

IMPORTANT NOTICE

You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering memorandum accessed from this page or otherwise received as a result of such access and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached offering memorandum. In accessing the attached offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE UNITS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND, SUBJECT TO CERTAIN EXCEPTIONS, THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT). THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

CONFIRMATION OF YOUR REPRESENTATION: You have been sent the attached offering memorandum on the basis that you have confirmed to Merrill Lynch, Pierce, Fenner & Smith Incorporated and Itau BBA USA Securities, Inc., as placement agents, that sent the attached, that you (i) either (a) are a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act or (b) are not a U.S. person within the meaning of Regulation S under the Securities Act or have not received delivery of this electronic mail in the United States of America, its territories and possessions, any state of the United States and the District of Columbia; and "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands and (ii) consent to delivery by electronic transmission. This offering memorandum has been sent to you in an electronic form.

You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission, and consequently, none of the placement agents nor any person who controls any placement agent or any of their directors, officers, employees or agents, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from any placement agent.

You are reminded that the attached offering memorandum has been delivered to you on the basis that you are a person into whose possession the offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this offering memorandum to any other person. You will not transmit the attached offering memorandum (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the placement agents.

18,846,177 Units



Companhia de Saneamento do Paraná – SANEPAR
(incorporated in the Federative Republic of Brazil)

The State of Paraná, Companhia Paranaense de Energia- COPEL, or Copel, and Copel Comercialização S.A., or Copel Comercialização (collectively, the “Selling Shareholders”) are offering a total of 18,846,177 units of Companhia de Saneamento do Paraná – SANEPAR (“SANEPAR”) to (1) the public and institutional investors in Brazil, (2) certain “qualified institutional buyers (as defined in Rule 144A, or Rule 144A, under the U.S. Securities Act of 1933, as amended, or the Securities Act), or QIBs, in the United States, or the U.S., and (3) to institutional and other investors elsewhere outside the United States and Brazil that are not U.S. persons (as defined in Regulation S under the Securities Act, or Regulation S). Each unit is evidenced by a *certificado de depósito de ações*, that represents one outstanding *ação ordinária* (common share) and four outstanding *ações preferenciais* (preferred shares) of SANEPAR, each a “Unit.”

Our Units are listed and trade on the Level 2 listing segment of the São Paulo Stock Exchange (*B3 S.A. – Brasil, Bolsa, Balcão*), or the B3, under the symbol “SAPR11”. The ISIN number for our Units is “BRSAPRC DAM13.” The closing price of our Units on the B3 on November, 28, 2017 was R\$57.40 per Unit, which is equivalent to U.S.\$17.86 at the exchange rate of R\$3.23 to U.S.\$1.00 as of November 24, 2017, published by the Central Bank of Brazil (*Banco Central do Brasil*).

This offering has not been and will not be registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the CVM. In Brazil, this offering is being made pursuant to a Portuguese language offering memorandum, or the Brazilian offering memorandum, which includes the *formulário de referência* incorporated by reference therein, as an offering with restricted placement efforts to no more than 75 professional investors headquartered or resident in Brazil, and our Units offered may be subscribed by no more than 50 professional investors headquartered or resident in Brazil, in compliance with CVM Instruction No. 476, dated January 16, 2009, as amended, or CVM Instruction No. 476. This offering memorandum is not addressed to Brazilian residents and it should not be forwarded or distributed to, nor read or consulted by, acted on or relied upon by Brazilian residents. Any investment to which this offering memorandum relates is available only to non-Brazilian residents and will only be made by non-Brazilian residents. If you are a Brazilian resident and received this offering memorandum, please destroy it along with any copies.

Investing in our Units involves risks. See “Risk Factors” beginning on page 15.
Price: R\$55.20 per Unit

Neither the CVM, the United States Securities and Exchange Commission, or the SEC, any state securities commission nor any other securities commission or regulatory authority has approved or disapproved the offering of our Units offered hereby. None of the foregoing authorities has passed upon or endorsed the merits of this offering or the accuracy or adequacy of this offering memorandum (or the Portuguese language offering memorandum used in connection with the offering of our Units in Brazil). Any representation to the contrary is a criminal offense.

The offer and sale of our Units have not been and will not be registered under the Securities Act or under any U.S. state securities laws. Accordingly, our Units are being offered in the United States only to qualified institutional buyers as defined in Rule 144A pursuant to exemptions from registration provided under the Securities Act, and outside the United States to non-U.S. persons in transactions meeting the requirements of Regulation S under the Securities Act. See “Transfer Restrictions” for a description of restrictions on transfers of our Units.

Investors residing outside Brazil, including qualified institutional investors in the United States and other investors outside the United States and Brazil, may purchase our Units if they comply with the registration requirements of CVM Instruction No. 560, dated March 27, 2015, as amended, and the Brazilian National Monetary Council (*Conselho Monetário Nacional*), or the CMN, Resolution No. 4,373, dated September 29, 2014, as amended, or Law No. 4,131, dated September 3, 1962, as amended.

Payment for our Units must be made in Brazilian reais, through the facilities of the Central Depository of the B3 (*Central Depositária de Ativos da B3*). It is expected that the Units will be delivered through the facilities of the Central Depository of the B3 on or about December 18, 2017.

Joint Bookrunners

BofA Merrill Lynch

Itaú BBA

The date of this offering memorandum is December 12, 2017.

TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
FORWARD-LOOKING STATEMENTS	REGULATION OF THE SANITATION SECTOR IN
PRESENTATION OF FINANCIAL AND CERTAIN	BRAZIL.....
OTHER INFORMATION	BUSINESS
SUMMARY	MANAGEMENT
THE OFFERING	PRINCIPAL AND SELLING SHAREHOLDERS
SUMMARY FINANCIAL AND OPERATING	RELATED PARTY TRANSACTIONS
INFORMATION	DESCRIPTION OF CAPITAL STOCK
RISK FACTORS.....	DIVIDENDS AND DIVIDEND POLICY
EXCHANGE RATES.....	TAXATION
MARKET INFORMATION.....	CERTAIN ERISA CONSIDERATIONS.....
USE OF PROCEEDS	PLAN OF DISTRIBUTION.....
CAPITALIZATION	TRANSFER RESTRICTIONS.....
DILUTION	LEGAL MATTERS.....
SELECTED FINANCIAL AND OPERATING	INDEPENDENT AUDITORS
INFORMATION	SERVICE OF PROCESS AND ENFORCEMENT OF
MANAGEMENT’S DISCUSSION AND ANALYSIS OF	JUDGMENTS.....
FINANCIAL CONDITION AND RESULTS OF	INDEX TO FINANCIAL STATEMENTS.....
OPERATIONS	
THE SANITATION SECTOR IN BRAZIL.....	

In this offering memorandum, references to “SANEPAR,” “Companhia de Saneamento do Paraná,” “we,” “us” and “our company” refer to Companhia de Saneamento do Paraná - SANEPAR, a mixed capital corporation (*sociedade por ações de economia mista*) incorporated under the laws of Brazil, except where the context requires otherwise.

References to “Selling Shareholders” are to the State of Paraná, Companhia Paranaense de Energia and Copel Comercialização S.A., unless expressly stated otherwise or unless the context indicates otherwise.

References to “State of Paraná” or to our “controlling shareholder” are to the Estado do Paraná, as described in “Principal and Selling Shareholders,” unless expressly stated otherwise or unless the context indicates otherwise.

References to “Brazilian Underwriters” are Bank of America Merrill Lynch Banco Múltiplo and Banco Itaú BBA S.A., and references to “Placement Agents” are to Merrill Lynch, Pierce, Fenner & Smith Incorporated and Itaú BBA USA Securities.

The term “Brazil” refers to the Federative Republic of Brazil and the phrase “Brazilian government” refers to the federal government of Brazil. The term “Central Bank” refers to the Central Bank of Brazil. All references to “*real*,” “*reais*” or “R\$” are to the Brazilian *real*, the official currency of Brazil, and all references to “U.S. dollar,” “U.S. dollars” or “U.S.\$” are to U.S. dollars, the official currency of the United States.

This offering memorandum contains translations of certain *real* amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the *real* amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated the *real* amounts using a rate of R\$3.168 to U.S.\$1.00, the U.S. dollar selling rate as of September 30, 2017, published by the Central Bank on its electronic information system, SISBACEN, using the accounting rates section of the PTAX System. See “Exchange Rates.”

NOTICE TO INVESTORS

We, the Selling Shareholders, the Brazilian Underwriters or the agents appointed by the Brazilian Underwriters to facilitate the placement of the Units outside Brazil (which we refer to as the Placement Agents) have not authorized anyone to provide you with information different from that contained in this offering memorandum. If given or made, any such other information or representation shall not be relied upon as having been authorized by us, the Brazilian Underwriters or the Placement Agents. The Units are being offered, and the offers to buy are being sought, only in jurisdictions where such offers and sales are permitted. This document may only be used where it is legal to sell the Units. You should assume that the information appearing in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum, regardless of the time of delivery of this offering memorandum or of any sale of the Units. Our business, financial condition, results of operations and prospects may have changed since that date.

We, the Selling Shareholders, the Brazilian Underwriters and the Placement Agents are not making any representation to any purchaser of our Units regarding the legality of an investment in our Units by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in our Units.

Notwithstanding anything in this document to the contrary, except as reasonably necessary to comply with applicable securities laws, you (and each of your employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the offering and all materials of any kind (including opinions or other tax analyses) that are provided to you relating to such tax treatment and tax structure. For this purpose, “tax structure” is limited to facts relevant to the U.S. federal income tax treatment of the offering.

This offering memorandum is highly confidential, and we have prepared it for use solely in connection with the proposed offering of the Units outside Brazil. This offering memorandum is personal to the offeree to whom it has been delivered by the Placement Agents and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise to acquire the Units. Distribution of this offering memorandum to any person other than the offeree and those persons, if any, retained to advise that offeree with respect thereto is unauthorized, and any disclosure of any of its contents without our prior written consent is prohibited. Each offeree, by accepting delivery of this offering memorandum, agrees to the foregoing and agrees to make no photocopies of this offering memorandum, in whole or in part.

Neither the CVM, the SEC, any state securities commission nor any other securities commission or regulatory authority has approved or disapproved the offering of our Units. None of the foregoing authorities has passed upon or endorsed the merits of this offering or the accuracy or adequacy of this offering memorandum (or the Portuguese language prospectus used in connection with the offering of our Units in Brazil). Any representation to the contrary is a criminal offense.

The Units offered through this offering memorandum are subject to restrictions on transferability and resale, and may not be transferred or resold in the United States except as permitted under the Securities Act and applicable U.S. state securities laws pursuant to registration or exemption from such laws. By purchasing these securities you will be deemed to have made the acknowledgements, representations and warranties and agreements described under the heading “Transfer Restrictions” in this offering memorandum. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. In making an investment decision, you must rely on your own examination of our business and the terms of this offering, including the merits and risks involved.

You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Units or possess or distribute this offering memorandum and must obtain any consent, approval or permission required for your purchase, offer or sale of the Units under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither we, the Brazilian Underwriters nor the Placement Agents will have any responsibility therefor.

The information contained in this offering memorandum is accurate only as of the date of this offering memorandum, regardless of the time of delivery of this offering memorandum or of any offer or sale of our Units.

We, the Selling Shareholders, the Brazilian Underwriters and the Placement Agents reserve the right to reject any offer to purchase the Units offered hereby, in whole or in part, and for any reason, and to allot to any prospective investor less than the full amount of Units sought by such investor. We, the Selling Shareholders, the Brazilian Underwriters and the Placement Agents also reserve the right to sell or place less than all of the Units offered hereby.

No representation or warranty, express or implied, is made by the Placement Agents as to the accuracy or completeness of any of the information in this offering memorandum, and nothing contained herein is or shall be relied upon as a promise or representation by the Placement Agents, or any of their respective affiliates or advisers, as to the past, present or future.

This document is being distributed only to, and is directed at (a) persons who are outside the United Kingdom, (b) investment professionals falling within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “FSMA Order”), (c) high net worth entities falling within article 49(2)(a) to (d) of the FSMA Order, and (d) other persons to whom it may be lawfully be communicated, falling within article 49(1) of the FSMA Order (all such persons together being referred to as “relevant persons”). The Units are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Units will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents. The communication of this offering memorandum to any person in the United Kingdom who is not a relevant person is unauthorized and may contravene the Financial Services and Markets Act 2000.

This offering memorandum has been prepared on the basis that any offer of Units in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Units. Accordingly, any person making or intending to make an offer in a Relevant Member State of Units which are the subject of the offering contemplated in this offering memorandum may only do so in circumstances in which no obligation arises for us or the Placement Agents to publish a prospectus pursuant to Article 3 of the Prospectus Directive, in each case, in relation to such offer. Neither we nor the Placement Agents have authorized, nor do we or they authorize, the making of any offer of Units in circumstances in which an obligation arises for us or the Placement Agents to publish a prospectus for such offer. Neither we nor the Placement Agents have authorized, nor do we authorize, the making of any offer of Units through any financial intermediary, other than offers made by the Placement Agents, which constitute the final placement of the Units contemplated in this offering memorandum. The term “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in the Relevant Member State.

Further information with regard to restrictions on offers, sales and deliveries of the Units and the distribution of this offering memorandum and other offering material relating to the Units is set out under “Plan of Distribution—Selling Restrictions.”

This offering memorandum is not addressed to Brazilian residents and it should not be forwarded or distributed to, nor read or consulted by, acted on or relied upon by Brazilian residents. Any investment to which this offering memorandum relates is available to non-Brazilian residents only and will be made by non-Brazilian residents only. If you are a Brazilian resident and received this offering memorandum, please destroy it along with copies thereof.

This offering is being made in Brazil by a Portuguese-language offering memorandum, or the Brazilian offering memorandum, which includes the formulário de referência incorporated by reference therein, as an offering with restricted placement efforts to no more than 75 professional investors headquartered or resident in Brazil, and our Units offered may be subscribed by no more than 50 professional investors headquartered or resident in Brazil, in compliance with CVM Instruction No.476. This offering is made in the United States and elsewhere outside Brazil solely on the basis of the information contained in this offering memorandum. You should take this into account when making an investment decision.

ADDITIONAL INFORMATION

To permit compliance with Rule 144a under the Securities Act in connection with resales of our Units, we are required to furnish upon request of a holder of our Units or a prospective purchaser designated by such holder of our Units the information required to be delivered under Rule 144a(d)(4) under the Securities Act if, at the time of such request, we are neither a reporting company under Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains estimates and forward-looking statements, principally in “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “The Sanitation Sector in Brazil” and “Business.” Our estimates and forward-looking statements are primarily based on our current expectations and estimates of future events and financial trends, which affect or may affect our business, results of operations, prospects, cash flow margins and the trading price of our Units. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to many risks and uncertainties and are based solely on information currently available to us. Many important factors, in addition to the factors described in this offering memorandum, may adversely affect our results as indicated in forward-looking statements.

Our estimates and forward-looking statements may be affected by several factors, including, but not limited to:

- the general economic, political, social and business conditions in Brazil, particularly in the State of Paraná, including fluctuations in economic growth, foreign exchange rates, interest rates and inflation, as well as the impact of international financial conditions to the Brazilian economy;
- changes in laws and regulations applicable to our sector and activities in Brazil, as well as the passage of new laws and regulations relating to our sector and activities in Brazil, including any such laws and regulations involving our tariffs, as well as changes to economic, fiscal or regulatory regimes in Brazil;
- our capacity to provide basic and adequate sanitation services;
- our future capacity to maintain the direction of our business and operations;
- our capacity to implement our operational strategies and investment and growth plans, and our ability to access financing on reasonable terms in the future;
- our future capacity to maintain the direction of our business and operations;
- our ability to develop and maintain effective internal controls;
- our ability to comply with performance indicators, requirements regarding water and sewage service levels and other conditions included in our concession and program agreements;
- limitations on our ability to increase our tariffs;
- government measures, including unilateral measures such as early termination of our concessions;
- interests of our controlling shareholder, the State of Paraná;
- our ability to collect amounts owed to us by our customers, including from the State of Paraná and the municipalities we serve;
- our ability to obtain new concessions and to renew our current concessions upon maturity;
- the size and growth of our customer base;
- crises caused by weather or unfavorable hydrological conditions;
- costs of complying with environmental laws and fines for failing to comply with these laws;
- the outcome of our pending or future legal proceedings and investigations;
- other factors that could affect our financial condition, liquidity and operating results; and

- other risk factors discussed in “Risk Factors.”

The words “believe,” “may,” “will,” “aim,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “plan” and similar words are intended to identify estimates and forward-looking statements. Estimates and forward-looking statements speak only as of the date they were made, and, except to the extent required by law, we, the Selling Shareholders, the Brazilian Underwriters and the Placement Agents undertake no obligation to update or to revise any estimate and/or forward-looking statement to reflect new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. As a result of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this offering memorandum might not occur and our future results and performance may differ materially from those expressed in these estimates and forward-looking statements due to, including, but not limited to, the factors mentioned above, many of which are beyond our control or ability to predict. Because of these uncertainties, you should not rely on estimates and forward-looking statements when making a decision to invest in our Units.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Information

We maintain our books and records in *reais*. Our financial statements were prepared in accordance with accounting practices adopted in Brazil, or Brazilian GAAP. Brazilian GAAP is based on:

- Brazilian Law No. 6,404, dated December 15, 1976, as amended, or the Brazilian Corporate Law;
- the rules and regulations enacted by the CVM; and
- the accounting pronouncements, standards, guidance and interpretation issued by the Brazilian Accounting Pronouncements Committee (*Comitê de Pronunciamentos Contábeis*), or CPC, and approved by the CVM and by the Brazilian Federal Accounting Council (*Conselho Federal de Contabilidade*).

The financial information contained in this offering memorandum is derived from the following documents included elsewhere in this offering memorandum: (i) our unaudited interim financial information as of September 30, 2017 and for the nine-month periods ended September 30, 2017 and 2016 and the notes thereto (the “Unaudited Financial Statements”), (ii) our audited financial statements as of and for the years ended December 31, 2016 and 2015 and the notes thereto (the “2016 Financial Statements”), and (iii) our audited financial statements as of and for the years ended December 31, 2015 and 2014 and the notes thereto (the “2015 Financial Statements” and, together with the 2016 Financial Statements, the “Audited Financial Statements”). We refer to the Unaudited Financial Statements and the Audited Financial Statements herein as the “Financial Statements.”

The Financial Statements incorporated elsewhere in this offering memorandum, all of which are in English, were prepared as convenience translations of the Portuguese language financial statements.

Rotation of Independent Auditors

On October 3, 2017, our board of directors approved the replacement of our then independent auditors, Ernst & Young Auditores Independentes S.S., by our current independent auditors, BDO RCS Auditores Independentes S.S., in compliance with CVM Instruction 308/99, which requires that we rotate our independent auditors every five years. This replacement was effective beginning with our interim financial statements as of and for the nine-month period ended September 30, 2017.

Non-GAAP Financial Measures

EBITDA and EBITDA Margin

The body of generally acceptable accounting principles is commonly referred to as “GAAP.” We have disclosed EBITDA in this offering memorandum, which are non-GAAP financial measures. We use EBITDA and EBITDA Margin as a performance metric because we believe that it functions as useful tools for our management to periodically measure our operating performance and to allow us to compare our performance against that of other companies in the same industry. Because the capital structure, tax effects and other impacts not directly affecting our cash flows and operating performance are not included in the calculations, EBITDA and EBITDA Margin only serve as general financial performance indicators for us.

We calculate EBITDA, in accordance with CVM Instruction No. 527, as net income plus net finance expense, income taxes and depreciation and amortization costs and expenses. We calculate EBITDA Margin as EBITDA divided by net operating revenue. EBITDA and EBITDA Margin, as calculated by us, may not be comparable to EBITDA and EBITDA Margin as used by other companies. EBITDA and EBITDA Margin are not measures of financial performance in accordance with Brazilian GAAP or the International Financial Reporting Standards (“IFRS”), are not audited or reviewed by our independent auditors and are not measurements required by, or presented in accordance with Brazilian GAAP or IFRS. They do not represent cash flow for the corresponding periods and should not be considered as an alternative to net income or as a measure of operating performance, cash flows or liquidity, or the basis for dividend distribution. Other companies, including our competitors, may calculate EBITDA and EBITDA Margin differently than us. Because EBITDA and EBITDA Margin do not include certain

costs and expenses related to our business, they has limitations which affect their use as an indicator of our profitability. Reconciliations of net income to EBITDA and EBITDA Margin and can be found elsewhere in this offering memorandum under “Summary Financial and Operating Information.”

Net Debt

Our net debt equals the sum of loans, financing, debentures and finance leases (current and non-current) minus the balance of cash and cash equivalents. Net debt is not a measure of financial performance, liquidity or indebtedness recognized by Brazilian GAAP, is not audited or reviewed by our independent auditors, is not a measurement required by, or presented in accordance with Brazilian GAAP or IFRS and has no standardized meaning. Other companies, including our competitors, may calculate net debt differently from us. Our management believes that measuring net debt is a useful tool for us and our investors assessing the degree of financial leverage relative to operating cash flows. For a reconciliation of net debt, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Shareholders’ Equity and Net Debt.”

Rounding

We have rounded certain figures included in this offering memorandum for ease of presentation. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Market Information

We obtained the market information used in this offering memorandum concerning the sector in which we operate from market research, public information, industry publications and good faith estimates of management based on these data. These reports come from various sources, including the Brazilian National System of Information about Sanitation (*Sistema Nacional de Informações sobre Saneamento*), or SNIS, the Economic and Social Development Institute of Paraná (*Instituto Paranaense de Desenvolvimento Econômico e Social*), or IPARDES, the *Instituto Trata Brasil* and the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE. While we believe these industry and government data and estimates of management are reliable, neither we, the Selling Shareholders, the Brazilian Underwriters nor the Placement Agents have independently verified this data. Accordingly, neither we, the Selling Shareholders, the Brazilian Underwriters nor the Placement Agents make any representations as to the accuracy or completeness of these data. We are not aware of any misstatements regarding market or industry data contained in this offering memorandum; however, this data involves risks and uncertainties and is subject to change based on various factors, including those factors discussed in “Risk Factors.”

Certain Defined Terms

In this offering memorandum, unless the context requires otherwise, all references to:

- “the Brazilian Sanitation Law” are to Law No.11,445, dated January 5, 2007, as amended by Law No. 13,308, dated July 6, 2016, which establishes the regulatory framework applicable to the basic sanitation sector in Brazil;
- “concessions” are to the grant of rights in any form by a Brazilian government authority to us to provide water supply and/or sewage services;
- “concession agreements” or “program agreements” are to agreements entered into with various municipalities or districts for the provision of water supply and/or sewage services. Concession agreements were executed prior to the enactment of the Brazilian Sanitation Law and program agreements were created by such law. See “Regulation of the Sanitation Sector in Brazil;”
- “connections” are to connections between our water supply network or our sewage collection network, as the case may be, and our customers’ property;
- “consumer units” are the number of the hydrometers installed in buildings, facilities and residences connected to our water supply network or our sewage collection network, as the case may be;

- “sewage coverage ratio” are to the ratio between the number of buildings, facilities and residences connected to the sewage collection network, divided by the number of urban buildings, facilities and residences in a certain area, as measured based on public censuses and internal surveys; and
- “water coverage ratio” are to the ratio between the number of buildings, facilities and residences connected to the water supply network, divided by the number of urban buildings, facilities and residences in a certain area, as measured based on public censuses and internal surveys.

SUMMARY

This summary contains an overview of our business and our financial and operating information. It does not contain all of the information that you should consider before making the decision to invest in our Units. You should read this entire offering memorandum carefully for a more complete understanding of our business and this offering, including the information in “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our Financial Statements and accompanying explanatory notes included elsewhere in this offering memorandum.

Overview

We are one of the largest basic sanitation companies in Brazil in terms of net operating revenue, according to *Valor Econômico* newspaper. We provide water supply and sewage services in the State of Paraná, which, according to IBGE, is the fourth largest state economy in Brazil in terms of gross domestic product, or GDP.

Our main business consists of providing the following services:

- *Water Supply Services.* We supply water in 345 municipalities in the State of Paraná, covering approximately 86.5% of the municipalities in such State, including the ten largest municipalities and the capital, Curitiba. We also provide water services to one municipality in the State of Santa Catarina. We have a 100.0% water coverage ratio, servicing approximately 3.8 million consumer units; and
- *Sewage Services.* We provide sewage collection and treatment services in 184 municipalities in the State of Paraná serving approximately 3.1 million consumer units and representing a 70.2% sewage coverage ratio.

We provide water supply services through approximately 52.4 thousand kilometers of piping and 3,068.2 million water connections, and we provide sewage services through a sewage collection network spanning approximately 34.1 thousand kilometers, with 2.0 million sewage connections. We believe we are one of the few basic sanitation companies in Brazil that treats virtually 100.0% of the sewage collected.

We also manage solid waste in the three landfills we operate in the State of Paraná: Cianorte, Apucarana and Cornélio Procópio. The landfill in Cianorte serves the municipalities of São Tomé, Terra Boa, Guaporema and Indianópolis and treated over 62,500 tons of waste in 2016. We are also investing in biogas through CS Bioenergia S.A., a joint venture with Cattalini Bioenergia Operação S.A., in which we hold a 40.0% ownership interest.

