during the year, while water showed a reduction.

Sanepar's biogenic emissions, corresponding to the burning of biofuels by the company-owned fleet, totaled 2,001.87 tCO₂eq in 2015, 26.69% up on 2014 emissions. However, this category is computed separately and is not added to the total emissions for the period.

TOTAL EMISSIONS BY SOURCE (%)



TOTAL EMISSIONS (thousands of tCO₂e)



Indirect
Direct

EMISSIONS BY PROCESS	2014	2015
WATER		
Indirect emissions ¹ (tCO ₂ e)	92,200	76,500
Indirect intensity (k CO ₂ e/m ³ produced)	0.12	0.11
SEWAGE		
Direct emissions ² (tCO ₂ e)	808,200	820,600
Direct intensity (k CO ₂ e/m ³ treated)	2.49	2.53
SOLID URBAN WASTE		
Direct emissions ³ (tCO ₂ e)	44,900	44,900
Direct intensity (k CO ₂ e/t disposed of)	697.0	759.3

¹ Takes into account indirect emissions (scope 2) relative to water treatment and distribution processes.

² Takes into account direct emissions, with the exception of those from solid waste treatment.

³ Takes into account direct emissions exclusively from solid waste treatment and from mobile combustion sources.

Other waste

In addition to the waste from the sewage process, other company facilities and activities generate waste, which is also disposed of in an environmentally appropriate manner. This is the case of materials discarded by the Sanepar central laboratories and the laboratories in the treatment plants (*see the following table*). The company also has some initiatives to ensure the correct disposal of used water meters, light bulbs etc.

LABORATORIES - WASTE DISPOSAL (t)¹			
Material	Disposal	2015	2016²
NON HAZARDOUS			
Normal waste	Sanitary landfill	6.54	6.54
Plastic parings, office paper, magazines, newspapers, wrapping paper and cardboard	Recycling	4.37	4.37
HAZARDOUS			
Laboratory reagents, chemical analysis residues, batteries and light bulbs	Incineration	5.17	5.19
Infectious and cutting materials and special waste	Autoclaving	4.41	4.53
TOTAL		20.49	19.92

¹ Waste generated by the activities of the four Compliance Assessment Services Unit laboratories (Cascavel, Curitiba, Londrina and Maringá).

² Data referring to the period from January to November 2016. The data from December were not available at the time of publication.

Note: the information on the volume recycled is based on estimates; the data on disposal in landfills is based on the waste transportation manifests for the period.

In 2016, Sanepar auctioned off 336 metric tons of scrap and ensured the environmentally correct disposal of 7,362 light bulbs through a specialized provider.

Customers

Transparent, coherent and fair relations with customers is a fundamental element in Sanepar business strategy and constitutes a competitive differential for the company. The priority given to these relationships is reflected in the ongoing investments made in quality, in efforts to ensure universal access to agile services and a fair rate policy.

The company serves two customer groups: public authorities, the municipal governments that contract the sanitation services, and the end consumers, who use the water supply and sewage networks or the waste management services.

Public authorities

The Sanitation Regulatory Framework (federal law 11.445/07), associated with the laws governing the sector, introduced a new form of relationship between municipal authorities and service providers: the program contract. Sanepar has closed 150 contracts in accordance with the terms of this legislation. In 2016 alone, the company signed 15 new contracts, particularly worthy of mention being the one signed with the Londrina municipal government, which constitutes Sanepar's second most significant source of revenue. In addition to the program contracts, the company still maintains concession contracts with a number of municipalities.

The contracts signed incorporate sanitary planning for water supply and sewage collection and treatment services for a thirty-year period, including construction works. The company must be compliant with sanitary and environmental legislation and is expected to boost service levels, contributing to improved quality of life for the public.

Sanepar is focused on maintaining and expanding its market, striving to achieve economic-financial, as well as social and environmental balance in order to ensure the continuity of the business. On the one hand, the company's high capillarity, with operations in all regions of the state, represents a competitive advantage due to the large number of contracts. On the other, it may represent a challenge because of the diversity of forms and styles of management and relationship with public authorities, given the peculiarities of the different municipalities and their administrators.

Municipal Basic Sanitation Plan

In accordance with the law, by the end of 2017 all Brazilian municipalities must have a Municipal Basic Sanitation Plan under penalty of forfeiting federal funding. The drafting of the plan must be in accordance with the legislation, particularly with respect to consulting the public in the form of public hearings, which act as social control mechanisms.

The plan, which is a guide for the development of local sanitation and is to be reviewed every four years, must incorporate the measures necessary to ensure and increase public access to sanitation services (water, the collection and treatment of domestic sewage, urban cleaning, the collection and disposal of urban waste, and the drainage and disposal of rainwater). Strengthening its partnerships with the municipal authorities, Sanepar has been providing technical support for the preparation of these sanitation plans in the water and sewage segments.

Contract profiles (on December 31, 2016)

346 municipal concessions
196 concession contracts
150 program contracts
328 contracts in force
18 contracts expired (under negotiation)

Active relationship management

The company has an annual agenda for encounters and visits focused on monitoring concession contracts, identifying demands related to these contracts, tracking service indicators and prospecting new customers. Between January and November 2016, around 360 visits took place. Of these, 79 involved the discussion of specific subjects related to concessions in place and resulted in the signature of 15 program contracts.

Quality analyses

Fulfilling its commitment to provide the public with high quality water supply and sewage collection and treatment services in an environmentally correct manner and in compliance with the pertinent environmental legislation, Sanepar carries out constant compliance analyses. The company maintains 182 laboratories located in its treatments plants, in addition to four central laboratories: Maringá, Londrina, Cascavel and Curitiba – the latter, inaugurated at the beginning of 2015, has the most modern infrastructure in Latin America.

In 2016, more than 1.7 million water analyses were undertaken in accordance with Ministry of Health ruling 2914/11, with a compliance rate of 99.87%. In parallel, a total of 44,490 sewage analyses were conducted during the year.

WATER PROCESS	2014	2015	2016
WITHDRAWAL			
Analyses undertaken	81,609	76,577	67,670
Non-conformances	15.70%	11.32%	11.22%
TREATMENT			
Analyses undertaken	687,566	692,216	634,071
Non-conformances	0.40%	0.32%	0.20%
DISTRIBUTION			
Analyses undertaken	1,045,408	1,063,801	1,023,331
Non-conformances	0.10%	0.09%	0.12%

99.87% compliance rate in water distribution

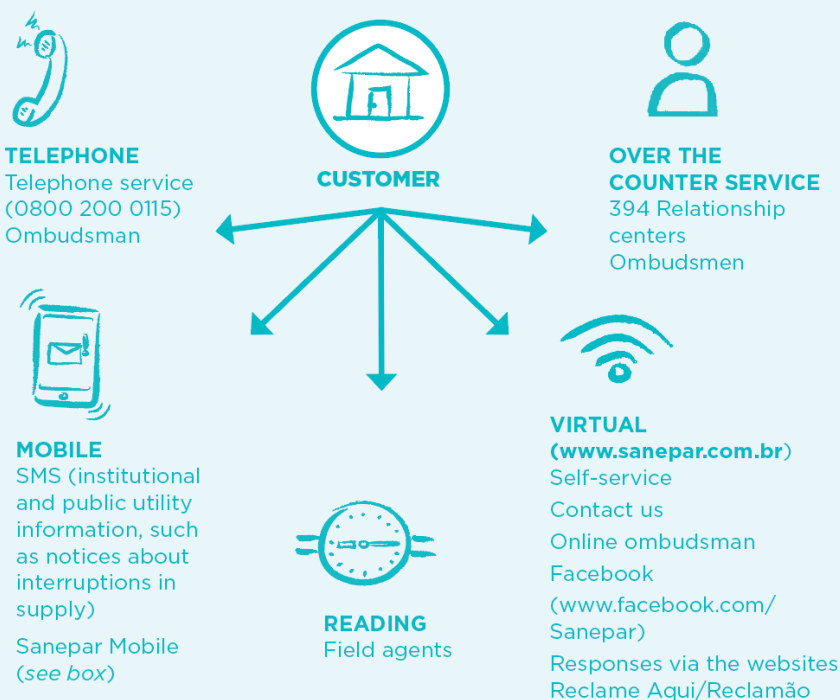
End consumer

Guaranteeing that water, sewage and urban waste customers receive a satisfactory experience is a priority for Sanepar and essential for the maintenance of its reputation. To drive service excellence, the company invests in the renewal and expansion of its networks, in equipment modernization (*read more in the chapter Processes*) and in its customer service structure.

Investing heavily in technology, the company offers a growing number of online services designed to enhance and streamline customer contacts. Worthy of mention is an application for tablets and smartphones launched in 2016. Sanepar has also invested in improving its physical service centers, with the installation of electronic queue management panels by service category, reducing waiting times and complying with the legislation which determines that priority be given to people with special needs. The company also enhanced technical and behavioral training for public facing employees.

CUSTOMER RELATIONS

Sanepar customers are water and sewage utility users in the cities served by the company. Different relationship channels are available for their use.



Sanepar Mobile

The company's application for mobile devices works on the Android and iOS platforms, enabling customers to update account information, check on interruptions to water supply, the location of service and payment points, request repairs and changes in utility bill due dates and delivery addresses, obtain payment codes and receive information on payments made, debits, meter readings and consumption.

In the virtual stores from which the app may be downloaded, Sanepar's app has the highest rating among the applications provided by sanitation and energy utility companies in Brazil.

Ombudsman

The Ombudsman is an independent, impartial channel which receives, assesses and responds – within 10 working days – to requests from the public that have not been addressed in a satisfactory manner via the conventional services. Consumers may access the service and track their requests via the website <http://ouvidoria.sanepar.com.br>.

Trust and credibility

To monitor customer perceptions and identify areas for improvement, a specialized consultancy undertakes an annual satisfaction survey by means of interviews with residential and non-residential users, using structured questionnaires. In the 2016 survey, there was a positive evolution in the main indicators monitored in comparison with the previous year. The total number of customers who would like the company to continue to provide services in the municipality increased from 83% to 88.1%, and the overall satisfaction rate with water supply and sewage collection and treatment services grew from 77% to 83.5% – in 2014 it was 71.1%. Additionally, 85.3% are satisfied with the service they receive from the company, and 84.8% are satisfied with the solutions they receive for their requests. The satisfaction rate with water quality is 85.5%.

In addition to actively seeking its customers' opinions, Sanepar tracks the degree of satisfaction of people who contact the Ombudsman by means of telephone interviews and an online questionnaire.

83.5% of customers are satisfied with the services provided

85.5% are satisfied with water quality

88.1% would prefer Sanepar to continue working in their municipality

Sanitation for all

By means of the Social Rate Program, Sanepar guarantees access to treated water and sewage collection and treatment services at a reduced rate for everyone who meets the stipulated requirements.

In 2016, a total of 186,000 families benefited from the social rate of R\$ 13.29 (R\$ 8.86 for water and R\$ 4.43 for sewage). This corresponds to 6% of the company's total connections, equivalent to a subsidy of R\$ 88 million.

This program contributes directly to the health and well-being of the beneficiaries. In the medium term, it drives savings for the state, which no longer needs to pay for the treatment of diseases arising from poor sanitation.

Micro and small companies and individual micro-entrepreneurs who participate in the State Government ICMS tax exemption program, as well as state-registered philanthropic organizations, also benefit from this differentiated rate.

People

Sanepar employees

The more than 7,000 Sanepar employees constitute the foundation underpinning the company's operational excellence and are the object of constant attention. In addition to the job, career and remuneration plan, policies to ensure a safe and healthy working environment for all and a strategy that values and enhances intellectual capital, the company has been investing in measures to further boost equality of opportunity.

Once again positioning the company in the vanguard of the industry, in 2016 Sanepar became a signatory to the Sustainable Development Goals (SDGs) and launched its Gender Equality Program, based on the United Nations Women initiative Women's Empowerment Principles. In adhering to this global movement, the company is committing to expanding the presence of women in its corporate environment – encompassing leadership positions –, building and consolidating a culture of gender equality and driving a fairer working environment.

Worthy of note among the measures planned are: getting senior management on board; creating and monitoring inequality indicators, with the establishment of short and medium term targets to boost the number of women in management positions; implanting mechanisms of recruitment, retention and development focused on gender equality; and implementing measures to drive gender equality and respect for diversity among the community, customers and suppliers.

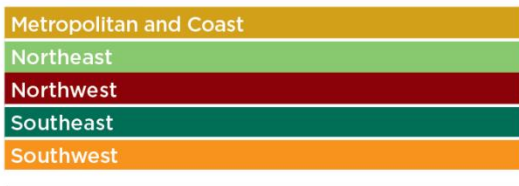
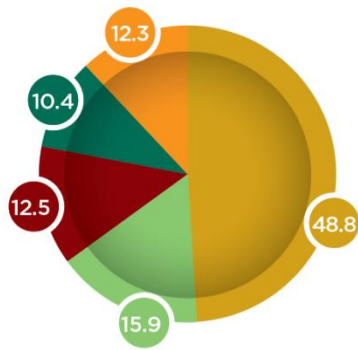
In 2016, women corresponded to 22.2% of the total work force, occupied 26.2% of leadership roles (directors and managers) and 11.1% of the main governance body, the Board of Directors.

EMPLOYEES	2014	2015	2016	
			Men	Women
BY FUNCTIONAL LEVEL				
Director level	9	9	9	0
Management	603	607	419	152
Professional	776	800	482	267
Technical	948	958	740	198
Operational	5,104	5,108	4,129	948
Interns	327	321	104	118
BY TYPE OF WORK CONTRACT				
Fixed term	327	321	104	118
Permanent	7,440	7,482	5,779	1,565
BY TYPE OF EMPLOYMENT				
Full-time	7,440	7,482	5,782	1,565
Part-time	327	321	104	118
BY GENDER	ND	ND	5,883	1,683
TOTAL	7,767	7,803	7,566	
BY REGION¹	7,431	7,473	5,782	1,568
Metropolitan and Coast	3,145	3,183	2,543	1,044
Northeast	1,327	1,316	1,028	137
Northwest	1,048	1,056	786	134
Southeast	876	879	665	101
Southwest	1,035	1,039	757	149
TOTAL¹	7,431	7,473	7,344	

NA: data not available

¹ Does not take interns into account.

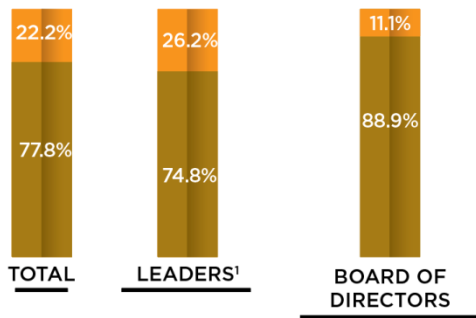
EMPLOYEES BY REGION 2016¹ (%)



¹ Does not take interns into account.

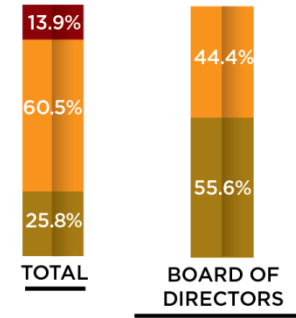
DIVERSITY

GENDER



¹ Directors and managers.

AGE GROUP



MEDIAN SALARY (WOMEN/MEN)	2015	2016
Management	0.99	1.06
Professional	1.13	0.89
Technical	1.15	0.82
Operational	1.01	0.90
TOTAL	0.89	1.06

Intellectual capital

As a result of work undertaken in recent years, in 2016 the company launched its Distance Education School, which facilitates and expands access to the portfolio of training courses. The distance learning model enables employees to choose how and when to study. At work or at home, the team has access to more than 120 courses. In 2016, the program issued 1,981 certificates, and currently 3,938 employees are taking a total of 1,957 courses.

Sanepar also maintained its “Sharing Knowledge” project, which provides for the systematization of knowledge and harnesses the expertise of experienced employees. These individuals provide support in the elaboration of contents and act as multipliers, transmitting specific business-related knowledge to new generations of professionals. The project is aimed at preventing the dispersion of knowledge, particularly among employees who adhered to and will adhere to the company's voluntary retirement program, which was launched in 2015 after prolonged negotiations with the unions. With a benefits package designed to facilitate their new life, 236 employees joined the program, leaving the company in February 2016.

Classroom technical and operational training is conducted in the Water/Sewage Laboratory and the Network and Branches Maintenance Laboratory in the Tarumã Complex in Curitiba. There are also the five Water Treatment Plant schools, in Curitiba, Cascavel, Londrina, Maringá and Ponta Grossa, which provide the operational teams with theoretical and practical knowledge in classrooms and laboratories fitted out with state-of-the-art equipment. During the year, training courses on effluent control procedures, water meters, sludge management and waterproofing systems, among others, were conducted. In 2016, classroom and online training totaled 398,600 hours, corresponding to an average of 54.3 hours per employee.

Together these initiatives contribute towards the implementation of the Sanitation University, which is intended to concentrate the management and dissemination of the company's specialized technical knowledge, thus consolidating and boosting the functional team's intellectual capital and assuring the quality of the environmental sanitation services delivered to society.

AVERAGE NUMBER OF HOURS TRAINING PER EMPLOYEE (h)	2015	2016
BY FUNCTIONAL CATEGORY		
Management	99.2	64.1
Professional	79.2	74.8
Technical	66.5	62.3
Operational	46.2	48.7
BY GENDER		
Men	54.9	51.7
Women	63.8	57.6
TOTAL	56.7	54.3

Leadership development

During the course of 2016, the Management Training and Development program, an ongoing course for managers and coordinators, was expanded to include employees with the potential to occupy leadership roles, selected based on an internal testing process.

Developed in partnership with the university PUCPR, at the end of each program module, participants are paired with a senior manager, who shares his/her experiences and helps to contextualize the course contents in terms of the Sanepar reality. A total of 140 professionals were trained during the year.

Performance appraisal and career plan

With the objective of recognizing employees' competencies and drafting a balanced career progression plan – taking into account both merit and potential –, Sanepar conducts an annual Performance Appraisal process. This involves both an assessment by the individual's immediate manager and a self-assessment which produce a consensus on the employee's performance. In the year, 98.3% of the employees (in the management, professional, technical and operational categories) were submitted to the process; 94.8% of the women and 99.2% of the men.

Results-based variable remuneration takes into account the individual's technical and behavioral competencies as identified in the appraisal (20%), the units' contribution to the company's earnings (30%) and institutional indicators (50%). This process is part of the Jobs, Careers and Remuneration Plan, a tool designed to attract and retain talent at Sanepar.

This system is currently being updated in accordance with an action plan based on the results of the Speak Frankly Organizational Climate Survey. Implemented in 2001, the survey is a key dialogue channel with employees and measures their degree of satisfaction with aspects such as remuneration, benefits, ethics, leadership, work quality and motivation on an annual basis. The score for the most recent survey, based on 2015, was 7.16; 65.73% of Sanepar employees responded to the electronic questionnaire.

Health and safety

With significant investments in health and safety, Sanepar adopts a series of initiatives, particularly worthy of mention being preventive measures. Some of the advances in 2016 were:

- increase in the number of work safety technicians;
- on-site work in the treatment plants to identify points for improvement in the hygiene routines and occupational risk prevention standards;
- ergonomics analyses for the functional team, followed by remedial action plans;

All employees are entitled to the SaneSaúde health plan managed by the Fundações Sanepar de Previdência e Assistência Social, a not-for-profit body which is also responsible for the company's private pension plan, FusanPrev.

In 2016, Sanepar increased paternity leave to 20 days; 89 employees used this benefit.

Social and environmental responsibility

In addition to providing excellent environmental sanitation services, which contribute towards improved public health and quality of life, the company strives to consolidate its relations with the communities it serves, engaging them in the preservation of water bodies and biodiversity and the rational use of natural resources. The company's environmental education initiatives are aimed at the populations in the cities in which it operates and at its employees, who act as multipliers of the concepts and practices.

Se Ligue na rede (Plug into the network)

To avoid the pollution of water bodies, all works involving expansion of the Sanepar sewage system are accompanied by the implementation of the Se Ligue na Rede program. This is aimed at raising public awareness of environmental and health issues and underscoring the importance of the proper connection of their homes to the sewage network – each resident is responsible for this connection –, and also at ensuring the economic feasibility of the ventures.

The program teams go into action before work begins in order to establish a transparent dialogue channel with the community and provide it with technical information, such as the impacts generated, the works schedule and the responsibilities of the company and the public. To reinforce the initiative, community leaders and local public authorities are also mobilized.

During and after the conclusion of the works, Sanepar organizes educational events designed to transform residents into multipliers of the concepts of environmental preservation and civic awareness. In parallel, the company keeps close track of the execution of the connections and provides any necessary guidance. The program also offers a course for plumbers, providing residents with an opportunity for vocational training and income generation.

The community response to this approach is reflected in adherence to the sanitation system. The rate of connections executed is 85%, above the 80% average stipulated by the institutions financing the works.

Se Ligue na Rede in 2016

212 works accompanied
27,005 new sewage connections
45 community meetings, with 1,400 participants
5 courses for plumbers, with 131 people trained

Environmental education for the community

In the **Mananciais da Serra Environmental Education Center (Ceam)**, located on the grounds of the Carvalho Reservoir in the Curitiba Metropolitan Region, visitors – in particular students – can hike along trails and examine the 10,000-item archive, which includes documents, plants, photographs and other objects. The Carvalho water withdrawal system is part of a preservation area in the municipality of Piraquara, but since many rivers with sources in the Mananciais da Serra area supply the Piraquara I reservoir, it is considered to be a company operating unit.

In the summer, rational water use is the focus of activities in the coastal region of Paraná. Sanepar installs shower units – known as **Eco-showers** – along the beach front in the cities of Pontal do Paraná, Matinhos and Guaratuba and provides holidaymakers with tips on the proper use of swimming pools, the time necessary for a shower, sewage network connections and other information.