We provide our services under long-term concession and program agreements that are individually negotiated with each municipality and generally have a 30-year term. As of September 30, 2017, our ten largest concession and program agreements had an average remaining term of approximately 20 years, including our agreement with the municipality of Curitiba, which expires in 2031. Our ten largest concession and program agreements accounted for 54.9% and 55.0% of our net operating revenue in the nine-month period ended September 30, 2017 and the year ended December 31, 2016, respectively. Our concession agreement with the municipality of Curitiba individually accounted for 24.5% and 26.5% of our net operating revenue in the nine-month period ended September 30, 2017 and the year ended December 31, 2016, respectively.

In the nine-month period ended September 30, 2017, we had net operating revenue of R\$2,843.9 million, and net income of R\$531.9 million, representing a 13.7% increase compared to our net income for the nine-month period ended September 30, 2016. In the nine-month period ended September 30, 2016, we had net operating revenue of R\$2,550.9 million, and net income of R\$467.9 million.

In the year ended December 31, 2016, we had net operating revenue of R\$3,477.5 million, and net income of R\$626.8 million, representing a 43.0% increase compared to our net income in the year ended December 31, 2015. In the year ended December 31, 2015, we had net operating revenue of R\$2,971.2 million, and net income of R\$438.4 million, representing a 4.0% increase compared to our net income in the year ended December 31, 2014.

The tables below show our key financial and operating information as of and for the years ended December 31, 2014, 2015 and 2016, and as of and for the nine-month periods ended September 30, 2016 and 2017:

	Year ended December 31,					Nine-month period ended		
						September 30,		
	Variation (%)					Variation (%)		
	2014	2015	2016	2014-2015	2015-2016	2016 ⁽¹⁾	2017 ⁽¹⁾	2016-2017 ⁽¹⁾
	(in millions of R\$ except percentages)							
Net operating revenue	2,617.0	2,971.2	3,477.5	13.5%	17.0%	2,550.9	2,843.9	11.5%
Revenue								
Water.....	1,733.6	1,948.6	2,263.1	12.4%	16.1%	1,663.8	1,835.0	10.3%
Sewage.....	883.4	1,022.6	1,214.4	15.8%	18.8%	887.1	1,008.9	13.7%
Gross Profit.....	1,501.9	1,626.0	2,032.4	8.3%	25.0%	1,493.2	1,701.8	14.0%
Gross Margin ⁽²⁾	57.4%	54.7%	58.4%	(2.7) p.p.	3.7 p.p.	58.5%	59.8%	1.3 p.p.
Net Income	421.6	438.4	626.8	4.0%	43.0%	467.9	531.9	13.7%
Net Margin ⁽³⁾	16.1%	14.8%	18.0%	(1.3) p.p.	3.2 p.p.	18.3%	18.7%	0.4 p.p.
EBITDA ⁽⁴⁾	835.8	894.0	1,171.0	7.0%	31.0%	912.3	999.7	9.6%
EBITDA Margin ⁽⁵⁾	31.9%	30.1%	33.7%	(1.8) p.p.	3.6 p.p.	35.8%	35.2%	(0.6) p.p.
ROE ⁽⁶⁾	11.4	11.0	13.9	(0.4)p.p.	2.9.p.p.	10.9	14.04	22.4%

(1) Unaudited financial information.

(2) Gross profit divided by net operating revenue.

(3) Net income divided by net operating revenue.

(4) EBITDA is calculated according to guidelines of CVM Instruction 527, as being net income adjusted for the financial result, income and social contribution taxes, and costs and expenses of depreciation and amortization. EBITDA is not a measure of financial performance according to the accounting practices adopted in Brazil, nor must it be considered on a stand-alone basis or as an alternative to net income as a measure of operations or an alternative to cash flows from operations, or as a measure of liquidity or the basis for the distribution of dividends. Other companies may calculate their EBITDA in a different manner from us. EBITDA serves as an indicator of our overall economic performance, not affected by fluctuations in interest rates, changes to the rates of income and social contribution taxes or the levels of depreciation and amortization. Therefore, we believe that EBITDA serves as a significant tool for periodically comparing our operating performance, as well as for basing certain decisions of an administrative nature. Since EBITDA does not factor in certain costs intrinsic to our business, or which could, in turn, have a significant effect on our earnings, such as financial expenses, taxes, depreciation, capital expenditures and other corresponding charges, it is fraught with limitations that affect its use as an indicator of our profitability.

(5) EBITDA Margin is EBITDA divided by net operating revenue.

(6) ROE, (Return on Equity) is calculated as follows: net income divided by the arithmetic average of the shareholders' equity registered at the beginning and at the end of a given business year.

	As of December 31,					As of September 30,	
						Variation (%)	
	2014	2015	2016	2014-2015	2015-2016	2017 ⁽¹⁾	Variation (%) 12/31/2016 09/30/2017 ⁽¹⁾
	(in millions of R\$ except percentages)						
Net debt ⁽²⁾	1,803.4	2,172.2	2,073.8	20.4%	(4.5)%	2,099.4	1.2%
Shareholders' equity.....	3,801.1	4,180.3	4,808.7	10.0%	15.0%	5,032.4	4.7%

(1) Unaudited financial information.

(2) Net debt is the sum of the balances of current and non-current loans, financing, debentures and finance leases after deducting the balance of our cash and cash equivalents. Net debt is not a measure of financial performance, liquidity or indebtedness recognized by the accounting practices adopted in Brazil and it has no standard meaning. Other companies may calculate their net debt in a different manner from us. Our management believes that the measurement of Net Debt is useful, both for us and for investors and financial analysts, for evaluating the degree of financial leverage in relation to operating cash flow.

	As of December 31,					As of September 30,		
						Variation (%)		
	2014	2015	2016	2014-2015	2015-2016	2016	2017	2017
	(in millions of R\$ except percentages)							
% Water service ratio.....	100.0	100.0	100.0	-	-	100.0	100.0	2.9%
% Sewage service ratio ⁽¹⁾	65.0	67.0	69.1	2.0 p.p.	2.1 p.p.	68.2	70.2	2.0 p. p.
Number of connections – water (thousands).....	2,909.4	2,979.4	3,025.9	2.4%	1.6%	3,008.6	3,068.2	2.0%
Number of connections – sewage (thousands)....	1,759.4	1,859.5	1,953.5	5.7%	5.1%	1,914.7	2,013.0	5.1%
Network length – water (thousands of km).....	47.0	49.6	51.6	5.5%	4.0%	51.0	52.4	2.8%
Network length – sewage (thousands of km).....	28.9	31.1	33.1	7.6%	6.4%	32.2	34.1	5.9%

(1) The Service ratio is calculated using the number of people served, ascertained in public censuses and those carry out, involving the urban population of the municipality.

Our Competitive Strengths

Profitability, strong financial performance and predictable cash generation

Historically, our financial performance has been consistently strong. In the nine-month period ended September 30, 2017, we had net operating revenue of R\$2,843.9 million, EBITDA of R\$999.7 million (EBITDA margin of 35.2%), and net income of R\$531.9 million, representing a 13.7% increase compared to our net income in the nine-month period ended September 30, 2016. In the nine-month period ended September 30, 2016, we had net operating revenue of R\$2,550.9 million, EBITDA of R\$912.3 million (EBITDA margin of 35.8%), and net income of R\$467.9 million. In the year ended December 31, 2016, we had net operating revenue of R\$3,477.5 million, EBITDA of R\$1,171.0 million (EBITDA margin of 33.7%), and net income of R\$626.8 million, representing a 43.0% increase compared to our net income in the year ended December 31, 2015. In the year ended December 31, 2015, we had net operating revenue of R\$2,971.2 million, EBITDA of R\$894.0 million (EBITDA margin of 30.1%), and net income of R\$438.4 million, representing a 4.0% increase compared to our net income in the year ended December 31, 2014. We believe our cash generation is predictable due to our long-term concession and program agreements, with more than 91.0% of our concession and program agreements terminating after 2020. As of September 30, 2017, our ten largest concession and program agreements had an average remaining term of approximately 20 years. For more information on our concession and program agreements, see “Business—Concession and Program Agreements.”

We have strong efficiency indicators and coverage ratios, and have been recognized as one of the best Brazilian basic sanitation companies

We have the strongest efficiency indicators (as measured in terms of default rate, conversion rate and loss rate) among companies operating in the sanitation sector listed on the B3. In the year ended December 31, 2016 and the nine-month period ended September 30, 2017, our default rate (the percentage of invoiced amounts not paid within one day of their due date) was 1.07% and 2.04%, respectively, and our conversion rate (average age of our receivables) was over 69 days for both periods. Our loss rate (consisting of the ratio between volume of water produced and billed) was 34.4% and 34.8% in the year ended December 31, 2016 and the nine-month period ended September 30, 2017, respectively.

In the nine-month period ended September 30, 2017, our water coverage ratio was approximately 100.0%, and our sewage coverage ratio was 70.2%. We are also one of the few basic sanitation companies in Brazil that treats nearly 100.0% of the sewage collected.

We provide high-quality water supply and sewage services in Brazil and are frequently recognized as one of the best companies in the Brazilian sanitation sector. In 2017, we were considered the best company in the Brazilian water and sanitation sector, according to *Valor Econômico* newspaper. In addition, for the seventh consecutive year the municipality of Curitiba was ranked number one among Brazilian state capitals in terms of basic sanitation service, according to the ranking published by *Instituto Trata Brasil*. We serve five of the 20 cities with the best basic sanitation service in Brazil. Our high-quality services are recognized by the population we serve: the general satisfaction index with the water supply and sewage collection and treatment services in the state of Paraná increased from 77% to 83.5%, respectively, from 2015 to 2016, and in 2014, it was 71.1%.

Consolidated asset base of significant size and scale

We have a strong consolidated asset base in the State of Paraná, where we operate in 345 out of 399 municipalities. Our sanitation system consists of 165 water treatment stations (*estações de tratamento de água*) and 245 sewage treatment stations (*estações de tratamento de esgoto*) distributed throughout the State of Paraná. Our water distribution network consists of approximately 52.4 thousand kilometers of piping and 3.1 million water connections, and our sewage collection network has approximately 34.1 thousand kilometers of collection networks and 2.0 million sewage connections. We are constantly investing to improve and maintain our infrastructure and have invested an aggregate of R\$508.7 million in the nine-month period ended September 30, 2017 in property, plant and equipment and intangible assets to expand and upgrade our water supply and sewage collection and treatment systems.

Presence in one of the most dynamic and developed regions in Brazil

The State of Paraná is the fourth largest state economy in Brazil in terms of GDP and has social and economic indicators above the Brazilian average. GDP per capita in the State of Paraná is R\$30,265.0, which is higher than the Brazilian GDP per capita of R\$26,444.0, according to data from IBGE in 2014. The economy in Paraná is highly diversified, with a solid industrial and agricultural base supported by the financial, automobile, steel, cement, ceramic, equipment assembly, textile, beverages, and pulp and paper industries. Moreover, it is one of the largest producers of grains and sugarcane in Brazil. In addition, the State of Paraná is known for its rich water resources, which we believe decrease the risk of water shortages.

We also benefit from governmental programs intended to foster economic growth and development in the regions in which we operate. For instance, the *Paraná Competitivo* and *Bom Emprego* programs created by the Paraná government to attract investments, create jobs and spur industrial development in the state resulted in R\$20.0 billion in investments in the State of Paraná in the three-year period ended December 31, 2016. Moreover, the *Minha Casa, Minha Vida* program, created by the federal government, resulted in the construction of thousands of houses in the State of Paraná since 2011.

We expect economic growth in the State of Paraná to positively affect population growth, attract new industries and create new commercial centers, all of which we anticipate will increase the demand for our basic sanitation services.

Consistent historical growth, with opportunity for further growth

During the last three-year period ended December 31, 2016, our sales volume and revenues increased consistently. Our invoiced water volume grew at an annual average growth rate of 0.1% in the years ended December 31, 2014, 2015 and 2016, and we maintained a 100.0% water coverage ratio throughout this period. During the same period, our invoiced sewage volume grew at an annual average growth rate of 6.1%.

In the nine-month period ended September 30, 2017, the average rate of our invoiced water volume decreased 4.33% in comparison with the nine-month period ended September 30, 2016. In the nine-month period ended September 30, 2017, our invoiced sewage volume decreased 1.25% in comparison with the nine-month period ended September 30, 2016. During the same periods, our net operating revenue increased 11.5%.

We believe our sewage coverage ratio of 70.2% evidences opportunity for further growth in this segment.

Water availability and our investments in water reservoir infrastructure allow for constant supply of water and predictable revenue generation

We believe that the water naturally available in the State of Paraná, which is comprised of rivers and underground aquifers, enables the constant supply of water to the population. In our opinion, demand is still much lower than water availability, which makes it possible for us to meet growth in demand and increase the predictability of cash generation.

We also believe that, due to the geographic location of the State of Paraná, which has a more consistent and stable rainfall system compared to other regions in Brazil as a result of its humid subtropical climate, we have not been significantly affected by drought periods over the last decade, unlike other regions in Brazil which have suffered from droughts in recent years. Furthermore, the supply issues faced by the metropolitan region of Curitiba in the 1990's have since been offset by significant investments in water storage, with the construction of dams and reservoirs, as well as the integration of the metropolitan region's system, affording us greater flexibility to meet the demand for water.

High percentage of treatment of collected sewage

We treat 99.9% of all collected sewage, making it possible for our sewage collection and treatment services, as well as the final disposal of the waste generated by the treatment, to comply with applicable environmental regulations. Unlike some other Brazilian sanitation companies, we believe we are the only company generating revenues from sanitary sewage services, as we provide sewage treatment in addition to sewage collection.

Experienced management

Our management team is highly experienced. The majority of our board members have more than 30 years of experience with our company and/or in the sanitation and other sectors, and their engagement and focus on our strategic objective of operational excellence have been essential to achieving our levels of quality and financial performance.

Our Strategies

Expand our operations in the basic sanitation sector in the State of Paraná

We intend to continue to expand our activities in the State of Paraná by:

- increasing our sewage coverage ratio, with the ultimate goal of achieving 100.0% in the long term;
- maintaining the historical growth of our water network, which grew by 4.2%, 4.9% and 3.8% in the years 2014, 2015 and 2016, respectively, to meet population growth and increase in the number of households; and
- prospecting growth opportunities in the industrial sector to keep up with the strong economic development in the State of Paraná, according to IPARDES.

Continue to increase the efficiency and quality of our services

We believe we are recognized for our efficiency in providing quality basic sanitation services, and we intend to further enhance our performance. In furtherance of this objective, we intend to:

- maintain and grow our water distribution and sewage collection and treatment networks and sustain our level of investments in storage and treatment;
- increase measures to avoid water loss by systematically replacing inefficient water meters, repairing old and damaged pipes, and maintaining strict controls over the level of water loss;
- maintain our efforts to decrease defaults by issuing a printed hydrometer reading directly to a customer's residence, a method we believe that we were the first to implement in Brazil in 1988, and by maintaining and improving our policy to collect overdue and unpaid bills by sending default notices to customers before interrupting the supply of water; and
- maintain our policy to train and develop our management and employees to constantly seek high levels of efficiency and quality in services provided.

Expand management of solid waste and monitor basic sanitation opportunities

We seek to expand our solid waste collection and disposal services by managing landfills and searching for new technologies to generate electricity. In 2014, we created CS Bioenergia S.A., through a joint venture with Cattalini Bioenergia Operação S.A., to generate electricity from organic waste, as well as from sludge, from one of our sewage treatment plants in the municipality of Curitiba, providing us with significant savings both in terms of transportation and final disposal, in addition to helping preserve the environment. CS Bioenergia S.A. is a special-purpose entity in which we hold a 40.0% ownership interest.

In order to increase power generation efficiency, we plan to add to the sludge other organic solid waste from large generating sources, such as shopping malls, supermarkets and general warehouses, and use it to produce biogas. The power generated would be traded in the free market and used within our own system. We also plan to produce solid fertilizers using the remaining waste from the biodigestion process.

Moreover, we will continue to monitor the basic sanitation sector to identify opportunities to participate in new concessions with other municipalities in regions close to and complementary with our current operations. With this goal in mind, we believe we can offer strategic partnerships, through which we can share our experience and technical knowledge, as well as potentially capture synergies with our current operations.

Develop marketing and educational initiatives to strengthen our brand recognition and image in the communities we serve

In order to maintain and improve our high level of recognition and customer approval, we intend to increase our marketing efforts and strengthen the SANEPAR brand, primarily through (i) increasing our participation and exposure at important social and commercial events in Paraná, such as fairs, exhibitions, and sports and cultural events, and (ii) continuing to promote activities to educate the population about the benefits of basic sanitation and efficient water usage.

Increase focus on regulatory compliance

In recent years, we have focused on increasing our compliance with regulations and agreements to which we are party to minimize the risk of actions of our management that could adversely affect us, reduce the cost of capital and make our services more attractive. We believe regulation is essential to maintain the economic and financial equilibrium of the agreements to which we are party, providing certainty to our investors and stability and predictability to invest in regulated markets.

For that purpose, we plan to undertake, among others, the following measures: (i) establish guidelines and standards to adequately provide services and ensure our customer's satisfaction; (ii) expand our business through the acquisition of other sanitation systems; (iii) make investments to expand and improve water and sewage systems; (iv) identify favorable sources of financings and government subsidies; and (v) increase our services and revenue generation, with a view to protecting the environment.

History

We were originally incorporated in 1963 as Companhia de Água e Esgotos do Paraná – AGEPAR. The company name was subsequently changed to Companhia de Saneamento do Paraná – SANEPAR. Initially, our corporate purpose was to carry out studies, projects, construction, operations and exploration of public services in connection with the supply of potable water and sewage, as well as promoting basic sanitation in the State of Paraná.

In January 1972, our corporate purpose changed when we absorbed the Water and Sewage Department of Paraná into our structure and started exploring the water and sewage systems of the municipality of Curitiba and 15 other municipalities. In the same year, we adopted the National Sanitation Plan (*Plano Nacional de Saneamento – PLANASA*). During this time, we provided water services to just over 500,000 people and sewage services to approximately 300,000 people in the State of Paraná.

In March 2000, the CVM granted our request to become a publicly traded company, and our securities were initially authorized to be traded at SOMA – Sociedade Operadora do Mercado de Ativos S.A. In May 2002, our preferred shares were listed and admitted for trading on the B3.

In 2002, we began working in the field of solid waste in the municipality of Cianorte. We currently treat solid waste disposed of in three landfills, which provide service to seven municipalities in the State of Paraná, having treated more than 62.5 thousand tons of solid waste through 2015.

In 2014, we created CS Bioenergia S.A., through a joint venture with Cattalini Bioenergia Operação S.A., to generate electricity from organic waste, as well as from sludge, from one of our sewage treatment plants in the municipality of Curitiba, providing us with significant savings both in terms of transportation and final disposal, in addition to helping preserve the environment. CS Bioenergia S.A. is a special-purpose entity in which we hold a 40.0% ownership interest.

In December 2016, we concluded a public offering of 27,114,967 preferred shares, which was conducted simultaneously with the sale by Estado do Paraná, Andrade Gutierrez Concessões S.A., Dominó Holdings S.A. and Fundo de Investimento CAIXA FGP-PR Multimercado of 126,893,895 preferred shares of the Company. The preferred shares were sold to investors in Brazil pursuant to CVM Instruction No. 400, dated December 29, 2003, as amended and to investors outside Brazil in accordance with Rule 144A and Regulation S.

In its annual meeting held on September 19, 2017, our Board of Directors approved an increase of 11.0% in the interest held in the share capital of CS Bioenergia S.A. Such increase is currently subject to the approval of certain regulatory and governmental authorities including the Conselho de Controle das Empresas Estatais, Casa Civil,

Assembleia Legislativa and our shareholders (among others). Once the increase of our equity stake in CS Bioenergia S.A. is approved and the subsequent capitalization of CS Bioenergia S.A. is completed, we will hold a majority interest in CS Bioenergia S.A. and thereafter, CS Bioenergia S.A. will be consolidated in our financial statements.

Corporate Information

Our corporate headquarters are located at Rua Engenheiros Rebouças, 1376, 80215-900, Curitiba, PR, Brazil. The telephone number of our Investor Relations Department is +55 (41) 3330-3043, and our email is sonivalb@sanepar.com.br. Our web site is www.sanepar.com.br. Information contained on, or obtainable through, our website is not incorporated into, and does not constitute a part of, this offering memorandum.

Recent Developments

Loan Agreement with KfW and Caixa Economica Federal.

On December 11, 2017 we entered into a loan agreement with KfW Bank in the amount of €50 million. As a result of this loan agreement, we may be exposed to exchange rate risk. Accordingly, our board of directors also approved entering into a hedge agreement to mitigate such risk. See “Risk Factors — Risks Related to Brazil — Exchange rate fluctuations could affect us.”

On October 24, 2017, our board of directors also approved the entering into of a secured financing in the amount of R\$1.6 billion with Caixa Econômica Federal for the Programa de Saneamento para Todos – Mutuários Federal Savings, pursuant to Instrução Normativa 14 and recommendations received from Caixa Econômica Federal, scheduled to be executed in December 2017.

Following the execution of these agreements, our Indebtedness will amount to approximately R\$4.4 billion.

For additional information on the ownership of our shares, see “Principal and Selling Shareholders.”

THE OFFERING

The following summary contains basic information related to this offering. The summary is not intended to be complete. You should read the full text and more specified details contained elsewhere in this offering memorandum. For more information concerning the Units, see “Description of Capital Stock.”

Issuer	Companhia de Saneamento do Estado do Paraná – SANEPAR, a mixed capital corporation, incorporated under the laws of Brazil.
Selling Shareholders	The State of Paraná, Companhia Paranaense de Energia and Copel Comercialização S.A.
Units Offered in the Offering	<p>The State of Paraná is offering 9,986,263 Units, Companhia Paranaense de Energia is offering 7.268.653 Units and Copel Comercialização S.A. is offering 1.591.261 Units. The Units are being offered:</p> <ul style="list-style-type: none">• to no more than 75 professional investors (as defined in the CVM Instruction No. 539), provided that 50 professional investors headquartered or resident in Brazil may subscribe or acquire the Units, pursuant to an exemption from registration under CVM Instruction No. 476;• to certain “qualified institutional buyers,” within the meaning of, and in reliance on, Rule 144A under the Securities Act, in the United States; and• to institutional and certain other investors elsewhere outside the United States and Brazil that are not U.S. persons in reliance on, and in accordance with, Regulation S under the Securities Act. <p>Investors residing outside Brazil, including institutional investors, may purchase our Units if they comply with the registration requirements of Law No. 4,131, CMN Resolution No. 4,373 and CVM Instruction No. 560. See “Market Information—Investment in Our Units by Non- Residents of Brazil.”</p> <p>U.S. purchasers of our Units will be deemed to have made certain representations. See “Transfer Restrictions.”</p>
Brazilian Underwriters	Bank of America Merrill Lynch Banco Múltiplo S.A. and Banco Itaú BBA S.A.
Placement Agents	Merrill Lynch, Pierce, Fenner & Smith Incorporated and Itau BBA USA Securities, Inc.
Offering Price	R\$55.20 per Unit.
	<p>The price per Unit was based on the result of the bookbuilding process conducted in Brazil by the Brazilian Underwriters and in other countries by the Placement Agents in accordance with the Brazilian Corporate Law and securities regulation.</p>
Capital Stock	Our capital stock consists of 167,911,753 common shares and 335,823,420 preferred shares as of the date hereof. For further information, see “Description of Capital Stock.”

Use of Proceeds	We will not receive any proceeds from this offering, as this offering consists solely of a secondary offering of units by the Selling Shareholders. The Selling Shareholders will receive proceeds of R\$1,031,154,251.46, after deducting estimated offering expenses and commissions payable by the Selling Shareholders.
Voting Rights of the Units	Each Unit grants its holder the same rights granted to the holder of the underlying common and preferred shares as set forth in our bylaws, Brazilian Corporate Law, and the Level 2 segment of the B3 regulation. For further information regarding voting rights of our common shares and in certain circumstances, preferred shares, see “Description of Capital Stock.”
Tag-along Rights	<p>Any person who acquires our corporate control will be required to make a tender offer for all of the remaining publicly-traded Units at a price per share equivalent to not less than the price paid per share for the controlling stake, according to the terms and conditions provided for under Brazilian law and regulations.</p> <p>U.S. holders of our Units may not be able to exercise preemptive rights and tag-along rights relating to our Units. See “Risk Factors—Risks Relating to the Offering and Our Units—A U.S. holder of our Units may be unable to exercise preemptive rights and tag-along rights relating to our Units.”</p>
Dividends	<p>Pursuant to our by-laws, we are required to distribute to our shareholders at least 25.0% of our annual net income, adjusted in accordance with and subject to the Brazilian Corporate Law, as dividends. The Units entitle the holder to the dividend distributions that they would be entitled to if they were the holders of the common shares and preferred shares underlying the Units. If we decide that future investments will be financed by incurring debt, we and our shareholders may agree to make additional distributions, as dividends or interest on shareholders’ equity.</p> <p>For additional information regarding our dividend distribution policy, see “Dividends and Dividend Policy.”</p>
Lock-up Agreements	We, our directors, officers and the Selling Shareholders entered into lock-up agreements, through which we and they agreed with the Brazilian Underwriters and Placement Agents, from the date of the Placement Facilitation Agreement and during the period of 90 days after the publication in Brazil of the notice of commencement of this offering, not to, without prior consent of the Brazilian Underwriters and Placement Agents: (i) issue, offer, sell, contract to sell, pledge, loan, grant any option to purchase, make any short sale or otherwise directly or indirectly dispose of or grant any rights, or file or cause to be filed a registration statement pursuant to the Securities Act, Brazilian laws, or any other securities regulatory authority, in all cases with respect to our Units or any additional shares of our capital stock (collectively referred to as the capital stock of SANEPAR), options or warrants to purchase any capital stock of SANEPAR or any securities convertible into or exchangeable for, or that represent the right to receive, capital stock of SANEPAR, whether owned directly or indirectly, or enter into a transaction which would have the same effect; (ii) enter into any

swap, hedge or any other agreement that, in whole or in part, transfers to the other party, any economic consequences of ownership of our shares or any security that may be convertible into, or exercisable or exchangeable for our shares, or warrants or other rights to purchase our shares, whether any such transaction is to be settled by the delivery of our shares or such other securities, in cash or otherwise; or (iii) publicly announce the intent of performing any of the transactions in (i) and (ii) above; except for certain limited exceptions as described under “Plan of Distribution.”