EcoExpresso

The EcoExpresso is an adapted bus that went into operation in 2016, touring the state to disseminate best water conservation practices.

By means of Do Rio ao Rio (From the River to the River) methodology, developed by Sanepar, the public can see the course water takes from the river to residences in the form of treated water. After use, this water is returned to the river as treated sewage effluent. The domestic sewage collection and treatment processes, as well as solid waste treatment and disposal processes, are displayed by means of models. The methodology also incorporates questions such as climate change, deforestation, waste management and health.

In the cities it visits, the bus stops at schools, in busy public squares or at local markets. The EcoExpresso toured 52 municipalities in 2016 and was visited by 59,372 people.

In 2016, 810 community oriented social and environmental education events were organized, receiving 61,415 participants.

Environmental education for employees

All the environmental education initiatives for Sanepar employees are aimed at presenting sustainability from a practical perspective, associating the contents of the programs with their work routines, in effect turning these employees into environmental agents.

One course particularly worthy of note in 2016 was Sustainability in Practice, made available in classroom and distance learning formats. During the year, more than 843 employees were certified in this program.

The company also organizes EcoProsa monthly encounters and a series of Sustainability Dialogues. In 2016, these forums addressed topics such as the Brazilian Forestry Code, the availability of water resources and the new Climate Agreement (COP21) to reduce greenhouse gas emissions. The discussions are enhanced by the participation of specialists and other social actors.

Se ligue nessa ideia: sem óleo na rede (Connect with this idea: no oil in the network)

To drive awareness about the risks involved in the improper disposal of cooking oil, which can cause blockages and damage to sewage networks, in 2014 the company implanted the **Se ligue nessa ideia: sem óleo na rede** program. In 2016, 4,000 liters of cooking oil were collected and channeled to Sanepar partners who use it to make organic soap, biodiesel and other products. Since the beginning of the initiative, in the Curitiba Metropolitan region alone 771 liters of cooking oil have been donated to the Ecosolidariedade project.

The campaign is part of the Use Common Sense program which, based on the nine senses, helps shape the mindsets of employees in relation to social and environmental commitment both inside and outside the company.

Launched initially for employees, the cooking oil collection campaign has been extended to the community. Today there are 128 drop off points for public use in the cities of Londrina, Maringá, Cascavel, Ponta Grossa, the Curitiba Metropolitan region, Pato Branco, Francisco Beltrão, Paranavaí, Santo Antônio da Platina, Cornélio Procópio, Apucarana, Campo Mourão, Umuarama, Foz do Iguaçu, Toledo, União da Vitória, Guarapuava, Telêmaco Borba, Matinhos and Guaratuba.

R\$ 6.9 million

invested in environmental education projects for employees and the community in 2016.

iBase Social Balance Sheet

ANNUAL SOCIAL BALANCE SHEET - 2016						
1) Calculation Base	2016			2015		
	Amount (thousands of Reals)			Amount (thousands of Reals)		
Net Operating Revenue	3,477,525			2,971,185		
Operating Income	789,585			540,314		
Gross Payroll	899,883			817,316		
2) Internal Social Indicators	Amount (thousands of R\$)	% of Gross Payroll	% of Net Operating Revenue	Amount (thousands of R\$)	% of Gross Payroll	% of Net Operating Revenue
Food	89,583	9.95	2.58	81,323	9.95	2.74
Mandatory social charges	194,333	21.60	5.59	184,339	22.55	6.20
Private pensions	28,340	3.15	0.81	26,949	3.30	0.91
Health	54,877	6.10	1.58	48,527	5.94	1.63
Transportation paid	1,671	0.19	0.05	1,668	0.20	0.06
Occupational health and safety	10,504	1.17	0.30	10,651	1.30	0.36
Education	19	-	-	51	0.01	-
Professional training and development	2,837	0.32	0.08	2,252	0.28	0.08
Day care nursery or nursery allowance	2,187	0.24	0.06	1,982	0.24	0.07
Profit sharing	53,123	5.90	1.53	40,947	5.01	1.38
Others	138,511	15.39	3.98	100,493	12.30	3.38
Total - Internal Social Indicators	575,985	64.01	16.56	499,182	61.08	16.81
3) External Social Indicators	Amount (thousands of R\$)	% of Operating Income	% of Net Operating Revenue	Amount (thousands of R\$)	% of Operating Income	% of Net Operating Revenue
Culture, Arts, Audiovisual and Sports	4,246	0.54	0.12	2,886	0.53	0.10
Funds for Children and the Elderly	1,700	0.22	0.05	1,110	0.21	0.04
Health and Cancer Assistance Programs	850	0.11	0.02	820	0.15	0.03
Leisure and entertainment	1,518	0.19	0.04	400	0.07	0.01
Others	9,112	1.15	0.26	6,106	1.13	0.20
Total Contributions to Society	17,426	2.21	0.49	11,322	2.09	0.38
Taxes (excluding social charges)	436,880	55.33	12.56	314,747	58.25	10.59
Total -External Social Indicators	454,306	57.54	13.05	326,069	60.34	10.97
4) Environmental Indicators	Amount (thousands of R\$)	% of Operating Income	% of Net Operating Revenue	Amount (thousands of R\$)	% of Operating Income	% of Net Operating Revenue
Related to company operations	851,251	107.81	24.48	802,548	148.53	27.01
In external projects and/or programs	30,575	3.87	0.89	23,417	4.33	0.79
Total environmental investments	881,826	111.68	25.36	825,965	152.86	27.80

5) Work Force Indicators							2016	2015
Nº of employees at the end of the year							7,344	7,473
Nº of admissions during the year							217	175
Nº of interns							222	321
Nº of employees aged over 45 years							3,094	3,162
Nº of women working in the company							1,565	1,554
% of management positions held by women							26.00%	25.00%
Nº of afro-descendents working in the company ¹							326	312
Nº of disabled or persons with special needs working in company ²							82	76
6) Material information regarding the exercise of corporate citizenship								
Ratio of highest to lowest remuneration in the company							15.21	15.52
Total number of work-related accidents							401	370
The social and environmental projects developed by the company were defined by:	<input type="checkbox"/> executive board	<input checked="" type="checkbox"/> executive board and management	<input type="checkbox"/> all the employees	<input type="checkbox"/> executive board	<input checked="" type="checkbox"/> executive board and management	<input type="checkbox"/> all the employees		
The health and safety standards in the workplace were defined by:	<input type="checkbox"/> executive board and management	<input type="checkbox"/> all the employees	<input checked="" type="checkbox"/> all + Cipa	<input type="checkbox"/> executive board and management	<input type="checkbox"/> all the employees	<input checked="" type="checkbox"/> all + Cipa		
The private pension plan covers:	<input type="checkbox"/> executive board	<input type="checkbox"/> executive board and management	<input checked="" type="checkbox"/> all the employees	<input type="checkbox"/> executive board	<input type="checkbox"/> executive board and management	<input checked="" type="checkbox"/> all the employees		
The profit sharing includes:	<input type="checkbox"/> executive board	<input type="checkbox"/> executive board and management	<input checked="" type="checkbox"/> all the employees	<input type="checkbox"/> executive board	<input type="checkbox"/> executive board and management	<input checked="" type="checkbox"/> all the employees		
In selecting suppliers, the same ethical, social responsibility and environmental standards adopted by the company:	<input type="checkbox"/> are not taken into account	<input type="checkbox"/> are suggested	<input checked="" type="checkbox"/> are required	<input type="checkbox"/> are not taken into account	<input type="checkbox"/> are suggested	<input checked="" type="checkbox"/> are required		
Regarding employee participation in voluntary work programs, the company:	<input type="checkbox"/> does not get involved	<input type="checkbox"/> supports this	<input checked="" type="checkbox"/> organizes and encourages this	<input type="checkbox"/> does not get involved	<input type="checkbox"/> supports this	<input checked="" type="checkbox"/> organizes and encourages this		
Total added value for distribution (in thousands of R\$)							In 2016: 2,435,923	In 2015: 1,990,101
Distribution of Added Value:	24.1% government	38.3% employees		23.4% government	42.0% employees			
	12.2% shareholders	11.9% third-parties	13.5 % retained	10.5% shareholders	12.5% third-parties	11.6 % retained		
¹ Quota of Afro-descendents in civil service examinations from 2005;								
² Quota of disabled people in civil service examinations from 2000.								

Fiscal incentives

FUNDING FROM TAX INCENTIVES (in thousands of reais)	
Culture and arts	3,396
Sports	850
Children's and Adolescents' Fund	850
Fund for the Elderly	850
Pronon (National Cancer Program)	850
PAT (Workers' Food Program)	5,969
Corporate Citizen Incentive	610
Lei do Bem (Research and Development for Technological Innovation)	1,685
TOTAL	15,060

About the report

The 2016 Management Report is one of the main instruments through which Sanepar holds itself accountable to shareholders, market analysts, customers, employees, supplier and other stakeholders. The content of the document covers the period from January 1st to December 31st, 2016 and, for the second time, adopts the Core option of the Global Reporting Initiative (GRI) G4 international reporting methodology.

The elaboration of the document also took into account SASB (Sustainability Accounting Standards Board) methodology, the pronouncements of Codim (Comitê de Orientação para Divulgação de Informações ao Mercado) and the International Integrated Reporting Council (IIRC) Integrated Reporting principles.

Definition of the contents and indicators reported in the document took into consideration operational indicators pertinent to Sanepar and its sector of activity – such as network coverage rates, loss rates, investments in expansion and modernization, parameters monitored etc. –, as well as the most relevant social, environmental and economic topics in the perception of Sanepar and its stakeholders. To do this, a materiality process was undertaken in 2016, involving consultation of internal and external stakeholders. This enabled mapping of the most important aspects for the company's management and communication of sustainability; it was validated by senior management and aligned with organizational strategy



ACCOUNTING STATEMENTS

YEAR: 2016

Companhia de Saneamento do Paraná - SANEPAR

AUDITED ACCOUNTING STATEMENTS

As of December 31, 2016, and 2015

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Companhia de Saneamento do Paraná - SANEPAR

BALANCE SHEETS As of December 31, 2016, and 2015 (in thousands of *Reais*)

ASSETS

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Current assets			
Cash and cash equivalents	4	638,330	163,797
Trade accounts receivable, net	5	559,797	477,281
Inventories		36,722	35,662
Taxes and contributions recoverable	6	39,021	28,829
Earmarked deposits		9,844	9,166
Other accounts receivable	7	23,526	23,648
Total current assets		<u>1,307,240</u>	<u>738,383</u>
Non-current assets			
Trade accounts receivable, net	5	10,706	9,736
Taxes and contributions recoverable	6	760	684
Earmarked deposits	24	45,834	34,559
Contractual financial assets	10	172,381	77,420
Court deposits	15.c	156,442	132,894
Deferred income and social contribution taxes	16.c	373,997	334,775
Other accounts receivable	7	43,695	16,357
Investments	8	12,403	8,224
Property, plant and equipment, net	9.a	131,268	130,043
Intangible assets, net	9.b	7,199,393	6,761,600
Total non-current assets		<u>8,146,879</u>	<u>7,506,292</u>
TOTAL ASSETS		<u>9,454,119</u>	<u>8,244,675</u>

Companhia de Saneamento do Paraná - SANEPAR

BALANCE SHEETS

As of December 31, 2016, and 2015
(in thousands of *Reais*)

LIABILITIES

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Current liabilities			
Loans, financing, debentures and financial leasing	11	379,163	230,660
Contractors and suppliers		133,505	125,404
Concession agreements	12	7,501	7,052
Taxes and contributions	13	63,260	50,124
Payroll and related charges		157,379	140,286
Dividends and interest on equity	17/18	134,055	95,101
Bills payable		-	3,087
Revenues to be appropriated		542	3,250
Contractual pledges and withholdings		2,338	2,684
Retirement plan and medical assistance plan	25	53,062	46,896
Other accounts payable	14	36,513	36,957
Total current liabilities		<u>967,318</u>	<u>741,501</u>
Non-current liabilities			
Loans, financing, debentures and financial leasing	11	2,332,911	2,105,348
Concession agreements	12	89,425	91,115
Taxes and contributions	13	1,411	1,468
Revenues to be appropriated		-	542
Provisions	15.a	506,576	463,423
Retirement plan and medical assistance plan	25	742,866	656,541
Other accounts payable	14	4,939	4,430
Total non-current liabilities		<u>3,678,128</u>	<u>3,322,867</u>
Shareholders' equity			
	18		
Capital Stock		2,847,664	2,597,360
Revaluation reserve		87,200	92,825
Adjustments to equity pick-up		10,410	12,147
Income reserves		1,779,937	1,398,472
Other comprehensive income		83,462	79,503
Total shareholders' equity		<u>4,808,673</u>	<u>4,180,307</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>9,454,119</u>	<u>8,244,675</u>

The accompanying notes are an integral part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENT OF INCOME

Years ended December 31, 2016 and 2015

(In thousands de *Reais*, except net earnings per share)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Net operating revenues	19	3,477,525	2,971,185
Costs of goods sold and services provided	20	(1,445,108)	(1,345,162)
Gross Profit		<u>2,032,417</u>	<u>1,626,023</u>
Operating expenses			
Selling expenses	21	(253,067)	(202,780)
Administration expenses	21	(616,161)	(591,952)
Other operating expenses	21	(11,197)	(15,356)
Equity pick-up	8	(3,361)	(1,688)
Profit sharing program	22	(53,123)	(40,947)
		<u>(936,909)</u>	<u>(852,723)</u>
Financial revenues (expenses)			
Financial revenues	23	80,526	51,999
Financial expenses	23	(244,807)	(211,473)
		<u>(164,281)</u>	<u>(159,474)</u>
Provisions			
Civil, labor, tax and environmental	15.a	(43,153)	4,349
Retirement plan and medical assistance plan	25	(98,489)	(77,861)
		<u>(141,642)</u>	<u>(73,512)</u>
Income before income and social contribution taxes		<u>789,585</u>	<u>540,314</u>
Income and social contribution taxes	16.a	(162,738)	(101,870)
NET INCOME FOR THE YEAR		<u>626,847</u>	<u>438,444</u>
Net income attributable to the common shares		195,890	202,969
Net income attributable to the preferred shares		430,957	235,475
Basic earnings and diluted earnings per share	18.e		
Common		0.86811	0.87499
Preferred		1.71311	0.96249
Number of shares at the end of the year			
Common		167,911,724	231,967,956
Preferred		335,823,449	244,652,250

The accompanying notes are an integral part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENT OF COMPREHENSIVE INCOME

Years ended December 31, 2016 and 2015

(in thousands of *Reais*)

	<u>2016</u>	<u>2015</u>
Net income for the year	626,847	438,444
Other comprehensive income, net, to be reclassified to income for the year in future periods	3,959	144,723
Actuarial earnings and losses	5,998	219,277
Effect of income and social contribution taxes	(2,039)	(74,554)
Comprehensive income for the year	<u>630,806</u>	<u>583,167</u>

The accompanying notes are an integral part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2016 and 2015

(in thousands of *Reais*)

	Capital stock	Revaluation reserve	Adjustments to equity pick-up	Income reserves			Additional dividend proposed	Retained earnings	Other comprehensive income	Total
				Investment plan	Legal reserve	Tax incentives				
Balances as of December 31, 2014	2,597,360	98,750	14,073	897,087	150,759	8,283	99,993	-	(65,220)	3,801,085
Realization of revaluation reserve	-	(8,977)	-	-	-	-	-	8,977	-	-
Realization of taxes on the revaluation reserve	-	3,052	-	-	-	-	-	(3,052)	-	-
Realization of the adjustment to allocated cost	-	-	(2,919)	-	-	-	-	2,919	-	-
Realization of taxes on the adjustment to allocated cost	-	-	993	-	-	-	-	(993)	-	-
Actuarial earnings and losses	-	-	-	-	-	-	-	-	219,277	219,277
Provision for taxes on actuarial earnings and losses	-	-	-	-	-	-	-	-	(74,554)	(74,554)
Additional dividends for 2015	-	-	-	-	-	-	(99,993)	-	-	(99,993)
Net income for the year	-	-	-	-	-	-	-	438,444	-	438,444
Allocation proposed to the AGM										
Constitution of legal reserve	-	-	-	-	21,922	-	-	(21,922)	-	-
Tax incentives	-	-	-	-	-	715	-	(715)	-	-
Interest on equity	-	-	-	-	-	-	-	(204,396)	-	(204,396)
Additional dividends proposed	-	-	-	-	-	-	103,951	(3,507)	-	100,444
Retained profits	-	-	-	215,755	-	-	-	(215,755)	-	-
Balances as of December 31, 2015	2,597,360	92,825	12,147	1,112,842	172,681	8,998	103,951	-	79,503	4,180,307
Capital increase	257,592	-	-	-	-	-	-	-	-	257,592
Expenditures with issuing shares	(7,288)	-	-	-	-	-	-	-	-	(7,288)
Realization of revaluation reserve	-	(8,522)	-	-	-	-	-	8,522	-	-
Realization of taxes on the revaluation reserve	-	2,897	-	-	-	-	-	(2,897)	-	-
Realization of the adjustment to allocated cost	-	-	(2,631)	-	-	-	-	2,631	-	-
Realization of taxes on the adjustment to allocated cost	-	-	894	-	-	-	-	(894)	-	-
Actuarial earnings and losses	-	-	-	-	-	-	-	-	5,998	5,998
Provision for taxes on actuarial earnings and losses	-	-	-	-	-	-	-	-	(2,039)	(2,039)
Additional dividends for 2015	-	-	-	-	-	-	(103,951)	-	-	(103,951)
Net income for the year	-	-	-	-	-	-	-	626,847	-	626,847
Allocation proposed to the AGM										
Constitution of legal reserve	-	-	-	-	31,343	-	-	(31,343)	-	-
Tax incentives	-	-	-	-	-	335	-	(335)	-	-
Interest on equity	-	-	-	-	-	-	-	(293,404)	-	(293,404)
Additional dividends proposed	-	-	-	-	-	-	148,792	(4,181)	-	144,611
Retained profits	-	-	-	304,946	-	-	-	(304,946)	-	-
Balances as of December 31, 2016	2,847,664	87,200	10,410	1,417,788	204,024	9,333	148,792	-	83,462	4,808,673

The accompanying notes are an integral part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENT OF CASH FLOW Years ended December 31, 2016 and 2015 (in thousands of *Reais*)

	<u>2016</u>	<u>2015</u>
CASH FLOW FROM OPERATIONS		
Net income for the year	626,847	438,444
Adjustments to reconcile net income with cash from operations		
Depreciation and amortization	217,111	194,194
Costs of writing down property, plant and equipment and intangible assets	12,651	11,965
Adjustment to the impairment of assets	1,285	7,145
Cost of writing down investments	-	(65)
Adjustment of financial assets to present value	(22,625)	(4,568)
Provision for losses on realization of credits	21,775	(4,799)
Deferred income and social contribution taxes, net	(41,261)	(30,254)
Provisions	43,153	(4,349)
Retirement plan and medical assistance plan	98,489	77,861
Interest on financing	238,666	203,015
Monetary restatement of financing	50,055	50,423
Equity pick-up	3,361	1,688
Appropriation of costs in raising third-party funds	378	270
	623,038	502,526
Reduction (increase) in operating assets		
Trade accounts receivable	(105,261)	(80,673)
Taxes and contributions recoverable	(10,268)	(5,936)
Court deposits	(23,548)	33,853
Inventories	(1,060)	(496)
Other accounts receivable	(27,216)	1,219
	(167,353)	(52,033)
Increase (reduction) in operating liabilities		
Contractors and suppliers	8,101	(15,675)
Concession agreements	(1,241)	3,089
Taxes and contributions	(3,150)	(4,118)
Payroll and charges payable	17,093	11,449
Contractual pledges and withholdings	(346)	(180)
Revenues to be appropriated	(3,250)	(3,250)
Bills payable	(3,087)	(6,542)
Other accounts payable	65	(1,460)
	14,185	(16,687)
Cash and cash equivalents for operations	1,096,717	872,250
CASH FLOW FROM INVESTMENTS		
Investment in property, plant and equipment and intangible assets	(701,293)	(795,089)
Investments	(7,540)	(1,643)
Cash and cash equivalents used in investments	(708,833)	(796,732)
CASH FROM FINANCING		
Financing obtained	494,178	652,815
Amortization of financing	(219,152)	(243,208)
Interest payments on financing	(227,344)	(199,565)
Costs of raising third-party funds	(1,823)	(235)
Earmarked deposits	(11,953)	705
Payment of dividends and interest on equity.	(197,561)	(191,294)
Primary share issues	257,592	-
Cost of share issues	(7,288)	-
Cash and cash equivalents from financing	86,649	19,218
INCREASE IN THE BALANCE OF CASH AND CASH EQUIVALENTS	474,533	94,736
At the beginning of the year	163,797	69,061
At the end of the year	638,330	163,797

The accompanying notes are an integral part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENT OF VALUE ADDED Years ended December 31, 2016 and 2015 (in thousands of *Reais*)

	<u>2016</u>	%	<u>2015</u>	%
Revenues				
Sales of goods and services	3,741,006		3,183,352	
Other income	(11,197)		(8,211)	
Losses on realization and impairment of assets	(21,775)		(2,346)	
	<u>3,708,034</u>		<u>3,172,795</u>	
Inputs acquired from third parties				
Chemical products consumed	(73,173)		(68,117)	
Materials consumed	(66,626)		(61,024)	
Electricity	(385,599)		(390,862)	
Other costs of goods and services	(347,222)		(314,391)	
Outsourced services	(161,326)		(150,748)	
Other operating expenses	(98,219)		(53,669)	
	<u>(1,132,165)</u>		<u>(1,038,811)</u>	
Gross Value Added	<u>2,575,869</u>		<u>2,133,984</u>	
Depreciation and amortization	(217,111)		(194,194)	
Net Value Added	<u>2,358,758</u>		<u>1,939,790</u>	
Value added received via transfer				
Equity pick-up	(3,361)		(1,688)	
Financial revenues	80,526		51,999	
Total value added to be distributed	<u>2,435,923</u>		<u>1,990,101</u>	
Distribution of value added				
Employees and management				
Payroll and charges	787,199	32.3	710,739	35.7
Fees of the Executive Officers and Board Members	9,141	0.4	8,346	0.4
Profit sharing program	53,123	2.2	40,947	2.1
Retirement plan and medical assistance plan	83,217	3.4	75,477	3.8
	<u>932,680</u>	<u>38.3</u>	<u>835,509</u>	<u>42.0</u>
Government				
Federal taxes	583,898	24.0	463,487	23.3
State taxes	458	0.0	498	0.0
Local taxes	1,924	0.1	1,852	0.1
	<u>586,280</u>	<u>24.1</u>	<u>465,837</u>	<u>23.4</u>
Financing sources				
Leases	45,309	1.9	38,838	1.9
Interest and monetary restatement	244,807	10.0	211,473	10.6
	<u>290,116</u>	<u>11.9</u>	<u>250,311</u>	<u>12.5</u>
Shareholders				
Interest on equity	293,404	12.0	204,396	10.3
Dividends	4,181	0.2	3,507	0.2
Net income for year not allocated	<u>329,262</u>	<u>13.5</u>	<u>230,541</u>	<u>11.6</u>
Total	<u>2,435,923</u>	<u>100.0</u>	<u>1,990,101</u>	<u>100.0</u>

The accompanying notes are an integral part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

1. OPERATIONS

Companhia de Saneamento do Paraná – SANEPAR (also referred to as “Company” or “Sanepar”), with its principal place of business at Rua Engenheiros Rebouças in Curitiba – Paraná, is a government controlled private company whose business purpose, as delegated by the State of Paraná and its municipalities, is to provide basic sanitation services, primarily the distribution of water and the collection and treatment of household sewage, in addition to collecting and treating solid waste, carrying out studies and projects and executing works involving new facilities, extensions to water distribution networks and the networks for collecting and treating household sewage, and providing consultancy and technical assistance services within its spheres of operation. The Company also works hand in hand with federal, state and local bodies and entities in matters involving the development of its basic objectives.

Through municipal concessions, the Company provides water treatment and distribution and sewage collection and treatment services. The average renewal period for such agreements has been defined as 30 years. Out of a total of 346 municipalities where it operates, approximately 5.2% are currently being renewed because they have expired, 17.9% expire between 2017 and 2026, and 76.9% were renewed to expire after 2027. In cases where concessions are not renewed upon expiry, the local authorities have to reimburse the Company for the residual value of assets allocated to those concessions.

Only the concession for the city of Curitiba has rules that stipulate a cost for the concession payable by the Company, as indicated in note 12.

The Company has a 40% equity stake in a Special Purpose Entity, organized as a closed capital company known as “CS Bioenergia S/A”, whose business purpose is the treatment and proper disposal of solid and organic waste and the slurry produced at the sewage treatment stations, the production of biogas and the generation of electricity, as indicated in note 8.

The Company is registered with the CVM as a Category A publicly-traded company (issuers authorized to trade in any negotiable securities) and its shares are admitted for trading on the São Paulo Stock Exchange (BM&FBovespa), with a Corporate Governance Level 2 listing.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

2. PRESENTATION OF THE ACCOUNTING STATEMENTS

2.1 Declaration of compliance

The accounting statements are being presented in compliance with Laws 6404/76, 11638/07 and 11941/09. They have been prepared according to the BR GAAP, which include Brazilian company legislation, the Pronouncements, Guidelines and Instructions issued by the Accounting Pronouncements Committee - CPC and the accounting standards and procedures determined by the Brazilian Securities Commission – CVM.

Authorization to publish the accounting statements was given by the Company's management on January 30, 2017.

2.2 Measurement base

The accounting statements have been prepared on the basis of historical cost, with the financial assets assessed at fair value.

2.3 Functional Currency and Presentation Currency

All amounts shown in the accounting statements, including those appearing in the explanatory notes, are expressed in thousands of Brazilian *Reais*, which is the Company's functional currency, unless as otherwise indicated.

3. SIGNIFICANT ACCOUNTING PRACTICES

The Company has consistently applied the accounting practices described below to all the years shown in these accounting statements.

The significant accounting practices employed in preparing the accounting statements, described in the explanatory notes, are as follows:

- a) **Cash and cash equivalents** – Note 4
- b) **Trade accounts receivable** – Note 5
- c) **Provision for losses on realization of credits** – Note 5
- d) **Investments** – Note 8
- e) **Property, plant and equipment** – Note 9
- f) **Intangible assets** – Note 9
- g) **Financial Leasing:** The classification of leasing as operating or financial is determined by analyzing the terms and conditions of the agreements. Financial leasing agreements are those that demonstrate a substantial transfer of the risks and benefits of ownership of the leased assets. Leased assets are shown in Note 9, and the corresponding debt in Note 11.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

3. SIGNIFICANT ACCOUNTING PRACTICES -- continued

- h) **Capitalization of interest and financial charges** – Note 9
- i) **Contractual financial assets** – Note 10
- j) **Loans, financing and debentures** – Note 11
- k) **Provisions and contingent liabilities** – Note 15
- l) **Income and social contribution taxes** – Note 16
- m) **Related parties** – Note 17
- n) **Payment of interest on equity** – Note 18.d
- o) **Revenues** – Note 19
- p) **Financial instruments** – Note 24
- q) **Post-employment benefits granted to employees** – Note 25
- r) **Inventories:** Inventories consist primarily of maintenance and repair materials, booked at average cost of acquisition under Current Assets. The book values do not exceed their replacement or realization costs.
- s) **Current and non-current liabilities:** All liabilities are shown at known or estimated amounts and, when applicable, restated *pro rata die* until the closing date of the accounting statements, based on the agreed indicators and charges, without the need to adjust them to present value.
- t) **Concessions:** The Company records the infrastructure used in operating public sanitation services in the following manner:

Concession Agreements: the company assets arising from “Concession Agreements” signed before Law 11445/07 came into force and effect (still governed by the Concessions Law – Law 8987/95) are recorded as intangible assets and amortized over their useful economic life, based on technical studies carried out by the Company.

Program Agreements: the company assets arising from “Program Agreements”, in compliance with the rules of Law 11445/07 – Regulatory Framework, which sets out the domestic guidelines for basic sanitation, in which the granting power (the municipality) is obligated to draw up a Municipal Basic Sanitation Plan, are recorded in accordance with the bifurcation model (intangible assets and financial assets) as defined by ICPC 01 (R1) and OCPC 05. In this model, on the signing date of a Program Agreement the Company records part of it as intangible assets, to the extent that it receives a right (license) to charge users for using the public facility, and part as financial assets, to the extent that the economic useful life of the assets recorded under intangible assets exceeds the period of the Program Agreement. The financial asset represents the remaining amount of the intangible assets to be reimbursed to the Company by the granting power when the agreement finally expires. The company assets are amortized according to the periods of the agreements or their own useful life, whichever is less.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

3. SIGNIFICANT ACCOUNTING PRACTICES -- continued

- u) Statements of cash flows and value added:** The statements of cash flows were prepared and are shown according to Technical Pronouncement CPC 03 (R2) – Statement of Cash Flows. The statements of value added were prepared and are shown according to Technical Pronouncement CPC 09 – Statement of Value Added.
- v) Use of estimates and judgments:** Preparing the accounting statements in compliance with the accounting practices generally accepted in Brazil requires the Company's management to use estimates and assumptions that affect the amounts published in this information and the accompanying notes. Actual results may differ from those estimates.

Estimates and assumptions are continually revised. Revisions of accounting estimates are recognized in the year when the estimates are revised and in any future years affected. The main estimation processes are summarized below:

Impairment of assets

On balance sheet dates, the Company evaluates if there is any objective evidence to indicate that the value of a financial asset or group of financial assets is impaired.

A financial asset, or group of financial assets, is impaired if, and only if, there is objective proof of non-recoverability as a result of one or more events that have taken place since the initial recognition of the asset (a "loss event") and this event has had an impact on the future estimated cash flow from the financial asset or group of financial assets that can be reasonably estimated.

Losses through impairment of non-financial assets

A loss through impairment exists when the book value of an asset or cash generation unit exceeds its recoverable value, which is the greater of fair value, less selling costs, and value in use. Calculating value fair less selling costs is based on information available from sales transactions of similar assets or market prices less additional costs for disposing of the assets. Value in use is calculated using the discounted cash flow model. Cash flows derive from the budget for the next five years and do not include reorganization activities to which the Company is not yet committed or significant future investments that will enhance the asset base of the cash generation unit undergoing the test. The recoverable amount is sensitive to the discount rate used in the discounted cash flow method, as well as to expected future cash inflows and to the growth rate used for extrapolation purposes.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

3. SIGNIFICANT ACCOUNTING PRACTICES -- continued

v) Use of estimates and judgments – continued

Provisions for tax, civil, labor and environmental risks

The Company recognizes provisions for tax, civil, labor and environmental law suits. The assessment of the probability of loss includes evaluating the available evidence, the hierarchy of laws, prevailing case law, the most recent decisions in the courts and their importance within the legal system, in addition to the assessment of our legal counsel.

The Company's management believes that the provisions for tax, civil, labor and environmental risks are necessary and sufficient, based on prevailing legislation.

Provision for losses on realization of credits

Provision for doubtful credits has been constituted in an amount considered by management to be sufficient to cover occasional losses in realizing accounts receivable, taking into account past losses and an individual assessment of the accounts receivable where the risk of non-payment exists.

Taxes

Uncertainty exists as to the interpretation of complex tax regulations and the value and timing of future taxable income. Given the long-term nature and complexity of existing contractual instruments, differences between actual results and assumptions adopted, or future changes in those assumptions, may require future adjustments to revenues and tax expenses already recorded. The Company makes provisions, based on appropriate estimates, for the possible outcome of audits by the tax authorities in the various jurisdictions where it operates. The amount of the provisions is based on several factors, such as experience of previous tax audits and different interpretations of the tax regulations by the taxable entity and the tax authority responsible. These differences in interpretation may occur in a wide variety of issues, depending on the conditions prevailing in the domicile in question.

Significant judgment by management is required for determining the amount of deferred income tax assets that can be recognized, based on a time period considered as reasonable, as well as on the level of taxable income expected in future years, together with future tax planning strategies.

Retirement plan and medical assistance plan

The cost of the defined benefits retirement plan and other post-employment medical assistance benefits, and the present value of retirement obligations, are determined by using actuarial valuation methods. Actuarial valuation involves the use of assumptions about discount rates, expected rates of return, future salary increases, mortality rates and future increases in retirement and pension benefits. The defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are revised on each base date.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

3. SIGNIFICANT ACCOUNTING PRACTICES -- continued

w) New pronouncements not yet in force and effect on December 31, 2016

The standards and interpretations not yet adopted on the publication date of the Company's accounting statements and which could lead to significant effects following issuance by the CPC of the respective equivalent pronouncements are as follows:

IFRS 9 Financial Instruments: In July 2015, the IASB issued the final version of IFRS 9 – Financial Instruments, replacing IAS 39 – Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all the project's three aspects of how financial instruments are booked: classification and measurement, loss from impairment and booking of hedges. IFRS 9 is in force for annual periods commencing on January 1, 2018 or thereafter, with early application permitted. With exception of hedge accounting, retrospective application is required, but presentation of comparative information is not mandatory. In the case of hedge accounting, the requirements are usually applied prospectively, with few exceptions. The Company has assessed the matter and believes that there will be no effects on its published Accounting Statements.

IFRS 15 Revenues from Contracts with Customers: IFRS 15, issued in May 2015, sets out a new model consisting of five steps to be applied to revenues derived from contracts with customers. According to IFRS 15, revenues are recognized in an amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of assets or services to a customer. The new standard on revenues will replace all current requirements for recognizing revenues in accordance with the IFRS. Full retrospective adoption or modified retrospective adoption is required in the case of annual periods commencing January 1, 2018, with early adoption permitted. The Company has assessed the effects on its accounting statements and concluded that this standard will have no impact.

IAS 7 – Disclosure initiative – Changes to IAS 7: Changes to IAS 7 - Statement of cash flows are part of the disclosure initiative of the IASB and require an entity to provide disclosures that enable the users of the financial statements to assess the changes in liabilities arising from financing, including both those changes arising from cash flows, and those that do not have an effect on cash. During initial adoption of the change, entities are not obliged to provide comparative information referring to previous periods. The changes take effect for annual periods commencing on January 1, 2017, with early adoption permitted. Adoption of the changes, when this occurs, may result in additional disclosure by the Company.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

3. SIGNIFICANT ACCOUNTING PRACTICES -- continued

w) **New pronouncements not yet in force and effect on December 31, 2016 --** continued

IFRS 16 Leasing transactions

IFRS 16 was issued in January 2016 and replaces IAS 17 - Leasing transactions, IFRIC 4 – Determining whether an arrangement contains a lease, SIC-15 – Operating leases – Incentives and SIC-27 – Evaluating the substance of transactions in the legal form of a lease.

IFRS 16 establishes the principles for recognizing, measuring, presenting and evidencing leases, and requires lessees to book all leases under a single model in the balance sheet, similar to the booking of financial leases in accordance with IAS 17. The standard includes two exemptions from recognition for lessees – leases of “low value” assets (for example, personal computers) and short-term leases (that is, where the lease period is 12 months or less). On the starting date of a lease contract, the lessee will recognize a liability involving the lease payments (i.e. a lease liability) and an asset that represents the right to use the underlying asset for the duration of the lease period (that is, the right of use asset). Lessees are obliged to recognize, separately, the interest expense on the lease liability and the depreciation expense on the asset for which they have right of use.

Lessees also have to revalue the lease liability if certain events occur (for example, a change in the lease period, or a change in future lease payments as a result of changes to an index or rate used for determining those payments). Generally speaking, the lessee will recognize the revaluation amount of the lease liability as an adjustment to a right-of-use asset.

There is no substantial change in the lessee’s accounting, based on IFRS 16, in relation to current booking under IAS 17. Lessees will continue to classify all leases in accordance with the same classification principle as IAS 17, distinguishing between the two types of leases: operating and financial. IFRS 16 also requires lessees and lessors to make more extensive disclosures than those provided for in IAS 17.

IFRS 16 takes effect for annual periods commencing January 1, 2019. Early adoption is permitted, but not before adopting IFRS 15. The lessee can opt to adopt the standard using the complete retrospective or a modified approach to the retrospective. The standard’s transitory provisions permit certain exemptions. The Company is currently analyzing the impact of the changes from this pronouncement.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

4. CASH AND CASH EQUIVALENTS

Accounting Practice:

Include cash, bank deposits and money market investments shown at cost, plus income earned at the rates agreed with the financial institutions, calculated pro rata die and appropriated on a monthly basis. A money market investment is classified as a cash equivalent when its characteristics include immediate convertibility, with its issuer, into a known amount of cash and it is not subject to the risk of significant changes in value.

The composition is as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Cash	-	1
Free bank deposits	2,988	4,568
Earmarked bank deposits	24,687	11,823
	<u>27,675</u>	<u>16,392</u>
Money market investments		
Caixa FI Sanepar I Renda Fixa Fund (1)	511,541	74,071
CDB Flex Empresarial (2)	99,114	73,333
Itaú Corp Plus Referenciado Fund	-	1
	<u>610,655</u>	<u>147,405</u>
Total Cash and Cash Equivalents	<u>638,330</u>	<u>163,797</u>

The money market investments are short-term, highly liquid and have a low risk of change in value. They are composed of fixed income instruments in investment funds, with an average remuneration of 100.18% of the CDI rate (99.43% in 2015) and Bank Certificates of Deposit issued by the CAIXA.

(1) The CAIXA FI SANEPAR I RENDA FIXA Fund is solely for the Company's investments, and at December 31, 2016, 61.46% of its resources were allocated to Repo Transactions involving NTN-B government securities, which come with an option for the bank to immediately repurchase the shares; 0.07% in Brazilian Government Securities (LFT and LTN) and 38.47% in CDBs of prime financial institutions (75.29%, 1.98% and 22.73%, respectively, in 2015);

(2) The Bank Deposit Certificate (CDB) is issued by Caixa Econômica Federal (the Federal Savings Bank), with a floating rate of between 100.50% and 102.00% of the CDI rate, with high liquidity, according to the contractual term and the elapsed period of the investment.

5. TRADE ACCOUNTS RECEIVABLE, NET

Accounting Practice:

Trade accounts receivable: Include services measured and billed not yet received, and revenues from providing water and collecting sewage, not yet billed and booked by estimate using the accrual system, in accordance with the estimated consumption between the date of the last reading and the end of each month, based on each customer's average consumption.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

5. TRADE ACCOUNTS RECEIVABLE, NET -- continuation

Accounting Practice – continued

Adjustment to present value: The balances of trade accounts receivable under installment plans have been adjusted to present value. Installment plans on private bills are restated using the SELIC benchmark interest rate, plus an administration and risk fee, while those on public entity bills are based on the savings account interest rate of 6% per annum. The Company uses the SELIC rate to calculate the adjustment to present value for private bills and the savings account interest rate for public entity bills.

Provision for losses on realization of credits: In order to estimate the amounts of provisions for losses on the realization of credits, to be recognized in the period, the Company's management analyzes its accounts receivable, especially past-due amounts, bearing in mind the aging of accounts and the expected recovery in each consumer class.

The provision is based on amounts receivable from residential, commercial and industrial consumers, as well as the government, which are more than 180 days in arrears, and based on amounts that are in arrears for more than 2 years in the case of local governments, except for municipal councils that are not paying their bills in arrears, for which full provision is made. The Company does not set aside a provision for losses in realizing credits from the state sector, as this involves the related party with a controlling interest, and because of its track record for bringing arrears up to date, in addition to the opinion of the Office of the Attorney-General of the State of Paraná, which has concluded that it is legal to offset the amounts receivable from the Company's billings against the amounts paid to the State of Paraná as dividends and/or interest on equity.

a) Balances of trade accounts receivable show the following composition by expiry date:

Description	2016	2015
Accounts receivable not yet payable	199,442	182,698
Accounts receivable under installment plans	37,151	33,057
Adjustment to present value	(3,408)	(2,840)
Bills to be invoiced (consumption not yet billed)	160,852	134,104
	<u>394,037</u>	<u>347,019</u>
Past due accounts receivable		
From 1 to 30 days	100,748	89,053
From 31 to 60 days	25,850	26,106
From 61 to 90 days	11,431	8,727
From 91 to 180 days	19,505	12,347
Over 180 days	165,268	129,160
Provision for losses on realization of credits	(146,336)	(125,395)
	<u>176,466</u>	<u>139,998</u>
Total accounts receivable, net	<u>570,503</u>	<u>487,017</u>
Current	559,797	477,281
Non-current	10,706	9,736

Of the total accounts receivable, net of losses on realization of credits, R\$6,244 (R\$3,922 in 2015) refer to outstandings from municipal councils; R\$145,499 (R\$118,403 in 2015) from private customers; R\$453 (R\$886 in 2015) from the federal sector and R\$24.270 (R\$16.787 in 2015) from the state sector.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

5. TRADE ACCOUNTS RECEIVABLE, NET -- continuation

b) The movement in the provision for losses on the realization of credits was as follows:

Description	2016	2015
Opening balances for the year	(125,395)	(132,505)
Amounts recorded as expenses	(21,775)	4,799
Write-offs, net of recoveries	834	2,311
Closing balances for the year	(146,336)	(125,395)

c) The balance of provisions for losses on the realization of accounts receivable shows the following composition:

Description	2016	2015
Private customers	81,558	64,355
Federal government bodies	7	11
Municipal councils	64,771	61,029
Totals	146,336	125,395

6. TAXES AND CONTRIBUTIONS RECOVERABLE

The composition is as follows:

Description	2016	2015
Income tax to be offset	29,219	20,998
Social contribution tax to be offset	9,422	7,207
Taxes and contributions withheld – public entities	1,140	1,026
Other taxes to be offset	-	282
Totals	39,781	29,513
Current	39,021	28,829
Non-current	760	684

7. OTHER ACCOUNTS RECEIVABLE

The composition shows the following amounts:

Description	2016	2015
Advances to employees	3,739	3,529
Payments to be reimbursed	4,092	5,646
Deposits pledged as collateral	1,888	2,235
Municipal Environmental Fund	44,462	15,942
Prepaid expenses	12,105	11,996
Bills and other credits	935	657
Totals	67,221	40,005
Current	23,526	23,648
Non-current	43,695	16,357

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

8. INVESTMENTS

Accounting Practice:

Joint Venture: The Company's investment in the joint venture is booked using the equity accounting method, having been initially recognized at cost, and is adjusted for the purpose of recognizing changes in the Company's stake in the shareholders' equity of the joint venture since the date of acquisition.

The statement of income reflects the Company's equity stake in the joint venture's operating results. Any variation in other comprehensive income of this investee is shown as part of the Company's comprehensive income.

The joint venture's accounting statements have been drawn up for the same disclosure period, while the accounting policies are in line with those of the Company.

Other investments: Shown at cost of acquisition, less provision for losses, when applicable.