In addition, under the regulations of the Level 2 listing segment, during the six months following the pricing of the offering, our controlling shareholder (as defined under the regulations of the Level 2 listing segment) and our directors and executive officers are prohibited from selling and/or offering any of our shares or derivatives (as defined under the regulations of the Level 2 listing segment) that were held by them immediately after the offering. After the initial period of six months, our controlling shareholder, and our directors and officers will, for another period of six months, be prevented from selling and/or offering more than 40.0% of our shares and derivatives held by them immediately after the offering.

Listing Our Units are listed and trade on the Level 2 listing segment of the B3, under the symbol “SAPR11.”

Transfer Restrictions Our Units have not been, and will not be, registered under the Securities Act or under any U.S. state securities laws and are subject to U.S. restrictions on transfer as described in “Transfer Restrictions.”

Transfers of Units, including by and between non-residents of Brazil, may only be effected in Brazil. See “Plan of Distribution—Purchase of Units by Persons Outside of Brazil.”

Risk Factors Investing in our Units involves substantial risks and uncertainties. See “Risk Factors” and the other information included in this offering memorandum for a discussion of the factors you should carefully consider before deciding to invest in our Units.

Trading, Settlement and Clearance Payment for our Units must be made in reais through the facility of the Central Depository of the B3 (*Central Depositária de Ativos da B3*). It is expected that our Units will be delivered through the Central Depository of the B3 (*Central Depositária de Ativos da B3*) on or about December 18, 2017. Trades in the Units on the B3 will settle through the Central Depository of the B3 (*Central Depositária de Ativos da B3*).

Taxation Dividend distributions with respect to our Units are not currently subject to withholding of Brazilian income tax. However, payment of interest on shareholders’ equity (in lieu of dividends) is currently subject to Brazilian income tax. For certain Brazilian and U.S. federal income tax consequences with respect to U.S. holders of our Units, see “Taxation.”

International Security Identification BRSAPRC DAM13

Number(ISIN)

SUMMARY FINANCIAL AND OPERATING INFORMATION

The tables below present a summary of our financial information as of the dates and for each of the periods indicated. You should read the information below together with our Financial Statements and related notes included elsewhere in this offering memorandum, and the sections entitled “Presentation of Financial and Certain Other Information,” “Selected Financial and Operating Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Financial Statements

We maintain our books and records in *reais*. The financial information contained in this offering memorandum is derived from our Unaudited Financial Statements and our Audited Financial Statements, prepared in accordance with Brazilian GAAP, included elsewhere in this offering memorandum.

Statement of Income Data

	Year ended December 31,				Nine-month period ended September 30,		
	2014	2015	2016	2016	2016 ⁽¹⁾	2017 ⁽¹⁾	2017 ⁽¹⁾
				(in millions of U.S.\$) ⁽²⁾	(in millions of R\$)		(in millions of U.S.\$) ⁽²⁾
Net operating revenue	2,617.0	2,971.2	3,477.5	1,097.7	2,550.9	2,843.9	897.7
Cost of services.....	(1,115.1)	(1,345.2)	(1,445.1)	(456.2)	(1,057.7)	(1,142.1)	(360.5)
Gross profit	1,501.9	1,626.0	2,032.4	641.5	1,493.2	1,701.8	537.2
Selling expenses.....	(199.8)	(202.8)	(253.1)	(79.9)	(176.4)	(239.3)	(75.5)
Administrative expenses.....	(485.5)	(592.0)	(616.2)	(194.5)	(457.6)	(474.3)	(149.7)
Other operating expenses.....	(8.0)	(15.4)	(11.2)	(3.5)	(3.3)	(4.5)	(1.4)
Provisions.....	(106.4)	(73.5)	(141.6)	(44.7)	(85.5)	(131.9)	(41.6)
Profit sharing plan.....	(41.3)	(40.9)	(53.1)	(16.8)	(15.9)	(29.0)	(9.1)
Equity results ⁽³⁾	(0.2)	(1.7)	(3.4)	(1.1)	(2.3)	(1.4)	(0.4)
Finance income.....	28.4	52.0	80.5	25.4	59.8	76.0	24.0
Finance expense.....	(138.0)	(211.5)	(244.8)	(77.3)	(183.2)	(175.8)	(55.5)
Profit before income taxes	551.2	540.3	789.6	249.2	628.9	721.7	227.8
Income taxes.....	(129.6)	(101.9)	(162.7)	(51.4)	(160.9)	(189.8)	(59.9)
Net income	421.6	438.4	626.8	197.9	467.9	531.9	167.9

(1) Unaudited financial information.

(2) Solely for the convenience of the reader, we have converted these amounts from *reais* into U.S. dollars using the exchange rate as reported by the Central Bank of R\$3.168 per U.S.\$1.00 as of September 30, 2017. The U.S. dollar equivalent information presented in this offering memorandum is provided solely for the convenience of investors and should not be construed as implying that the amounts in *reais* represent, or could have been or could be converted into, U.S. dollars at such rates or any other rate.

(3) Equity results relate to the interest that we hold in CS Bioenergia S.A.

Balance Sheet Data

	As of December 31,				As of September 30,	
	2014	2015	2016	2016	2017 ⁽¹⁾	2017 ⁽¹⁾
	(in millions of R\$)			(in millions of U.S.\$) ⁽²⁾	(in millions of R\$)	(in millions of U.S.\$) ⁽²⁾
Total current assets	558.6	738.4	1,307.2	412.6	1,254.1	395.9
Investments	8.2	8.2	12.4	3.9	19.9	6.3
Property, plant and equipment, net	102.3	130.0	131.3	41.4	133.0	42.0
Intangible assets, net	6,225.8	6,761.6	7,199.4	2,272.5	7,558.0	2,385.7
Total non-current assets	6,993.2	7,506.3	8,146.9	2,571.6	8,622.7	2,721.8
Total assets	7,551.7	8,244.7	9,454.1	2,984.2	9,876.7	3,117.6
Total current liabilities	764.5	741.5	967.3	305.3	1,280.2	404.1
Total non-current liabilities	2,986.2	3,322.9	3,678.1	1,161.0	3,564.1	1,125.0
Total shareholders' equity	3,801.1	4,180.3	4,808.7	1,517.9	5,032.4	1,588.5
Total liabilities and shareholders' equity	7,551.7	8,244.7	9,454.1	2,984.2	9,876.7	3,117.6

(1) Unaudited financial information.

(2) Solely for the convenience of the reader, we have converted these amounts from *reais* into U.S. dollars using the exchange rate as reported by the Central Bank of R\$3.168 per U.S.\$1.00 as of September 30, 2017. The U.S. dollar equivalent information presented in this offering memorandum is provided solely for the convenience of investors and should not be construed as implying that the amounts in *reais* represent, or could have been or could be converted into, U.S. dollars at such rates or any other rate.

Other Financial Information

The following table presents a reconciliation of our net income to EBITDA for the nine-month periods ended September 30, 2016 and 2017, and for the years ended December 31, 2014, 2015 and 2016:

	Year Ended December 31,				Nine-month period ended September 30,		
	2014	2015	2016	2016	2016 ⁽¹⁾	2017 ⁽¹⁾	2017 ⁽¹⁾
	(in millions of R\$)			(in millions of U.S.\$) ⁽²⁾	(in millions of R\$)		(in millions of U.S.\$) ⁽²⁾
Net income	421.6	438.4	626.8	197.9	467.9	531.9	167.9
(+) Net finance expense	109.6	159.5	164.3	51.9	123.4	99.8	31.5
(+) Income taxes	129.6	101.9	162.7	51.4	160.9	189.8	59.9
(+) Depreciation and amortization	175.0	194.2	217.1	68.5	160.1	178.2	56.3
EBITDA⁽³⁾	835.8	894.0	1,171.0	369.6	912.3	999.7	315.6

(1) Unaudited financial information.

(2) Solely for the convenience of the reader, we have converted these amounts from *reais* into U.S. dollars using the exchange rate as reported by the Central Bank of R\$3.168 per U.S.\$1.00 as of September 30, 2017. The U.S. dollar equivalent information presented in this offering memorandum is provided solely for the convenience of investors and should not be construed as implying that the amounts in *reais* represent, or could have been or could be converted into, U.S. dollars at such rates or any other rate.

(3) We calculate EBITDA, in accordance with CVM Instruction No. 527, as net income plus net finance expense, income taxes and depreciation and amortization cost and expenses. EBITDA is not a measure of financial performance in accordance with Brazilian GAAP or IFRS. It does not represent cash flow for the corresponding period and should not be considered as an alternative to net income or as a measure of operating performance, cash flows or liquidity, or the basis for dividend distribution. Other companies, including our competitors, may calculate EBITDA differently than us. Because EBITDA does not include certain costs and expenses related to our business, it has limitations which affect its use as an indicator of our profitability.

The table below sets forth EBITDA margin for the periods indicated:

	Year Ended December 31,				Nine-month period ended September 30,			
	2014	2015	2016	2016	2016 ⁽¹⁾	2017 ⁽¹⁾	2017 ⁽¹⁾	
	(in millions of R\$, except percentages)				(in millions of U.S.\$, except percentages) ⁽²⁾	(in millions of R\$, except percentages)		(in millions of U.S.\$, except percentages) ⁽²⁾
Net operating revenue	2,617.0	2,971.2	3,477.5	1,097.7	2,550.9	2,843.9	897.7	
EBITDA margin ⁽³⁾	31.9%	30.1%	33.7%	33.7%	35.8%	35.2%	35.2%	

(1) Unaudited financial information.

(2) Solely for the convenience of the reader, we have converted these amounts from *reais* into U.S. dollars using the exchange rate as reported by the Central Bank of R\$3.168 per U.S.\$1.00 as of September 30, 2017. The U.S. dollar equivalent information presented in this offering memorandum is provided solely for the convenience of investors and should not be construed as implying that the amounts in *reais* represent, or could have been or could be converted into, U.S. dollars at such rates or any other rate.

(3) EBITDA margin represents our EBITDA divided by our net operating revenue.

The following table presents certain operating information as of and for the periods indicated:

	Year ended December 31,					Nine-month period ended September 30,		
	2014	2015	2016	Variation (%) 2014- 2015- 2016		2016	2017	Variation (%) 2017
	(in millions of R\$)					(in millions of R\$)		
% Water service ratio	100.0	100.0	100.0	-	-	100.0	100.0	2.9%
% Sewage service ratio ⁽¹⁾	65.0	67.0	69.1	2.0 p.p.	2.1 p.p.	68.2	70.2	2.0 p. p.
Number of connections – water (thousands).....	2,909.4	2,979.4	3,025.9	2.4%	1.6%	3,008.6	3,068.2	2.0%
Number of connections – sewage (thousands).....	1,759.4	1,859.5	1,953.5	5.7%	5.1%	1,914.7	2,013.0	5.1%
Network length – water (thousands of km).....	47.0	49.6	51.6	5.5%	4.0%	51.0	52.4	2.8%
Network length – sewage (thousands of km).....	28.9	31.1	33.1	7.6%	6.4%	32.2	34.1	5.9%

(1) The Service ratio is calculated using the number of people served, ascertained in public censuses and those carry out, involving the urban population of the municipality.

RISK FACTORS

Investing in our Units involves a high degree of risk and uncertainty. You should carefully consider all the information set forth in this offering memorandum, particularly the risks described below, before making a decision to invest in our Units. Our business, financial condition, results of operations and prospects could be materially and adversely affected by any of these risks. Additional risks and uncertainties not currently known to us, or those that we currently deem to be immaterial, may also materially and adversely affect our business, our financial condition, results of operation or prospects. The market price of our shares could decline due to any of these risks or other factors, and you may lose all or part of your investment.

Risks Related to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement, as well as Brazilian political and economic conditions, could adversely affect us, including the trading price of our shares and Units.

The Brazilian government frequently has intervened in the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government's actions to control inflation and other policies and regulations have often involved, among other measures, increases in interest rates, changes in tax policies and currency devaluations. We and the trading price of our shares and Units may be adversely affected by changes in policy or regulations at the federal, state or municipal levels involving or resulting in factors such as:

- interest rates;
- currency fluctuations;
- inflation;
- Brazilian economic growth;
- liquidity of domestic capital and lending markets;
- tax and regulatory regimes and policies;
- the Brazilian government's interventions, modifications or recessions of existing concessions;
- exchange rates and exchange controls and restrictions on remittances abroad;
- economic, political and social instability;
- environmental policy;
- labor regulations;
- droughts;
- energy and water shortages and rationing;
- other political, social, economic and environmental developments in or affecting Brazil; and
- government incentive programs applicable to the basic sanitation industry.

For example, the Brazilian government may change its tax policy, such as by changing tax rates or imposing temporary taxes. If overall taxes are increased, we may be unable to immediately recover the difference from our consumers, which may have an adverse effect on our financial condition and results of operations.

Uncertainty over whether the Brazilian government will change policies or regulations affecting these or other factors may contribute to economic uncertainty in Brazil and to heightened volatility in Brazilian securities markets

and securities issued abroad by Brazilian issuers. On September 9, 2015, Brazil was downgraded below investment grade by Standard & Poor's Financial Services LLC, and received a further downgrade by the same rating agency on February 17, 2016. In addition, on February 24, 2016 and December 16, 2015, Brazil was downgraded below investment grade by Moody's Investors Service, Inc. and Fitch Ratings Inc. respectively, and was again downgraded by Fitch Ratings Inc. on May 5, 2016, which reaffirmed its negative outlook in November 2016. We cannot assure you that the Brazilian government will continue with its current economic policies, or that these and other developments in Brazil's economy and government policies will not, directly or indirectly, adversely affect our business and results of operations.

The ongoing economic uncertainty and political instability in Brazil may adversely affect us, including the price of our shares and Units.

Brazil's political environment has historically influenced and continues to influence the performance of the country's economy. Political crises have affected the confidence of investors and the general public, which have historically resulted in economic deceleration and heightened volatility in the securities issued by Brazilian companies.

The recent economic instability in Brazil has contributed to a decline in market confidence in the Brazilian economy as well as to a deteriorating political environment. Weak macroeconomic conditions in Brazil are expected to continue into 2018. In addition, various currently ongoing investigations into allegations of money laundering and corruption have negatively impacted the Brazilian economy and political environment.

Furthermore, the Brazilian economy has experienced a sharp downturn in recent years due, in part, to the interventionist economic and monetary policies of the Brazilian government and the global drop in commodities prices. As of the date of this offering memorandum, many of the proposed public expenses in Brazil's budget have been maintained and it is not clear whether other expenses will be reduced or entirely eliminated. If some or all of these public expenses are maintained, Brazil might continue to run a budget deficit for 2017.

Uncertainty over whether the acting Brazilian government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the securities issued abroad by Brazilian companies.

Historically, Brazil's political landscape has influenced and continues to influence the performance of the country's economy. Political crises have affected and continue to affect the confidence of investors and the general public, which has led to the economic slowdown and increased the volatility of securities issued by Brazilian companies.

Brazilian markets have experienced an increase in volatility, due to the uncertainties arising from the Lava Jato investigation, which is being conducted by the Public Prosecutor's Office, and its impact on the Brazilian economy and political scenario. A number of members of the federal executive and legislative branches, as well as directors of large state-owned companies, are facing allegations of political corruption for having allegedly accepted bribes, by way of kickbacks, on contracts awarded by the government to various construction, infrastructure, oil and agribusiness companies. These bribes supposedly financed the political campaigns of the parties in the current and previous federal governments, and were not accounted for or publicly disclosed, in addition to serving to enrich the beneficiaries of the bribery regime. As a result, a number of politicians, including ministers, senators, federal congressmen and directors of Brazil's leading state-owned companies, have resigned or have been arrested, and other elected politicians and civil servants are being investigated for allegations of unethical and illegal conduct identified during the course of Lava Jato investigation. We cannot guarantee that any person directly or indirectly linked to our Company, whether employees, executive officers, directors, suppliers, service providers or subcontractors are not or will not be involved in the Lava Jato investigation or similar investigations that may have an adverse impact on our image and reputation.

The possible outcome of the Lava Jato investigation is uncertain, but it has already had a negative impact on the image and reputation of the companies involved, as well as on the market's general perception regarding the Brazilian economy. We cannot predict whether the allegations will lead to more political and economic instability or whether or not there will be any further allegations against government officials in the future. In addition, we

cannot predict the outcome of any of these claims or their effects on the Brazilian economy, which may have an adverse effect on us.

Developments and the perception of risk in other countries, including other emerging market countries, the United States and the European Union, may adversely affect the market price of Brazilian securities, including our shares and Units.

The market value of securities of Brazilian issuers is affected by economic and market conditions in Brazil and, to varying degrees, market conditions in other Latin American and emerging markets, as well as the United States, the European Union and other countries. Although economic conditions in those countries may differ significantly from economic conditions in Brazil, investor's reactions to developments in other countries may have an adverse effect on the market value of securities of Brazilian issuers. The weakness in the global economy has been marked by, among other adverse factors, lower levels of investor and corporate confidence, decreased business investment and investor spending, increased unemployment, reduced income and asset values in many areas, reduction of China's growth rate, currency volatility and limited availability of credit and access to capital. Development or economic condition in other emerging market countries has at times significantly affected the availability of credit to Brazilian companies and resulted in considerable outflows of funds from Brazil, decreasing the amount of foreign investments in Brazil.

In addition, the financial crisis in the United States and Europe have affected the global economy, producing several effects that, directly or indirectly, impact the Brazilian capital market and economy, such as fluctuations in the price of securities issued by listed companies, reductions in credit supply, deterioration of the global economy, fluctuation in currency exchange rates and inflation, among others, which may, directly or indirectly, adversely affect us. In June 2016, the United Kingdom had a referendum in which the majority voted to leave the European Union. We have no control over and cannot predict the effect of the United Kingdom's exit from the European Union nor over whether any other member state will decide to exit the European Union in the future. This, as well as other crises and forms of political instability, may adversely affect us and the price of our shares and Units.

Government efforts to combat inflation may hinder the growth of the Brazilian economy and could adversely affect us.

In the past, Brazil has experienced extremely high rates of inflation. Inflation and some of the measures taken by the Brazilian government in an attempt to curb inflation have had significant negative effects on the Brazilian economy generally. Inflation, policies adopted to curb inflationary pressures and uncertainties regarding possible future governmental intervention have contributed to economic uncertainty and heightened volatility in the Brazilian capital market.

After the implementation of the *Plano Real* in 1994, the annual rate of inflation in Brazil decreased significantly, as measured by the National Broad Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), or IPCA. Inflation measured by the IPCA index was 6.41%, 10.67% and 6.29% in the years ended December 31, 2014, 2015 and 2016, respectively. The inflation rate for the General Market Prices Index (*Índice Geral de Preços do Mercado*), or IGP-M, was 3.67%, 10.54% and 7.17% in the years ended December 31, 2014, 2015 and 2016, respectively.

Brazil has adopted restrictive monetary policies resulting in one of the highest *real* interest rates in the world. Between January 2004 and December 2010, the Central Bank's Special System for Settlement and Custody (*Sistema Especial de Liquidação e Custódia*) rate, or SELIC rate ranged from 8.65% to 19.77% per year. In 2012, the SELIC rate ranged between 7.11% and 10.90% per year; in 2013 between 7.11% and 9.90% per year; in 2014 between 9.90% and 11.65% per year, in 2015 between 11.65% and 13.65% per year and in 2016 between 14.15% and 13.65% per year. In September 2017, accumulated inflation over the immediately preceding twelve month-period was 8.15%. We cannot assure that inflation will remain at such levels. Inflation and the Brazilian government's initiatives to control inflation, particularly through the Central Bank, have in the past and may have in the future a considerable impact on Brazil's economy and our business. Brazil may experience high levels of inflation in future periods, including as a result of measures that may be implemented by the Brazilian government such as interest rate decreases and interventions in currency markets. If Brazil experiences high inflation rates, the Brazilian government may decide to intervene in the economy, including through the implementation of governmental policies that may have an adverse effect on us and our consumers.

Because most of our operating costs and expenses are denominated in *reais*, if Brazil experiences high inflation in the future and we are unable to adjust the tariffs we charge our consumers accordingly, we may be materially adversely affected. Furthermore, inflationary pressures and policies adopted by the Brazilian government to combat inflationary pressures may have an impact on the cost of our existing indebtedness, increase costs related to new financings, adversely affect our ability to access the international credit and capital markets, and therefore materially adversely affect us.

Tight monetary policies with high interest rates have restricted and may restrict Brazil's growth and the availability of credit. Conversely, more lenient government and Central Bank policies and interest rate decreases have triggered and may trigger increases in inflation and, consequently, growth volatility and the need for sudden and significant interest rate increases, which could negatively affect us. We cannot guarantee we will be able to successfully pass on to our customers any increase in our costs due to inflation.

Exchange rate fluctuations could affect us.

The Brazilian currency has, during the last decades, suffered frequent and substantial devaluations and appreciations in relation to the U.S. dollar and other foreign currencies. The *real*/U.S. dollar exchange rate reported by the Central Bank was R\$3.2591 per U.S. dollar on December 31, 2016, reflecting a 4.3% average appreciation against the U.S. dollar as compared to R\$3.9048 per U.S. dollar on December 31, 2015, which, in turn, reflected a 41.5% average depreciation against the U.S. dollar as compared to R\$2.6556 per U.S. dollar on December 31, 2014. As of September 30, 2017, the *real*/U.S. dollar exchange rate was R\$3.1680 per U.S. dollar, reflecting a 10.3% appreciation against the U.S. dollar as compared to December 31, 2016.

Depreciation of the *real* against major foreign currencies, including the U.S. dollar, could create additional inflationary pressures in Brazil and cause the Central Bank to increase interest rates in effort to steady the economy. In turn, these measures could negatively affect the growth of the Brazilian economy as a whole and may have and adverse affect on our financial condition and our results of operations, curtail access to foreign financial markets and prompt government intervention, including efforts to avoid recession. Depreciation of the *real* can also, as in the context of an economic slowdown, lead to a decrease in consumer spending, deflationary pressures and reduced growth in the Brazilian economy as a whole.

In contrast, appreciation of the *real* relative to the major foreign currencies, including the U.S. dollar, could lead to a deterioration of Brazilian current accounts, as well as foreign exchange current accounts, and also affect export-driven growth. Depending on the circumstances, either depreciation or appreciation of the *real* could materially and adversely affect the growth of the Brazilian economy and us. It may also impact the U.S. dollar value of distributions and dividends and the U.S. dollar equivalent of the market price of our shares and Units.

We cannot guarantee that the *real* will not again depreciate or appreciate against the U.S. dollar in the future. In addition, we cannot guarantee that any depreciation or appreciation of the *real* against the U.S. dollar or other currencies will not have an adverse effect on our business.

Any further downgrading of Brazil's credit rating could adversely affect us, including the trading price of our shares and Units.

Credit ratings affect investors' perceptions of risk and, as a result, the yields required on future debt issuance in the capital markets. Rating agencies regularly evaluate Brazil and its sovereign ratings, which are based on a number of factors including macroeconomic trends, fiscal and budgetary conditions, indebtedness metrics and the perspective of changes in any of these factors.

Rating agencies began the classification review of Brazil's sovereign credit rating in December 2015, and Brazil subsequently lost its investment grade condition by the three main rating agencies. Standard & Poor's Financial Services LLC initially reduced Brazil's credit rating from BBB- to BB+ and subsequently reduced it again from BB+ to BB, and maintained its negative outlook on the rating, citing a worsening credit situation since the first downgrade. In December 2015, Moody's Investors Service, Inc. placed Brazil's Baa3 issuer and bond ratings on review for a downgrade, and subsequently downgraded Brazil's issuer and bond ratings to below investment grade, to Ba2 with a negative outlook, citing the prospect for further deterioration in Brazil's debt metrics in a low growth environment, in addition to challenging political dynamics. Fitch Ratings Inc. downgraded Brazil's sovereign credit

rating to BB+ with a negative outlook, citing the country's rapidly expanding budget deficit and worse-than-expected recession. As a result, Brazil lost its investment grade status from all three major rating agencies and consequently the trading prices of securities of the Brazilian debt and equity markets were negatively affected. A prolongation of the current Brazilian recession could lead to further ratings downgrades.

Any further downgrade of Brazil's sovereign credit ratings could heighten investors' perception of risk and, as a result, increase the future cost of debt issuance and adversely affect the trading price of our shares and Units.

Risks Related to Us and Our Industry

We are controlled by the State of Paraná. The State of Paraná will continue to have a significant influence on our operations and its interests may differ from the interests of our other shareholders and the holders of securities issued by the Company.