<u>Description</u>	<u>2016</u>	<u>2015</u>
Investment in joint subsidiary – CS Bioenergia S.A.	9,466	5,287
Other Investments recognized using the Cost Method	2,937	2,937
Totals	12,403	8,224

Joint venture investments

The Company holds a 40% stake in CS Bioenergia S.A., in respect of a capital injection of R\$12,542 in its capital stock and R\$2,159 by way of an advance on future capital increase – AFAC. The Company's equity stake is booked using the equity accounting method in the investee's accounting statements which are summarized below:

<u>Balance Sheet - CS Bioenergia S.A.</u>	<u>2016</u>	<u>2015</u>
Current assets	1,139	719
Non-current assets	59,858	42,830
• Property, plant and equipment	39,831	42,774
• Financial leasing	20,026	-
• Others	1	56
Total Assets	60,997	43,549
Current liabilities	37,334	30,294
• Loans, financing and financial leasing	37,334	30,294
Non-current liabilities	-	37
Shareholders' equity	23,663	13,218
Total Liabilities	60,997	43,549

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

8. INVESTMENTS -- continued

Statement of income - CS Bioenergia S.A.	2016	2015
Revenue	-	-
(-) Operating expenses	(2,701)	(4,652)
Financial result	(5,693)	636
Pre-tax result	(8,394)	(4,016)
Income and social contribution taxes	-	(203)
Income for the year	(8,394)	(4,219)

The movement of investments during the year is as follows:

Description	2016	2015
Opening balance for the year	5,287	1,894
Capital injections:	7,540	5,081
Income from equity accounting (40% equity stake)	(3,361)	(1,688)
Closing balance for the year	9,466	5,287

Other investments

The Company holds several investments over which it has no significant influence, which are valued, using the cost method, at R\$2,937 (R\$2,937 in 2015).

Surety instruments

On September 5, 2016, following a decision at the 8th/2016 Special Meeting of the Executive Committee, the Company was authorized to issue a letter of surety to guarantee 40% of the obligations (“Collateralized Obligations”) assumed by CS Bioenergia S.A. under its first issue of non-convertible debentures, with real collateral and an additional unsecured guarantee, in a single series, for public distribution with restricted placement efforts for 3,000 debentures with a unit value of R\$10, making a total of R\$30,000, which were the subject of a public offer for a restricted placement effort pursuant to CVM Instruction 476 dated January 16, 2009, as amended (“Restricted Offer”). The surety letter irrevocably covers the principal of the debt, plus all ancillary liabilities, until full payment of the amounts owed to the debenture holders.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Accounting Practice:

Property, plant and equipment: Shown at cost of acquisition or construction, including periodic revaluations in previous years and adjustments of the equity valuation to the new attributed cost, less depreciation calculated on the straight-line method at the rates shown in this note. Impairment testing is carried out annually on the balances of property, plant and equipment, whenever there is any indication that the book value of the assets may not be recoverable.

Intangible assets: Intangible assets linked to the concession agreements are recorded at their cost of acquisition, construction or contracting and include the right of use and concession agreements. Intangible assets linked to Program Agreements are initially recognized at the difference between the amount invested in the assets tied to the concessions and the present value of the contractual financial assets calculated as shown in Note 10. This is an intangible asset with a defined useful life whose value will be amortized over the term of the agreement.

Amortization of intangible assets linked to concession agreements is based on the useful economic life, while amortization of assets linked to program agreements takes into account the effective periods of the agreements or the useful economic life of the assets comprising the infrastructure for providing public services, whichever is lower. In the case of assets whose useful life exceeds the term of the agreement, a financial asset is created as mentioned in note 3(t). Impairment testing is carried out annually on the balances of the intangible assets, whenever there is any indication that their book value may not be recoverable.

Financial Leasing: Booking takes place at the time of actual availability for use, taking the fair values or, if lower, the present value of the minimum lease payments. The debt amount is shown in note 11. After initial recognition, the assets are booked in line with the applicable policy.

Capitalization of interest and financial charges: Interest and other financial charges related to the financing of property, plant and equipment and intangible assets in progress are appropriated at their cost until construction has been concluded and/or the asset installed, after which these charges are appropriated as a financial expense.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS -- continued

a) Property, plant and equipment

The composition is as follows:

By account			2016	2015
Description	Cost	Accumulated depreciation	Net Amount	
Administration	227,838	(97,389)	130,449	129,585
Other assets	8,160	(7,341)	819	458
Totals	235,998	(104,730)	131,268	130,043

By nature			2016	2015
Description	Rate of annual depreciation	Cost	Accumulated depreciation	Net Amount
Land	-	2,309	-	2,323
Civil construction	*1.84%	67,945	(13,704)	54,241
Improvements	2%	1,788	(622)	1,166
Facilities	*5.83%	3,700	(1,978)	1,722
Equipment	*6.23%	42,806	(18,180)	24,626
Furniture and fixtures	7.14%	36,129	(16,575)	19,554
Computer equipment	*19.82%	34,242	(21,141)	13,101
Vehicles	*13.05%	28,360	(19,677)	8,683
Machines, tractors and the like	*19.35%	18,170	(12,541)	5,629
Tools	6.67%	549	(312)	237
Totals		235,998	(104,730)	131,268

*Average weighted rate

b) Intangible assets

The composition is as follows:

By account			2016	2015
Description	Cost	Accumulated amortization	Net Amount	
Water systems	4,017,386	(1,285,572)	2,731,814	2,447,372
Sewage systems	4,180,206	(856,987)	3,323,219	2,917,714
Solid waste	1,637	(1,637)	-	-
Rights of use and systems operation	125,087	(62,934)	62,153	66,320
Other intangible assets	83,163	(50,239)	32,924	34,311
Projects and works in progress	1,000,861	-	1,000,861	1,243,864
Inventory for works	48,422	-	48,422	52,019
Totals	9,456,762	(2,257,369)	7,199,393	6,761,600

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9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS -- continued

b) Intangible assets -- continued

By nature				2016	2015
Description	Rate of annual amortization	Cost	Accumulated amortization	Net Amount	
Land	-	113,041	-	113,041	82,684
Wells	*3.10%	122,205	(33,160)	89,045	84,681
Dams	*2.67%	142,847	(49,496)	93,351	94,589
Civil construction	*2.59%	1,794,388	(407,162)	1,387,226	1,187,208
Improvements	*2.67%	18,051	(1,979)	16,072	11,752
Pipelines	*2.64%	4,503,522	(1,023,136)	3,480,386	3,155,852
Building connections	3.33%	605,624	(190,800)	414,824	370,005
Facilities	*5.83%	137,080	(37,400)	99,680	65,895
Hydrometers	10%	165,506	(64,693)	100,813	89,317
Macro meters	10%	5,072	(3,133)	1,939	1,768
Equipment	*6.23%	481,948	(227,725)	254,223	221,063
Furniture and fixtures	7.14%	4,980	(3,092)	1,888	1,750
Computer equipment	*19.82%	88,560	(79,848)	8,712	6,774
Computer programs	20%	43,345	(32,973)	10,372	10,012
Vehicles	*13.05%	17,264	(12,912)	4,352	4,724
Machines, tractors and the like	*19.35%	16,683	(13,631)	3,052	4,244
Tools	6.67%	274	(171)	103	114
Rights of use of transmission lines	6.25%	156	(122)	34	37
Environmental protection and conservation	20%	21,846	(13,002)	8,844	6,928
Curitiba Municipal Concession (1)	3.33%	125,000	(62,847)	62,153	66,320
Cianorte Municipal Concession (2)	5%	87	(87)	-	-
Projects and works in progress	-	1,000,861	-	1,000,861	1,243,864
Inventory for works	-	48,422	-	48,422	52,019
Totals		9,456,762	(2,257,369)	7,199,393	6,761,600

*Average weighted rate

- (1) The cost of the onerous concession agreement, with an effective period of 30 years, whose rate of amortization is an integral part of the costs involved in providing sanitation services to the municipality of Curitiba, as mentioned in note 12.
- (2) The cost of the concession agreement with the Municipal Council of Cianorte for operating public services involving the collection, treatment and final disposal of solid waste, with a term of 30 years.

The balance of the "Projects and Works in Progress" account at December 31, 2016, refers to 144 (175 in 2015) works for expanding and installing water supply systems in 109 (123 in 2015) locations, amounting to R\$295,787 (R\$449,158 in 2015); 161 (236 in 2015); work involving sewage collection and treatment systems in 99 (123 in 2015) locations, amounting to R\$569,947 (R\$669,484 in 2015), in addition to R\$135,127 (R\$125,222 in 2015) of investments in several operational projects and works within the systems operated by the Company.

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9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS -- continued

b) Intangible assets -- continued

The year 2016 saw the capitalization of interest and other financial charges incurred on funds and loans that financed the Company's projects and works, amounting to R\$47,385 (R\$46,064 in 2015). The average rate used to determine the costs of loans subject to capitalization in relation to the total costs was 16.6%.

Financial Leasing: The Company has an asset lease agreement estimated at R\$199.3 million, predecessor of the concession of actual rights of use of the areas and execution of the work required for expanding the sewage system in the municipalities of Matinhos and Pontal do Paraná, with a term of two hundred and forty (240) months, payment of which will commence in February 2017. The subject assets of this financial lease will be built and handed over to the lessor in four stages, with an interval of one (1) year between each stage. At the end of December 2016, 20.6% of the subject of that agreement, equivalent to the delivery of the 1st phase of the agreement, was concluded and handed over. The obligation arising from this agreement is shown in note 11.

At December 31, 2016, the book value for each category of assets under the financial lease commitment recorded under Intangible Assets is shown below:

Description	2016		
	Cost	Accumulated amortization	Net Amount
Buildings	11,406	(16)	11,390
Pipelines	26,691	(44)	26,647
Building connections	1,820	(5)	1,815
Facilities	95	(1)	94
Equipment	1,096	(6)	1,090
Totals	41,108	(72)	41,036

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9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS -- continued

c) Movement of Property, Plant and Equipment and Intangible Assets during 2016:

Description	2015	Additions	Depreciation and amortization	Write-off and losses	Transfers	2016
Property, plant and equipment						
Land	2,323	-	-	-	(14)	2,309
Civil construction	52,293	-	(1,311)	(32)	3,291	54,241
Improvements	1,134	-	(35)	-	67	1,166
Facilities	1,851	9	(157)	(1)	20	1,722
Equipment	24,427	2,273	(2,120)	(44)	90	24,626
Furniture and fixtures	18,711	1,848	(1,759)	(120)	874	19,554
Computer equipment	8,656	7,292	(2,945)	(104)	202	13,101
Vehicles	11,182	8	(1,392)	(913)	(202)	8,683
Machines, tractors and the like	9,302	37	(3,305)	(192)	(213)	5,629
Tools	164	89	(15)	(1)	-	237
Total of property, plant and equipment	130,043	11,556	(13,039)	(1,407)	4,115	131,268
Intangible assets						
Land	82,684	11,435	-	--	18,922	113,041
Wells	84,681	-	(2,743)	(2,413)	9,520	89,045
Dams	94,589	9	(2,495)	-	1,248	93,351
Civil construction	1,187,208	12,391	(34,000)	(2,728)	224,355	1,387,226
Improvements	11,752	-	(383)	(21)	4,724	16,072
Pipelines	3,155,852	40,578	(92,657)	17	376,596	3,480,386
Building connections	370,005	2,111	(16,752)	(432)	59,892	414,824
Facilities	65,895	462	(6,848)	26	40,145	99,680
Hydrometers	89,317	1	(14,366)	(2,832)	28,693	100,813
Macro meters	1,768	-	(328)	-	499	1,939
Equipment	221,063	13,088	(20,364)	(3,799)	44,235	254,223
Furniture and fixtures	1,750	24	(174)	(39)	327	1,888
Computer equipment	6,774	2	(928)	(12)	2,876	8,712
Computer programs	10,012	3,773	(3,754)	-	341	10,372
Vehicles	4,724	23	(601)	4	202	4,352
Machines, tractors and the like	4,244	-	(1,407)	2	213	3,052
Tools	114	-	(11)	-	-	103
Rights of use of transmission lines	37	-	(3)	-	-	34
Environmental protection and conservation	6,928	3,875	(2,085)	17	109	8,844
Curitiba Municipal Concession	66,320	-	(4,167)	-	-	62,153
Cianorte Municipal Concession	-	-	(6)	6	-	-
Subtotal of intangible assets	5,465,717	87,772	(204,072)	(12,204)	812,897	6,150,110
Projects and works in progress	1,243,864	646,670	-	(325)	(889,348)	1,000,861
Inventory for works	52,019	(3,597)	-	-	-	48,422
Total of intangible assets	6,761,600	730,845	(204,072)	(12,529)	(76,451)	7,199,393
Grand Total	6,891,643	742,401	(217,111)	(13,936)	(a) 72,336	7,330,661

(a) Amount transferred to the Contractual Financial Assets account referring to the expected residual value receivable at the end of the program agreements, net of the Adjustment to Present Value for the year.

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9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS -- continued

d) Analysis of the Recoverable Amount of the Assets

At December 31, 2016, even in the absence of any indicators as to the impairment of property, plant and equipment and intangible assets with a defined useful life, the Company decided to undertake a technical study to determine the recoverable amount of its assets, identifying as cash generation units the water and sewage business segments, using the following assumptions in the calculations:

d.1) Cash Generation Unit –Water and sewage segments

- To determine the recoverable amount of the Company's assets or cash generation units, the value in use method was adopted, that is, the amount of cash generated by using these assets;
- Useful life, based on the expected usage of the group of assets comprising the cash generation unit (CGU), also bearing in mind the Company's maintenance policy;
- The cash flow estimates were projected over a five-year period, as suggested by section 33 b of CPC 01 (R1), in Brazilian currency, in other words, the effects of inflation were taken into account, then stripped out at the end;
- Pre-tax discount rate (13.1%) arising from the methodology for calculating the weighted average cost of capital, or WACC, as suggested by section 55 and 56 of CPC 01 (R1);
- Assumptions about the growth of the business, tariff adjustment and the evolution of projected OPEX, in accordance with the Company's strategic planning;
- Annual growth in demand in the water segment of approximately 1.0% and 3.5% in the sewage segment;
- The residual book value of the assets (or cash generation unit) on the final date of the cash flow estimates were considered as the recoverable amount. This procedure was adopted on account of the fact that the concession and the program agreements provide for reimbursement to the company for the residual assets in the event the agreement is not renewed or is terminated;
- The evolution of expenses was undertaken according to the growth in demand and the inflation affecting each expense.

The technical study concluded that the property, plant and equipment and the intangible assets currently in operation and generating cash flows, are fully recoverable, there being no need to set aside provisions for impairment.

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NOTES TO THE ACCOUNTING STATEMENTS

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9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS -- continued

d.2) Cash Generation Unit – Solid Waste

The cash generation unit that operates solid waste has the following characteristics:

- The agreement in the solid waste segment have been dealt with separately, that is, each one as a CGU;
- The economic results of all cash generation units in this operation show a history of losses;
- There is no significant fact that points to a change in the trend in the negative economic results of these agreements.

Given that the solid waste CGUs have presented negative results, in addition to absence of prospects of improvement in the segment, the technical study concluded that the operating assets are not recoverable; therefore, it was considered necessary to top up, by R\$1,285, the provision that already existed on December 31, de 2015, of R\$7,145, thus making a total amount of R\$8,430.

10. CONTRACTUAL FINANCIAL ASSETS

Accounting Practice:

The contractual financial assets represent the portion of the total operating assets constructed, whose useful life exceeds the maturity date of the agreement and which, consequently, should be compensated for by the granting power when the agreement ends. These amounts are initially recognized when each program agreement is signed and, subsequently, by adding the portion referring to the investment in new assets that exceed the maturity date of the agreement.

Adjustment to present value: *The financial assets are brought to present value using the projected IPCA rate for the year (an index published by the Central Bank of Brazil – BACEN), and the weighted average cost of capital (WACC) as the discount rate, which leads to the application of a rate equivalent to the spread between the IPCA and the WACC. The variations in present value represent revenue or expenses to be entered in the statement of income for the year in which they occur.*

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NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

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10. CONTRACTUAL FINANCIAL ASSETS -- continued

The movement in financial assets is as follows:

Description	2015	Additions	Revenue from	Expenses from	2016
Non-amortized investment	256,038	224,093)	-	-	480,131
Adjustment to present value	(178,618)	(151,757)	22,712	(87)	(307,750)
Totals	77,420	72,336)	22,712	(87)	172,381

The equivalent discount rate applied when calculating the adjustment to present value in the period was 3.8% (the difference between the projected IPCA for the year and the Company's WACC) and took into account program agreements with terms of between 24 and 30 years.

11. LOANS, FINANCING, DEBENTURES AND FINANCIAL LEASING

Accounting Practice:

Loans, financing and debentures are initially recognized at fair value when the funds are received, net of transaction costs. Thereafter, they are shown at amortized cost. In addition, loans, financing and debentures are classified as current liabilities, unless the Company is unconditionally entitled to defer settlement of the liability for at least 12 months after the balance sheet date.

Obligations representing leasing, net of financial charges, are classified as current and non-current liabilities according to the maturity term of the agreement. Lease payments are allocated to financial charges and the corresponding reduction in liabilities, so as to produce a periodic and constant interest rate on the outstanding balance of the liability. Financial charges are recognized in the statement of income, in each period during the life of the lease.

The Company's debentures are not convertible to shares and are booked as loans.

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NOTES TO THE ACCOUNTING STATEMENTS

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11. LOANS, FINANCING, DEBENTURES AND FINANCIAL LEASING -- continued

a) The composition of loans, financing, debentures and financial leasing is as follows:

Description	Effective Annual Interest Rate	Indexer	2016			2015		
			Current	Non-current	Total	Current	Non-current	Total
Debentures – 6 th Issue – 1 st series	1.72%	DI RATE	3,566	79,803	83,369	-	-	-
Debentures – 6 th Issue – 2 nd series	1.77%	DI RATE	7,822	169,315	177,137	-	-	-
Debentures – 5 th Issue – 1 st series	1.32%	DI RATE	111,886	-	111,886	662	111,142	111,804
Debentures – 5 th Issue – 2 nd series	1.43%	DI RATE	1,225	188,819	190,044	1,159	188,770	189,929
Debentures – 3 rd Issue – 1 st series	1.47%	DI RATE	68,997	66,690	135,687	70,307	133,113	203,420
Debentures – 3 rd Issue – 2 nd series	6.99%	IPCA	1,130	127,166	128,296	1,028	119,371	120,399
BNDES	1.82% & 2.50%	TJLP RATE	34,393	92,168	126,561	33,375	122,831	156,206
Banco do Brasil – PSI	3.00% to 6.00%	-	3,406	19,129	22,535	3,411	22,498	25,909
Debentures -2 nd Issue – 1 st series	1.92%	TJLP RATE	12,284	80,788	93,072	12,150	91,443	103,593
Debentures -2 nd Issue – 2 nd series	9.19%	IPCA	20,551	118,953	139,504	19,709	127,613	147,322
Debentures -2 nd Issue – 3 rd series	1.92%	TJLP RATE	16,378	107,718	124,096	10,570	79,556	90,126
Banco Itaú – PSI	3.00% to 6.00%	-	3,595	22,211	25,806	3,602	25,753	29,355
Debentures -4 th Issue – 1 st series	1.67%	TJLP RATE	10,162	170,597	180,759	2,499	158,975	161,474
Debentures -4 th Issue – 2 nd series	7.44%	IPCA	4,680	78,955	83,635	990	65,626	66,616
BNDES PAC2	1.76% & 2.05%	TJLP RATE	17,934	160,215	178,149	9,063	116,130	125,193
Financial leasing	12.12%	IPC - FIPE	562	40,546	41,108	-	-	-
Caixa Econômica Federal	6.62% to 12.68%	TR	60,592	809,838	870,430	62,135	742,527	804,662
Balances at the end of the period			379,163	2,332,911	2,712,074	230,660	2,105,348	2,336,008
Loans and financing			119,920	1,103,561	1,223,481	111,586	1,029,739	1,141,325
Debentures			258,681	1,188,804	1,447,485	119,074	1,075,609	1,194,683
Financial leasing			562	40,546	41,108	-	-	-

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NOTES TO THE ACCOUNTING STATEMENTS

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11. LOANS, FINANCING, DEBENTURES AND FINANCIAL LEASING -- continued

b) Descriptions of the loans, financing, debentures and financial leasing:

Description	Issuance Period	Final Maturity	Amount Contracted	Nr. Debentures	Payments	
					Amortization	Interest
Debentures -6 th Issue – 1 st series (1)	2016	2018	80,000	8,000	2018	Semi-annual
Debentures -6 th Issue – 2 nd series (1)	2016	2019	170,000	17,000	2019	Semi-annual
Debentures -5 th Issue – 1 st series (2)	2015	2017	111,160	11,116	2017	Semi-annual
Debentures -5 th Issue – 2 nd series (2)	2015	2018	188,840	18,884	2018	Semi-annual
Debentures -3 rd Issue – 1 st series (3)	2013	2018	199,670	19,967	2016/2017/2018	Semi-annual
Debentures -3 rd Issue – 2 nd series (3)	2013	2020	100,330	10,033	2019/2020	Semi-annual
BNDES – 3 Agreements (4)	2007	2023	295,967	-	Monthly	Quarterly during the grace period and monthly during amortization
Banco do Brasil - PSI - 11 Agreements (5)	2013 to 2014	2024	30,793	-	Monthly	Quarterly during the grace period and monthly during amortization
Debentures 2 nd Issue - 1 st and 3 rd series (9)	2011	2024	276,609	7,000	Monthly	Quarterly during the grace period and monthly during amortization
Debentures -2 nd Issue – 2 nd series (9)	2011	2024	118,547	3,000	Annual	Annual
Banco Itaú – PSI - 13 Agreements (6)	2013 to 2014	2025	33,175	-	Monthly	Quarterly during the grace period and monthly during amortization
Debentures -4 th Issue – 1 st series (10)	2014	2027	230,012	7,000	Monthly	Quarterly during the grace period and monthly during amortization
Debentures -4 th Issue – 2 nd series (10)	2014	2027	98,576	3,000	Monthly	Quarterly during the grace period and monthly during amortization
BNDES – PAC2 – 4 Agreements (7)	2011 to 2013	2028	395,902	-	Monthly	Quarterly during the grace period and monthly during amortization
Financial Leasing (11)	2013	2036	460,592	-	Monthly	Monthly
Caixa Econômica Federal – 224 Agreements (8)	1991 to 2014	2038	1,528,916	-	Monthly	Monthly

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11. LOANS, FINANCING, DEBENTURES AND FINANCIAL LEASING -- continued

b) Descriptions of the loans, financing, debentures and financial leasing -- continued

- (1) Debentures 6th Issue – issued on August 15, 2016 with placement on September 5, 2016 of 25,000 debentures in a total amount of R\$250,000. These are simple, unsecured debentures, not convertible to shares, in two series, for public distribution, intended to supplement the investment plan and working capital.
- (2) Debentures 5th Issue – issued on June 15, 2016 with placement on June 25, 2016 of 30,000 debentures in a total amount of R\$300,000. These are simple, unsecured debentures, not convertible to shares, in two series, for public distribution, intended to supplement the investment plan and working capital.
- (3) Debentures 3rd Issue – issued on November 15, 2013 with placement on November 27, 2013 of 30,000 debentures in a total amount of R\$300,000. These are simple, unsecured debentures, not convertible to shares, in two series, for public distribution, intended to supplement the investment plan and working capital.
- (4) BNDES loans used in drilling wells along the Guarani Aquifer and rendering them operational, while expanding and optimizing the water supply and sewage systems in various municipalities of the State of Paraná. They are collateralized by the Company's own revenues and reserve accounts held with Caixa Econômica Federal, with a balance of no less than the next 3 maturing installments, and recorded as linked deposits in non-current assets. This year, an amount of R\$2,760 was drawn down.
- (5) Loans under the Banco do Brasil - PSI, with funds provided by the BNDES-Finame program, intended for the acquisition of machinery and equipment for several municipalities in the State of Paraná. These financing lines are guaranteed by pledging trade bills for services provided, maturing within 180 days and provided they do not exceed the final maturity date of the agreement, covering 100% of the outstanding balance of the debt.
- (6) Loans under the Banco Itaú - PSI, with funds provided by the BNDES-Finame program, intended for the acquisition of machinery and equipment for several municipalities in the State of Paraná. These financing lines are guaranteed by the Company's own revenues.

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11. LOANS, FINANCING, DEBENTURES AND FINANCIAL LEASING -- continued

b) Descriptions of the loans, financing, debentures and financial leasing -- continued

- (7) BNDES – PAC 2 loans, with funds provided by the Workers' Support Fund (FAT), intended for expanding the water supply system and for installing sewage systems in several municipalities of the State of Paraná. These financing lines are guaranteed by the Company's own revenues and reserve accounts held with Caixa Econômica Federal, with a balance of no less than the next 3 maturing installments. This year, an amount of R\$61,059 was drawn down.
- (8) Loans from Caixa Econômica Federal, using funds provided by the Workers' Retirement Fund (FGTS), intended for expanding and improving the coverage of the water supply and sewage system in several cities of the State of Paraná, in addition to institutional development through the implementation of operational improvement and loss reduction programs. These loans attract management fees of 1.00% to 2.00% per annum, and risk fees of 0.30% to 1.70% per annum and are partially guaranteed by the water supply system in Curitiba under an industrial lien and by the Company's own revenues. A reserve account equivalent to a monthly charge is held with *Caixa* for the duration of the financing agreements. This year, an amount of R\$111,307 was drawn down.
- (9) Debentures 2nd Issue – under exclusive subscription between Sanepar, BNDES and BNDESPAR these debentures were issued on August 15, 2011, for placement in 3 series, with a unit par value of thirty-nine thousand, five hundred and fifteen *Reais* and fifty-three centavos, the first two series being of 3,000 debentures each and the 3rd series of 4,000 debentures, making a total of 10,000 debentures amounting to R\$395,155. These are simple, non-convertible debentures, with real guarantees, for private placement.
- (10) Debentures 4th Issue – under exclusive subscription between Sanepar, BNDES and BNDESPAR these debentures were issued on July 15, 2014, for placement in 2 series, with a unit par value of thirty-two thousand, eight hundred and fifty-eight *Reais* and eighty centavos, the 1st series being for 7,000 debentures and the 2nd series, 3,000 debentures, making a total of 10,000 debentures amounting to R\$328,588. These are simple, nominative non-convertible debentures, with real guarantees, for private placement.
- (11) Financial leasing – with a contractual amount of R\$460,592 with a Monthly Lease Amount (VML) of R\$2,075, to be amortized in four phases: 1st Phase: twelve installments of 21.1% of the VML, commencing February 2017; 2nd Phase: twelve installments of 49.3% of the VML; 3rd Phase: twelve installments of 79.5% of the VML and 4th Phase: two hundred and four installments of 100% of the VML. There were no amortization during 2016.

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11. LOANS, FINANCING, DEBENTURES AND FINANCIAL LEASING -- continued

c) The loans, financing, debentures and financial leasing show the following movement:

Description	2016		2015	
	Current	Non-Current	Current	Non-Current
Opening balances for the year	230,660	2,105,348	244,334	1,628,159
Drawdowns	-	494,178	-	652,815
Interest and fees	238,666	-	203,015	-
Monetary restatement	-	50,055	-	50,423
Transfers	356,452	(356,452)	226,012	(226,012)
Amortization	(446,496)	-	(442,773)	-
Costs in raising third-party funds	(681)	(764)	72	(37)
Leasing delivery	562	40,546	-	-
Closing balances for the year	379,163	2,332,911	230,660	2,105,348

d) The amortization schedule is as follows:

Description	2017	2018	2019	2020	2021	2022	2023 to 2038	Total
Debentures 2 nd Issue	49,213	44,920	44,920	44,920	44,920	44,920	82,859	356,672
Debentures 3 rd Issue	70,127	66,690	63,583	63,583	-	-	-	263,983
Debentures 4 th Issue	14,842	26,041	26,041	26,041	26,041	26,041	119,347	264,394
Debentures 5 th Issue	113,111	188,819	-	-	-	-	-	301,930
Debentures 6 th Issue	11,388	79,392	169,726	-	-	-	-	260,506
Debenture subtotal	258,681	405,862	304,270	134,544	70,961	70,961	202,206	1,447,485
BNDES	34,393	33,949	33,054	8,162	8,162	8,162	679	126,561
BNDES – PAC2	17,934	17,332	17,332	17,332	17,332	15,231	75,656	178,149
Banco do Brasil - PSI	3,406	3,369	3,369	3,369	3,369	3,369	2,284	22,535
Banco Itaú - PSI	3,595	3,542	3,542	3,542	3,542	3,542	4,501	25,806
Caixa Econômica Federal	60,592	65,116	70,010	71,563	61,915	51,947	489,287	870,430
Loans and financing subtotals	119,920	123,308	127,307	103,968	94,320	82,251	572,407	1,223,481
Leasing	562	631	707	793	889	997	36,529	41,108
Totals	379,163	529,801	432,284	239,305	166,170	154,209	811,142	2,712,074

On December 31, 2016, the present value of the minimum future financial obligations involving financial leasing is shown below:

Description	2016		
	Minimum Future Payments	Financial charges	Present Value of Minimum Future Payments
Less than 1 year	5,260	(4,698)	562
Over one year and less than five years	21,042	(18,022)	3,020
Over five years	78,905	(41,379)	37,526
Totals	105,207	(64,099)	41,108

A discount rate of 12.1% was applied.

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11. LOANS, FINANCING, DEBENTURES AND FINANCIAL LEASING -- continued

e) The main events during the year were as follows:

Debentures 2nd Issue – under exclusive subscription by the BNDES, on June 15, 2016, 482 debentures from the 3rd series were placed, corresponding to R\$15,583, and on November 23, 2016, 908 debentures from the 3rd series were placed, corresponding to R\$27,874.

Debentures 4th Issue – under exclusive subscription by the BNDES, on November 23, 2016, 500 debentures from the 1st series were placed, corresponding to R\$16,429 with placement by BNDESPAR of 315 debentures from the 2nd series, corresponding to R\$10,351.

Caixa Econômica Federal – During 2016, total drawdowns stood at R\$111,178.

BNDES Financing - During 2016, total drawdowns stood at R\$62,763.

Debentures 6th Issue – on August 15, 2016, 25,000 debentures were issued, with placement on September 5, 2016, in 2 series, with a par value of R\$10, the 1st series being for 8,000 debentures and the 2nd series, 17,000 debentures, making a total of R\$250,000.

Financial leasing – at the end of December 2016, the first contractual milestone was delivered, leading to the release for operation of 20.6% of the total expansion works on the municipal sewage systems of Matinhos and Pontal do Paraná, equivalent to R\$41,108.

f) Covenants

The covenants and restrictions binding on the loans, financing and debentures are shown below:

(i) Covenants on BNDES agreements and on the 2nd and 4th Issues of Debentures

Ratio	Limit	Range
EBITDA / Debt Service	Equal to or exceeding 1.5	Less than 1.5 and equal to or exceeding 1.2
Net Bank Debt / EBITDA	Equal to or less than 3.0	Equal to or less than 3.8 and exceeding 3.0
Other Interest-Bearing Debt / EBITDA	Equal to or less than 1.0	Equal to or less than 1.3 and exceeding 1.0

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11. LOANS, FINANCING, DEBENTURES AND FINANCIAL LEASING -- continued

f) Covenants - continued

(ii) Covenants on the 3rd, 5th and 6th Issues of Debentures

<u>Ratio</u>	<u>Limit</u>
Net Bank Debt / Adjusted EBITDA	Equal to or less than 3.0
Adjusted EBITDA / Net Financial Expenses	Equal to or exceeding 1.5

In the case of the BNDES and the 2nd and 4th Debenture Issuance Agreements, the Company has to maintain, during the entire life of the financing agreements, the ratio limits calculated on a quarterly basis in respect of the retained earnings over the previous twelve (12) months.

If one or more of the Company's covenants shows, for at least two (2) quarters, consecutive or not, within a 12-month period, ratios less than the ranges indicated above, the monthly amount of the portion of the rights assigned under the terms of the "Fiduciary Assignment of Rights" clause for each of the agreements will be automatically increased by twenty per cent (20%).

With regard to the agreements of section (ii) of the 3rd, 5th and 6th issues of simple, non-convertible and unsecured debentures, under which no special or general privileges are granted to the holders, the Company has to maintain, during the entire effective period and until final maturity, the ratios indicated above.

At December 31, 2016, the Company was in full compliance with the covenants stipulated under debenture issuances and BNDES financing.

12. CONCESSION AGREEMENTS

The Company has onerous concession agreements for providing public services involving water supply and the collection, removal and treatment of sewage with the Municipal Council of Curitiba, for a term of 30 years, which was executed on December 6, 2001. Under this agreement, an amount of R\$125,000 was set as payment for the concession, payable in varying installments during the life of the agreement and restated based on the variation of the IPCA published by the Brazilian Census Bureau (IBGE). The balance on December 31, 2016 is R\$96,926 (R\$98,167 in 2015), of which R\$7,501 (R\$7,052 in 2015) is recorded under current liabilities and R\$89,425 (R\$91,115 in 2015) under non-current liabilities

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NOTES TO THE ACCOUNTING STATEMENTS

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12. CONCESSION AGREEMENTS -- continued

The maturity dates of the debt are distributed as follows:

<u>Year of Maturity</u>	<u>Balance Payable</u>
2017	7,501
2018	7,501
2019	7,501
2020	7,501
2021	7,501
2022 to 2031	59,421
Total	96,926

13. TAXES AND CONTRIBUTIONS

<u>Description</u>	<u>2016</u>	<u>2015</u>
COFINS contribution payable	20,237	14,884
PASEP contribution payable	4,378	3,220
COFINS – Installment plan (1)	4,079	4,361
Urban Property Tax - IPTU – Installment plan (2)	1,749	1,751
Taxes and contributions withheld at source	34,228	27,376
Total taxes and contributions	64,671	51,592
Current	63,260	50,124
Non-current	1,411	1,468

- (1) Refers to the installment plan for the COFINS penalty for the period from September/1994 to September/1996, pursuant to Law 11941/2009. The debt was divided into 60 monthly installments, restated using the SELIC benchmark interest rate, with the National Treasury Attorney-General's Office, and was settled on October 31, 2014. The Company filed a writ of mandamus with the 2nd Lower Court in Curitiba on June 28, 2011, challenging the amount of the debt consolidated by the National Treasury Attorney-General's Office, and obtained an injunction on June 29, 2011 to reduce the amount of the debt. The case was judged on December 6, 2011 in favor of the Company. The National Treasury Attorney-General's Office filed an appeal against judgement on February 7, 2012, which was heard and rejected. On August 27, 2014, the Federal Prosecution Office issued a statement for the denial of the special appeal by the government. On October 13, 2014, the special appeal was taken under advisement by Justice Marga Tesler of the 1st Panel of the Superior Court of Justice who, in the light of the termination of her assignment, returned the case, without a ruling, to be newly assigned to the succeeding Justice. On June 8, 2015, the case was reassigned to Justice Olindo Herculano de Menezes. On March 2, 2016, the case was reassigned to Justice Gurgel de Faria.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

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13. TAXES AND CONTRIBUTIONS -- continued

- (2) This amount refers to IPTU (Urban Property Tax) owed to the Council of Curitiba and pertaining to the subject property for court-mandated expropriation of the area occupied by ETE CIC/Xisto, for the period from 2002 to 2013, covering interest, monetary restatement and legal fees of 10% of the total amount of the debt. The amount of the debt, R\$1,664, was divided by the Company into 90 monthly installments, monetarily restated by the variation in the IPCA, plus arrears interest of 1% per month. As of December 31, 2016, 28 installments amounting to R\$645 had been settled.

14. OTHER ACCOUNTS PAYABLE

The composition shows the following amounts:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Programs involving the National Water Agency - ANA	7,409	6,646
Third-party agreements and arrangements	12,224	12,442
Arrangements with municipal councils	11,338	9,011
Pledges and valuables to be reimbursed	6,701	8,238
Settlement with the Public Prosecutor's Office of Paraná (1)	-	5,050
Settlement with the Environmental Institute of Paraná - IAP (2)	3,780	-
Totals	41,452	41,387
Current	36,513	36,957
Non-current	4,939	4,430

- (1) Refers to the installment plan under a settlement reached with the Public Prosecutor's Office of Paraná, concerning administrative procedure MPPR-0046.13.006304-6 for the difference in the penalty for late payment of bills charged in the period from August 1996 to April 1998, in the amount of 10%, while the courts had stipulated 2%. A settlement amount of R\$11,363 was reached, payable in 18 monthly installments of R\$631, monetarily restated using the average INPC/IGPDI rate for the previous month. In August/16, the Company finally settled the balance of this debt.
- (2) Refers to a term of commitment executed on June 3, 2016 for payment in installments of fines by the Environmental Institute of Paraná - IAP, referring to 41 assessments for environmental violations - AIA. A settlement amount of R\$4,320 was reached payable in 24 installments of R\$180, and as of December 31, 2016, 3 installments totaling R\$540 had been paid.

15. PROVISIONS, CONTINGENT LIABILITIES AND COURT DEPOSITS

Accounting Practice:

The Company records provisions when management, supported by the opinion of its legal advisors, believes that the probability exists of losses on certain law suits that arise in the normal course of its business. In the case of labor law suits, bearing in mind the track record of rulings, provisions are set aside for the total amounts of these law suits.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

15. PROVISIONS, CONTINGENT LIABILITIES AND COURT DEPOSITS -- continued

The provisions are revised and adjusted to take into account changes in circumstances, such as the applicable statute of limitation, the conclusions of the tax inspectorate and additional exposure identified, based on new issues or court decisions.

a) Provisions

The Company records provisions for civil, labor, tax and environmental law suits classified as probable losses, which showed the following movement:

Nature	2015	Additions	Reversals	2016
Labor law suits	173,724	103,361	(92,849)	184,236
Civil law suits	212,839	72,690	(88,535)	196,994
Environmental law suits	76,115	79,220	(42,107)	113,228
Tax law suits	745	11,617	(244)	12,118
Total	463,423	266,888	(223,735)	506,576

Labor law suits

Labor law suits involve claims filed primarily by former employees of the Company and by service companies (joint and several liability), claiming differences in wages and payroll charges. The main law suits involving the Company refer to: i) unhealthy work pay to be factored into the calculation of overtime; ii) hazard pay at the rate of 30% and; iii) division of overtime by 200.

Civil law suits

Civil lawsuits involve requests for compensation from customers and suppliers and for damage caused to third parties. The main law suits in which the Company is involved refer to: i) compensation for work agreements on account of economic and financial imbalance; ii) pain and suffering due to lack of water or sewage backflow, iii) petitions for annulment of minimum charges per unit of 80% of the sewage tariff and return of tariffs and iv) other cases arising from compensation referring to the suspension of agreements, traffic accidents, material damage and loss of future earnings, among others.

In 2016, the main movement refers to the partial reversal of R\$40,298 concerning the provision for reimbursement of costs incurred by a contractor due to the substitution of material used in executing a contract, since the respective amount was the subject of a ruling in the Company's favor and the setting aside of an additional provision of R\$36,235 referring to law suits for pain and suffering due to the lack of water in the municipality of Maringá.

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15. PROVISIONS, CONTINGENT LIABILITIES AND COURT DEPOSITS -- continued

a) Provisions -- continued

Environmental

The environmental proceedings are related to notifications issued by various environmental authorities, primarily for: i) damage to the environment caused by leaks and overflows from sewage collection networks, and by the discharge of effluents from the sewage treatment stations in violation of the requirements of the law; and ii) the installation and operation of water and sewage treatment stations without an environmental license.

During 2016 the largest provision set up relates to discussions with the environmental authorities about a R\$40,000 settlement for the period when the Sewage Treatment Stations did not have an operating license.

Tax

Tax proceedings relate mainly to the collection of ISSQN (Tax on Services) in cases where there are divergences in the interpretation of the law. The most important cases are in respect of the municipalities of Piraquara, Paranavaí, Campo Mourão and Porecatu.

b) Contingent Liabilities

The Company discloses contingent liabilities where a loss is regarded as possible on the basis of the nature of the proceedings and the opinion of legal counsel. No provisions are set up for these possible losses, in accordance with CPC 25 of the Accounting Pronouncements Committee.

The position of contingent liabilities where a loss is regarded as possible, for civil, environmental and tax proceedings, is as follows:

Nature	Contingent Liabilities	
	2016	2015
Civil proceedings	143,176	365,153
Environmental proceedings	252,819	213,577
Tax proceedings	8,328	30,133
Totals	404,323	608,863

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NOTES TO THE ACCOUNTING STATEMENTS

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15. PROVISIONS, CONTINGENT LIABILITIES AND COURT DEPOSITS -- continued

b) Contingent Liabilities -- continued

Civil

Civil proceedings relate to claims for indemnity by customers, suppliers and third parties for damages. The main cases in which the Company is involved relate to: i) indemnity for a works contract under an economic equilibrium clause; ii) indemnity for suspension of a contract; iii) claim for annulment of a charge for sewage collection; and iv) other proceedings for indemnity for traffic accidents, material damage, loss of profits etc.

During 2016 the Company, on the basis of the opinions of its legal counsel who in turn are guided by decisions in recent cases, reclassified 2,062 cases regarded as “possible” losses to “remote”, for an amount of R\$219,541, and 208 cases regarded as “possible” to “probable”, for an amount of R\$12,561. A further 4,199 new cases were also added, amounting to R\$42,058, and 2,377 cases were reversed, for R\$31,933, which were classified as “possible”.

Environmental

The environmental proceedings are related to notifications issued by various environmental authorities, primarily for: i) damage to the environment caused by leaks and overflows from sewage collection networks, and by the discharge of effluents from the sewage treatment stations in violation of the requirements of the law; and ii) the installation and operation of water and sewage treatment stations without an environmental license.

Tax

Tax cases relate mainly to disputed tax payments due to different interpretations of the law. The most important proceedings in which the Company is involved relate to: i) tax enforcement for payment of ISSQN (Tax on Services); and ii) tax enforcement for payment of IPTU (Property Tax).

c) Court Deposits

The Company has paid deposits into court which it will only recover if rulings are made in its favor.

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NOTES TO THE ACCOUNTING STATEMENTS

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15. PROVISIONS, CONTINGENT LIABILITIES AND COURT DEPOSITS -- continued

c) Court Deposits -- continued

The breakdown is as follows:

Type	Court deposits	
	2016	2015
Labor proceedings	91,216	84,137
Civil proceedings	57,259	42,799
Environmental proceedings	2,981	1,238
Tax proceedings	4,986	4,720
Totals	156,442	132,894

16. INCOME AND SOCIAL CONTRIBUTION TAXES

Accounting Practice:

These taxes are calculated on taxable income at the current rates, 15% for income tax (IRPJ) plus an additional 10% on the surplus over the limit determined by law, and 9% for Social Contribution.

Deferred income and social contribution taxes are calculated on current rates and registered as legally required by CPC 26 (R1) and 32, which deal with the temporary differences on which these taxes are based. The Company undertakes regular studies to confirm that future operations are likely to produce earnings against which to charge these deferred taxes.

Deferred tax assets and liabilities are shown net provided that there is a legal or contractual right to offset them.