The State of Paraná, our controlling shareholder and owner of the majority of our shares, has powers to set forth our operating policies and strategies and elect a majority of the members of our board of directors, which, in turn, appoints our executive officers. As of the date of this offering memorandum, the State of Paraná was the direct holder of 30.0% of our shares, of which 89.8% were common shares.

Additionally, because we are a mixed capital corporation (*sociedade por ações de economia mista*) controlled by the State of Paraná, our reputation is often associated with that of the government of the State of Paraná. We may be party to legal and administrative proceedings that involve the government of the State of Paraná. This may pose a risk to our reputation and image, which could have a material adverse effect on us.

Our concession and program agreements are subject to early termination under certain circumstances, and indemnification for termination may not be sufficient for us to recover the full value of our investments.

The municipalities we serve may terminate our concession or program agreements if we fail to comply with our obligations under the relevant concession or program agreement, or applicable law, or if a municipality determines, through an expropriation proceeding, the termination of the concession by the granting authority on public interest grounds, by specific authorizing law and following prior payment of the indemnity. If a municipality terminates our concession or program agreement, we are entitled to be indemnified for the unamortized portion of our investments.

Under the Brazilian Sanitation Law, in case of early termination of a concession, the provider of sanitation services is required to appraise the assets related to the services provided in order to calculate portions of our investments made in connection with reversible assets, not yet amortized or depreciated. This appraisal is based on criteria set forth in the concession and program agreement or, in the absence of such agreement, based on customary practice with respect to services provided in the last 20 years. In addition, the amount of contractual fines and damages caused by the concessionaire shall be deducted from the indemnification due to the concessionaire, and the payment of any indemnification to us may be lower than the residual value of our investments.

Moreover, early termination of our concession and program agreements would decrease our net operating revenue, in the case of the loss of significant concessions (*e.g.* the municipality of Curitiba, which accounted for 24.5% of our net operating revenue in the nine-month period ended September 30, 2017), would negatively affect our operating revenue. Therefore, the exercise of early termination rights in concession and program agreements could have a material adverse effect on our operating income and business.

As an example, the concession agreement with the municipality of Maringá, pursuant to which we agreed to provide services in 1980, was extended for an equal term (30 years) pursuant to certain amendment agreements. On October 26, 2009, the public prosecutor filed a public civil action requesting an injunction against us claiming, among other things, the invalidity of the term extension under one of the amendment agreements. As of the date of this offering memorandum, such action has become a claim from the municipality of Maringá to early terminate the concession agreement. The termination of the concession agreement could have an adverse effect on our operating revenue as the municipality of Maringá accounted for 5.2% of our gross operating revenue in the nine-month period ended September 30, 2017. For information on the proceedings to which we are parties, see "Business—Legal and Administrative Proceedings."

We and our activities are subject to strict environmental regulations, including those related to the protection of public health. The cost to comply with environmental laws, as well as the responsibility for environmental infractions, may have an adverse effect on us.

We and our activities are subject to strict Brazilian federal, state and municipal laws and regulations related to protecting the environment and public health. Such laws and regulations set forth water potability standards and restrict or forbid disposal of effluents generated by our operations, especially untreated sewage. We could also be subject to accidents, including leaks or ruptures, which could make us liable for damages and third parties affected pursuant to environmental laws and regulations. In recent years, the relevant environmental authorities, as well as Brazilian courts, have been increasingly strict in terms of the application and interpretation of environmental laws and regulations. The cost incurred by us to comply with stricter laws and regulations may be significant and affect us.

If we fail to comply with environmental laws and regulations and our obligation to remedy environmental damages caused by us (civil proceedings), we, our directors or officers could be subject to several criminal and administrative proceedings and be exposed to sanctions, such as fines, suspension of activities and payment of significant damages. The imposition of these sanctions, as well as our obligation to remedy environmental damages caused by us, may have a material adverse effect on us.

Any contingencies in connection with environmental and public health proceedings could result in the payment of significant fines, and/or the imposition of costly and burdensome obligations in amounts that are initially impossible to be estimated, that could affect our ability to continue to provide our services and adversely affect us. We are currently a party to several administrative proceedings in connection with the alleged breach of environmental laws, including environmental administrative proceedings initiated by IBAMA. For more information on environmental proceedings and criminal investigation, see “Business—Legal and Administrative Proceedings—Environmental Proceedings.”

In addition, in accordance with environmental laws and regulations, we are required to obtain environmental licenses. The refusal to grant, or the delay in granting, the environmental licenses by the relevant environmental authorities may result in delays in our projects and works, legal proceedings, fines, suspension of activities and funding rejections. The occurrence of any of these events may have a material adverse effect on us.

We operate facilities that pre-date current environmental legislation, which is stricter than past requirements. These facilities must be adjusted to meet the requirements of the current environmental legislation and obtain the relevant environmental licenses. Adjusting our facilities to these requirements and obtaining the relevant environmental licenses could create a financial burden for us. The failure to obtain these environmental licenses could result the imposition of administrative and criminal sanctions.

Any noncompliance with the Terms for the Adjustment of Conduct – TAC signed by the Company could adversely affect the Company.

The Terms for the Adjustment of Conduct – TAC, or the TCA, which we have entered into, with competent authorities, requires us to take certain actions to bring in line our business conduct with certain legal standards, that minimize the risk of public civil actions, class actions, criminal proceedings and/or administrative proceedings from being filed against us. If, for any reason, we are not able to comply with the obligations set forth in the TAC, and if we are unable to extend the relevant time limits within which we must comply, we may be subject to judicial enforcement prosecutions and the imposition of fines and/or the enforcement of affirmative covenants set forth in the TAC, resulting in the increase of unexpected costs and, consequently, an adverse material effect on our future financial performance.

We are exposed to several risks associated with water supply and sewage services, the occurrence of which may have an adverse effect in our business, operations and financial results.

Our sector is specifically affected by certain risks associated with water supply and sewage services:

- we could become subject to substantial charges imposed by local, state and federal government agencies that manage water resources related to the abstraction of water from and discharging of sewage into bodies of water;
- the degradation and pollution of watershed areas may affect the quantity and quality of water available to meet our customers' demand;
- we are exposed to several risks related to the weather since our operational and financial performance can be affected by climate change. An increase in unforeseen extreme climate conditions may adversely affect the quality and volume of water available for collection, treatment and supply. Droughts could adversely affect our water supply systems, resulting in a decrease in the volume of water distributed and billed. An increase in heavy rainfall may affect the quality of water and the regular operation of water resources, including the collection of water from reservoirs, as a result of increased ground erosion, siltation, pollution and eutrophication of water ecosystems; and
- we depend on electricity to conduct our operations, and any shortages, rationing or material interruption of electricity supply, may prevent us from providing water supply and sewage services, in addition to potentially causing material damage to our water and sewage systems when we resume operations.

Any of the foregoing factors may have a material adverse effect on us.

Any failure to renew and obtain new loans could adversely affect the Company's capacity to execute your investment plan.

We operate in a capital-intensive industry and, therefore, have a substantial need for liquidity and capital. In the years ended December 31, 2016, 2015 and 2014, and the nine-month periods ended September 30, 2017, we invested in property, plant and equipment and intangible assets R\$701.3 million, R\$795.1 million, R\$954.0 million, and R\$508.7 million, respectively.

These investments have been funded with cash generated from our operations, financings granted by government agencies, financial institutions and multilateral agencies and the issuance of debentures in the local capital markets. We intend to continue to obtain funding from these sources. A significant portion of our capital requirements has been provided by Brazilian public banks. If the Brazilian government changes its policy in connection with the funding for the water and sewage industry or if we are unable to obtain long-term financings at favorable interest rates from multilateral agencies and development banks, we may be unable to implement our investment programs. Under Brazilian law, financial institutions may only use a certain percentage of their assets to grant loans to companies of the public sector. Some of these limitations and restrictions may adversely affect us.

Our debt instruments contain financial covenants that may prevent us from entering into new debt instruments to fund our operations or to refinance our existing indebtedness, which may adversely affect us. If we fail to comply with these financial covenants, our debt instruments may be terminated early resulting in the acceleration of the maturity thereof, which may adversely affect us, especially due to cross-default and cross acceleration provisions contained in other debt instruments, such as: (i) *Instrumento Particular de Escritura da 3ª (Terceira) Emissão de Debêntures Simples, Não Conversíveis em Ações, da Espécie Quirografária, em Até Duas Séries, para Distribuição Pública com Esforços Restritos de Colocação, da Companhia de Saneamento do Paraná – SANEPAR*; (ii) *Instrumento Particular de Escritura da 5ª (Quinta) Emissão de Debêntures Simples, Não Conversíveis em Ações, da Espécie Quirografária, em Até Duas Séries, Para Distribuição Pública com Esforços Restritos de Colocação, da Companhia de Saneamento do Paraná – SANEPAR*; and (iii) *Instrumento Particular de Escritura da 6ª (Sexta) Emissão de Debêntures Simples, Não Conversíveis em Ações, da Espécie Quirografária, em Duas Séries, para Distribuição Pública com Esforços Restritos, da Companhia de Saneamento do Paraná - SANEPAR*.

For more information on our existing debt instruments, see Note 11 to our Unaudited Financial Statements.

A substantial portion of our assets is tied to the rendering of public services and would not be available for liquidation in the event of our bankruptcy and cannot be used as collateral for the enforcement of any court decision or as security for financings.

A substantial portion of our assets, including the water supply and sewage systems we own and operate, is tied to the provision of public services under the Brazilian constitution. These assets are not available for liquidation in the event of our bankruptcy and cannot be used as collateral for the enforcement of any court decision, because the assets are tied to the provision of an essential public service. As a result, the market value of the assets available to our shareholders in the event of liquidation could be materially lower than the market value of the assets reverting to the concession-granting authority. In addition, these limitations could materially and adversely affect our ability to obtain financing because we cannot use such assets as collateral.

We are exposed to floating interest rates, the fluctuation of which could adversely affect us.

Due to the nature of our operations, we are exposed to floating interest rates and we are particularly sensitive to the effects of interest rate variations, especially long-term rates, including the Reference Rate, or TR, and the Long-Term Interest Rate (*Taxa de Juros a Longo Prazo*), or TJLP, which are the indexes for the majority of our debt. For additional information on the TR and the TJLP, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Our Results of Operations and Financial Condition—Interest Rates.” An increase in interest rates and, consequently, in our debt servicing costs, could adversely affect our ability to finance our operations and our results because we might not be able to increase the prices we charge our customers to offset increased debt servicing costs.

The failure to manage fluctuations in interest rates in the market from which we are not protected could adversely affect our business, financial condition and results of operations. For a quantitative and qualitative discussion about our interest rate risk, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Risk.”

Our net operating revenue is concentrated in ten main municipalities in the State of Paraná and if any of these municipalities fails to renew its concession, we could be adversely affected.

In the year ended December 31, 2016, 55.0% of our net operating revenue, respectively, was concentrated in ten of the largest municipalities in the State of Paraná, which are Curitiba, Londrina, Maringá, Ponta Grossa, Foz do Iguaçu, Cascavel, São José dos Pinhais, Colombo, Guarapuava and Araucária. We provide our services under long-term concession and program agreements that are individually negotiated with each municipality and generally have a 30-year term. As of September 30, 2017, our ten largest concession and program agreements had an average remaining term of approximately 20 years, including our agreement with the municipality of Curitiba, which expires in 2031. Our ten largest concession and program agreements accounted for 54.9% and 55.0% of our net operating revenue in the nine-month period ended September 30, 2017 and the year ended December 31, 2016, respectively. Our concession agreement with the municipality of Curitiba individually accounted for 24.5% and 26.5% of our net operating revenue in the nine-month period ended September 30, 2017 and the year ended December 31, 2016, respectively. Historically, our renewal rate for our concession and program agreements has been 99.9%, showing the operating quality of our services and the trust we have earned in the municipalities and populations we serve. If a significant number of municipalities or any municipality representing a significant percentage of our net operating revenue (i) chooses to provide water and sewage services directly, (ii) decides to conduct public bidding processes to select another water and sewage service provider and we fail to qualify to participate in or do not win such bids, or (iii) insists on less favorable terms and conditions in our concession and program agreements, our net operating revenue could be materially adversely affected.

If our investments in the reduction of water loss rates are not sufficient, we could be adversely affected.

A core component of our strategy is to reduce levels of water loss, which depends primarily on (i) investing in the acquisition and installation of water meters, (ii) resizing and standardizing connections, (iii) operational improvement programs and (iv) maintenance and renovation of our distribution network. Reducing levels of water losses also depends on reregistering customers and combating irregularities, such as illegal water connections. If we

are unable to make sufficient investments to reduce our levels of water losses, we could be materially adversely affected.

We do not have insurance against all inherent risks to our business and the occurrence of any event for which we are uninsured could have an adverse effect on us.

We do not have insurance coverage for certain risks related or inherent to the rendering of water supply and sewage services, including (i) service interruptions, (ii) noncompliance with environmental laws and regulations, (iii) liability for environmental damage, such as contamination of soil and/or watersheds and (iv) damage to units utilized in the ten largest municipalities we service, including damage to our main watersheds and/or any other asset relevant to the maintenance of our activities. The occurrence of any of these events, particularly for a continuous period of time, or other unforeseen risks relating to our insurance coverage may adversely affect our business, financial condition or results of operations.

We may face difficulties in collecting overdue amounts owed to us, including by public sector entities to which we supply water and local and state government entities, which could have an adverse effect on us.

As of September 30, 2017, we had accounts receivable for water supply and sewage services of R\$627.4 million, net of provision for losses in the amount of R\$164.3 million, of which (i) R\$451.4 million was not yet due, (ii) R\$114.3 million was overdue for 30 days or less, (iii) R\$28.1 million was overdue between 31 and 60 days, (iv) R\$10.9 million was overdue between 61 and 90 days, (v) R\$18.4 million was overdue between 91 and 180 days, and (vi) R\$168.6 million was overdue for over 180 days.

As of September 30, 2017, the total overdue accounts receivable, net of provision for losses, owed to us by the public sector amounted R\$10.4 million. Of our total overdue accounts receivable, net of provision for losses, as of September 30, 2017, 5.9% was owed to us by public sector entities. Courts can order us to continue supplying water or sewage treatment to basic public sector entities, such as hospitals, nursing homes, schools and prisons, even if we do not receive the payment owed to us. We cannot ensure that negotiations with or lawsuits filed against these public sector entities will result in payments being made. Due to these restrictions, we did not cut off water supply for public entities in the years ended December 31, 2014, 2015 and 2016 and in the nine-month period ended September 30, 2017.

We have been historically affected by the default of public sector entities at the federal, state and municipal levels. We may confront political obstacles in collecting such overdue receivables due to the potentially conflicting interests of our controlling shareholder, the State of Paraná, that may hinder our collection and enforcement efforts. We cannot ensure that the State of Paraná and other public sector entities will timely pay us in the future.

We cannot ensure that overdue amounts owed to us by our customers will not increase significantly in the future. If we are not able to satisfactorily collect our accounts receivable or if the number of customers not making timely payments increases, we could be materially and adversely affected.

Natural disasters and unforeseen events can disrupt our operations.

Unforeseen events that are beyond our control, including natural disasters such as floods, fires and severe drought conditions, affect the services we provide and, among other things, may harm our operations and those of our suppliers and service providers, as well as having a negative impact on consumption, or may cause political or economic instability. These events may delay or affect our ability to provide our services, which may have a material adverse effect on our business and operating results.

We may be held responsible for risks related to the activities and services we outsource.

We enter into contracts with outsourcing companies, which provide us with a quantity of labor. If one or more outsourcing companies fail to comply with their labor obligations, the Company may be held jointly or severally liable for the labor debts of these companies, resulting in fines imposed by the Labor Courts, or the payment of labor suit debts filed by the Labor Courts. In addition, we may be subject to administrative proceedings filed by the Public Labor Courts that could result in the relevant Terms for the Adjustment of Conduct – TAC or Public Civil Suits, imposing affirmative or negative covenants, or the payment of collective compensation for moral damages. We

cannot assure that eventual fines, suits or judicial prosecutions will not affect the Company in the future, and the occurrence of these events will have an adverse effect on the activities of the Company.

Failure or delays in obtaining and/or renewing necessary licenses, authorizations, permits and registrations may have a negative impact on the Company's operations.

The proper functioning of our Company (and of third parties that provide products to the Company) and its units depends on obtaining and maintaining, among other items, various licenses, authorizations, grants, permits and registrations from different federal, state and municipal authorities in Brazil.

We cannot guarantee that it will be able to maintain or timely renew its licenses, authorizations, permits and registrations issued by the competent public authorities, such as municipalities and fire departments, or that the appropriate authorities will not refuse to issue them or renew them or will not delay issuing, adjusting or renewing them. Similarly, we cannot guarantee that (i) the processes for obtaining, adjusting or renewing these licenses, authorizations, permits and registrations will not become more difficult, or (ii) that additional licenses, authorizations, regulations, grants, permits and registrations will not be imposed by the appropriate authorities.

Any of these factors that impact on the non-acquisition or nonrenewal of such licenses and permits may cause us to incur additional costs, which may force us to divert resources to meet any additional charges, or jeopardize the regular functioning of its activities. Furthermore, operating without the proper licenses or not in accordance with the licenses and their technical requirements may lead to fines or other sanctions that may adversely affect the Company.

Changes in Brazilian tax policies may have an adverse effect on us.

The Brazilian government and/or the State of Paraná may implement changes in tax policies that may affect us. These may include changes in tax rates and, occasionally, payment of contributions for governmental purposes. If implemented, some of these measures may increase our effective tax rates and social contributions, which we may not be able to fully pass on to our customers. As a result, our results of operations could be materially and adversely affected.

The Brazilian Sanitation Law has been in existence for 10 years in Brazil and there are still uncertainties of interpretation, which could be subject to future alterations that can affect our financial condition and results of operations.

The Brazilian Sanitation Law sets forth certain basic concepts about the Brazilian basic sanitation sector. Although the law was passed in 2007, uncertainties continue to exist as to whether the Brazilian Sanitation Law will be regulated at the state and/or municipal level, or how courts will interpret certain aspects of the law, particularly in connection with the requirement of having a regulatory authority in the Brazilian sanitation sector, restrictions or impositions on investments and rules with respect to tariffs.

Pursuant to Brazilian Sanitation Law, Law No. 12,726 / 99 and Complementary Law No. 202/2016 of the State of Paraná, the Regulatory Agency for Public Services of the Infrastructure of Paraná-AGEPAR has the power to regulate and inspect sanitation services (*i.e.*, potable water supply, sanitary sewage, urban cleaning, solid waste management and drainage, and urban water management).

It is uncertain how AGEPAR will interpret the Brazilian Sanitation Law and whether it will implement additional requirements for us to comply with. Such interpretation and additional requirements, if any, could increase our operational costs and affect our financial condition and operational results.

Furthermore, we cannot assure you what policies will be implemented by the Federal or State Government in the future, or to what extent those measures could affect our results of operation. If we are obligated to act in a substantially different manner than the one established in our business plan, our financial condition and results of operation could be adversely affected. Furthermore, if any of those reviews or readjustments are not granted by AGEPAR in a timely manner our financial condition and operational results could be adversely affected. See “Regulation of the Sanitation Sector in Brazil—Legislation in Paraná.” Regulatory uncertainty or changes to current regulations may have a material adverse effect on us.

The tariffs we set are established in the relevant concession contract, and by the regulations and decisions of AGEPAR, acting in its discretion. Accordingly, we cannot assure you that AGEPAR will establish appropriate tariffs that will allow the Company to pass costs on to its consumers, or that all investments and assets of the Company will be remunerated. In addition, to the extent any of those adjustments are not granted by AGEPAR in a timely manner, our business, financial condition and results of operations may be adversely affected.

We may face difficulties in continuing to provide water and sewage services in return for payment in certain municipalities due to the lack of formal concession or program agreements with such municipalities, which may have an adverse effect on us.

Our concession and program agreements may be renewed at the discretion of the respective contracting municipality or district. In some instances, however, term extension is not provided for under our agreements, including our concession agreement with the municipality of Curitiba. This agreement is the result of legal authorization in Brazilian municipal law, setting forth a 30-year concession term (expiring in 2031), without mentioning the potential for term extension.

On September 30, 2017, the Company rendered services to 346 municipalities, of which 345 were in the State of Paraná and one in the State of Santa Catarina. Of these, the Company has formal contracts with 328, which have a term of between 20 and 30 years (including the municipality of Curitiba), and in the other 18 municipalities that it serves, the Company is in the process of renewing or formalizing the respective concession and program agreements. Collectively, these municipalities accounted for 4.0% of the Company's net operating revenue in the nine-month period ended September 30, 2017. It is possible that the Company may not continue to provide services under the current conditions or may not provide service municipalities with which there are no formal contracts. In particular, the absence of formal contracts with these municipalities means that the Company may not be able to enforce the right to continue providing services and receive the amount due for the service rendered. In fact, municipalities with which the Company does not have formal contracts, concession or program contracts, may choose to start providing water supply and sewage services by themselves, or may carry out bids to select another supplier. Such municipalities may establish eligibility requirements for which the Company may not qualify and, if it qualifies and participates in these bids, it may not be the winner.

In addition, we cannot assure you that municipalities will continue to demand services, enter into new program contracts or renew expired contracts. If we are unable to renegotiate with municipalities whose concession agreements have expired or will expire, we may be adversely affected. Furthermore, it is not possible to ensure that new contracts will be concluded under the same terms under which the Company currently provides services. In addition, such contracts may not be renewed for other reasons, which may have an adverse effect on the Company's results and financial condition.

Any of the above events may have a material adverse effect on the Company's activities, results of operations and financial condition.

For more information on sector regulation, see "Regulation of the Sanitation Sector in Brazil."

New joint government agencies may be created among states and municipalities to regulate basic sanitation services in metropolitan regions, the implementation of which could have an adverse effect on us.

There are some pending cases before the Brazilian Supreme Court regarding whether the right to execute concession and program agreements in metropolitan regions belongs to the State or the municipal government. On February 28, 2013, the Brazilian Supreme Court decided a pending case on this matter related to the State of Rio de Janeiro. A majority of the court held that the State of Rio de Janeiro and municipal governments must set up new joint entities to oversee the planning, regulation and auditing of basic sanitation services in metropolitan regions. On March 6, 2013, the court ruled that this decision would come into effect after a 24-month period over the State of Rio de Janeiro.

Such decision may be considered a relevant precedent on this matter and therefore similar decisions may be taken on other pending cases as well as on new cases that can be initiated. In the nine-month period ended September 30, 2017, the municipality of Curitiba accounted for 24.5% of our net operating revenue and could potentially fall under a similar regime. We are unable to foresee how the shared management of these operations

may take place in the municipality of Curitiba and other municipalities in which we operate or what impact it may have on us.

New laws and regulations on climate change, changes in current regulations and the physical effects of climate change may result in new obligations and increase the level of costs and required investments, adversely affecting us.

Current Brazilian federal, state and local laws and regulations set forth targets for the compliance with global climate change measures and international treaties. Such rules may require us to increase our investments and service standards to comply in this area. Accordingly, we may be required to decrease the level of our strategic investments in the industries in which we operate.

Moreover, climate changes may increase the occurrence of extreme climatic events, such as drought or heavy rainfall, affecting our ability to offer our sanitation services and requiring us to take measures, such as to:

- invest in the search of new water sources located in areas distant from the main centers served by us;
- invest in new technologies;
- adopt water conservation practices and implement alternative demand management systems, such as economic mechanisms or educational programs; and
- increase the capacity of our water reserves (storage capacity).

We may be required to adopt new best practices to improve our energy efficiency and decrease our greenhouse gas emissions when we renew our operating system licenses or try to obtain new licenses for new projects.

Climate changes may decrease water levels in reservoirs of hydroelectric plants in Brazil, leading to energy shortages and increasing electricity prices. As a result, we could be negatively affected.

We are unable to foresee all the effects of climate changes and have made no provisions in this regard. If we are required to make new investments to either comply with new environmental rules in connection with climate changes or prevent or correct effects of climate changes, we could be adversely affected. Any climate change could have a material adverse effect on us.

Any unfavorable decision in legal, arbitral and/or administrative proceedings could adversely affect us.

We are party to various legal and administrative proceedings involving significant monetary claims and potential reputational harm. These proceedings include, without limitation, administrative, civil, environmental, tax, labor, class action and expropriation proceedings, as well as criminal, civil and administrative investigations. As of September 30, 2017, the amount of provisions for labor, civil, environmental and tax proceedings brought against us totaled R\$557.3 million, which was comprised of: (i) R\$222.2 million of labor proceedings, (ii) R\$224.4 million of civil proceedings, (iii) R\$98.6 million of environmental proceedings and (iv) R\$12.2 million in tax proceedings.

We may be the defendants in new legal, arbitral and administrative proceedings brought against us (before regulatory, environmental and tax authorities, among others). Our involvement or the involvement of our management (including members of our board of directors) in investigations and legal, arbitral and administrative proceedings, including in relation to environmental infractions and criminal conduct, may have a negative impact on our reputation, irrespective of the outcome of such investigations or proceedings, and may result in the imposition of fines and the criminal prosecution of our management. Unfavorable decisions in one or more legal, arbitral and administrative proceedings may have a material adverse effect on us. Unfavorable decisions may also lead to the payment of significant contingencies and our provisions may not be sufficient to meet these contingencies that come due. For information on the proceedings to which we are parties, see “Business—Legal and Administrative Proceedings.”

Ongoing decisions in legal proceedings against members of our management team could adversely affect us.