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NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

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16. INCOME AND SOCIAL CONTRIBUTION TAXES

a) Statement of reconciliation of income and social contribution taxes registered in income

Description	2016		2015	
	Income Tax	Social Contribution	Income Tax	Social Contribution
Income before income and social contribution taxes	789,585	789,585	540,314	540,314
Income and social contribution taxes – current rates	(197,396)	(71,063)	(135,079)	(48,628)
Benefit of deductibility of interest on equity	73,351	26,406	51,099	18,396
Subsidies and donations received from public bodies (1)	84	30	179	64
Adjustment of accounts receivable to present value (1)	(142)	(51)	(295)	(106)
Workers' Food Program – PAT (2)	5,969	-	3,875	-
Civic Company incentive (3)	458	-	295	-
Equity accounting	(840)	(303)	(422)	(152)
Others	603	156	6,596	2,308
Total expenses	(117,913)	(44,825)	(73,752)	(28,118)
Total income and social contribution taxes	(162,738)		(101,870)	
Effective tax rate	20.6%		18.9%	

(1) Pursuant to Law No. 11941, of May 27, 2009;

(2) Pursuant to Law No. 6321, of April 14, 1976;

(3) Pursuant to Decree 7052, of December 23, 2009, which regulated Law No. 11770, of September 9, 2008.

b) Current and deferred income and social contribution taxes

Shown in income for the year as follows:

Description	2016	2015
Income tax	(148,607)	(96,410)
Social contribution	(55,392)	(35,714)
Realization of deferred income tax	30,694	22,658
Realization of deferred social contribution	10,567	7,596
Totals	(162,738)	(101,870)

Any tax effects of the recognition of actuarial profits and losses in shareholders' equity are shown in the comprehensive income statement.

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NOTES TO THE ACCOUNTING STATEMENTS

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16. INCOME AND SOCIAL CONTRIBUTION TAXES -- continued

c) Deferred income and social contribution taxes

The bases for calculating deferred income and social contribution taxes on assets and liabilities are made up as follows:

Description	Estimated recovery period	Calculation base	Income tax	Social contribution	2016	2015
					Total	Total
ASSETS						
APV on contractual financial assets	30 years	307,750	76,938	27,697	104,635	60,731
Healthcare and pension plans	15 years	795,928	198,982	71,633	270,615	239,168
Impairment of assets	10 years	12,522	3,131	1,127	4,258	3,777
Civil, labor, tax and environmental provisions	5 years	506,576	126,644	45,592	172,236	157,564
Bad debt provisions	3 years	46,799	11,700	4,212	15,912	14,080
Provision for profit sharing	1 year	37,198	9,299	3,348	12,647	8,836
Totals			426,694	153,609	580,303	484,156
LIABILITIES						
APV on contractual financial assets	30 years	317,354	79,338	28,562	107,900	59,795
Deferred income tax on construction and leasehold improvements	23 years	136,677	34,169	-	34,169	35,510
Financial leasing	20 years	41,036	10,259	3,693	13,952	-
Revaluation reserve	16 years	132,122	33,031	11,891	44,922	47,819
Attribution of new cost to property, plant and equipment	6 years	15,773	3,943	1,420	5,363	6,257
Totals			160,740	45,566	206,306	149,381
Net total			265,954	108,043	373,997	334,775

d) Estimate of future realization of income and social contribution taxes

The estimate of future realization of deferred tax assets and liabilities as of December 31, 2016, is made up as follows:

Realization periods	Deferred tax assets			Deferred tax liabilities		
	Income tax	Social Contribution	Totals	Income tax	Social Contribution	Totals
2017	26,586	9,571	36,157	7,893	2,282	10,175
2018	27,945	10,060	38,005	7,893	2,282	10,175
2019 to 2021	175,381	63,136	238,517	23,677	6,847	30,524
2022 to 2024	48,736	17,545	66,281	21,311	5,995	27,306
2025 to 2027	48,272	17,378	65,650	21,311	5,995	27,306
2028 to 2030	48,040	17,294	65,334	21,311	5,995	27,306
2031 to 2033	21,509	7,743	29,252	16,907	4,409	21,316
2034 to 2036	8,243	2,968	11,211	14,662	3,601	18,263
2037 to 2039	8,243	2,968	11,211	11,607	3,060	14,667
2040 to 2042	8,243	2,968	11,211	8,501	3,060	11,561
2043 to 2045	5,496	1,978	7,474	5,667	2,040	7,707
Totals	426,694	153,609	580,303	160,740	45,566	206,306

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NOTES TO THE ACCOUNTING STATEMENTS

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17. RELATED PARTIES

Accounting Practice:

The Company does business with various related parties, in particular the state of Paraná, Companhia Paranaense de Energia Elétrica – Copel and certain municipalities, as shown in this note.

The Company paid the state of Paraná interest on equity for 2016 amounting to R\$114,211 (R\$102,796 in 2015) and proposed additional dividends of R\$1,174 (R\$1,764 in 2015) totaling R\$115,385 (R\$104,560 in 2015). This payment requires approval at the Annual Shareholders' Meeting. The Company also supplied water and sewage services to the state of Paraná, with revenues of R\$137,762 and R\$130,357 for the years 2016 and 2015, respectively. According to the Paraná State Attorney General's Office, the Company can set off amounts receivable against amounts payable to the state of Paraná for dividends or interest on equity.

The Company paid Dominó Holdings S/A interest on equity for 2016 amounting to R\$17,965 (R\$21,869 in 2015) and proposed additional dividends of R\$126 (R\$406 in 2015) totaling R\$18,091 (R\$22,275 in 2015). This payment requires approval at the Annual Shareholders' Meeting.

Companhia Paranaense de Energia - COPEL (a direct shareholder of the Company, one of the shareholders of Dominó Holdings S/A and controlled by the state of Paraná) was owed, as of December 31, 2016, a total of R\$13,177 for interest on equity (R\$15,063 in 2015) plus proposed additional dividends of R\$113 (R\$280 in 2015) totaling R\$13,290 (R\$15,343 in 2015). This payment requires approval at the Annual Shareholders' Meeting.

In addition, COPEL provided electricity and telecommunications services to the Company, for R\$373,475 and R\$3,779, respectively, during 2016 (R\$378,576 and R\$2,886, respectively, in 2015). The Company provided water and sewage services to COPEL against payments of R\$1,566 and R\$1,409 during the years 2016 and 2015, respectively.

The Company provides water and sewage services to a number of municipal councils, mainly in the state of Paraná, under concession agreements and municipal programs. Revenues from these municipal bodies during 2016 totaled R\$97,022 (R\$76,043 in 2015). The Company also manages solid urban waste for some municipalities in the state of Paraná, with revenues of R\$7,867 (R\$8,060 in 2015).

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

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17. RELATED PARTIES -- continued

The management of Sanepar considers these to be normal market operations, except in the case of certain municipal councils which are granted discounts in their water and sewage billings, subject to a maximum utilization determined in their supply contracts. These debts can be settled by payment through the authorized banking network or by offsetting in the case of sums owing by the Company to the municipalities in question.

Management compensation

Total annual management compensation for the year ended December 31, 2016, amounting to R\$13,055, was approved at the fifty-second annual shareholders' meeting held on April 28, 2016. For 2015 a total of R\$11,750 was approved at the fifty-first annual general meeting held on April 28, 2015.

During 2016, a total of R\$11,596 was paid (R\$10,107 in 2015), consisting of R\$9,142 in compensation (R\$8,346 in 2015) and R\$2,454 in charges and benefits (R\$1,761 in 2015). Of the sum for charges and benefits, R\$2,272 relates to social charges (R\$1,658 in 2015), R\$51 to profit-sharing (R\$16 in 2015), R\$47 to the health insurance plan (SANESAÚDE) (R\$34 in 2015), R\$65 to benefits to the Sanepar Foundation (FUSAN) (R\$53 in 2015) and R\$19 for supplementary programs.

18. SHAREHOLDERS' EQUITY

a) Capital stock

On November 25, 2016, the shareholders Paraná State Government and Dominó Holdings S.A. applied to convert 23,056,232 and 41,000,000 of their common shares, respectively, into preferred shares, resulting in the automatic termination of the Shareholders' Agreement executed on August 27, 2013, between these two shareholders, in view of the fact that Dominó Holdings S.A.'s holding of voting capital in the Company fell below 10%.

The public offer for the primary issues of shares, which opened on December 20, 2016, added 27,114,967 new preferred shares and changed the share structure of the Company as follows:

Description	Sep. 30, 2016	%	Conversion	Issuance	Dec. 31, 2016	%
Common shares	231,967,956	48.7	(64,056,232)	-	167,911,724	33.3
Preferred shares	244,652,250	51.3	64,056,232	27,114,967	335,823,449	66.7
Totals	476,620,206	100.0	-	27,114,967	503,735,173	100.0

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18. SHAREHOLDERS' EQUITY -- continued

a) Capital Stock -- continued

The capital stock consists of 503,735,173 shares, of which 167,911,724 are common shares and 335,823,449 preferred shares, all of nil par value and fully paid up by individuals and legal entities resident and domiciled in Brazil or abroad. The preferred shares have no voting rights, but they are guaranteed: (i) the right to share on an equal footing with common shares in the distribution of shares or other securities or benefits, including when reserves are incorporated into capital; (ii) priority in repayment of capital if the Company goes into liquidation; and (iii) the right to receive remuneration at least 10% higher than the amount attributed to each common share.

The equity value of each share as at December 31, 2016, taking into account a provision for the additional dividends proposed by management, was R\$9.55 (R\$8.77 as at December 31, 2015).

Subscribed and paid-up capital as at December 31, 2016, was R\$2,854,952, or R\$2,847,664 after deducting share issue costs, and the shareholder structure was as follows:

Shareholders	Number of shares					
	Common	%	Preferred	%	Total	%
State of Paraná	150,845,890	89.8	1	-	150,845,891	29.9
Dominó Holdings S/A	16,237,359	9.7	1	-	16,237,360	3.2
Cia. Paranaense de Energia - Copel	-	-	13,241,938	3.9	13,241,938	2.6
Paraná Guarantee Fund	-	-	23,101,329	6.9	23,101,329	4.6
Municipal councils	-	-	2,339,005	0.7	2,339,005	0.5
Foreign investors	-	-	145,371,279	43.3	145,371,279	28.9
Other investors	828,475	0.5	151,769,896	45.2	152,598,371	30.3
Totals	167,911,724	100.0	335,823,449	100.0	503,735,173	100.0

b) Revaluation reserve

During the year a transfer of R\$5,625 (R\$5,925 in 2015), net of income and social contribution taxes, was made to retained earnings. This reserve is realized to the extent that revalued property, plant and equipment items or intangible assets are written off or depreciated.

Changes in the Revaluation Reserve during the year were as follows:

Description	2016	2015
Opening balances for the year	92,825	98,750
Revaluation reserve created	(8,522)	(8,977)
Tax paid on revaluation reserve	2,897	3,052
Closing balances for the year	87,200	92,825

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18. SHAREHOLDERS' EQUITY -- continued

c) Reserve for Investments

The reserve for investments is the income remaining after setting up the legal reserve and the tax incentives reserve, and after distributing interest on shareholders' equity and dividends. This reserve cannot exceed the amount of paid-up capital stock. Funds intended for the investment reserve are for use in construction and expansion projects for the water supply and sewage collection and treatment systems, as described in the Company's investment plans.

Management proposes, subject to approval by the shareholders in general meeting, to allocate R\$304,946 of retained earnings to set up a reserve for investments. These funds will be used in construction and expansion projects for the water supply and sewage collection and treatment systems, as described in the Company's investment plans.

d) Remuneration of shareholders

Accounting Practice:

Interest on equity is calculated according to the law, at the official long-term interest rate (TJLP) applied to adjusted shareholders' equity. Interest on equity is recorded as a financial expense and reclassified to shareholders' equity for presentation and publication of the financial statements. If the amount paid as interest on equity for the year results in the percentage distributed falling below management's proposal, the difference is recorded as additional dividends. The minimum mandatory dividend is registered as a current liability, and any sum exceeding the minimum limit is registered as a reserve or proposed additional dividend in shareholders' equity.

The Company by-laws provide for the distribution as a mandatory dividend of 25% of net income adjusted as per the corporate law. Preferred shareholders are paid interest on equity (dividends) per share at a rate 10% higher than for the holders of common shares.

The tax legislation allows companies to pay interest on equity to shareholders, within certain limits, and to treat such payments as a deductible expense for tax purposes. This distribution is regarded as part of the mandatory dividend payable by the Company, and for accounting and corporate purposes is treated as a deduction from shareholders' equity, in the same way as dividends. Tax at a rate of 15% is withheld at source on these amounts when the interest is credited.

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18. SHAREHOLDERS' EQUITY -- continued

d) Remuneration of shareholders -- continued

Interest on equity was calculated at the official long-term interest rate (TJLP) pursuant to Law No. 9249/95, as amended. Total interest was booked as a financial expense, creating a tax benefit of R\$99,757 under the tax legislation. For the purposes of these financial statements, this interest is shown in shareholders' equity and debited to retained earnings.

The Company management, in line with the current dividend policy and business plan, and in view of its good financial condition and the public interest, is proposing that the annual shareholders' meeting should approve the following distribution of income:

	<u>2016</u>	<u>2015</u>
Net income for the year	626,847	438,444
Transfer to legal reserve	(31,343)	(21,922)
Government donations and subsidies	(335)	(715)
Basis for calculation of mandatory dividends	<u>595,169</u>	<u>415,807</u>
Mandatory dividends (25%)	148,792	103,952
Supplementary dividends	148,793	103,951
Proposed dividends and interest on equity	<u>297,585</u>	<u>207,903</u>

The sum of interest on shareholders' equity paid in 2016 was R\$293,404 (R\$204,396 in 2015), less R\$16,114 withholding tax, giving an effective rate of 5.5% (4.8% in 2015). Since interest on equity was lower than 50% of net income for the year, and in accordance with the dividend policy, the Company management is proposing to pay additional dividends of R\$4,181 (R\$3,507 in 2015), giving total gross remuneration of R\$297,585 (207,903 in 2015).

The portion of interest on shareholder's equity/dividends exceeding the minimum mandatory dividend, amounting to R\$148,793, will be held in a reserve account in the Company's shareholders' equity until the proposal has been considered by the annual shareholders' meeting, and if approved it will be transferred to an account in current liabilities.

The remuneration of Company shareholders is calculated on the position at as June 30 and December 31 each year, and any negotiations subsequent to the announcement are considered to be ex-dividend (interest on equity plus dividend).

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18. SHAREHOLDERS' EQUITY -- continued

d) Remuneration of shareholders -- continued

Taking into account the remuneration of shareholders as of June 30 and December 31, 2016, interest on equity and additional dividends proposed, per share, were as follows:

Interest on equity – June 30, 2016	Number	Total Remuneration	Remuneration per share
Common shares	231,967,956	66,341	0.28599
Preferred shares	244,652,250	76,966	0.31459
Totals	476,620,206	143,307	

Interest on equity – December 31, 2016	Number	Total Remuneration	Remuneration per share
Common shares	167,911,724	46,905	0.27934
Preferred shares	335,823,449	103,192	0.30728
Totals	503,735,173	150,097	

Additional Dividends – December 31, 2016	Number	Total Remuneration	Remuneration per share
Common shares	167,911,724	1,306	0.00778
Preferred shares	335,823,449	2,875	0.00856
Totals	503,735,173	4,181	

The value of remuneration to shareholders per share was as follows:

	2016	2015
Common shares	0.57312	0.41491
Preferred shares	0.63043	0.45640

The total of R\$134,055 (R\$95,101 in 2015) recorded in current liabilities as interest on equity and dividends in 2016 includes R\$57,692 (R\$52,280 in 2015) for the state of Paraná, R\$7,460 (R\$10,235 in 2015) for Dominó Holdings S/A, R\$5,482 for Companhia Paranaense de Energia – COPEL (R\$7,049 in 2015), R\$61,968 (R\$24,621 in 2015) for the other shareholders and R\$1,453 (R\$916 in 2015) relating to amounts unpaid from previous years.

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18. SHAREHOLDERS' EQUITY -- continued

e) Earnings per share

The following table describes the calculation of earnings per share (in thousands except for the amount per share):

Basis earnings and diluted earnings per share	2016	2015
Numerator		
Net income for the year attributable to shareholders of the Company		
Common shares	195,890	202,969
Preferred shares	430,957	235,475
Denominator (in thousands of shares)		
Weighted average number of common shares	225,650	231,968
Weighted average number of preferred shares	251,564	244,652
Basis and diluted earnings		
Per common share	0.86811	0.87499
Per preferred share	1.71311	0.96249

f) Legal reserve

Set up for an amount of R\$31,343 in 2016 (R\$21,922 in 2015), in compliance with the Corporate Law and the By-Laws on the basis of 5% of net income for each year until reaching a limit of 20% of paid-up capital. The legal reserve can only be used to increase capital or absorb accumulated losses. Management also complies with the Corporate Law in respect of the limit of capital applicable to revenue reserves.

g) Tax incentive reserve

R\$335 was transferred to this reserve in 2016 (R\$715 in 2015), representing the portion of net income arising from government donations and subsidies, in accordance with Article 195-A of the Corporate Law. This amount was excluded from the base for calculating dividends.

h) Adjustments to equity valuation

Set up in compliance with Article 182 of the Corporate Law to adjust the value of equity, until balancing entries have been included in income for the year, on an accrual basis, for the increase or decrease in the value of assets and liabilities which are adjusted to fair value.

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18. SHAREHOLDERS' EQUITY -- continued

h) Adjustments to equity valuation -- continued

During the year a transfer of R\$1,737 (R\$1,926 in 2015), net of income and social contribution taxes, was made to retained earnings. This reserve is set up as property, plant and equipment accounts and intangible assets are adjusted.

Changes in adjustments to shareholders' equity were as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Opening balances for the year	12,147	14,073
Adjustments to deemed cost	(2,631)	(2,919)
Tax on adjustments to deemed cost	894	993
Closing balances for the year	10,410	12,147

19. OPERATING REVENUES

Accounting Practice:

Revenues from Products and Services: Revenues are recognized on an accrual basis. Revenues from the supply of water and collection of sewage include amounts billed to customers on a regular (monthly) basis and revenues not billed recognized at the fair value of the consideration received or to be received, and are shown net of tax, rebates or discounts. Revenues not yet invoiced are recognized on the basis of estimated consumption from the date the meter was last read until the end of the accounting period.

Construction revenues: According to CPC 17 (R1) – Construction agreements, revenues from the construction of assets relating to the provision of public services must be recognized using the percentage completed method, provided that all the applicable conditions have been fulfilled. According to this method, contractual revenues booked up to the balance sheet date must be in the same proportion to the total estimated cost as the contractual expenses booked. The Company uses a zero margin system to measure construction revenues and costs.

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19. OPERATING REVENUES -- continued

The different types of operating revenue are as follows:

Description	2016	2015
Revenues		
Water revenues	2,309,458	1,944,616
Sewage revenues	1,270,631	1,044,242
Revenues from services	125,877	100,477
Solid waste revenues	7,867	8,060
Services provided to municipal councils	7,870	6,190
Other revenues	19,303	79,767
Total operating revenues	3,741,006	3,183,352
Deductions from operating revenues		
COFINS	(216,586)	(174,372)
PASEP	(46,895)	(37,795)
Total deductions	(263,481)	(212,167)
Total operating revenues, net	3,477,525	2,971,185

The Company obtained revenues and incurred costs on construction contracts related to program agreements in the amount of R\$87,772 (R\$66,016 in 2015), during 2016, i.e. at a zero margin. Revenues are shown net of construction costs.

20. COST OF PRODUCTS AND SERVICES

Types of costs are as follows:

Description	2016			2015		
	Water	Sewage	Total	Water	Sewage	Total
Staff	260,680	84,818	345,498	229,134	72,937	302,071
Materials	75,930	25,802	101,732	72,684	24,483	97,167
Electricity	345,389	37,074	382,463	344,155	35,122	379,277
Outsourcing	181,168	116,544	297,712	176,392	116,571	292,963
Depreciation and amortization	103,828	92,342	196,170	91,970	80,808	172,778
Other costs	88,873	32,660	121,533	78,412	22,494	100,906
Totals	1,055,868	389,240	1,445,108	992,747	352,415	1,345,162

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NOTES TO THE ACCOUNTING STATEMENTS

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21. SALES, ADMINISTRATIVE AND OTHER EXPENSES

The expenses can be broken down as follows:

Description	2016	2015
Sales		
Staff	104,757	92,508
Materials	3,497	3,125
Outsourcing	69,785	58,193
Depreciation and amortization	5,723	5,405
Bad debts written off	21,890	(5,862)
Other expenses	47,415	49,411
Total of sales expenses	253,067	202,780
Administrative		
Staff	582,353	544,900
Materials	34,571	28,849
Outsourcing	144,943	134,215
Depreciation and amortization	15,218	16,011
Bad debts written off	(115)	1,063
Other expenses	49,202	64,231
Transfers to sales costs and expenses (a)	(122,900)	(107,853)
Capitalized expenses (b)	(87,111)	(89,464)
Total administrative expenses	616,161	591,952
Other operating revenues (expenses)		
Expenses		
Assets written off	(13,948)	(19,150)
Revenues		
Sale of assets	2,751	3,794
Totals of other operating revenues (expenses), net	(11,197)	(15,356)

(a) These amounts are first registered as administrative expenses and subsequently transferred to sales costs and expenses;

(b) These amounts refer to capitalized administrative expenses, since they relate to projects and work in progress allocated directly to service units.

22. PROFIT-SHARING PROGRAM

The Company has provided the sum of R\$37,198 (R\$25,988 in 2015) for profit sharing in 2016, and the provision has been debited to the account Salaries and Social Charges in current liabilities. In August 2016, the Company booked a supplementary provision for the 2015 profit-sharing program, amounting to R\$15,925, representing, in 2016, the amount of R\$53,123.

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23. FINANCIAL INCOME

Description	2016	2015
Financial revenues		
Positive monetary changes	15,092	19,239
Financial investments	39,510	23,698
Other financial revenues	25,924	9,062
Total financial revenues	80,526	51,999
Financial expenses		
Debenture interest and financial charges	(193,566)	(157,189)
Negative monetary changes	(44,914)	(42,011)
Other financial expenses	(6,327)	(12,273)
Total financial expenses	(244,807)	(211,473)
Financial income, net	(164,281)	(159,474)

24. FINANCIAL INSTRUMENTS AND RISKS

Accounting Practice:

Financial assets

Classification: The Company classifies its financial assets in the following categories: measured at fair value through income, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets on initial recognition. As at December 31, 2016 and 2015, the Company held no financial assets in the categories held to maturity or available for sale.

Measured at fair value through income This category includes financial instruments purchased and held for trading, with a view to sale in the short term. These instruments are measured at fair value and any gains or losses are recognized directly in income. Cash and cash equivalents are classified in this category.

Loans and receivables: This category includes receivables that are non-derivative financial assets with fixed or determinable maturities, not quoted on an active market. They are shown as current assets, except those maturing more than 12 months after the date of the balance sheet, which are classified as non-current assets. The Company's loans and receivables include the balances of trade accounts receivable, loans to related parties, court deposits, staff advances and other receivables. Loans and receivables are recognized at fair value and subsequently booked at amortized cost, using the effective interest rate method.

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24. FINANCIAL INSTRUMENTS AND RISKS -- continued

Financial liabilities

Financial liabilities are measured according to their classification, which may be as follows:

Loans and financing: After their initial recognition, loans and financing at interest are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in income at the time the liabilities are written off, and during the amortization period, by the effective interest rate method.

The Company's loans and financing include the balances of loans, financing, debentures, financial leases, contractors, suppliers and concession agreements.

A financial liability is written off when the obligation is revoked or canceled or when it expires. When an existing financial liability is replaced by another from the same lender but on substantially different terms, or the terms of an existing liability are significantly altered, this replacement or alteration is treated as a write-off of the original liability and the recognition of a new one, and the difference in book values is recognized in the income statement.

The book value and fair value of the Company's financial instruments shown in the financial statements are compared in the following table:

Description	Book value		Fair value	
	2016	2015	2016	2015
Financial assets				
Cash and cash equivalents	638,330	163,797	638,330	163,797
Trade accounts receivable, net	570,503	487,017	570,503	487,017
Escrow accounts	55,678	43,725	55,678	43,725
Contractual financial assets	172,381	77,420	172,381	77,420
Total	1,436,892	771,959	1,436,892	771,959
Financial liabilities				
Loans, financing, debentures and financial leases	2,712,074	2,336,008	2,712,074	2,336,008
Contractors and suppliers	133,505	125,404	133,505	125,404
Notes payable	-	3,087	-	3,087
Concession agreements	96,926	98,167	96,926	98,167
Total	2,942,505	2,562,666	2,942,505	2,562,666

The Company uses the following methods and assumptions in calculating the fair value of its financial instruments:

Cash and Cash Equivalents: the amounts shown in the balance sheet are close to fair value. The balance consists mainly of short-term highly liquid financial investments with Caixa Econômica Federal, and fixed income funds invested mainly in federal government stock.

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24. FINANCIAL INSTRUMENTS AND RISKS -- continued

Escrow accounts: Long-term escrow accounts related to National Water Agency (ANA) programs in the amount of R\$4,180 (R\$3,747 in 2015); and reserves held with Caixa Econômica Federal, in the sums of R\$15,351 (R\$13,437 in 2015), R\$11,094 (R\$4,771 in 2015) and R\$15,209 (R\$12,603 in 2015).

Accounts receivable: the amounts shown in the balance sheet for accounts receivable are close to fair value, in view of the provisions set up and the fact that the overdue portion is not subject to monetary adjustment.

The short and long-term balances of trade accounts receivable in installments were discounted to present value.

Changes in adjustments to present value are as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Opening balances for the year	(2,840)	(1,661)
Adjustment to present value	(568)	(1,179)
Closing balances for the year	(3,408)	(2,840)

Contractual financial assets: represents the expected residual value receivable at the end of program agreements, based on the concession periods.

Accounts payable: accounts payable to contractors and suppliers are commitments falling due within a maximum of thirty (30) days, and are therefore shown at fair value. The average period for payments by the Company is twenty-eight (28) days.

Loans, financing and debentures: they are booked at fair value at the outset, net of transactions costs incurred, and subsequently measured at amortized cost. Any difference between the amounts raised (net of transaction costs) and the settlement value is recognized in the income statement during the time when the loans and financing are outstanding, using the effective interest rate method, and their balances do not include future charges. Details and adjustment rates are given in Note 11. They do not represent additional risks for the Company at present. All loans and financing outstanding as at December 31, 2016, are related to investments in property, plant and equipment and intangible assets.

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24. FINANCIAL INSTRUMENTS AND RISKS -- continued

Financial leases: they are booked when the item leased becomes available, initially at fair value or at the present value of the minimum payments on the financial lease, whichever is lower. The value payable on a financial lease is divided between financial charges and an outstanding liability. The financial charges are appropriated during the period of the lease. Any contingent payments are booked as an expense in the period in which they are incurred. Details and adjustment rates are given in Note 11. They do not represent additional risks for the Company at present.

Concession agreements: represents the balance payable on a concession agreement for the exploitation of public services for the Municipality of Curitiba, for a 30-year period, executed in December 2001 (see Note 12).

Business risk: the Company's business consists mainly capturing, treating and distributing water, and collecting and treating sewage, for 345 municipalities in the state of Paraná and one municipality in the state of Santa Catarina, under the corresponding municipal concessions.

There are various associated risks, which are normal in Sanepar's line of business, but they are all managed or minimized so as not to significantly affect the Company's operating results. These risks are basically associated with the following factors:

Interest rate risk: this is the risk that the fair value of future cash flows from a financial instrument may fluctuate due to changes in market interest rates. The Company's exposure to changes in market interest rates relates mainly to its long-term obligations at floating rates of interest.

This risk arises from the possibility that the Company may incur losses due to fluctuations in interest rates, with an increase in the financial expenses on loans and financing.

The following are the loans, financing, debentures and financial leases of the Company, expressed in *Reais*, subject to floating or fixed interest rates:

Indexer	2016	2015
TR	870,430	804,662
TJLP	702,637	636,592
IPCA	351,435	334,337
DI	698,123	505,153
IPC-FIPE	41,108	-
Without monetary correction	48,341	55,264
	2,712,074	2,336,008

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24. FINANCIAL INSTRUMENTS AND RISKS -- continued

Analysis of interest rate sensitivity: a calculation is shown below of sensitivity to possible changes in the yields of financial investments and interest on the larger loans and financing subject to floating rates of interest, which could give rise to serious effects for the Company. If the yields on financial investments and interest on loans in *Reais* varied up or down by 25% or 50%, with all other variables remaining unchanged, the effect on pre-tax profits would have been R\$28,953 and R\$57,906 more or less, as shown below:

Analysis					
Description	Indexer	+ 25%	-25%	+50%	-50%
Caixa FI Sanepar I Renda Fixa	DI	7,884	(7,884)	15,768	(15,768)
Assets		7,884	(7,884)	15,768	(15,768)
Caixa Econômica Federal	TR	(3,551)	3,551	(7,102)	7,102
BNDES	TJLP	(2,167)	2,167	(4,334)	4,334
BNDES-PAC2	TJLP	(423)	423	(846)	846
Debentures – 2nd Issue –Series 1 and 3	TJLP	(2,266)	2,266	(4,532)	4,532
Debentures – 2nd Issue –Series 2	IPCA	(2,318)	2,318	(4,636)	4,636
Debentures – 3rd Issue –Series 1	DI	(7,234)	7,234	(14,468)	14,468
Debentures – 3rd Issue –Series 2	IPCA	(1,949)	1,949	(3,898)	3,898
Debentures – 4th Issue –Series 1	TJLP	(1,470)	1,470	(2,940)	2,940
Debentures – 4th Issue –Series 2	IPCA	(1,078)	1,078	(2,156)	2,156
Debentures – 5th Issue –Series 1	DI	(4,169)	4,169	(8,338)	8,338
Debentures – 5th Issue –Series 2	DI	(7,129)	7,129	(14,258)	14,258
Debentures – 6th Issue –Series 1	DI	(990)	990	(1,980)	1,980
Debentures – 6th Issue –Series 2	DI	(2,093)	2,093	(4,186)	4,186
Liabilities		(36,837)	36,837	(73,674)	73,674
Effect on pre-tax income		(28,953)	28,953	(57,906)	57,906

The Reference Rate (TR) was taken to be 2.01% and the TJLP 7.50%, these rates being provided by the Central Bank of Brazil (BACEN), the IPCA rate, 6.29%, was taken from the Brazilian Institute of Geography and Statistics (IBGE) and the DI (interbank rate), 13.63% was obtained from CETIP SA.

Credit risk: practically the entire population of the state are customers of the Company. In our type of business we do not carry out any credit checks, but simply disconnect defaulters, after a period of notice given in writing to the user at least thirty days before the disconnection date. The level of losses on payment of accounts receivable is considered normal for the sanitation sector.

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24. FINANCIAL INSTRUMENTS AND RISKS -- continued

Supplies to government offices are not disconnected, but Management has been making efforts to reduce default levels by negotiating with the municipal councils in question and offsetting their debts against credits with the Company held by other municipalities. If no agreement can be reached, collection is attempted through the courts. In the case of the State government the opinion of the Paraná State Attorney General's Office is that the Company's receivables for services can be deducted from the dividends and interest on equity payable to the state as a shareholder.

Concession risk: the Company's revenues depend on retaining the concessions in the municipalities where it operates. Generally the concessions and the program agreements last for thirty years. These contracts include targets for the extension and maintenance of water and sewage systems, measured by the numbers of people served by the water supply and sewage collection networks. In certain situations, the granting municipality can terminate a contract before it expires, or not authorize its renewal, with the payment of an indemnity for the fair value of the investments not yet depreciated/amortized.

Derivatives: the Company has no swap contracts or transactions that could be classed as derivative financial instruments, let alone speculative investments or other risk assets, and is not exposed to currency fluctuations either in its market operations or in its borrowings; no hedging is therefore required.

Liquidity risk: The liquidity risk lies in the possibility that the Company may not have sufficient funds to meet its commitments because of mismatches in currencies and maturities of its rights and obligations. The Company structures the maturities of non-derivative financial agreements so as not to affect liquidity (see Note 11). Liquidity and cash flows are monitored daily by the Company management areas, so as to ensure that cash from operations and funds raised, when necessary, are sufficient to meet its scheduled commitments and to avoid liquidity risks. The Company management has also approved the dividend policy, minimum cash levels and treasury and market risk management.

Capital management: The Company manages its capital so as to ensure that it maintains a strong credit rating with the institutions and a first-class capital ratio, so as to support its business and maximize value for the shareholders. The Company adjusts its capital structure in the light of the economic conditions prevailing from time to time. To this end, the Company can pay dividends, raise new loans, issue promissory notes and

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24. FINANCIAL INSTRUMENTS AND RISKS -- continued

trade in derivatives. In the year ended December 31, 2016, there were no changes in the objectives, policies or processes for capital structure. The Company includes the balances of loans, financing and debentures (Note 11), less cash and cash equivalents (Note 4), in its net debt structure.

For the purpose of maintaining liquidity and payment capacity, the Company uses the net debt/equity ratio as a measure of leverage. Net debt is taken to be loans, financing and debentures, less cash and cash equivalents:

	<u>2016</u>	<u>2015</u>
Loans, financing, debentures and financial leases	2,712,074	2,336,008
Cash and cash equivalents	(638,330)	(163,797)
Net debt	2,073,744	2,172,211
Shareholders' equity	4,808,673	4,180,307
Net debt/equity ratio	0.43	0.52

25. PENSION PLAN AND MEDICAL ASSISTANCE PLAN

Accounting Practice:

The Company offers a mixed retirement plan (defined contributions while working and defined benefit with income for life for retirees and pensioners, and for risk benefits) and in the healthcare area provides a medical and dental benefits plans for its staff, dependents and pensioners. The costs are booked on an accrual basis and according to the criteria established in CVM Resolution No. 695, as indicated in this Note.

Sanepar sponsors the Fundação Sanepar de Previdência e Assistência Social – FUSAN, a not-for-profit legal entity intended primarily for managing a retirement plan to provide additional pension benefits for Company staff.

The key features of the retirement plan managed by FUSAN are as follows: defined contributions while working and defined benefit with income for life for retirees and pensioners, and for risk benefits (disability pension, death benefit, sick pay and accident pay). During the year the Sponsor transferred a total contribution of R\$28,340 (R\$26,949 in 2015) to FUSAN.

The Company also sponsors the Fundação Sanepar de Assistência Social, a non-for-profit entity intended primarily to manage a healthcare plan for Sanepar staff, both active and retired, called SaneSaúde.

SaneSaúde is a group medical and dental care plan, self-managed, costed by pre-payments, with contributions being made on average 63.7% by the sponsor and 36.3% by the active and retired beneficiaries, by monthly contributions defined in the plan's regulations and fixed annually on the basis of actuarial calculations which take into account each beneficiary's age bracket and the existence of moderating factors of use of the services offered.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

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25. PENSION PLAN AND MEDICAL ASSISTANCE PLAN -- continued

This year the Company transferred a total contribution of R\$54,877 (R\$48,527 in 2015) to the Foundation.

The level of technical reserves required to meet the standards set by the National Supplementary Pension Superintendence (Previc) is determined by the actuary responsible for the plan, and there is a need to cover a technical deficit, in accordance with the law, since the foundation has shown a deficit for three consecutive years. In addition, the firm Assistants Assessoria, Consultoria e Participações Ltda. was engaged, to meet the requirements of CPC 33 (R1), approved by CVM Resolution 695, and has issued detailed reports confirming the information given in this Note.

The actuarial position of the liabilities for the retirement plan and the healthcare assistance plan is shown below. The Projected Credit Unit (PCU) Method was used to calculate the actuarial liability.

Statement of actuarial liability:

Description	Retirement plan	Medical assistance plan	2016	2015
Current value of actuarial liabilities	979,126	510,374	1,489,500	1,183,073
Fair value of assets	(690,149)	(3,423)	(693,572)	(479,636)
Totals	288,977	506,951	795,928	703,437
Current	19,265	33,797	53,062	46,896
Non-current	269,712	473,154	742,866	656,541

Calculation of actuarial liability:

Description	Retirement plan	Medical assistance plan	2016	2015
Present value of liability at beginning of the year	719,453	473,147	1,192,600	1,286,477
Cost of interest on the liability	97,880	67,183	165,063	143,335
Cost of current service	8,900	9,815	18,715	5,449
Benefits paid during the year	(85,438)	(15,279)	(100,717)	(68,214)
Actuarial gains (losses) during the year	238,331	(24,492)	213,839	(178,709)
Extraordinary contribution - beneficiaries (TAC adjustment)	-	-	-	(5,265)
Total liability for the year	979,126	510,374	1,489,500	1,183,073
Fair value of plan assets at beginning of the year	(478,255)	(1,381)	(479,636)	(441,625)
Interest on plan assets	(63,812)	(88)	(63,900)	(54,434)
Contribution by participants	(1,897)	-	(1,897)	(1,668)
Contribution by sponsor	-	(19,493)	(19,493)	(14,820)
Benefits paid during the year	85,438	15,279	100,717	68,214
Gain (loss) on plan assets during the year	(231,623)	2,260	(229,363)	(7,084)
Account balance reversal (TAC)	-	-	-	(28,219)
Fair value of assets during the year	(690,149)	(3,423)	(693,572)	(479,636)
Liability recognized at the end of the year	288,977	506,951	795,928	703,437

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

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25. PENSION PLAN AND MEDICAL ASSISTANCE PLAN -- continued

The following assumptions were used in the actuarial valuation:

	<u>2016</u>	<u>2015</u>
Economic assumptions		
Discount rate for healthcare	11.53% p.a.	14.20% p.a.
Discount rate for pensions	11.54% p.a.	14.20% p.a.
Expected rate of return on healthcare assets	11.53% p.a.	14.20% p.a.
Expected rate of return on pension assets	11.54% p.a.	14.20% p.a.
Future salary increases	3.50% p.a.	3.48% p.a.
Inflation	5.15% p.a.	6.40% p.a.
Real growth of medical costs	3.00% p.a.	3.00% p.a.
Demographic assumptions		
Mortality table	AT-2000 Basic	AT-2000 Basic
Mortality table for invalids	Winklevoss D10	Winklevoss D10
Table for onset of disability	Light Average D40	Light Average D30
Retirement age	55 years	55 years

Below we give a summary of the data used for the actuarial valuation of the benefits plans offered by the Company to its staff:

Description	Retirement plan	Medical assistance plan
Database used		
Effective date	October 31, 2016	October 31, 2016
Active participants (principal liability)	7,050	2,094
Number assisted/ Beneficiaries enjoying benefit	2,501	2,635
a. Retirees	1,848	2,102
b. Pensioners	653	533
Dependents	-	2,739
Total participants	9,551	5,374

Companhia de Saneamento do Paraná - SANEPAR

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25. PENSION PLAN AND MEDICAL ASSISTANCE PLAN -- continued

Distribution of beneficiaries and total monthly premiums for medical assistance plan at December 31, 2016:

Age bracket	Total no. of	Amount in Reais
0 to 18 years	587	136,29
19 to 23 years	1,008	195,65
24 to 28 years	748	205,82
29 to 33 years	450	233,87
34 to 38 years	260	246,08
39 to 43 years	225	319,40
44 to 48 years	749	335,99
49 to 53 years	1,349	438,69
54 to 58 years	1,515	461,51
59 years or more	3,836	500,47

¹ Joined on or before March 1, 2002

Profitability of investments

In 2016 FUSAN obtained a yield of 17.88% on its investment portfolio, above the actuarial target of 12.71% (INPC/IBGE + 5.75% p.a.).

The Deliberative Council of FUSAN approved the Investment Policy for 2017, establishing parameters for investments over the next 5 years, as provided for in the current legislation.

The strategic allocation of the portfolio (shown in the table below) assesses the appropriateness of each investment for the plan's needs:

Segment/ Mandate	Allocation %			Reference index	Yield target
	Objective	Minimum	Maximum		
Fixed income	77.6	30.0	100.0	70% CDI + 30% IMA-B	INPC + 5.75% pa
Equities	8.4	0.0	35.0	80% Ibovespa + 20% SMLL	INPC + 12% pa
Structured investments	3.6	0.0	10.0	INPC + 7.5% pa	INPC + 10% pa
Foreign investment	1.5	0.0	10.0	MSCI World	INPC + 12% pa
Real estate	3.6	0.0	8.0	INPC	INPC
Transactions with participants	5.4	0.0	15.0	INPC + 10% pa	INPC + 10% pa

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

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25. PENSION PLAN AND MEDICAL ASSISTANCE PLAN -- continued

Risks associated with the Pension Plan - FusanPrev:

- Survival risk;
- Salary growth;
- Return on investments (interest rate);
- Risk in the method for financing death benefits under a shared financial regime, minimized by the introduction of risk contribution for the group of people assisted and reversal of part of the optional contributions of participants.

As to the biometric table and salary growth, we think that the Foundation has properly defined the assumptions, and that they are appropriate for the participants as a group, using the Actuarial Assumptions Adoption Study and other procedures for approval and information of boards and sponsors.

In 2017 the Foundation will apply an assumed interest rate of 5.75%, the result of an actuarial and economic analysis, which is within the limits set by Resolution No. 15 of November 19, 2014, and in compliance with Previc Ordinance No. 186 of April 28, 2016. The study demonstrated that over time the actuarial interest rate tends to align with the yield obtained in the financial market. In the current economic scenario in Brazil, the Foundation is taking steps to optimize its investment portfolio, and forecasts that the current return of 5.75% on its assets will be maintained.

The current method of financing death benefits under a shared financial regime is likely to become more expensive over time, unless a proportionate number of participants is renewed in such a way as to maintain the same average age and average level of benefits, and, above all, of salaries, the basis for calculation of financing. It would be prudent for the Foundation to study alternative ways of stabilizing the growing cost of death benefits.

Risks associated with the medical assistance plan - SaneSaúde:

- Real growth of medical costs;
- Interest rate;
- Survival;
- Simple sharing financial regime.

The incorporation of technology into medical services results in growing healthcare costs, and this is a universal phenomenon. The same thing occurs when technology is incorporated with the materials used for tests and in laboratories, clinics and hospitals. Experience shows that medical procedures tend to become more expensive at rates well above inflation.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

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25. PENSION PLAN AND MEDICAL ASSISTANCE PLAN -- continued

Additionally, the assumption of new coverage determined by the regulatory authority represents a constant risk for the plan.

Another point to watch is the effect of aging of the group of beneficiaries, which is likely to increase the number of claims in future.

Costing Plan for FusanPrev: The Costing Plan for the FusanPrev Benefits Plan for the year 2016, which runs from May 2016 to March 2017, is drafted to meet the provisions of Article 6 of Supplementary Law No. 108/2001, in respect of the parity of normal contributions between participant and sponsor. An important point is that the cost percentages must be reassessed after a year or if a material event occurs.

To cover normal costs, the Costing Plan corresponds to a percentage of individual contribution to create an account balance, with a minimum of 1.61% and maximum of 5.42%, a percentage of 1.82% to cover risk benefits, and a further 0.38% for administrative expenses, charged on the participation salary, for all categories of active participants and the sponsor, except for a risk contribution in case of option to deferred proportional benefit.

A percentage of the optional contribution of participants is being reversed, amounting to 24% and 0.76%, respectively, to cover risks and administrative costs, as a discount from the total contributed.

Assisted participants and sponsors will contribute 1.87% of the benefit, 1.49% being to cover risk benefits under a sharing regime and 0.38% for administrative costs.

The introduction of a risk contribution for those assisted and the reversal of part of the additional contributions of active members to cover the risk has helped to stabilize the cost of pensions. Additional contributions by active members are not obligatory, and occur only at the participant's option, since there is no concomitant contribution by the sponsor. Additional contributions are essential to cover risks.