Mr. Ezequias Moreira Rodrigues, a member of our Board of Directors, is a defendant in a criminal lawsuit that is underway with the Court of Justice of the State of Paraná, in relation to alleged illicit enrichment that took place during the period between 1996 and 2007. Mr. Ezequias Moreira Rodrigues is alleged to have fictitiously hired and appointed a public servant to the Legislative Assembly of Paraná when he held the position of parliamentary chief of staff, which resulted in a public civil action of impropriety for alleged illicit enrichment in the sum of R\$539,414.59. However, during the aforementioned process, these amounts as updated were restructured, resulting in the imposition of a civil fine limited to 20% of the original amount at issue in the proceeding.

On June 6, 2017, Mr. Ezequias Moreira Rodrigues was sentenced to prison for a term of six years and eight months, initially in a semi-open regime, as well as to the payment of a fine. Additionally, his position in the Company's administrative body was terminated. Mr. Ezequias Moreira Rodrigues appealed the decision and the case is still pending. If the sentence is not overturned on appeal, Mr. Ezequias Moreira Rodrigues will serve the prison sentence and will be obligated to step down from his position on our Board of Directors. Furthermore, other members of our administrative body are defendants in both criminal prosecution and public civil suits of misconduct.

A non-appealable conviction in a criminal case of members of our management, or if the judgment is given by a collective judicial body, as the case may be, may prevent the member of management from continuing to exercise a role in our management, making those members ineligible for the Company's management positions and, depending on the way these proceedings unfold, our reputation with our clients, suppliers, investors and the general public may be affected, which may have an adverse impact on the market value of our units and shares. In addition, our management may have to set aside a substantial part of their time and attention to accompanying and monitoring these processes and the impact these cases may have on our activities, which could significantly reduce the amount of time and attention allocated to running our business. See "Business— Legal proceedings against members of our management team."

Degradation and pollution of water sources could have an adverse effect on us.

We are subject to risks relating to the degradation and pollution of water sources caused by third parties, including the release of chemicals or the use of agricultural products by farmers. These factors may alter the quality of untreated water, resulting in the need to use additional water-treating materials and, consequently, in higher production costs. Our operating revenue may be adversely affected if these additional production costs are not taken into consideration by the State of Paraná's administration when calculating our tariffs. The misuse of land in farming and mining activities may result in the displacement of soil in our water sources, reducing the water capacity in our water treatment plants.

We operate facilities that could represent risks to the environment, our customer's health, inhabitants of the areas where we operate our facilities and our employees and our liability for such events could have an adverse effect on us.

Risks to the environment, our customer's health, the inhabitants of the areas where we operate our facilities and our employees are subject to strict national and international regulations which are constantly monitored by the relevant authorities. If these regulations change or if we are unable to comply with them, we might be adversely affected.

The release of liquid disposals by our sewage treatment facilities may not comply with the parameters set forth in the corresponding environmental licenses and grants. Issues relating to soil pollution could arise in the event of spills, leaks or ruptures. In addition, water treatment and supply operations may be subject to accidents over which we have no control, including accidents caused by third parties. Such accidents may result in injuries, deaths, significant property or environmental damages, business interruptions and losses of operating revenue.

Our security policies for our operations may be insufficient to prevent all accidents that could have an adverse effect on us. Our liability for environmental risks may have a material adverse effect on our reputation and image, business, financial condition, results of operations and prospects, as well as liability for the remediation of environmental damages.

We may be significantly affected by violations of the Brazilian Anti-Corruption Act and similar anti-corruption laws.

We are subject to the risk that our management, employees or representatives may take actions that violate applicable laws and regulations prohibiting the making of improper payments to foreign government officials for the purpose of obtaining or keeping business.

The Brazilian Anti-Corruption Act (Law No. 12,846/2013), dated August 1, 2013, introduced the concept of strict liability of companies involved in harmful acts against the public administration, subjecting the violator to both civil and administrative law penalties. Similar to the U.S. Foreign Corrupt Practice Act, the Brazilian Anti-Corruption Act provides for administrative penalties to be applied as a consequence of a harmful act against the public administration. Failure to comply with anti-corruption laws or any investigation of misconduct or actions against us may result in the imposition of fines, loss of operating permits and damage to our reputation, among other penalties, which may materially and adversely affect us.

The internal compliance procedures and mechanisms of the Company may not be able to detect any eventual violations to the Anti-Corruption Act and related legislation. Therefore, the Company cannot assure that it will be able to prevent or detect all inappropriate practices, frauds or violations to the Anti-Corruption Act or similar anti-corruption laws, by any administrator, employee or Company representatives.

Risks Relating to the Offering and Our Units

The volatility and illiquidity of the Brazilian securities market may substantially limit the ability of investors to sell our shares at their preferred time and place.

We cannot guarantee that an active and liquid market for our Units will develop, and we cannot guarantee that, if it develops, it will be sufficiently liquid. Active, liquid trading markets generally result in lower price volatility and more efficient purchase and sales of shares. The investment in securities trading in emerging markets such as Brazil frequently involves higher risk compared to other global markets, as such investments are generally considered more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more volatile, and more concentrated than major international securities markets, such as in the United States. As an example, the B3 recorded capitalization of approximately R\$2.47 trillion on December 31, 2016, and average daily volume for the year of R\$1.84 trillion. These market characteristics may substantially limit the capacity of holders of our Units to sell them at their preferred time and price, which may have an adverse effect on the market price of our Units.

The price per Unit in this offering may not be indicative of the prices that will prevail in the trading market after this offering as the price is frequently subject to volatility for a period of time following the offering.

The sale of a significant quantity of our shares or Units after the completion of this offering may lead to a decrease in their market price.

We, our directors, officers and the Selling Shareholders have entered into lock-up agreements, through which we and they have agreed with the Brazilian Underwriters and Placement Agents, from the date of the Placement Facilitation Agreement and during the period of 90 days after the publication in Brazil of the notice of commencement of this offering, not to, without prior consent of the Brazilian Underwriters and Placement Agents: (i) issue, offer, sell, contract to sell, pledge, loan, grant any option to purchase, make any short sale or otherwise directly or indirectly dispose of or grant any rights, or file or cause to be filed a registration statement pursuant to the Securities Act, Brazilian laws, or any other securities regulatory authority, in all cases with respect to our Units or any additional units of our capital stock (collectively referred to as the capital stock of SANEPAR), options or warrants to purchase any capital stock of SANEPAR or any securities convertible into or exchangeable for, or that represent the right to receive, capital stock of SANEPAR, whether owned directly or indirectly, or enter into a transaction which would have the same effect; (ii) enter into any swap, hedge or any other agreement that, in whole or in part, transfers to the other party, any economic consequences of ownership of our Units or any security that may be convertible into, or exercisable or exchangeable for our Units, or warrants or other rights to purchase our shares, whether any such transaction is to be settled by the delivery of our Units or such other securities, in cash or

otherwise; or (iii) publicly announce the intent of performing any of the transactions in (i) and (ii) above; except for certain limited exceptions as described under “Plan of Distribution.”

Following the end of the lock-up period, all shares or Units issued by the Company subject to such period will be available for sale in the market. The occurrence of issues, sales or perception of a possible issue or sale of a substantial number of shares or of the representative units of shares issued by the Company may adversely affect the market value of the shares or units representing shares issued by the Company.

We may raise additional funds in the future through the issuance of additional shares, which may affect the price of our shares and Units and result in a dilution to holders of our shares or Units.

We may raise additional funds in the future, and we may choose to do so through a public or private issuance of shares or other securities convertible, exchangeable or that may otherwise grant a right to subscribe or receive shares or other securities issued by us. Existing holders of our shares may not be granted a right of preference with respect to such an issuance. This may result in a change in the price of our shares and the dilution to our shareholders. Moreover, we cannot guarantee the availability of additional shares or other securities, or that any additional shares or other securities will be offered on terms satisfactory to holders of our shares. Lack of access to additional capital on satisfactory terms may restrict our growth, which could adversely affect our business, financial condition, results of operations and, consequently, the price of our shares.

The protections afforded to minority shareholders in Brazil are different from those in the United States and may be more difficult to enforce.

Under Brazilian law, the protections afforded to minority shareholders are different from those in the United States. In particular, the legal framework and court decisions pertaining to disputes between shareholders and us, our directors, our officers or our controlling shareholders is less developed in Brazil than it is in the United States and there are different procedural requirements for bringing shareholder lawsuits, such as shareholder derivative suits, which differ from those you may be familiar with under U.S. or other laws. There is also a substantially less active plaintiffs’ bar for the enforcement of shareholders’ rights in Brazil than there is in the United States. As a result, in practice it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholders than it would for shareholders of a U.S. company.

Investors may experience difficulty in effecting service of process or enforcing judgments on our directors and officers within the United States in connection with this offering.

Our directors and executive officers reside outside the United States, and all of such persons’ assets may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon these persons or to enforce judgments against any of them in U.S. courts, including any judgments predicated on the civil liability provisions of the federal securities laws of the United States.

Holders of our shares may not receive any dividends or interest on shareholders’ equity or receive lower than the minimum mandatory dividends.

Pursuant to our by-laws, we are required to distribute to our shareholders at least 25.0% of our annual net income, adjusted in accordance with and subject to the Brazilian Corporate Law, as dividends. Our by-laws also establish that our shareholders or Units holders are entitled to receive payments, as interest on shareholders’ equity or dividends, that are at least 10.0% greater than the distributions paid to our common shareholders. If we decide that future investments will be financed by incurring debt, we and our shareholders may agree to make additional distributions, as dividends or interest on shareholders’ equity. We, however, may not be able to distribute dividends or interest on shareholders’ equity, or we may distribute them in an amount that is lower than as described above if:

- our net income is capitalized, used to offset losses or retained pursuant to the Brazilian Corporate Law;
- our board of directors notifies our shareholders at our annual shareholders’ meeting that the distribution is incompatible with our financial condition, and suspends the mandatory distribution of dividends in any given year; and/or

- current or future restrictions in our financing contracts related to the distribution of dividends.

Accordingly, holders of shares or Units may not receive dividends or interest on shareholders' equity under these circumstances or receive lower than the minimum mandatory dividends.

A U.S. holder of our shares or Units may be unable to exercise preemptive rights and tag-along rights relating to our shares and Units.

U.S. holders of our shares or Units may not be able to exercise the preemptive rights and tag-along rights relating to them unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to our shares or Units relating to these rights, and we cannot assure you that we will file any such registration statement. Unless we file a registration statement or an exemption from registration is available, a holder may receive only the net proceeds from the sale of his or her preemptive rights and tag-along rights or, if these rights cannot be sold, they will lapse and the holder will receive no value for them.

Transfer of our shares and Units by U.S. holders will be restricted.

We have not registered and do not intend to register the offer and sale or resale of our shares and Units under the Securities Act. The holders of our shares or Units may not offer or sell them, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and other applicable securities laws. Prospective investors should read the disclosures in the section entitled "Transfer Restrictions" for further information about these and other transfer restrictions. It is the holder's obligation to ensure that offers and sales of our shares or Units comply with applicable securities laws.

Our shares and Units will not be freely transferable in the United States.

Any share or Unit offered and sold to investors located in the United States will be "restricted securities" (as defined in Rule 144 under the Securities Act), and such shares or Units may not be reoffered, resold, pledged or otherwise transferred, except: (i) outside the United States in accordance with Rule 903 or Rule 904 under Regulation S; (ii) to "qualified institutional buyers" in a transaction that is exempt from registration under the Securities Act and that meets the requirements of Rule 144A; (iii) pursuant to an effective registration statement under the Securities Act; (iv) in accordance with Rule 144 under the Securities Act; or (v) in another transaction not requiring registration under the Securities Act; and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

EXCHANGE RATES

Brazil’s foreign exchange system allows for the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of amount, subject to certain regulatory procedures.

Since 1999, the Central Bank has allowed the U.S. dollar-*real* exchange rate to float freely, and, since then, the U.S. dollar-*real* exchange rate has fluctuated considerably.

In the past, the Central Bank has intervened occasionally to control high volatility in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian Government will continue to permit the *real* to float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The *real* may substantially depreciate or appreciate against the U.S. dollar.

Furthermore, Brazilian law provides that, whenever there is a serious imbalance in Brazil’s balance of payments or there are compelling reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that such measures will not be taken by the Brazilian Government in the future. Exchange rate fluctuations will affect the U.S. dollar equivalent of the price of our shares in *reais* on the B3 as well as the U.S. dollar equivalent of any distributions we make with respect to our shares, which will be made exclusively in *reais*. Exchange rate fluctuations may also adversely affect our financial condition. See “Risk Factors—Risks Related to Brazil— Exchange rate fluctuations could affect us.”

Solely for the convenience of the reader, we have converted certain amounts included in this offering memorandum from *reais* into U.S. dollars using the exchange rate as reported by the Central Bank of R\$3.168 per U.S.\$1.00 as of September 30, 2017. The U.S. dollar equivalent information presented in this offering memorandum is provided solely for the convenience of investors and should not be construed as implying that the amounts in *reais* represent, or could have been or could be converted into, U.S. dollars at such rates or any other rate.

The following tables provide information on the selling exchange rate, expressed in *reais* per U.S. dollar (R\$/U.S.\$), for the periods indicated as reported by the Central Bank:

Year	Reais per U.S. Dollar			
	High	Low	Average ⁽¹⁾	Period End
2012	2.11	1.70	1.95	2.04
2013	2.45	1.95	2.16	2.34
2014	2.74	2.20	2.35	2.66
2015	4.19	2.58	3.34	3.90
2016	4.16	3.12	3.48	3.26

Source: Central Bank

(1) Represents the average of the exchange rates on the closing of each day during the relevant year.

Month	Reais per U.S. Dollar			
	High	Low	Average ⁽¹⁾	Period End
May 2017	3.38	3.09	3.21	3.24
June 2017	3.34	3.23	3.29	3.30
July 2017	3.32	3.13	3.21	3.13
August 2017	3.20	3.12	3.15	3.15
September 2017	3.19	3.08	3.13	3.17
October 2017	3.28	2.20	3.14	3.28
November 2017	3.32	3.21	3.26	3.27
December (through December 11, 2017).....	3.30	3.24	3.27	3.30

Source: Central Bank

(1) Represents the average of the exchange rates on the closing of each day during the relevant year.

As of December 11, 2017, the U.S. dollar selling rate published by the Central Bank was R\$3.30 per U.S.\$1.00.

MARKET INFORMATION

General

We are a mixed capital corporation (*sociedade por ações de economia mista*) incorporated under the laws of Brazil. We obtained our registration to be a public company with the CVM on March 10, 2000.

Our common and preferred shares and Units are currently listed on the exchange traded market (*Mercado de Bolsa*) of the B3 S.A. under the symbols “SAPR3,” “SAPR4” and “SAPR11” respectively.

The debentures issued in the third issuance of debentures were admitted and traded on the CETIP S.A. – Mercados Organizados system, or CETIP, under the symbols “SAPR13” and “SAPR23.”

The debentures issued in the second and in the fourth issuances of debentures were not admitted and traded on the CETIP.

The debentures issued in the fifth issuance of debentures were admitted and traded on the CETIP, under symbols “SAPR15” and “SAPR25”.

The debentures issued in the sixth issuance of debentures were admitted and traded on the CETIP, under symbols “SAPR16” and “SAPR26”.

Price of Our Shares

The tables below set forth the highest and lowest trading price of our preferred and common shares on the B3 in the nine-month period ended September 30, 2017, and the years ended December 31, 2016, 2015 and 2014:

Nine-month period ended September 30, 2017

Common Shares

Quarter ended	Type of Shares	Volume Traded (in R\$)	Highest Quote (in R\$ per share)	Lowest Quote (in R\$ per share)
March 31, 2017	Common	3,170,556	13.39	8.88
June 30, 2017	Common	7,188,004	9.43	9.00
September 30, 2017	Common	22,926,659	8.50	11.89

Preferred Shares

Quarter ended	Type of Shares	Volume Traded (in R\$)	Highest Quote (in R\$ per share)	Lowest Quote (in R\$ per share)
March 31, 2017	Preferred	4,162,321,216	14.95	10.36
June 30, 2017	Preferred	2,272,889,033	11.50	9.84
September 30, 2017	Preferred	1,643,067,449	11.45	10.24

Year Ended December 31, 2016

Common Shares

Quarter ended	Type of Shares	Volume Traded (in R\$)	Highest Quote (in R\$ per share)	Lowest Quote (in R\$ per share)
March 31, 2016	Common	2,318	4.0	3.18
June 30, 2016	Common	2,755	5.5	5.5
September 30, 2016	Common	3,208	8.0	5.26
December 31, 2016	Common	0.0	0.0	0.0

Preferred Shares

Quarter ended	Type of Shares	Volume Traded (in R\$)	Highest Quote (in R\$ per share)	Lowest Quote (in R\$ per share)
March 31, 2016	Preferred	31,136,495	3.94	2.59
June 30, 2016	Preferred	80,320,642	5.30	3.67
September 30, 2016	Preferred	255,585,139	8.71	5.0
December 31, 2016	Preferred	890,866,144	10.75	8.35

Year Ended December 31, 2015

Common Shares

Quarter ended	Type of Shares	Volume Traded (in R\$)	Highest Quote (in R\$ per share)	Lowest Quote (in R\$ per share)
March 31, 2015	Common	0,00	7.88	7.88
June 30, 2015	Common	3,920	7.84	7.84
September 30, 2015	Common	2,810	3.53	3.51
December 31, 2015	Common	4,277	4.00	3.54

Preferred Shares

Quarter ended	Type of Shares	Volume Traded (in R\$)	Highest Quote (in R\$ per share)	Lowest Quote (in R\$ per share)
March 31, 2015	Preferred	25,202,545	5.88	4.62
June 30, 2015	Preferred	23,944,663	5.29	3.87
September 30, 2015	Preferred	25,607,350	4.48	3.55
December 31, 2015	Preferred	27,363,274	4.26	3.00

Year Ended December 31, 2014

Common Shares

Quarter ended	Type of Shares	Volume Traded (in R\$)	Highest Quote (in R\$ per share)	Lowest Quote (in R\$ per share)
March 31, 2014	Common	0,00	8.19	8.19
June 30, 2014	Common	0,00	8.19	8.19
September 30, 2014	Common	787	7.87	7.87
December 31, 2014	Common	788	7.88	7.88

Preferred Shares

Quarter ended	Type of Shares	Volume Traded (in R\$)	Highest Quote (in R\$ per share)	Lowest Quote (in R\$ per share)
March 31, 2014	Preferred	11,329,601	6.97	4.81
June 30, 2014	Preferred	6,038,020	6.10	5.22
September 30, 2014	Preferred	12,881,517	6.20	4.86
December 31, 2014	Preferred	33,792,156	6.69	4.85

The tables below set forth the highest, lowest and average trading price of our preferred and common shares on the B3 for the past six months:

Common Shares

Month	B3		
	Low	Average	High
May 2017	8.00	9.07	9.58
June 2017	9.03	9.18	9.43
July 2017	8.99	9.17	9.27
August 2017	9.00	9.11	9.23
September 2017	8.50	8.73	9.45
October 2017	8.36	9.25	10.62
November 2017	10.25	10.97	11.93
December 2017 (through December 11 th)	10.90	11.31	11.70

Preferred Shares

Month	B3		
	Low	Average	High
May 2017	9.84	10.39	10.85
June 2017	10.25	10.64	10.90
July 2017	10.23	10.61	10.90
August 2017	10.24	10.63	10.75
September 2017	10.44	10.25	11.20
October 2017	10.10	9.99	10.88
November 2017	10.50	11.10	12.08
December 2017 (through December 11 th)	10.17	10.35	10.72

The offering price per Unit in this offering was set based on the result of a book building process and may be different from recent trading prices of our Units. For a more detailed description of the bookbuilding process, see “Plan of Distribution.”

Debentures

For information on our debentures denominated in *reais* in Brazil, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Indebtedness.”

Regulation of the Brazilian Securities Market

Pursuant to Law No. 6,385, of December 7, 1976, as amended, or the Brazilian Securities Law, and the Brazilian Corporate Law, the Brazilian securities market is regulated and supervised by the CMN, which has general authority over the stock exchanges and securities markets. The CMN regulates and supervises the activities of the CVM and has, among other powers, licensing authority over brokerage firms and also regulates foreign investment and foreign exchange transactions, according to the provisions of the Brazilian Securities Law and Law No. 4,595, dated December 31, 1964, as amended. These laws and other rules and regulations together set the requirements for disclosure of information applying to issuers of securities listed on stock exchanges, the criminal penalties for insider trading and price manipulation, the protection of minority shareholders, licensing procedures, supervision of brokerage firms and the governance of Brazilian stock exchanges.

Under Brazilian Corporate Law, a company is either publicly-held (*companhia aberta*) or privately-held (*companhia fechada*). A company is publicly-held when it has securities traded on the stock exchange or on over-the-counter markets. All publicly-held companies must be registered with the CVM and are subject to reporting and regulatory requirements. A company registered with the CVM may trade its securities either on the B3 or on the Brazilian over-the-counter market, but shares listed on B3 may not be simultaneously traded on over-the-counter markets. The shares of a listed company may also be traded privately, subject to certain limitations.

The over-the-counter market is divided into two categories: (i) an organized over-the-counter market, in which the transactions are supervised by self-regulating entities authorized by the CVM, and (ii) a non-organized over-the-counter market, in which the transactions are not supervised by self-regulating entities authorized by the CVM. In either case, transactions are directly traded among persons, outside of the stock exchange market, through a financial institution authorized by the CVM. The institution is required to be registered with the CVM (and in the relevant over-the-counter market), but there is no need for a special license to trade securities of a publicly-held company on the over-the-counter market.

The trading of securities on the B3 may be suspended at the request of a company in anticipation of an announcement of a material event. Trading may also be suspended by the B3 or the CVM, based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or the B3, among other reasons. Trading on Brazilian stock exchanges by non-residents of Brazil is subject to certain restrictions under the Brazilian foreign investment legislation.

Trading on the B3

Trading on the B3 can only be performed by or through intermediary institutions. Trading takes place between 10:00 a.m. and 5:00 p.m., or between 11:00 a.m. and 6:00 p.m. during Brazilian daylight savings time in an automated system called PUMA Trading System. The B3 also allows trading between 5:45 p.m. and 7:00 p.m., or between 6:45 p.m. and 7:30 p.m. during Brazilian daylight savings time, during a differentiated trading period called the “after market,” connected to traditional broker dealers and brokerage firms operating on the internet. Trading on the aftermarket is subject to regulatory limits on price volatility and on the volume of shares traded by investors operating through the Internet.

When shareholders and investors trade shares on the B3, the settlement occurs three business days after the trade, without inflation adjustment on the purchase price. The seller must deliver the shares to the B3 during the

morning of the third business day after the trading date. The shares are delivered and paid for through the facilities of a clearing house, the Central Depository of the B3, which handles the multilateral central counterparty settlement of both financial obligations and transactions involving securities. To better control index volatility, the B3 adopted a circuit breaker system. Under this system, the trading session is suspended for 30 minutes or one hour whenever the B3 main index (i.e. Ibovespa) falls below the respective 10.0% or 15.0% limits, in relation to the closing index from the previous trading session. If the Ibovespa index falls below the limit of 20%, the B3 may suspend trading for a period of time to be defined by it at the time of such event.

Corporate Governance Practices and the Level 2 Listing

In 2000, the B3 introduced special listing segments, known as Level 1, Level 2 and the Novo Mercado, which aimed at fostering a secondary market for securities issued by Brazilian companies with securities listed on the B3 by prompting such companies to follow good corporate governance practices. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by applicable Brazilian law.

These rules generally increase shareholders' rights and enhance the quality of information provided to shareholders. To become a Level 1 company, in addition to the obligations imposed by applicable law, the issuer must agree to: (i) ensure that shares of the issuer representing at least 25% of its total capital are effectively available for trading, (ii) adopt offering procedures that favor widespread ownership of shares whenever making a public offering, (iii) follow stricter disclosure policies with respect to transactions made by controlling shareholders, members of its board of directors and its executive officers involving securities issued by the issuer, (iv) submit any existing shareholders' agreement and stock option plans to the B3, and (v) make a schedule of corporate events available to shareholders.

To become a Level 2 company, in addition to the obligations imposed by applicable law, an issuer must agree to: (i) comply with all of the listing requirements for Level 1 companies, (ii) grant tag-along rights for all shareholders in connection with a transfer of control of the company offering the same price paid per share of the controlling block of shares for all shares (common and preferred shares), (iii) grant voting rights to holders of preferred shares in connection with certain corporate restructurings and related-party transactions, such as (a) any transformation of the company into another corporate form, (b) any merger, consolidation or spin-off of the company, (c) approval of any transactions between the company and its controlling shareholder or parties related to the controlling shareholder, (d) approval of any valuation of assets to be delivered to the company in payment for shares issued in a capital increase, (e) appointment of an expert to ascertain the fair value of the company in connection with any deregistration and delisting tender offer from Level 2 and (f) any changes to these voting rights, which will prevail as long as the adhesion contract to the Level 2 regulation with the B3 is in effect, (iv) have a board of directors consisting of at least five members out of which a minimum of 20% of the directors must be independent and limit the term of all members to two years, (v) prepare annual financial statements (*Demonstrações Financeiras Padronizadas*), or DFP, in English, including cash flow statements in accordance with international accounting standards, such as U.S. GAAP or IFRS, (vi) if it elects to delist from the Level 2 segment, conduct a tender offer by the company's controlling shareholder (the minimum price of the shares to be offered will be the economic value determined by an independent specialized firm with requisite experience), and (vii) adhere exclusively to the Market Arbitration Chamber for resolution of disputes between the company and its investors.