SaneSaúde Costing Plan: The SaneSaúde costing plan is financed 70% by the company and 30% by the staff. Employees pay part of the cost of doctors' appointments and various tests. It is divided into age brackets according to the legislation, and financed on a simple sharing basis.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

25. PENSION PLAN AND MEDICAL ASSISTANCE PLAN -- continued

SaneSaúde is paid for by Sanepar, as sponsor, and by the beneficiaries registered under the plan, through monthly contributions of amounts shown in the SaneSaúde Contributions Table, which sets the amounts of the monthly premiums by age bracket, calculated actuarially. It is also paid for by amounts (revenues) from the Moderating Factors when the services are used by the beneficiaries.

The monthly amount of contributions is calculated by multiplying the number of beneficiaries registered with the plan by the monthly premium defined in the Annual Cost Table, according to each beneficiary's age bracket.

Of the monthly amount calculated, the share of Sanepar will be 70% to cover the main beneficiaries, special beneficiaries and their dependents, as defined in the Plan regulations. The proportion of the share of dependents is shown in the corresponding table.

Sanepar does not contribute to the cost of self-sponsored beneficiaries or designated children, or to pensions for principal beneficiaries that joined the SaneSaúde scheme after March 2002.

Sums paid as contributions by beneficiaries, and the moderating usage factors defined in the Plan regulations, are discounted from the Sanepar payroll and transferred to the Sanepar Foundation each month.

The SaneSaúde Table of Contributions is assessed and updated by the actuary responsible for the plan at least once a year, and the result is submitted for consideration and approval by the Executive Committee and the Board of Directors of Sanepar, to ensure the financial and actuarial stability of the Plan.

The SaneSaúde Table of Contributions is valid from June 1 each year to May 31 of the following year.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

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25. PENSION PLAN AND MEDICAL ASSISTANCE PLAN -- continued

Plan assets

The fair value of the plan assets is close to their book value. They are made up as follows:

Description	2016	%	2015	%
Fixed income (a)				
Fixed income fund shares	934,743		859,345	
Private credit investment fund shares	93,067		65,163	
Multimarket investment fund shares	28,201		14,895	
Total fixed income	1,056,011	79.6	939,403	81.3
Equities (b)				
Open investment fund shares	32,479		28,943	
Mutual investment fund shares	49,257		40,199	
Share portfolio	12,929		12,899	
Total equities	94,665	7.1	82,041	7.1
Real estate (c)	41,240	3.1	38,994	3.4
Transactions with participants (d)	66,198	5.0	63,637	5.5
Structured (e)				
Private equity fund shares	22,637		18,920	
Multimarket investment fund shares	46,365		12,562	
Total structured	69,002	5.2	31,482	2.7
Fair value of plan assets	1,327,116	100	1,155,557	100

(a) Fixed income: Consists of federal government stock and private credit instruments with remuneration fixed at the time of purchase;

(b) Equities: Assets traded on a stock exchange and regulated by official bodies. Returns and applications cannot be measured at the time of investment;

(c) Real estate: Real estate developments belonging to the Foundation;

(d) Transactions with participants: Loans to plan participants;

(e) Structured: Investments in projects not traded on a stock exchange and multimarket funds belonging to this segment.

Types of investment not permitted:

- Day-trading is prohibited in the exclusive funds in which the plan has invested;
- Real estate financing: real estate loans provided for in the Transactions with Participants segment may not be granted while this Investment Policy is in effect;

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

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25. PENSION PLAN AND MEDICAL ASSISTANCE PLAN -- continued

We give below a sensitivity analysis based on assumptions:

- Investment will only be allowed in Public-Private Partnerships (PPPs) when the operation makes sense in economic and financial terms in comparison with the alternatives offered to FUSAN. Moreover such an operation must have the approval of the Deliberative Council;
- Exclusive funds may deal in derivatives only if in accordance with the restrictions imposed by law and the investment policy.

Investments will not be allowed in paper or instruments classified as “speculative”, as defined in the Credit Risk section of the Investment Policy.

Forecast expenses for 2017 are as follows:

Description	Retirement plan	Medical assistance plan	2017
Cost of current service	11,526	10,303	21,829
Interest expenses	103,656	55,232	158,888
Expected earnings from plan assets	(70,538)	-	(70,538)
Contribution by sponsor	(2,064)	-	(2,064)
Totals	42,580	65,535	108,115

Description	Retirement plan	Medical assistance plan
Liability for the year	979,125	510,374
Interest rate		
With a 1% increase	887,235	462,475
Difference %	(9.0%)	(9.0%)
With a 1% decrease	1,080,533	563,233
Difference %	10.0%	10.0%
Growth of costs		
With a 1% increase	-	562,044
Difference %	-	10.0%
With a 1% decrease	-	463,454
Difference %	-	(9.0%)
Growth in salaries		
With a 1% increase	987,071	-
Difference %	1.0%	-
With a 1% decrease	971,926	-
Difference %	(1.0%)	-

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

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26. INFORMATION BY BUSINESS SEGMENT

The Company has two clearly identifiable business segments: water treatment and distribution, and sewage collection and treatment. The collection and treatment of solid waste is included in the sewage segment. Operating income per segment is represented by revenues less direct costs and direct and indirect operating expenses. Assets and liabilities which can be identified by segment are shown separately. Corporate assets and liabilities are not directly attributed to either business segment. The Company assesses performance by segment, on the basis of information extracted from the books. Various expenses are shared, as follows:

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

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26. INFORMATION BY BUSINESS SEGMENT -- continued

Description	2016			2015		
	Water	Sewage	Total	Water	Sewage	Total
Direct operating revenues	2,402,458	1,311,375	3,713,833	2,023,923	1,073,472	3,097,395
Other operating revenues	16,027	11,146	27,173	51,359	34,598	85,957
Total gross operating revenues	2,418,485	1,322,521	3,741,006	2,075,282	1,108,070	3,183,352
Deductions from revenues (PASEP and COFINS)	(155,364)	(108,117)	(263,481)	(126,722)	(85,445)	(212,167)
Net operating revenues	2,263,121	1,214,404	3,477,525	1,948,560	1,022,625	2,971,185
Cost	(1,055,868)	(389,240)	(1,445,108)	(992,747)	(352,415)	(1,345,162)
Gross profit	1,207,253	825,164	2,032,417	955,813	670,210	1,626,023
Selling expenses	(149,265)	(103,802)	(253,067)	(121,162)	(81,618)	(202,780)
Administrative expenses	(363,428)	(252,733)	(616,161)	(353,693)	(238,259)	(591,952)
Operating revenues (expenses)	(8,587)	(2,610)	(11,197)	(10,184)	(5,172)	(15,356)
Results of equity accounting	-	(3,361)	(3,361)	-	(1,688)	(1,688)
Financial income, net	(71,665)	(92,616)	(164,281)	(78,331)	(81,143)	(159,474)
Profit-sharing program	(31,333)	(21,790)	(53,123)	(24,466)	(16,481)	(40,947)
Provisions	(25,151)	(18,002)	(43,153)	2,502	1,847	4,349
Pension plan and medical assistance plan	(58,103)	(40,386)	(98,489)	(46,564)	(31,297)	(77,861)
Pre-tax income	499,721	289,864	789,585	323,915	216,399	540,314
Income and social contribution taxes	(102,995)	(59,743)	(162,738)	(61,071)	(40,799)	(101,870)
Net income for the year	396,726	230,121	626,847	262,844	175,600	438,444
Operating margin	20.7%	21.9%	21.1%	15.6%	19.5%	17.0%
Liquid margin	17.5%	18.9%	18.0%	13.5%	17.2%	14.6%
EBITDA:	687,567	483,410	1,170,977	507,016	386,966	893,982
EBITDA margin	30.4%	39.8%	33.7%	26.0%	37.8%	30.1%
Investments in property, plant and equipment and intangible assets during the year (a)	280,391	462,010	742,401	318,247	476,842	795,089
Corporate interest – CS Bioenergia	-	12,403	12,403	-	5,287	5,287
Loans, financing, debentures and financial leases	1,069,901	1,642,173	2,712,074	981,340	1,354,668	2,336,008
Property, plant and equipment and intangible assets, net	3,206,916	4,123,745	7,330,661	3,077,904	3,813,739	6,891,643
Depreciation and amortization for the year	(116,181)	(100,930)	(217,111)	(104,770)	(89,424)	(194,194)
Accounts receivable (current and non-current) (b)	473,193	247,054	720,247	412,011	203,241	615,252
Total assets	4,135,857	5,318,262	9,454,119	3,682,187	4,562,488	8,244,675
Total liabilities (current and non-current)	1,870,188	2,775,258	4,645,446	1,707,441	2,356,927	4,064,368
Number of users – Not audited/reviewed (c)	3,025,780	1,953,484	-	2,979,363	1,859,533	-
Volume thousands of m ³ billed – Not audited/reviewed (d)	587,460	408,530	-	582,594	392,453	-

(a) The amounts invested in assets for administrative use are allocated in proportion to the investment in each segment;

(b) Shown at gross value;

(c) The users in the sewage segment are practically all included in the water segment;

(d) The volumes billed for the sewage segment are derived from the volumes billed for the water segment.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Reais)

27. INSURANCE

The Company has a contract with SOMPO Seguros S/A to insure its main assets, located throughout the state of Paraná, for a total of R\$968,336, valid from January 9, 2017 to January 9, 2018, for basic coverage against fire, hurricane and electrical damage to equipment.

<u>Assets</u>	<u>Value insured</u>
Buildings	497,299
Machinery, equipment and vehicles	411,931
Inventories	59,106
Total	968,336

The Company also has Court Deposit insurance to guarantee sums for payment into court, replace amounts paid in and release assets pledged in labor, civil, tax and environmental cases. Up to December 31, 2016 the Company was providing insurance bonds for 63 court cases for a total of R\$166,595. Fifteen policies were issued by Fairfax Brasil Seguros Corporativos S/A and 48 by Pottencial Seguradora S/A.

The Company has also entered into an agreement with Zurich Minas Brasil Seguros S/A to provide civil liability (D & O) cover for board members, officers and managers of Sanepar in Brazil and internationally. The maximum indemnity is R\$20,000, and the policy is in force for 365 days, expiring April 14, 2017.

28. SUBSEQUENT EVENTS

The first ordinary meeting of the Board of Directors for 2017 was held on January 18, and its agenda included the appointment of Mr. Paulo Rogério Bragatto Battiston as Finance Director with effect from the day he takes office, which is to be within 30 days.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE ACCOUNTING STATEMENTS

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EXECUTIVE COMMITTEE

Mounir Chaowiche (CEO)

Gustavo Fernandes Guimarães (Finance Director)

Paulo Alberto Dedavid (Operations Director)

Ney Amilton Caldas Ferreira (Investor Relations Officer)

João Martinho Cleto Reis Júnior (Investment Director)

Antonio Carlos Salles Belinati (Sales Director)

Julio Jacob Junior (Legal Officer)

Luciano Valério Bello Machado (Administration Director)

Glauco Machado Requião (Environment and Social Action Director)

BOARD OF DIRECTORS

Mauro Ricardo Machado Costa (Chairman)

Carlos Fernando Horta Bretas (Deputy Chairman)

Michele Caputo Neto

Marcia Carla Pereira Ribeiro

Eduardo Francisco Sciarra

Paulino Viapiana

Ezequias Moreira Rodrigues

Luiz Carlos Brum Ferreira

Elton Evandro Marafigo

FISCAL COUNCIL

Ivens Moretti Pacheco (Chairman)

Cléver Ubiratan Teixeira de Almeida

George Hermann Rodolfo Tormin

Newton Brandão Ferraz Ramos

Roberto Knoepfelmacher

ACCOUNTANT

Ozires Kloster

Accounts Manager

Accountant

Regional Accounting Council (CRC-PR030.386/O-8)



INDEPENDENT AUDITORS'

REPORT

Independent auditor's report on financial statements

The
Shareholders, Board of Directors and Officers
Companhia de Saneamento do Paraná - SANEPAR
Curitiba - PR

Opinion

We have audited the accompanying financial statements of Companhia de Saneamento do Paraná - SANEPAR ("Company"), which comprise the statement of financial position as at December 31, 2016, and the related statements of income, of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Companhia de Saneamento do Paraná – SANEPAR as at December 31, 2016, its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities, under those standards, are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to support our opinion.

Key audit matters

Key audit matters are those that, according to our professional judgment, were the most significant in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements taken as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of unbilled revenue

Part of the revenues recognized by the Company refer to services rendered but unbilled to the end consumers ("unbilled revenues"), once billing is carried out based on the billing cycles, which in some cases succeed the closing date of the reporting period. At each month's closing date, the Company determines, based on estimates that include historical data such as the average rate of consumption obtained from the last reading of hydrometers, a consumption estimate attributable to each consumer for the period from the reading and the month's closing date, with the purpose of recording its incurred but unbilled revenue. Disclosure of the criteria adopted for the recognition of revenue, as well as the appropriate amounts for each business segment in which the Company operates, is included in Notes 19 and 26.

The monitoring of this matter has been considered significant to our audit, considering the magnitude of the amounts involved and the level of management judgment in the estimate, which may result in revenue recognition in the incorrect period and/or risk of inexistent revenue and, therefore, there is a risk of material misstatement in the financial statements.

Our procedures included, among others, the assessment of key internal controls implemented by the Company on the revenue recognition process, with an additional focus on the assessment of the existence and proper valuation of these revenues. Additionally, we recalculated the billing estimates that result in the balances recognized in the financial statements, tests of non-routine accounting entries recorded on revenue accounts, in addition to a documentation inspection test for a sample of sales recorded for the year.

Additionally, we assessed the adequacy of disclosures on this matter included by the Company on the referred to notes.

Pension plan and health care plan

The Company sponsors the supplementary pension plan classified as defined benefit and also sponsors the health care plan for its employees, active and retired. Company's actuarial obligations are determined in accordance with the actuarial report issued by its actuary. The Company's measurement criteria of the actuarial obligation and assets and liabilities of these plans, as well as its impacts on the financial statements, are disclosed in Note 25.

The monitoring of this matter has been considered significant to our audit considering the magnitude of the amounts involved, as well as the high level of judgment related to the Company's actuarial obligation measurement process, which includes the use of highly subjective and complex assumptions that are affected by future market expectations or economic conditions, such as long-term interest rates, expected yield on plan assets, salary increase rate, turnover, mortality, discount and inflation rates. Changes in these assumptions may have a material impact on the amounts recognized in the financial statements.

Our audit procedures included, among others, the involvement of our actuarial experts to support us in assessing the assumptions used to calculate the actuarial liabilities of post-employment benefit plans. We crosschecked these assumptions with comparable market data and internally developed benchmarks based on independent calculations carried out as part of our procedures. Additionally, our actuarial experts supported us in assessing the adequacy of disclosures made by the Company in relation to the subject. Regarding the pension plan assets, our audit procedures included tests to ensure the existence of assets and the assessment of these assets together with subject-matter experts.

Legal and administrative contingencies

As a result of its operations, the Company is a party to several labor, civil, environmental and tax proceedings whose amount totals R\$ 404,323 thousand at December 31, 2016, and, considering the likelihood of loss assessed as possible, no provision was established. This matter is disclosed in Note 15 to the financial statements.

The monitoring of this matter has been considered significant to our audit due to the importance of amounts involved in the proceedings, the level of judgment involved to determine if a provision should be recorded, as well as due to the complexity of the tax environment in Brazil.

Our procedures included, among others, obtaining and analyzing confirmation letters along with Company's external legal advisors, in order to compare their assessments of outstanding proceedings with management's position on the subject, as well as holding periodic meetings with management and the legal department to discuss the evolution of the main ongoing legal proceedings.

Additionally, we assessed if the disclosures on the matter and specifically on the most significant contingencies included in Note 15 were adequate.

Service concession agreements

The Company carries out its operations based on concession agreements, which fall into two different categories according to the time they have been entered into: Program agreements and Concession agreements. For Program agreements, the Company bifurcates asset amounts into financial assets and intangible assets. For Concession agreements entered into before Law No. 11445/07, the amounts of assets are recorded under intangible assets, without the aforementioned bifurcation. This matter is disclosed in Notes 3-t, 9 and 10 to the financial statements.

The monitoring of this matter has been considered significant to our audit due to the importance of the amounts involved, also considering that said bifurcation and the calculation of present value of the financial asset are complex and involve judgment and the use of subjective assumptions by Company management, such as the definition of the discount rate.

Our procedures included, among others, the assessment of internal controls implemented by the Company on this process, as well as the assessment of the adequacy of the resulting accounting record and the assessment of the assumptions adopted and calculations carried out for the present value adjustment. We obtained the new program agreements entered into by the Company during the year. Additionally, for a selected sample, we carried out an agreement bifurcation test between financial assets and intangible assets, documental analyses of significant additions for the period, analysis of the nature of capitalized expenses and their adequacy in relation to the accounting standards in force, as well as the recalculation of amortization based on rates included in the useful life report prepared by the Company.

Other matters

Statements of value added

The statement of value added (SVA) for the year ended December 31, 2016, prepared under the responsibility of Company management, was subject to audit procedures performed together with the audit of the Company's financial statements. To form our opinion, we assessed if the SVA is reconciled with the financial statements and accounting records, as applicable, and if its form and content are in accordance with the criteria defined by Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, this statement of value added was fairly prepared, in all material aspects, according to the criteria defined by CPC 09 and is consistent in relation to the overall financial statements.

Other information that accompany the financial statements and the audit report

The Company management is responsible for this and other information included in the management report.

Our opinion on the financial statements does not comprise the management report and we do not express any other form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the management report, and in doing so, consider whether the information is materially inconsistent with the financial statements or our knowledge obtained during the audit or otherwise, appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the management report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no other realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of an audit in accordance with the Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than of the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting practices used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or future conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the overall financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.


We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would be reasonably be expected to outweigh the public interest benefits of such communication.

Curitiba, January 30, 2017.

ERNST & YOUNG
Auditores Independentes S.S. CRC 2SP 015.199/F-6

Alexandre Rubio
Accountant CRC 1SP223361/O-2



**STATEMENT OF THE
OFFICERS ON THE
ACCOUNTING
STATEMENTS**

STATEMENT

The officers of Companhia de Saneamento do Paraná - Sanepar hereby declare that on January 30, 2017, at the fourth 2017 meeting of the Executive Committee, they reviewed, discussed and approved the Accounting Statements for the year ended December 31, 2016, prepared by the Company management and audited by the independent accounting firm Ernst & Young Auditores Independentes S/S.

Curitiba, January 30, 2017.

MOUNIR CHAOWICHE
Chief Executive Officer

GUSTAVO FERNANDES GUIMARÃES
Finance Director

PAULO ALBERTO DEDAVID
Operations Director

NEY AMILTON CALDAS FERREIRA
Investor Relations Officer


JOÃO MARTINHO CLETO REIS JUNIOR
Investment Director

ANTONIO CARLOS SALLES BELINATI
Sales Director

JULIO JACOB JUNIOR
Legal Officer

LUCIANO VALÉRIO BELLO MACHADO
Administration Director

GLAUCO MACHADO REQUIÃO
Environment and Social Action Director



**STATEMENT OF THE
OFFICERS ON THE
REPORT OF THE
INDEPENDENT
AUDITORS**

STATEMENT

The officers of Companhia de Saneamento do Paraná - Sanepar hereby declare that on January 30, 2017, at the fourth 2017 meeting of the Executive Committee, they reviewed, discussed and approved the Independent Auditors' Report on the Accounting Statements of the Company for the year ended December 31, 2016.

Curitiba, January 30, 2017.

MOUNIR CHAOWICHE
Chief Executive Officer

GUSTAVO FERNANDES GUIMARÃES
Finance Director

PAULO ALBERTO DEDAVID
Operations Director

NEY AMILTON CALDAS FERREIRA
Investor Relations Officer

JOÃO MARTINHO CLETO REIS JUNIOR
Investment Director

ANTONIO CARLOS SALLES BELINATI
Sales Director

JULIO JACOB JUNIOR
Legal Officer

LUCIANO VALÉRIO BELLO MACHADO
Administration Director

GLAUCO MACHADO REQUIÃO
Environment and Social Action Director



**FISCAL
COUNCIL
OPINION**

FISCAL COUNCIL OPINION

The members of the Fiscal Council of Companhia de Saneamento do Paraná - SANEPAR, exercising their legal duties and liabilities, verified the Management Report, the Accounting Statements and the Proposal for Allocation of Profits related to fiscal year ended December 31, 2016 and, based on the documents verified, the information received from the Management and the unqualified "Report" of the Independent Auditors, "Ernst & Young Auditores Independentes S/S", dated January 30, 2017, are of the opinion that said documents reflect in all material aspects the equity and financial position of Companhia de Saneamento do Paraná - SANEPAR on that date, and Ernst & Young is favorable that the documents be forwarded to resolution by the Shareholders Meeting.

Curitiba, February 7, 2017.

IVENS MORETTI PACHECO
Chairman

GEORGE HERMANN RODOLFO TORMIN
Director

CLÉVER UBIRATAN TEIXEIRA DE ALMEIDA
Director

NEWTON BRANDÃO FERRAZ RAMOS
Director

ROBERTO KNOEPFELMACHER
Director



INVESTMENT PROGRAM

INVESTMENT PROGRAM

In compliance with CVM Instruction No. 480 of December 7, 2009, we inform below the Investment Program for the period from 2017 to 2021 of **Companhia de Saneamento do Paraná – Sanepar**, approved at the 10th Annual Meeting of the Board of Directors, held on November 22, 2016.

The Investment Program for the period from 2017 to 2021 encompasses own and financed funds, in the amount of R\$4,432 million (**2017** – R\$1,082 million, **2018** – R\$950 million, **2019** – R\$800 million, **2020** – R\$800 million and **2021** – 800 million).