To be listed on the *Novo Mercado*, an issuer must meet all of the requirements for Level 1 and Level 2 companies and, in addition, the issuer must issue only common shares.

As a result, current *Novo Mercado* regulations require that at least 25% of our capital stock is effectively available for trading (free float) for as long as we are listed in this listing segment. However, *Novo Mercado*'s rules are currently under revision and its new regulatory framework, as approved by the *Novo Mercado* listed companies, remains subject to CVM's approval. Once CVM approves such new regulatory framework, notice will be given to the *Novo Mercado* listed companies as to the new regulatory requirements, in order to allow them to adapt to the new rules, which should become effective starting on January 1, 2018.

Investment in our Units by Non-Residents of Brazil

Investors residing outside Brazil, including institutional investors, are authorized to purchase equity instruments, including our Units, on the B3 under Law No. 4,131, dated September 3, 1962, as amended, or under CMN Resolution No. 4,373, dated September 29, 2014, as amended, and CVM Instruction No. 560, dated March 27, 2015, as amended.

Under CMN Resolution No. 4,373, foreign investors may invest in all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are met. In accordance with CMN Resolution No. 4,373, the definition of foreign investor includes individuals, companies, mutual funds and other collective investment entities domiciled or headquartered abroad. Under CMN Resolution No. 4,373, a foreign investor must: (1) appoint at least one financial institution as representative in Brazil, with powers to perform actions relating to its investment; (2) appoint an authorized custodian in Brazil for its investment, which must also be a financial institution duly authorized by the Central Bank and CVM to provide custodian services in Brazil; (3) through its representative, register as a foreign investor with the CVM, which also results in obtaining a taxpayer identification number (*CNPJ* or *CPF*) from the Brazilian tax authorities; and (4) through its representative, register its foreign investment with the Central Bank.

In addition, an investor operating under the provisions of CMN Resolution No. 4,373 must be registered with the Brazilian Federal Revenue Office (*Secretaria da Receita Federal*) pursuant to its Regulatory Instruction No. 1,634, dated May 06, 2016, as amended. This registration process is undertaken by the investor's legal representative in Brazil.

Securities and other financial assets held by foreign investors pursuant to CMN Resolution No. 4,373 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading by foreign investors are generally restricted to transactions involving securities listed on the Brazilian stock exchanges or traded in organized over-the-counter markets licensed by the CVM, except for certain specific cases indicated in applicable regulation or upon an approval from CVM.

Foreign investors may also invest directly in our Units under Law No. 4,131, and may sell such Units in both private and trading market transactions, but these investors are subject to less favorable tax treatment on gains than CMN Resolution 4,373 investors. A foreign direct investor under Law No. 4,131 must: (1) register as a foreign direct investor with the Central Bank, which also results in obtaining a taxpayer identification number (*CNPJ* or *CPF*) from the Brazilian tax authorities; (2) appoint a tax representative in Brazil; and (3) appoint a representative in Brazil for service of process in respect of suits based on Brazilian Corporate Law. In case such investor decides to sell their Units within the stock exchanges, additional procedures may be required.

For further information on Brazilian tax regulation, see "Taxation—Material Brazilian Tax Considerations."

USE OF PROCEEDS

We will not receive any proceeds from the sale of our Units by the Selling Shareholders.

The Selling Shareholders will receive proceeds of R\$1,031,154,251.46, after deducting estimated offering expenses and commissions payable by the Selling Shareholders.

CAPITALIZATION

The table below shows our capitalization as of September 30, 2017 and is derived from our Unaudited Financial Statements prepared in accordance with Brazilian GAAP. Since we will not receive any proceeds from the sale of our Units by the Selling Shareholders, our capitalization will not change as a result of this offering.

You should read this together with “Presentation of Financial and Certain Other Information,” “Selected Financial and Operating Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Financial Statements and explanatory notes included elsewhere in this offering memorandum.

	As of September 30, 2017	
	(in millions of R\$)	(in millions of U.S.\$) ⁽¹⁾
	(Unaudited financial information)	
Loans, financing and debentures		
Current loans, financing and debentures	553.2	174.6
Non-current loans, financing and debentures	2,082.1	657.2
Total loans, financing and debentures	2,635.3	831.8
Total shareholders’ equity	5,032.3	1,588.5
Total capitalization ⁽²⁾	7,667.6	2,420.3

- (1) Does not consider the adjustment due to “Interest on Own Capital” calculated based on the results achieved by the Company during the period from January to June 2017.
- (2) Our total capitalization represents the sum of our current and non-current loans, financing and debentures plus total shareholders’ equity as of September 30, 2017.

Other than as indicated in “Summary—Recent Developments” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments,” there have been no material changes to our capitalization since September 30, 2017.

Interest on Equity

As resolved at a meeting of the Board of Directors held on June 13, 2017, an accounting credit was recognized, on June 30, 2017, in the gross amount of R\$159,509,873.45, in “Interest on Equity,” in lieu of dividends, in accordance with the bylaws of the Company, based on the results achieved by the Company from January to June 2017.

The financial distribution of the Interest on Equity for the shareholders will be in accordance with the position of the shareholder as of June 30, 2017, and will occur within sixty days, as of the date of the General Meeting that authorizes its distribution, or in accordance with the resolution of the Ordinary General Meeting, to be held until April 2018.

DILUTION

As of the date of this offering memorandum, our shareholders' equity was R\$5,032,351 thousand and our shareholders' equity per share was R\$9.99. Shareholders' equity per share was determined by dividing our total shareholders' equity by the total number of our outstanding shares.

The number of our outstanding common and preferred shares will not be affected upon completion of this offering, since this offering consists solely of a secondary sale of units by the selling shareholders and, therefore, we will not be issuing any new shares as part of this offering. Accordingly, there will be no dilution in the book value per common share to our existing shareholders.

The price per Unit in this offering memorandum was set based on the result of a book building process and may be different from recent trading prices of our Units. For a detailed description of the bookbuilding process and conditions of the offering, see "Plan of Distribution."

Interest on Equity

As resolved at a meeting of the Board of Directors held on June 13, 2017, an accounting credit was recognized, on June 30, 2017, in the gross amount of R\$159,509,873.45, in "Interest on Equity," in lieu of dividends, in accordance with the bylaws of the Company, based on the results achieved by the Company from January to June 2017.

The financial distribution of the Interest on Equity for the shareholders will be in accordance with the position of the shareholder as of June 30, 2017, and will occur within sixty days, as of the date of the General Meeting that authorizes its distribution, or in accordance with the resolution of the Ordinary General Meeting, to be held until April 2018.

SELECTED FINANCIAL AND OPERATING INFORMATION

The tables below present selected financial information as of the dates and for each of the periods indicated. You should read the information below together with our Financial Statements and related notes included elsewhere in this offering memorandum, and the sections entitled “Presentation of Financial and Certain Other Information,” “Summary Financial and Operating Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Financial Statements

We maintain our books and records in *reais*. The selected financial information contained in this offering memorandum is derived from our Unaudited Financial Statements and our Audited Financial Statements, prepared in accordance with Brazilian GAAP, included elsewhere in this offering memorandum.

This section contains translations of certain *real* amounts into U.S. dollars at the specified rates solely for your convenience. You should not construe these translations as representations by us that the *real* amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated *reais* amounts using a rate of R\$3.168 per U.S.\$1.00, the U.S. dollar selling rate on September 30, 2017, as reported by the Central Bank, see “Exchange Rates.”

Statement of Income Data

	Year ended December 31,				Nine-month period ended September 30,		
	2014	2015	2016	2016	2016 ⁽¹⁾	2017 ⁽¹⁾	2017 ⁽¹⁾
	(in millions of R\$)			(in millions of U.S.\$) ⁽²⁾	(in millions of R\$)		(in millions of U.S.\$) ⁽²⁾
Net operating revenue	2,617.0	2,971.2	3,477.5	1,097.7	2,550.9	2,843.9	897.7
Cost of services	(1,115.1)	(1,345.2)	(1,445.1)	(456.2)	(1,057.7)	(1,142.1)	(360.5)
Gross profit	1,501.9	1,626.0	2,032.4	641.5	1,493.2	1,701.8	537.2
Selling expenses	(199.8)	(202.8)	(253.1)	(79.9)	(176.4)	(239.3)	(75.5)
Administrative expenses	(485.5)	(592.0)	(616.2)	(194.5)	(457.6)	(474.3)	(149.7)
Other operating expenses	(8.0)	(15.4)	(11.2)	(3.5)	(3.3)	(4.5)	(1.4)
Provisions	(106.4)	(73.5)	(141.6)	(44.7)	(85.5)	(131.9)	(41.6)
Profit sharing plan	(41.3)	(40.9)	(53.1)	(16.8)	(15.9)	(29.0)	(9.1)
Equity results ⁽³⁾	(0.2)	(1.7)	(3.4)	(1.1)	(2.3)	(1.4)	(0.4)
Finance income	28.4	52.0	80.5	25.4	59.8	76.0	24.0
Finance expense	(138.0)	(211.5)	(244.8)	(77.3)	(183.2)	(175.8)	(55.5)
Profit before income taxes	551.2	540.3	789.6	249.2	628.9	721.7	227.8
Income taxes	(129.6)	(101.9)	(162.7)	(51.4)	(160.9)	(189.8)	(59.9)
Net income	421.6	438.4	626.8	197.9	467.9	531.9	167.9

(1) Unaudited financial information.

(2) Solely for the convenience of the reader, we have converted these amounts from *reais* into U.S. dollars using the exchange rate as reported by the Central Bank of R\$3.168 per U.S.\$1.00 as of September 30, 2017. The U.S. dollar equivalent information presented in this offering memorandum is provided solely for the convenience of investors and should not be construed as implying that the amounts in *reais* represent, or could have been or could be converted into, U.S. dollars at such rates or any other rate.

(3) Equity results relate to the interest that we hold in CS Bioenergia S.A.

Balance Sheet Data

	As of December 31,				As of September 30,	
	2014	2015	2016	2016 ⁽¹⁾	2017 ⁽¹⁾	2017 ⁽¹⁾
	(in millions of R\$)			(in millions of U.S.\$) ⁽²⁾	(in millions of R\$)	(in millions of U.S.\$) ⁽²⁾
Current assets						
Cash and cash equivalents.....	69.1	163.8	638.3	201.5	536.0	169.2
Accounts receivable, net.....	393.5	477.3	559.8	176.7	614.7	194.0
Inventories.....	35.2	35.7	36.7	11.6	35.6	11.2
Taxes and contributions recoverable	22.8	28.8	39.0	12.3	1.2	0.4
Restricted deposits	13.7	9.2	9.8	3.1	7.3	2.3
Other assets	24.3	23.6	23.5	7.4	59.4	18.7
Total current assets	558.6	738.4	1,307.2	412.6	1,254.1	395.9
Non-current assets						
Accounts receivable, net.....	8.0	9.7	10.7	3.4	12.7	4.0
Taxes and contributions recoverable	0.8	0.7	0.8	0.3	0.8	0.3
Restricted deposits	30.7	34.6	45.8	14.5	49.1	15.5
Contractual financial assets	54.6	77.4	172.4	54.4	198.2	62.6
Judicial deposits	166.7	132.9	156.4	49.4	181.9	57.4
Deferred income taxes.....	379.1	334.8	374.0	118.1	425.7	134.4
Other assets	16.9	16.4	43.7	13.8	43.3	13.7
Investments	8.2	8.2	12.4	3.9	19.9	6.3
Property, plant and equipment, net.....	102.3	130.0	131.3	41.4	133.0	42.0
Intangible assets, net	6,225.8	6,761.6	7,199.4	2,272.5	7,558.0	2,385.7
Total non-current assets	6,993.2	7,506.3	8,146.9	2,571.6	8,622.7	2,721.8
Total assets	7,551.7	8,244.7	9,454.1	2,984.2	9,876.7	3,117.6
Current liabilities						
Loans, financing, debentures and finance						
leases.....	244.3	230.7	379.2	119.7	553.2	174.6
Contractors and suppliers	141.1	125.4	133.5	42.1	134.2	42.4
Service concessions arrangements.....	6.4	7.1	7.5	2.4	7.7	2.4
Taxes and contributions.....	44.7	50.1	63.3	20.0	97.2	30.7
Payroll and related charges.....	128.8	140.3	157.4	49.7	238.2	75.2
Dividends and interest on shareholders' equity	92.2	95.1	134.1	42.3	148.1	46.7
Accounts payable	7.2	3.1	-	-	-	-
Deferred revenue.....	3.3	3.3	0.5	0.2	4.2	1.3
Collateral and contractual retention.....	2.9	2.7	2.3	0.7	2.6	0.8
Pension and health care plans.....	56.3	46.9	53.1	16.7	58.5	18.5
Other liabilities	37.3	37.0	36.5	11.5	36.5	11.5
Total current liabilities	764.5	741.5	967.3	305.3	1,280.2	404.1
Non-current liabilities						
Loans, financing, debentures and finance						
leases.....	1,628.2	2,105.3	2,332.9	736.4	2,082.1	657.2
Service concessions arrangements.....	88.7	91.1	89.4	28.2	85.2	26.9
Taxes and contributions.....	1.3	1.5	1.4	0.4	1.3	0.4
Accounts payable	2.4	-	-	-	-	-
Deferred revenue.....	3.8	0.5	-	-	14.4	4.5
Provisions.....	467.8	463.4	506.6	159.9	557.3	175.9
Pension and health care plans.....	788.5	656.5	742.9	234.5	818.6	258.4
Other liabilities	5.5	4.4	4.9	1.6	5.3	1.7
Total non-current liabilities	2,986.2	3,322.9	3,678.1	1,161.0	3,564.1	1,125.0
Total shareholders' equity	3,801.1	4,180.3	4,808.7	1,517.9	5,032.4	1,588.5
Total liabilities and shareholders' equity	7,551.7	8,244.7	9,454.1	2,984.2	9,876.7	3,117.6

(1) Unaudited financial information.

(2) Solely for the convenience of the reader, we have converted these amounts from *reais* into U.S. dollars using the exchange rate as reported by the Central Bank of R\$3.168 per U.S.\$1.00 as of September 30, 2017. The U.S. dollar equivalent information presented in this offering memorandum is provided solely for the convenience of investors and should not be construed as implying that the amounts in *reais* represent, or could have been or could be converted into, U.S. dollars at such rates or any other rate.

Other Financial Information

The following table presents a reconciliation of our net income to EBITDA for the nine-month periods ended September 30, 2016 and 2017, and for the years ended December 31, 2014, 2015 and 2016:

	Year Ended December 31,				Nine-month period ended September 30,		
	2014	2015	2016	2016	2016 ⁽¹⁾	2017 ⁽¹⁾	2017 ⁽¹⁾
	(in millions of R\$)			(in millions of U.S.\$) ⁽²⁾	(in millions of R\$)		(in millions of U.S.\$) ⁽²⁾
Net income	421.6	438.4	626.8	197.9	467.9	531.9	167.9
(+) Net finance expense.....	109.6	159.5	164.3	51.9	123.4	99.8	31.5
(+) Income taxes.....	129.6	101.9	162.7	51.4	160.9	189.8	59.9
(+) Depreciation and amortization.....	175.0	194.2	217.1	68.5	160.1	178.2	56.3
EBITDA⁽³⁾	835.8	894.0	1,171.0	369.6	912.3	999.7	315.6

(1) Unaudited financial information.

(2) Solely for the convenience of the reader, we have converted these amounts from *reais* into U.S. dollars using the exchange rate as reported by the Central Bank of R\$3.168 per U.S.\$1.00 as of September 30, 2017. The U.S. dollar equivalent information presented in this offering memorandum is provided solely for the convenience of investors and should not be construed as implying that the amounts in *reais* represent, or could have been or could be converted into, U.S. dollars at such rates or any other rate.

(3) We calculate EBITDA, in accordance with CVM Instruction No. 527, as net income plus net finance expense, income taxes and depreciation and amortization cost and expenses. EBITDA is not a measure of financial performance in accordance with Brazilian GAAP or IFRS. It does not represent cash flow for the corresponding period and should not be considered as an alternative to net income or as a measure of operating performance, cash flows or liquidity, or the basis for dividend distribution. Other companies, including our competitors, may calculate EBITDA differently than us. Because EBITDA does not include certain costs and expenses related to our business, it has limitations which affect its use as an indicator of our profitability.

The table below sets forth EBITDA margin for the periods indicated:

	Year Ended December 31,				Nine-month period ended September 30,		
	2014	2015	2016	2016	2016 ⁽¹⁾	2017 ⁽¹⁾	2017 ⁽¹⁾
	(in millions of R\$, except percentages)			(in millions of U.S.\$, except percentages)	(in millions of R\$, except percentages)		(in millions of U.S.\$, except percentages) ⁽²⁾
Net operating revenue	2,617.0	2,971.2	3,477.5	1,097.7	2,550.9	2,843.9	897.7
EBITDA margin ⁽³⁾	31.9%	30.1%	33.7%	33.7%	35.8%	35.2%	35.2%

(1) Unaudited financial information.

(2) Solely for the convenience of the reader, we have converted these amounts from *reais* into U.S. dollars using the exchange rate as reported by the Central Bank of R\$3.168 per U.S.\$1.00 as of September 30, 2017. The U.S. dollar equivalent information presented in this offering memorandum is provided solely for the convenience of investors and should not be construed as implying that the amounts in *reais* represent, or could have been or could be converted into, U.S. dollars at such rates or any other rate.

(3) EBITDA margin represents our EBITDA divided by our net operating revenue.

The following table presents certain operating information as of and for the periods indicated:

	As of December 31,					As of September 30,		
	2014	2015	Variation 2015/2014	2016	Variation 2016/2015	2016	2017	Variation 2017/2016
Operating Data (Unaudited)								
Water coverage ratio.....	100.0%	100.0%	-	100.0 %	-	100.0%	100.0%	-
Sewage coverage ratio.....	65.0%	67.0%	2.0 p.p.	69.1 %	2.1 p.p.%	68.2%	70.2%	2,85 p. p.%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations is based on our Unaudited Financial Statements and our Audited Financial Statements included elsewhere in this offering memorandum. This discussion should be read together with our Financial Statements and related notes beginning on page F-1 of this offering memorandum. Our actual results may differ materially from the forward-looking statements as a result of various factors, including, without limitation, those set forth in "Forward-Looking Statements," and "Risk Factors."

In the analysis and discussion below, references to increases or decreases in all periods are made in relation to the corresponding previous period, unless the context indicates otherwise. This offering memorandum contains forward-looking statements that involve risks and uncertainties. You should also read the discussion below in conjunction with the sections entitled "Presentation of Financial and Other Information," "Summary Financial and Operating Information," "Risk Factors" and "Selected Financial and Operating Information."

Overview

We are one of the largest basic sanitation companies in Brazil in terms of net operating revenue, according to *Valor Econômico* newspaper. We provide water supply and sewage services in the State of Paraná, which, according to IBGE, is the fourth largest state economy in Brazil in terms of gross domestic product, or GDP.

Our main business consists of providing the following services:

- *Water Supply Services.* We supply water in 345 municipalities in the State of Paraná, covering approximately 86.5% of the municipalities in such State, including the ten largest municipalities and the capital, Curitiba. We also provide water services to one municipality in the State of Santa Catarina. We have a 100.0% water coverage ratio, servicing approximately 3.8 million consumer units; and
- *Sewage Services.* We provide sewage collection and treatment services in 184 municipalities in the State of Paraná serving approximately 3.1 million consumer units and representing a 70.2% sewage coverage ratio.

We provide water supply services through approximately 52.4 thousand kilometers of piping and 3,068.2 million water connections, and we provide sewage services through a sewage collection network spanning approximately 34.1 thousand kilometers, with 2.0 million sewage connections. We believe we are one of the few basic sanitation companies in Brazil that treats virtually 100.0% of the sewage collected.

We also manage solid waste in the three landfills we operate in the State of Paraná: Cianorte, Apucarana and Cornélio Procópio. The landfill in Cianorte serves the municipalities of São Tomé, Terra Boa, Guaporema and Indianópolis and treated over 62,500 tons of waste in 2016. We are also investing in biogas through CS Bioenergia S.A., a joint venture with Cattalini Bioenergia Operação S.A., in which we hold a 40.0% ownership interest.

We provide our services under long-term concession and program agreements that are individually negotiated with each municipality and generally have a 30-year term. As of September 30, 2017, our ten largest concession and program agreements had an average remaining term of approximately 20 years, including our agreement with the municipality of Curitiba, which expires in 2031. Our ten largest concession and program agreements accounted for 54.9% and 55.0% of our net operating revenue in the nine-month period ended September 30, 2017 and the year ended December 31, 2016, respectively. Our concession agreement with the municipality of Curitiba individually accounted for 24.5% and 26.5% of our net operating revenue in the nine-month period ended September 30, 2017 and the year ended December 31, 2016, respectively. Historically, our renewal rate for our concession and program agreements has been 99.9%, showing the operating quality of our services and the trust we have earned in the municipalities and populations we serve.

In the nine-month period ended September 30, 2017, we had net operating revenue of R\$2,843.9 million, and net income of R\$531.9 million, representing a 13.7% increase compared to our net income for the nine-month

period ended September 30, 2016. In the nine-month period ended September 30, 2016, we had net operating revenue of R\$2,550.9 million, and net income of R\$467.9 million.

In the year ended December 31, 2016, we had net operating revenue of R\$3,477.5 million, and net income of R\$626.8 million, representing a 43.0% increase compared to our net income in the year ended December 31, 2015. In the year ended December 31, 2015, we had net operating revenue of R\$2,971.2 million, and net income of R\$438.4 million, representing a 4.0% increase compared to our net income in the year ended December 31, 2014.

The tables below show our key financial and operating information as of and for the years ended December 31, 2014, 2015 and 2016, and as of and for the nine-month periods ended September 30, 2016 and 2017:

	Year ended December 31,			Nine-month period ended September 30,				
	2014	2015	2016	Variation (%)		2016 ⁽¹⁾	2017 ⁽¹⁾	Variation (%) 2016-2017 ⁽¹⁾
				2014-2015	2015-2016			
	(in millions of R\$ except percentages)							
Net operating revenue	2,617.0	2,971.2	3,477.5	13.5%	17.0%	2,550.9	2,843.9	11.5%
Revenue								
Water.....	1,733.6	1,948.6	2,263.1	12.4%	16.1%	1,663.8	1,835.0	10.3%
Sewage.....	883.4	1,022.6	1,214.4	15.8%	18.8%	887.1	1,008.9	13.7%
Gross Profit.....	1,501.9	1,626.0	2,032.4	8.3%	25.0%	1,493.2	1,701.8	14.0%
Gross Margin ⁽²⁾	57.4%	54.7%	58.4%	(2.7) p.p.	3.7 p.p.	58.5%	59.8%	1.3 p.p.
Net Income	421.6	438.4	626.8	4.0%	43.0%	467.9	531.9	13.7%
Net Margin ⁽³⁾	16.1%	14.8%	18.0%	(1.3) p.p.	3.2 p.p.	18.3%	18.7%	0.4 p.p.
EBITDA ⁽⁴⁾	835.8	894.0	1,171.0	7.0%	31.0%	912.3	999.7	9.6%
EBITDA Margin ⁽⁵⁾	31.9%	30.1%	33.7%	(1.8) p.p.	3.6 p.p.	35.8%	35.2%	(0.6) p.p.
ROE ⁽⁶⁾	11.4	11.0	13.9	(0.4) p.p.	2.9 p.p.	10.9	14.04	22.4%

(1) Unaudited financial information.

(2) Gross profit divided by net operating revenue.

(3) Net income divided by net operating revenue.

(4) EBITDA is calculated according to guidelines of CVM Instruction 527, as being net income adjusted for the financial result, income and social contribution taxes, and costs and expenses of depreciation and amortization. EBITDA is not a measure of financial performance according to the accounting practices adopted in Brazil, nor must it be considered on a stand-alone basis or as an alternative to net income as a measure of operations or an alternative to cash flows from operations, or as a measure of liquidity or the basis for the distribution of dividends. Other companies may calculate their EBITDA in a different manner from us. EBITDA serves as an indicator of our overall economic performance, not affected by fluctuations in interest rates, changes to the rates of income and social contribution taxes or the levels of depreciation and amortization. Therefore, we believe that EBITDA serves as a significant tool for periodically comparing our operating performance, as well as for basing certain decisions of an administrative nature. Since EBITDA does not factor in certain costs intrinsic to our business, or which could, in turn, have a significant effect on our earnings, such as financial expenses, taxes, depreciation, capital expenditures and other corresponding charges, it is fraught with limitations that affect its use as an indicator of our profitability.

(5) EBITDA Margin is EBITDA divided by net operating revenue.

(6) ROE, (Return on Equity) is calculated as follows: net income divided by the arithmetic average of the shareholders' equity registered at the beginning and at the end of a given business year.

	As of December 31,			As of September 30,			
	2014	2015	2016	Variation (%)		2017 ⁽¹⁾	Variation (%) 12/31/2016 09/30/2017 ⁽¹⁾
				2014-2015	2015-2016		
	(in millions of R\$ except percentages)						
Net debt ⁽²⁾	1,803.4	2,172.2	2,073.8	20.4%	(4.5)%	2,099.4	1.2%
Shareholders' equity.....	3,801.1	4,180.3	4,808.7	10.0%	15.0%	5,032.4	4.7%

(1) Unaudited financial information.

(2) Net debt is the sum of the balances of current and non-current loans, financing, debentures and finance leases after deducting the balance of our cash and cash equivalents. Net debt is not a measure of financial performance, liquidity or indebtedness recognized by the accounting practices adopted in Brazil and it has no standard meaning. Other companies may calculate their net debt in a different manner from us. Our management believes that the measurement of Net Debt is useful, both for us and for investors and financial analysts, for evaluating the degree of financial leverage in relation to operating cash flow.

	As of December 31,			As of September 30,				
	2014	2015	2016	Variation (%)		2016 ⁽¹⁾	2017 ⁽¹⁾	Variation (%) 2017 ⁽¹⁾
				2014- 2015	2015- 2016			
	(in millions of R\$ except percentages)							
% Water service ratio.....	100.0	100.0	100.0	-	-	100.0	100.0	2.9%
% Sewage service ratio ⁽¹⁾	65.0	67.0	69.1	2.0 p.p.	2.1 p.p.	68.2	70.2	2.0 p. p.
Number of connections – water (thousands).....	2,909.4	2,979.4	3,025.9	2.4%	1.6%	3,008.6	3,068.2	2.0%
Number of connections – sewage (thousands).....	1,759.4	1,859.5	1,953.5	5.7%	5.1%	1,914.7	2,013.0	5.1%
Network length – water (thousands of km).....	47.0	49.6	51.6	5.5%	4.0%	51.0	52.4	2.8%
Network length – sewage (thousands of km).....	28.9	31.1	33.1	7.6%	6.4%	32.2	34.1	5.9%

(1) The Service ratio is calculated using the number of people served, ascertained in public censuses and those carry out, involving the urban population of the municipality.

Factors Affecting Our Results of Operations and Financial Condition

Our revenues derive from the provision of water supply and sewage services in the State of Paraná and the State of Santa Catarina. Our results of operations and financial condition are primarily affected by the following factors:

- macroeconomic conditions in Brazil and, especially, the State of Paraná and to a lesser extent in the State of Santa Catarina;
- tariff adjustments;
- climatic conditions; and
- variations in our cost of services, including services from third parties, personnel and utility costs.

Brazilian and the State of Paraná's Macroeconomic Conditions

As all of our operations are in Brazil, primarily in the State of Paraná, our results of operations and financial condition are affected by general economic conditions in Brazil and the State of Paraná, particularly by general economic activity, interest rates and the inflation rate. For example, the general performance of the Brazilian economy may affect our cost of capital, and inflation may affect our costs and margins. The Brazilian economic environment has been characterized by significant variations in economic indicators. See “Risk Factors—Risks Related to Brazil.”

General Economic Conditions

In the year ended December 31, 2014, Brazilian GDP increased 0.5% in comparison with the year ended December 31, 2013. During the same year, Brazil had U.S.\$374.0 billion in currency reserves and a trade deficit of U.S.\$3.9 billion. The average unemployment rate in Brazil's principal metropolitan regions was 4.3% in the year ended December 31, 2014. In the year ended December 31, 2014, the State of Paraná's GDP was R\$358.5 billion, a 7.7% increase in comparison with 2013.

In the year ended December 31, 2015, Brazilian GDP decreased 3.8% in comparison with the year ended December 31, 2014. During the same year, Brazil had U.S.\$368.7 billion in currency reserves and a trade surplus of U.S.\$19.7 billion. The average unemployment rate in Brazil's principal metropolitan regions was 6.9% in the year ended December 31, 2015. In the year ended December 31, 2015, the State of Paraná's GDP was R\$377.0 billion, a 8.3% increase in comparison with 2014.

In the year ended December 31, 2016, Brazilian GDP decreased 3.6% in comparison with the year ended December 31, 2015. During the same year, Brazil had U.S.\$372.2 billion in currency reserves and a trade surplus of U.S.\$47.7 billion.

Interest Rates

Between January 2004 and December 2010, the SELIC rate ranged from 8.65% to 19.77% per year. In 2012, the SELIC rate ranged between 7.11% and 10.90% per year; in 2013 between 7.11% and 9.90% per year; in 2014 between 9.90% and 11.65% per year, in 2015 between 11.65% and 14.25% per year, and in 2016 between 14.0% and 14.25% per year. The SELIC rate, as of the date of this offering memorandum is 7.50%. See the table below under “—Inflation” for information on the TJLP, CDI and SELIC rates.

The TJLP rate was 5.00% on December 31, 2014, 7.00% on December 31, 2015 and 7.5% on December 31, 2016. The TR rate was 0.86% on December 31, 2014, 1.80% on December 31, 2015 and 1.98% on December 31, 2016.

Inflation

Inflation affects our financial performance by increasing our cost of services and operating expenses, particularly our personnel expenses, which represented 73.3% of our total cost of services and operating expenses in the year ended December 31, 2016. Part of our debt is directly indexed to take into account the effects of inflation. Additionally, we are exposed to the mismatch between the inflation adjustment indices of our loans, financing and debentures and those of our receivables. Our water supply and sewage service tariffs do not necessarily correspond to or reflect the increases in inflation and interest rates that affect our debt. We cannot assure you that our tariffs will be increased, in future periods, to offset, in full or in part, the effects of inflation.

Inflation tends to increase our costs, as the prices of our supplies and cost structure are generally sensitive to increases in inflation, which may adversely affect our profit margins. Our financial condition and results of operations are affected by fluctuations in interest rates as part of our indebtedness and is subject to variable interest rates. We have been able to pass the effects of variations in macroeconomic factors on to our customers, except from 2005 to 2010 when our tariffs were not adjusted.

The following table shows select macroeconomic data for the periods indicated:

	Year ended December 31,			Six-month period
	2014	2015	2016	ended June 30, 2017
Real GDP growth ⁽¹⁾	0.50%	(3.80)%	(3.60)%	(1.40)%
Inflation (IGP-M) ⁽²⁾	3.67%	10.54%	7.2 %	(2.1)%
Inflation (IPCA) ⁽³⁾	6.41%	10.67%	6.29%	1.78%
CDI - end of period ⁽⁴⁾	11.57%	14.14%	13.63%	10.14%
TJLP rate ⁽⁵⁾	5.00%	7.00%	7.5%	7.00%
SELIC rate - end of period ⁽⁶⁾	11.75%	14.25%	13.65%	10.15%
Appreciation (depreciation) of R\$ versus U.S.\$	(13.39)%	(47.01)%	17.8%	(1.64)%
Exchange rate (closing) - U.S.\$1.00 ⁽⁷⁾	2.656	3.905	3.259	3.308

Sources: Central Bank, the Getúlio Vargas Foundation (*Fundação Getúlio Vargas*), or FGV, Banco Nacional de Desenvolvimento Econômico e Social, IBGE, and Cetip S.A., a company that offers services relating to asset and security trading and settlement.

- (1) According to the new IBGE methodology.
- (2) The IGP-M inflation index is the General Market Price Index measured by FGV.
- (3) The IPCA index is a Broad Consumer Price Index measured by IBGE.
- (4) The overnight interbank deposit rate (*Certificado de Depósito Interbancário*), or CDI, is the average of the daily interbank deposit rates in Brazil (at period-end).
- (5) TJLP stands for long-term interest rate (*Taxa de Juros a Longo Prazo*), published quarterly by the Central Bank.
- (6) Adjusted weighted average rate of daily financial transactions backed by federal bonds and processed through the SELIC system or through the offsetting and liquidation of assets in the form of repurchase agreements (end of period data).
- (7) Selling exchange rate on the last day of each month during the period.

Tariffs

Our net operating revenue and financial condition are highly dependent on our ability to set and collect adequate tariffs for our water supply and sewage services. In the past, our tariffs have not always been aligned with the loss of purchasing power resulting from high inflation. In general, subject to the parameters established by the

Brazilian Sanitation Law and the Water Institute of Paraná, we seek to adjust our tariffs according to inflation and cost increases, taking into account different categories of customers and applicable discounts.

Our tariff adjustments follow the Brazilian sanitation tariff guidelines. Tariffs are usually adjusted once per year, at 12-month intervals. Tariff adjustments must be announced 30 days before taking effect. In the year ended December 31, 2014, our tariff increased by 6.4%. In the year ended December 31, 2015, our tariff increased by (i) 12.5%, of which 6.5% was applied to invoices issued from March 24, 2015 onwards and an additional 6.0% applied to invoices issued from June 1, 2015 onwards, and (ii) by 8.0% due to an extraordinary revision that applied to invoices issued from September 1, 2015 onwards. In the year ended December 31, 2016, our tariff increased by 10.5%. In the nine-month period ended September 30, 2017, our tariff increased by 8.5%. For a detailed description of the criteria and process applicable to our tariff adjustments, see “Regulation of the Sanitation Sector in Brazil—Tariff Pricing for Sanitation Services.”

The table below sets forth, for the periods indicated, the percentage increase of our tariffs (average adjustment) compared to three inflation indices:

	Year ended December 31,			Nine-month period ended September 30,
	2014	2015	2016	2017
Increase in our average tariff	6.4	(in percentage) 21.5	10.5	8.53
IPCA	6.4	10.7	6.29	1.78
IGP-M	3.7	10.5	7.2	(2.1)
IPC-FIPE	5.2	11.1	6.5	1.1

Governmental Programs

Our growth is linked to population growth in the State of Paraná and the increase in households that need our basic sanitation services. We estimate that our fixed network needs to grow by approximately 2.0% per year to meet population growth and the increase in the number of households. The increase in the number of households is partially supported by governmental programs aimed at reducing the housing deficit in Brazil, including the *Minha Casa, Minha Vida* program, through which the government provides financing for the construction of homes for families of limited income and also provides subsidized loans to the entire production chain in the Brazilian real estate industry. The *Minha Casa, Minha Vida* program resulted in the construction of thousands of houses in the State of Paraná since 2011.

We also benefit from governmental programs intended to foster economic growth and development in the region in which we operate. For instance, the *Paraná Competitivo* and *Bom Emprego* programs created by the Paraná government to attract investments, create jobs and spur industrial development in the state resulted in R\$20.0 billion in investments in the State of Paraná in the three-year period ended December 31, 2016.

For a description of our cost of services and their impact on our results of operations, see “—Principal Components of our Results of Operations—Cost of Services.”

Changes to Accounting Practices

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments, that replaces IAS 39 – Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 introduces all the project’s three aspects of how financial instruments are recorded: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods commencing on January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not mandatory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. For additional information, see Note 3w of our 2016 Financial Statements.

IFRS 15 Revenues from Contracts with Customers

IFRS 15, issued in May 2014, presents 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 method or modified retrospective method is required in the case of annual periods beginning on January 1, 2018, with early adoption permitted. For additional information, see Note 3w of our 2016 Financial Statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 - Leases, 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 recognition, measurement, presentation and disclosure of leases operations, and requires lessees to book all leases under a single model in the balance sheet, similar to the accounting of finance 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 accounting 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 finance. 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 beginning on 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.

For additional information, see Note 3w of our 2016 Financial Statements.

Critical Accounting Policies

The preparation of our financial statements in compliance with Brazilian GAAP requires our management to use estimates and assumptions that affect the amounts of revenue, expenses, assets and liabilities recorded and disclosed in the notes to the financial statements. The effective results may be different from such estimates.

We consider that the assumptions we use are adequate and in line with the business of basic sanitation. Estimates and assumptions are reviewed on an ongoing basis. Reviews of accounting estimates are recognized in the year in which the estimates are reviewed and in any affected future years. Significant estimation processes are summarized as follows:

Impairment of financial assets

At each reporting date, we measure whether there is any objective evidence of impairment of a financial asset or group of financial assets.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that we are not yet committed to or significant future investments that will enhance the asset’s performance of the cash generating unit being tested. The recoverable amount is sensitive to the discount rate used in the discounted cash flow model as well as to the expected future cash-inflows and the growth rate used for extrapolation purposes.

Provisions for civil, labor, tax and environmental proceedings

We recognized provisions for civil, labor, tax and environmental proceedings. The assessment of the likelihood of loss includes the assessment of available evidence, hierarchy of laws, available case laws, the most recent court decisions, and their significance to the legal system, as well as the opinion of legal advisors. The provisions are reviewed and adjusted in order to take into account changes in circumstances, such as applicable statute of limitations, conclusions of tax audits, or additional exposures identified based on new court matters or decisions.

Provision for losses on accounts receivable

The allowance for doubtful accounts is recorded in an amount considered sufficient by our management to cover any losses on the realization of the accounts receivable, considering the historical losses and an individual assessment of the accounts receivable posing risks of realization. The allowance is recorded based on the amounts receivable from commercial, residential, industrial consumers and the federal government, past due for more than 180 days, and based on the amounts past due for more than two years for municipalities, except for municipal governments that are not paying past due amounts, for which an allowance for all credits is established.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of the existing contractual instruments, differences between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. We establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective jurisdiction which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in our respective domicile.

Significant judgment is required from our management in order to determine the value of the deferred income tax assets that may be recognized, based on a reasonable term, as well as on the level of expected taxable income in coming years, and future tax planning strategies.

Pension and health care plans

The cost of the pension plan with defined benefits and other post-employment healthcare plan benefits, as well as the present value of the pension obligation, are determined using actuarial assessment methods. The actuarial assessment comprises the use of assumptions on discount rates, expected asset return rates, future salary increases, death rates, and future increases in retirement and pension benefits. The defined benefit obligation is highly sensitive to any changes in these assumptions. All the assumptions are reviewed every reporting date.

Recent Developments

Loan Agreement with KfW and Caixa Economica Federal.

On December 11, 2017 we entered into a loan agreement with KfW Bank in the amount of €50 million. As a result of this loan agreement, we may be exposed to exchange rate risk. Accordingly, our board of directors also approved entering into a hedge agreement to mitigate such risk. See “Risk Factors — Risks Related to Brazil — Exchange rate fluctuations could affect us.”

On October 24, 2017, our board of directors also approved the entering into of a secured financing in the amount of R\$1.6 billion with Caixa Econômica Federal or the Programa de Saneamento para Todos – Mutuários Federal Savings, pursuant to Instrução Normativa 14 and recommendations received from Caixa Econômica Federal, scheduled to be executed in December 2017.

Following the execution of these agreements our indebtedness will total approximately R\$4.4 billion.

Principal Components of Our Results of Operations

Net operating revenue

Net operating revenue consists principally of the revenues we derive from providing water supply and sewage services to our customers in accordance with our concession and program agreements and includes (i) amounts invoiced to customers on a cyclic (monthly) basis and (ii) non-invoiced amounts that are recognized at fair value of the consideration received or receivable. For a description of our concession and program agreements, see “Business—Concession and Program Agreements.” Our revenues depend substantially on our tariffs. For a detailed description of the criteria and process applicable to our tariff adjustments, see “Regulation of the Sanitation Sector in Brazil—Tariff Pricing for Sanitation Services.”

Our revenues are presented net of certain taxes, primarily direct taxes on revenues for the Public Servant Fund Program (*Programa de Formação do Patrimônio do Servidor Público*), or PASEP, and the Social Security Financing Contribution (*Contribuição para Financiamento da Seguridade Social*), or COFINS. In the years ended December 31, 2014, 2015 and 2016, and the nine-month periods ended September 30, 2016 and 2017, we deducted R\$197.6 million, R\$212.2 million, R\$263.5 million, R\$191.5 million and R\$220.3, respectively, from our gross operating revenue based on deduction of these taxes.

According to Brazilian law, we are exempt from municipal and state taxes directly related to our core activity, namely municipal services taxes (*Imposto Sobre Serviços de Qualquer Natureza*), or ISS, and state sales taxes (*Impostos Sobre Circulação de Mercadorias e Serviços*), or ICMS.

The table below sets forth the composition of our gross and net operating revenues, including tax deductions, for the periods indicated:

	Year Ended December 31,			Nine-month period ended September 30,	
	2014	2015	2016	2016 ⁽¹⁾	2017 ⁽¹⁾
	(in millions of R\$)				
Revenue					
Water revenue	1,752.1	1,944.6	2,309.5	1,696.3	1,872.2
Sewage revenue.....	917.5	1,044.2	1,270.6	928.7	1,060.6
Services revenue ⁽²⁾	89.1	100.5	125.9	92.1	97.3
Solid waste revenue ⁽³⁾	7.6	8.1	7.9	5.8	6.3
Services provided to municipalities ⁽⁴⁾	5.6	6.2	7.9	5.8	10.3
Other revenue.....	42.7	79.8	19.3	13.7	17.6
Total gross operating revenue	2,814.7	3,183.4	3,741.0	2,742.4	3,064.2
Deductions from gross operating revenue					
COFINS	(162.4)	(174.4)	(216.6)	(157.4)	(181.1)
PASEP	(35.3)	(37.8)	(46.9)	(34.1)	(39.2)
Total deductions	(197.6)	(212.2)	(263.5)	(191.5)	(220.3)
Total net operating revenue.....	2,617.0	2,971.2	3,477.5	2,550.9	2,843.9

(1) Unaudited financial information.

(2) Revenues from services consist of assembly of connections, installation of hydrometers, among others.

(3) Revenues from solid waste consist of collection and disposal of garbage.

(4) Services rendered to municipalities consist of administration fees charged by SANEPAR for garbage collection.

Cost of services

Our cost of services consists primarily of costs related to personnel, electricity, depreciation and amortization, services from third parties (for example, maintenance, surveillance and removal of sludge) and raw materials. Personnel is our most significant cost of services, representing R\$271.6 million, R\$302.1 million, R\$345.5 million, R\$238.4 million and R\$288.2 million, respectively, in the years ended December 31, 2014, 2015 and 2016 and the nine-month periods ended September 30, 2016 and September 30, 2017.

Basic sanitation operations require extensive use of electricity and, considering the volume of our operations, we are one of the principal consumers of electricity in the State of Paraná. Most of the electricity that we use is supplied by COPEL, our indirect shareholder that is also controlled by the State of Paraná (see “Related Party Transactions”). During the years ended December 31, 2014, 2015 and 2016, and the nine-month period ended September 30, 2017, our costs related to electricity corresponded to 18.1%, 28.2%, 26.5% and 23.4%, respectively, of our cost of services.

The table below sets forth a breakdown of our cost of services for the periods indicated:

	Year Ended December 31,			Nine-month period ended September 30,	
	2014	2015	2016	2016 ⁽¹⁾	2017 ⁽¹⁾
	(in millions of R\$)				
Personnel.....	271.6	302.1	345.5	238.4	288.2
Materials.....	93.6	97.2	101.7	73.8	84.5
Electricity.....	201.4	379.3	382.5	296.9	267.6
Services from third parties.....	291.2	293.0	297.7	217.7	246.2
Depreciation and amortization.....	155.8	172.8	196.2	144.4	162.1
Other costs.....	101.6	100.9	121.5	86.5	93.5
Total	1,115.1	1,345.2	1,445.1	1,057.7	1,142.1

(1) Unaudited financial information.

Selling expenses

Our selling expenses consist primarily of customer services, sales and maintenance of regional offices.

Administrative expenses

Our administrative expenses consist primarily of expenses related to personnel and services from third parties.

Provisions

We recognize provisions for (i) tax, civil, labor and environmental proceedings, and (ii) provisions for losses on accounts receivable.

Provisions for tax, civil, labor and environmental proceedings

We recognize provisions for tax, civil, labor and environmental proceedings. The assessment of the probability of loss includes the assessment of the available evidences, the hierarchy of laws, available jurisprudences, recent court decisions and their relevance within the legal system, in addition to the assessment of our legal counsels. The Company's management believes that the provisions for tax, civil, labor and environmental proceedings are necessary and appropriated, based on current legislation.

Provision for losses on accounts receivable

Provision for losses on accounts receivable is recorded in an amount considered by management to be sufficient to cover losses in the realization of the accounts receivable, taking into consideration the history of losses and an individual assessment of the accounts receivable under realization risks.

Finance income

Represents income received from financing instruments, including any loans, borrowings or debentures.

Finance expense

Finance expense represents interest expense on loans and borrowings and debentures, where applicable.

Income taxes

We recognize deferred tax assets and liabilities based on (1) income tax losses, (2) negative tax basis for social contribution calculations from previous years, and (3) differences between carrying amounts and the tax basis of assets and liabilities. Under Brazilian tax legislation, the rates for determining deferred taxes are 25.0% for income tax and 9.0% for social contribution tax.

The recording of deferred income taxes assets is based on the expectation of generating future taxable income to offset temporary timing differences or tax losses. We record deferred tax assets based on projections of future results, internal assumptions and future economic scenarios that are subject to change. For more information on deferred income taxes, see Note 18 of our 2015 Financial Statements.

Nine-month period ended September 30, 2017 compared to the nine-month period ended September 30, 2016

	Nine-month period ended September 30,				Variation (%)
	2016 ⁽¹⁾	(%)	2017 ⁽¹⁾	(%)	
	(in millions R\$, except percentages)				
Net operating revenue	2,550.9	100.0	2,843.9	100.0	11.5
Cost of services.....	(1,057.7)	(41.5)	(1,142.1)	(40.2)	8.0
Gross profit	1,493.2	58.5	1,701.8	59.8	14.0
Selling expenses.....	(176.4)	(6.9)	(239.3)	(8.4)	35.7
Administrative expenses.....	(457.6)	(17.9)	(474.3)	(16.7)	3.6
Other operating expenses.....	(3.3)	(0.1)	(4.5)	(0.2)	37.3
Provisions.....	(85.5)	(3.4)	(131.9)	(4.6)	(54.2)
Profit sharing plan.....	(15.9)	(0.6)	(29.0)	(1.0)	82.4
Equity results.....	(2.3)	(0.1)	(1.4)	(0.0)	(39.1)
Finance income.....	59.8	2.3	76.0	2.7	27.1
Finance expense.....	(183.2)	(7.2)	(175.8)	(6.2)	(4.0)
Profit before income taxes	628.9	24.7	721.7	25.4	14.8
Income taxes.....	(160.9)	(6.3)	(189.8)	(6.7)	18.0
Net income for the period	467.9	18.3	531.9	18.7	13.7

(1) Unaudited financial information.

Net operating revenue

Net operating revenue increased by 11.5%, from R\$2,550.9 million in the nine-month period ended September 30, 2016 to R\$2,843.9 million in the nine-month period ended September 30, 2017.

The increase in our net operating revenue was primarily due to (i) a 10.5% tariff increase for water supply and sewage services applied to invoices issued from April 1, 2016 that became effective in 2017 and positively impacted our 2017 results, (ii) a tariff adjustment during the first Periodic Tariff Review (*Revisão Tarifária Periódica*) of 25.6% to be deferred in 8 years, which resulted in a 8.5% tariff increase to invoices issued from June 1, 2017 (applied *pro rata* from May 16, 2017), (iii) the modification of the tariff structure, setting a minimum tariff at the 5m³ level, and (iv) the increase in the number of water connections by 2.0% and sewage connections by 5.1% during the period.

The table below sets forth our net operating revenue by segment for the periods indicated:

	Nine-month period ended September 30,	
	2016 ⁽¹⁾	2017 ⁽¹⁾
	(in millions of R\$)	
Net operating revenue		
Water revenue.....	1,663.8	1,835.0
Sewage revenue ⁽²⁾	887.1	1,008.9
Total net operating revenue	2,550.9	2,843.9

(1) Unaudited financial information.

(2) Revenues from solid waste are included in sewage segment.

Cost of services

The table below sets forth a breakdown of our costs of services for the periods indicated:

	Nine-month period ended September 30,					
	2016			2017		
	(in millions of R\$)					
	Water	Sewage	Total	Water	Sewage	Total
Personnel.....	181.1	57.3	238.4	214.8	73.4	288.2
Materials.....	56.3	17.5	73.8	58.9	25.7	84.5
Electricity.....	267.8	29.0	296.9	241.6	25.9	267.6
Services from third parties.....	135.2	82.4	217.7	143.4	102.8	246.2
Depreciation and amortization.....	76.6	67.8	144.4	85.0	77.2	162.1
Other costs.....	66.0	20.5	86.5	70.8	22.7	93.5
Total.....	783.1	274.6	1,057.7	814.5	327.7	1,142.1

Cost of services increased by 8.0%, from R\$1,057.7 million in the nine-month period ended September 30, 2016 to R\$1,142.1 million in the nine-month period ended September 30, 2017. This increase was primarily due to (i) a 20.9% increase in personnel costs, as result of (a) a 4.7% wage increase for employees under a collective bargaining agreement, (b) a 2.0% average wage increase (in addition to the increase resulting from the collective bargaining agreement) due to promotions, and (c) R\$17.5 million in costs associated with the termination of employees who adhered to our voluntary dismissal plan (*Programa de Aposentadoria Incentivada*), (ii) an increase in costs from services from third parties primarily relating to the operation of our water supply and sewage systems, including maintenance, surveillance and removal of sludge; (iii) an increase in raw material costs for our water treatment processes and the maintenance of our water supply and sewage systems; (iv) an increase in tax expense, and (v) an increase in depreciation and amortization costs.

Selling expenses

Selling expenses increased by 35.7%, from R\$176.4 million in the nine-month period ended September 30, 2016 to R\$239.3 million in the nine-month period ended September 30, 2017, mainly due to (i) a 22.3% increase in personnel expenses due to several payments we made to employees who adhered to our voluntary dismissal plan (*Programa de Aposentadoria Incentivada*) and the Voluntary Dismissal Program with Knowledge Transfer (*Programa de Demissão Voluntária com Transferência de Conhecimentos*), (ii) a 15.8% increase in third-parties expense, and (iii) an increase in other expenses, mainly due to the indemnification to coastal condominiums that claimed the nullity of a minimum charge, which will result in the reimbursement of R\$14.3 million.

Administrative expenses

Administrative expenses increased by 3.6%, from R\$457.6 million in the nine-month period ended September 30, 2016 to R\$474.3 million in the nine-month period ended September 30, 2017, mainly due to a 13.6% increase in materials expenses and a 10.5% increase in third-parties expense.

Provisions

Provisions for civil, labor, tax and environmental proceedings and pension and healthcare plans increased 54.2%, from R\$85.5 million in the nine-month period ended September 30, 2016 to R\$131.9 million in the nine-month period ended September 30, 2017. This increase was due principally to (i) proceedings related to water shortages filed in connection the municipality of Maringá, which resulted in a provision of R\$26.9 million and (ii) an increase in the provisioning for labor claims.

Finance income

Finance income increased by 27.1%, from R\$59.8 million in the nine-month period ended September 30, 2016 to R\$76.0 million in the nine-month period ended September 30, 2017, mainly due to an increase in revenues from our financial investments.

Finance expense

Finance expense decreased by 4.0%, from R\$183.2 million in the nine-month period ended September 30, 2016 to R\$175.8 million in the nine-month period ended September 30, 2017, mainly due to lower interest rates on loans and financings.

Income taxes

Income taxes expenses totaled R\$189.8 million in the nine-month period ended September 30, 2017 compared to R\$160.9 million in the nine-month period ended September 30, 2016.

Net income

As a result of the foregoing, net income increased by 13.7% from R\$467.9 million in the nine-month period ended September 30, 2016 to R\$531.9 million in the nine-month period ended September 30, 2017. Net margin was 18.7% in the nine-month period ended September 30, 2017.

Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

	Year Ended December 31,				Variation (%)	
	2015	(%)	2016	(%)		
		(in millions R\$, except percentage-kb s)				
Net operating revenue	2,971.2	100.0	3,477.5	100.0	17.0	
Cost of services.....	(1,345.2)	(45.3)	(1,445.1)	(41.6)	7.4	
Gross profit	1,626.0	54.7	2,032.4	58.4	25.0	
Selling expenses.....	(202.8)	(6.8)	(253.1)	(7.3)	24.8	
Administrative expenses.....	(592.0)	(19.9)	(616.2)	(17.7)	4.1	
Other operating expenses.....	(15.4)	(0.5)	(11.2)	(0.3)	(27.1)	
Provisions.....	(73.5)	(2.5)	(141.6)	(4.0)	92.7	
Profit sharing plan.....	(40.9)	(1.4)	(53.1)	(1.5)	29.7	
Equity results ⁽¹⁾	(1.7)	(0.1)	(3.4)	(0.1)	99.1	
Finance income.....	52.0	1.8	80.5	2.3	54.9	
Finance expense.....	(211.5)	(7.1)	(244.8)	(7.0)	15.8	
Profit before income taxes	540.3	18.2	789.6	22.7	46.1	
Income taxes.....	(101.9)	(3.4)	(162.7)	(4.7)	59.8	
Net income for the year	438.4	14.8	626.8	18.0	43.0	

(1) Equity results relate to the interest that we hold in CS Bioenergia S.A.

Net operating revenue

Net operating revenue increased by 17.0%, from R\$2,971.2 million in the year ended December 31, 2015 to R\$3,477.5 million in the year ended December 31, 2016. This increase was primarily due to: (i) a 10.5% tariff increase for water supply and sewage services applied to invoices issued from April 1, 2016 onwards and (ii) a 1.6% increase in the number of connections to our water supply services and a 5.1% increase in the number of connections to our sewage system as a result of the population growth and the number of new households serviced by us. The increase of our net operating revenue also resulted from the economic growth of the State of Paraná (which contributed to an increase in the utilization of our services by a larger numbers of customers) and an increase in the number of households, primarily apartment buildings with individual connections to our water supply network, which was positively impacted in part by governmental social programs, such as *Minha Casa, Minha Vida*. For more information governmental programs, see “—Factors Affecting Our Results of Operations and Financial Condition—Governmental Programs.”

The increase in our net operating revenue was partially offset by an increase in discounts offered to low-income families pursuant to our social tariff program, from R\$80.5 million in the year ended December 31, 2015 to R\$88.5 million in the year ended December 31, 2016.

The table below sets forth our net operating revenue by segment for the periods indicated:

	Year Ended December 31,	
	2015	2016
	(in millions of R\$)	
Net operating revenue		
Water revenue	1,948.6	2,263.1
Sewage revenue ⁽¹⁾	1,022.6	1,214.4
Total net operating revenue	2,971.2	3,477.5

(1) Revenues from solid waste are included in sewage segment.

Cost of services

The table below sets forth a breakdown of our costs of services for the periods indicated:

	Year Ended December 31,					
	2015			2016		
	(in millions of R\$)					
	Water	Sewage	Total	Water	Sewage	Total
Personnel	229.1	72.9	302.1	260.7	84.8	345.5
Materials	72.7	24.5	97.2	75.9	25.8	101.7
Electricity	344.2	35.1	379.3	345.4	37.1	382.5
Services from third parties	176.4	116.6	293.0	181.2	116.5	297.7
Depreciation and amortization	92.0	80.8	172.8	103.8	92.3	196.2
Other costs	78.4	22.5	100.9	88.9	32.7	121.5
Total	992.7	352.4	1,345.2	1,055.9	389.2	1,445.1

Cost of services increased by 7.4%, from R\$1,345.2 million in the year ended December 31, 2015 to R\$1,445.1 million in the year ended December 31, 2016. This increase was primarily due to (i) a 14.4% increase in personnel costs, as result of (a) 11.1% wage increase for employees under a collective bargaining agreement, (b) a 11.1% increase in meal vouchers (vale refeição) to employees as of May 2016, retroactive to March, 2016, and an additional payment of R\$986.9 per employee paid in December 2016, (c) costs associated with compensation for termination payments, (d) a 2.0% average wage increase (in addition to the increase resulting from the collective bargaining agreement) due to career advancements, and (e) an 10.9% increase in costs associated with our healthcare plan; (ii) an increase in costs from services from third parties primarily relating to the operation of our water supply and sewage systems, including energy supply, maintenance, surveillance and removal of sludge; (iii) an increase in raw material costs for our water treatment processes and the maintenance of our water supply and sewage systems; (iv) increase in tax expense, and (v) an increase in depreciation and amortization costs.

Selling expenses

Selling expenses increased by 24.8%, from R\$202.8 million in the year ended December 31, 2015 to R\$253.1 million in the year ended December 31, 2016, mainly due to (i) a 13.2% increase in personnel expenses due to salary increases for employees; and (ii) a 19.9% increase in services from third parties expense.

Administrative expenses

Administrative expenses increased by 4.1%, from R\$592.0 million in the year ended December 31, 2015 to R\$616.2 million in the year ended December 31, 2016, mainly due to a 6.9% increase in personnel expenses due to salary increases for employees.

Provisions

Provisions for civil, labor, tax and environmental proceedings and pension and healthcare plans increased 92.7%, from R\$73.5 million in the year ended December 31, 2015 to R\$141.6 million in the year ended December 31, 2016. This increase was due principally to an increase in provisions for civil, labor, tax, and environmental proceedings.

Finance income

Finance income increased by 54.9%, from R\$52.0 million in the year ended December 31, 2015 to R\$80.5 million in the year ended December 31, 2016, principally due an increase in revenues from our financial investments and income from net present value from financial assets.

Finance expense

Finance expense increased by 15.8%, from R\$211.5 million in the year ended December 31, 2015 to R\$244.8 million in the year ended December 31, 2016, mainly due to higher interest expenses on loans and financings.

Income taxes

Income taxes expenses totaled R\$162.7 million in the year ended December 31, 2016 compared to R\$101.9 million in the year ended December 31, 2015. This was primarily due increases in profit before income taxes.

Net income

As a result of the foregoing, net income increased by 43.0%, from R\$438.4 million in the year ended December 31, 2015 to R\$626.8 million in the year ended December 31, 2016. Net margin was 18.0% in the year ended December 31, 2016.

Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

	Year Ended December 31,				Variation (%)
	2014	(%)	2015	(%)	
	(in millions R\$, except percentages)				
Net operating revenue	2,617.0	100.0	2,971.2	100.0	13.5
Cost of services.....	(1,115.1)	(42.6)	(1,345.2)	(45.3)	20.6
Gross profit	1,501.9	57.4	1,626.0	54.7	8.3
Selling expenses.....	(199.8)	(7.6)	(202.8)	(6.8)	1.5
Administrative expenses.....	(485.5)	(18.6)	(592.0)	(19.9)	21.9
Other operating expenses.....	(8.0)	(0.3)	(15.4)	(0.5)	92.3
Provisions.....	(106.4)	(4.1)	(73.5)	(2.5)	(30.9)
Profit sharing plan.....	(41.3)	(1.6)	(40.9)	(1.4)	(0.8)
Equity results ⁽¹⁾	(0.2)	(0.0)	(1.7)	(0.1)	807.5
Finance income.....	28.4	1.1	52.0	1.8	83.2
Finance expense.....	(138.0)	(5.3)	(211.5)	(7.1)	53.3
Profit before income taxes	551.2	21.1	540.3	18.2	(2.0)
Income taxes.....	(129.6)	(5.0)	(101.9)	(3.4)	(21.4)
Net income for the year	421.6	16.1	438.4	14.8	4.0

(1) Equity results relate to the interest that we hold in CS Bioenergia S.A.

Net operating revenue

Net operating revenue increased by 13.5%, from R\$2,617.0 million in the year ended December 31, 2014 to R\$2,971.2 million in the year ended December 31, 2015. This increase was primarily due to: (i) a 12.5% tariff increase for water supply and sewage services, of which 6.5% was applied to invoices issued from March 24, 2015 onwards and an additional 6.0% applied to invoices issued from June 1, 2015 onwards, and an 8.0% extraordinary tariff revision applied to invoices issued from September 1, 2015 onwards; and (ii) a 2.7% and a 5.7% increase in active savings in water supply and sewage services, respectively, due to a 2.4% increase in the number of connections to our water supply network, as well as a 5.7% increase in the number of connections to our sewage system, as a result of the population growth and the number of new households serviced by us. The increase of our operating revenue also resulted from the economic growth of the State of Paraná (which contributed to an increase in the utilization of our services by a larger numbers of customers) and an increase in the number of households, primarily apartment buildings with individual connections to our water supply network, which was positively impacted in part by governmental social programs, such as *Minha Casa, Minha Vida*. For more information

governmental programs, see “—Factors Affecting Our Results of Operations and Financial Condition—Governmental Programs.”

The increase in our net operating revenue was partially offset by an increase in discounts offered to low-income families pursuant to our social tariff program, from R\$66.3 million as of December 31, 2014 to R\$80.5 million as of December 31, 2015.

The table below sets forth our net operating revenue by segment for the periods indicated:

	Year Ended December 31,	
	2014	2015
	(in millions of R\$)	
Net operating revenue		
Water revenue	1,733.6	1,948.6
Sewage revenue ⁽¹⁾	883.5	1,022.6
Total net operating revenue	2,617.0	2,971.2

(1) Revenues from solid waste are included in sewage segment.

Cost of services

The table below sets forth a breakdown of our costs of services for the periods indicated:

	Year Ended December 31,					
	2014			2015		
	(in millions of R\$)					
	Water	Sewage	Total	Water	Sewage	Total
Personnel	206.1	65.5	271.6	229.1	72.9	302.1
Materials	69.6	24.0	93.6	72.7	24.5	97.2
Electricity	183.5	17.9	201.4	344.2	35.1	379.3
Services from third parties	174.1	117.1	291.2	176.4	116.6	293.0
Depreciation and amortization	85.6	70.1	155.8	92.0	80.8	172.8
Other costs	79.5	22.1	101.6	78.4	22.5	100.9
Total	798.4	316.7	1,115.1	992.7	352.4	1,345.2

Cost of services increased by 20.6%, from R\$1,115.1 million in the year ended December 31, 2014 to R\$1,345.2 million in the year ended December 31, 2015. This increase was primarily due to (i) a 11.2% increase in personnel costs, as result of (a) a 7.7% wage increase for technical employees under a collective bargaining agreement, (b) a 2.0% average wage increase (in addition to the increase resulting from the collective bargaining agreement) due to career advancements, (c) a 13.6% increase in meal vouchers (*vale refeição*) to employees, (d) costs associated with the termination of employees, (e) provisioning of vacation bonus (*provisão da gratificação de férias*) (R\$696.6 per employee), (f) cost associated with extra meal vouchers (*vale refeição*) to employees (R\$874.5 per employee) as part of the benefits we offer employees (see “Business—Human Resources—Policy of Benefits”), and (g) increase in costs associated with our healthcare plan; (ii) an increase in costs from services from third parties primarily relating to the operation of our water supply and sewage systems, including power supply, maintenance, surveillance and removal of sludge; (iii) an increase in raw material costs for our water treatment processes and in fuel and lubricant; and (iv) an increase in depreciation and amortization costs.

Selling expenses

Selling expenses increased by 1.5%, from R\$199.8 million in the year ended December 31, 2014 to R\$202.8 million in the year ended December 31, 2015, mainly due to (i) a 9.1% increase in personnel expenses, from R\$84.8 million in the year ended December 31, 2014 to R\$92.5 million in the year ended December 31, 2015, mainly due to salary increases for employees pursuant to the terms of a collective bargaining agreement and (ii) a 5.9% increase in services from third parties expenses, from R\$54.9 million in the year ended December 31, 2014 to R\$58.2 million in the year ended December 31, 2015, primarily relating to an increase in third party expenses.

Administrative expenses

Administrative expenses increased by 21.9%, from R\$485.5 million in the year ended December 31, 2014 to R\$592.0 million in the year ended December 31, 2015, mainly due to (i) a 17.1% increase in personnel expenses, which resulted from an increase in salaries, and (ii) a 14.9% increase in depreciation and amortization expenses.

Provisions

Provisions for civil, labor, tax and environmental proceedings and pension and healthcare plans decreased 30.9%, from R\$106.4 million in the year ended December 31, 2014 to R\$73.5 million in the year ended December 31, 2015. This decrease was due principally to a decrease in provisions relating to labor proceedings.

Finance income

Finance income increased by 83.2%, from R\$28.4 million in the year ended December 31, 2014 to R\$52.0 million in the year ended December 31, 2015, principally due to an increase in income from our financial investments.

Finance expense

Finance expense increased by 53.3%, from R\$138.0 million in the year ended December 31, 2014 to R\$211.5 million in the year ended December 31, 2015, mainly due to an increase in expenses relating to interest and monetary indexation on our loans, financing and debentures. In the year ended December 31, 2015, the TR increased 0.94 percentage points and the TJLP increased 1.25 percentage points compared to the same period in 2014.

Income taxes

Income taxes expenses totaled R\$101.9 million in the year ended December 31, 2015 compared to R\$129.6 million in the year ended December 31, 2014. This was primarily due to an increase in tax savings, from R\$57.0 million in the year ended December 31, 2014 to R\$69.5 million in the year ended December 31, 2015, as a result of credits to shareholders of tax deductible interest on shareholders' equity in lieu of dividends.

Net income

As a result of the foregoing, net income increased by 4.0%, from R\$421.6 million in the year ended December 31, 2014 to R\$438.4 million in the year ended December 31, 2015. Net margin was 14.8% in the year ended December 31, 2015.

Investments

Our investments for the years ended December 31, 2014, 2015 and 2016 and for the nine-month period ended September 30, 2017 were part of our multiannual investment plan that provides for investments of approximately R\$3.5 billion between such periods to improve our water supply and sewage systems. We fund our investments with cash generated by our operations, third party bank and government financing and accessing capital markets. Our investments are intended to modernize and upgrade our water and sewage treatment stations in order to meet the demand for treated water in all regions of the State of Paraná and prepare the sewage network for the expected coverage growth in the coming years.

In the year ended December 31, 2015, we invested R\$795.1 million in property, plant and equipment and intangible assets, representing a 16.7% decrease compared to R\$954.9 million invested in property, plant and equipment and intangible assets in the year ended December 31, 2014. In the year ended December 31, 2015, we focused both on developing new projects and accelerating the execution of ongoing projects.

In the year ended December 31, 2016, we invested R\$701.3 million in property, plant and equipment and intangible assets, representing a 11.8% decrease compared to investments in the year ended December 31, 2015. In the year ended December 31, 2016, we focused both on developing new projects and accelerating the execution of ongoing projects.

In the nine-month period ended September 30, 2017, we invested R\$508.7 million in property, plant and equipment and intangible assets, representing a 3.4% decrease compared to the nine-month period ended September 30, 2016, to both develop new projects and accelerate the execution of ongoing projects.

On November 22, 2016, our board of directors approved our investment program for the years 2017 to 2020, with planned investments of approximately R\$4.4 billion. These investments are mainly to improve our water supply and sewage systems and sustainably provide high quality services to the population. Our investment program for property, plant and equipment and intangible assets for the year 2017 was approved by our board of directors on November 22, 2016, which provides for investments of approximately R\$1.1 billion.

The information included above reflects our current expectations. However, we are not obliged to invest such amounts and cannot guarantee that such amounts will be actually invested.

Liquidity and Capital Resources

Our primary uses of capital are for:

- expansion of our water supply network and treatment system;
- expansion of the sewage collection and treatment system; and
- servicing our debt.

In the years ended December 31, 2014, 2015 and 2016 and nine-month period ended September 30, 2017, our principal sources of funds were: (i) cash generated from our operations and (ii) third-party capital. Our third party capital consists primarily of:

- financing from Caixa Econômica Federal, or CEF;
- funds from the Workers' Guarantee Fund (*Fundo de Garantia por Tempo de Serviço*), or FGTS;
- financing from Banco Nacional de Desenvolvimento Econômico e Social, or BNDES;
- funds from the Workers' Support Fund (*Fundo de Amparo ao Trabalhador*), or FAT;
- funds from the Participation Fund of PIS (*Programa de Integração Social*), or PIS;
- funds from Public Servant Fund Program (*Programa de Formação do Patrimônio do Servidor Público*), or PASEP; and
- funds from the capital markets through the issuance of debentures and promissory notes.

For more information about our third-party capital, see “—Indebtedness.”

We believe that cash generated by our activities is sufficient to meet our operational requirements and to service our debt. However, if necessary, we may access the Brazilian and international financial and capital markets to meet any liquidity requirements and/or refinance our debt.

Cash Flows

Our cash flow derives primarily from our operations and may vary by period depending on variations in our tariffs, costs, and customers' consumption levels. Under current legislation, we are usually able to recover part of any cost increase in a given period by increasing tariffs in the subsequent period. We use cash flows from our operations primarily to finance our operating activities, pay income taxes and service our debt.

The following table shows a summary of our cash flows for the nine-month periods ended September 30, 2016 and 2017, and for the years ended December 31, 2014, 2015 and 2016:

	For the year ended December 31,			For the nine-month period ended,	
	(in millions of R\$)				
	2014	2015	2016	2016 ⁽¹⁾	2017 ⁽¹⁾
Net cash flows from operating activities	774.9	872.3	1,096.7	819.1	1,039.9
Net cash flows used in investing activities	(959.6)	(796.7)	(708.8)	(532.6)	(519.9)
Net cash flows from (used in) financing activities.....	106.9	19.2	86.6	(73.8)	(622.4)
Increase (decrease) in cash and cash equivalents.....	(77.7)	94.7	474.5	212.7	(102.4)

(1) Unaudited financial information.

Statement of cash flows for the nine-month period ended September 30, 2017 compared to statement of cash flows for the nine-month period ended September 30, 2016

Net cash from our operating activities increased 27.0%, from R\$819.1 million in the nine-month period ended September 30, 2016 to R\$1,039.9 million in the nine-month period ended September 30, 2017. The increase in net cash from our operating activities was primarily due a 13.7% increase of net income for the nine-month period ended September 30, 2017 in comparison to the same period of the preceding year as a result of an increase of net operating revenue.

Net cash used in investing activities decreased 2.4%, from R\$532.6 million in the nine-month period ended September 30, 2016 to R\$519.9 million in the nine-month period ended September 30, 2017, primarily due to a 3.4% decrease in our investments in property, plant and equipment and intangible assets.

Net cash used in financing activities totaled R\$73.8 million in the nine-month period ended September 30, 2016 compared to a net cash used in financing activities of R\$622.4 million in the nine-month period ended September 30, 2017. The variation was primarily due to a reduction of 76.4% in loans, financing and debentures obtained in the nine-month period ended September 30, 2017 when compared to the same period in 2016.

Statement of cash flows for the year ended December 31, 2016 compared to statement of cash flows for the year ended December 31, 2015

Net cash from our operating activities increased 25.7%, from R\$872.3 million in the year ended December 31, 2015 to R\$1,096.7 million in the year ended December 31, 2016. The increase in net cash from our operating activities was primarily due a 43.0% increase of net income for the year was due to an increase of net operating revenue.

Net cash used in investing activities decreased 11.0%, from R\$796.7 million in the year ended December 31, 2015 to R\$708.8 million in the year ended December 31, 2016, primarily due to a 11.8% decrease in investments in property, plant and equipment and intangible assets.

Net cash from financing activities increased 350.9%, from R\$19.2 million in the year ended December 31, 2015 to R\$86.6 million in the year ended December 31, 2016, primarily due to the impact of share issuance, net of issuance cost, in the amount of R\$250.3 million in the year ended December 31, 2016, mainly offset by (i) a decrease in new financing from R\$652.8 million in the year ended December 31, 2015 to R\$494.2 million in the year ended December 31, 2016, (ii) a decrease in financing repayment from R\$243.2 million in the year ended December 31, 2015 to R\$219.2 million in the year ended December 31, 2016, and an increase in interest payment from R\$199.6 million in the year ended December 31, 2015 to R\$227.3 million in the year ended December 31, 2016.

Statement of cash flows for the year ended December 31, 2015 compared to statement of cash flows for the year ended December 31, 2014

Net cash from our operating activities increased 12.6%, from R\$774.9 million in the year ended December 31, 2014 to R\$872.3 million in the year ended December 31, 2015. The increase in net cash from our operating

activities was primarily due to an increase in net income, primarily as a result of a 4.0% increase in net operating revenue.

Net cash used in investing activities decreased 17.0%, from R\$959.6 million in the year ended December 31, 2014 to R\$796.7 million in the year ended December 31, 2015, primarily due to a 16.7% decrease in investments in property, plant and equipment and intangible assets.

Net cash generated by financing activities decreased 82.0%, from R\$106.9 million in the year ended December 31, 2014 to R\$19.2 million in the year ended December 31, 2015, primarily due to an increase of 117.5% and 46.8% in the repayment of financings and the payment of interests, respectively.

Indebtedness

We have sought to use our cash flow from our operations to support our investment needs and to meet financial obligations. We believe that our indebtedness level and our material loan and financing agreements are compatible with our activities, including the generation of cash and best market practices. As of September 30, 2017, we were in compliance with all material obligations, covenants and other commitments under the agreements and indentures governing our loans, financings, and debentures.

The table below sets forth for each of the dates indicated below our material loans, financings and debentures. For additional information on these loans, financings and debentures, see Note 11 to our Unaudited Financial Statements.

	Actual Interest Rate	Index Rate	Final Maturity	Outstanding Amount as of December 31,			Outstanding Amount as of September 30,
				2014	2015	2016	2017
				(in millions of R\$)			
	(% per year)						
Caixa Econômica Federal.....	6.62 to 13.68	TR	2038	770.2	804.7	870.4	897.9
Second issuance of debentures – 1st Series	1.92	TJLP	2024	115.0	103.6	93.1	84.8
Second issuance of debentures – 2nd Series	9.20	IPCA	2024	148.0	147.3	139.5	121.7
Second issuance of debentures – 3rd Series	1.92	TJLP	2024	50.0	90.1	124.1	113.0
Third issuance of debentures – 1st Series	1.53	DI	2018	202.6	203.4	135.7	138.6
Third issuance of debentures – 2nd Series...	6.99	IPCA	2020	108.7	120.4	128.3	133.1
Fourth issuance of debentures – 1st Series ..	1.67	TJLP	2027	80.3	161.5	180.8	177.1
Fourth issuance of debentures – 2nd Series	7.44	IPCA	2027	-	66.7	83.4	82.8
Fifth issuance of debentures – 1st Series	1.37	DI	2017	-	111.8	111.9	-
Fifth issuance of debentures – 2nd Series....	1.48	DI	2018	-	189.9	190.0	194.4
Sixth issuance of debentures – 1st Series	1.78	DI	2018	-	-	83.4	80.7
Sixth issuance of debentures – 2nd Series ...	1.84	DI	2019	-	-	177.1	171.3
Promissory Notes – 3rd issuance.....	1.06	DI	2015	102.2	-	-	-
BNDES	1.82 and 2.50	TJLP	2023	188.4	156.2	126.6	94.0
Banco do Brasil S.A. – PSI	3.00 to 6.00	-	2024	29.0	25.9	22.5	20.0
Banco Itaú S.A. – PSI.....	3.00 to 6.00	-	2025	23.4	29.4	25.8	23.1
BNDES – PAC2.....	1.76 to 2.05	TJLP	2028	54.9	125.2	178.1	194.8
Finance Lease	12.40	IPC-FIPE	2036	-	-	41.1	107.9
Total	-	-	-	1,872.4	2,336.0	2,712.1	2,635.3
Current	-	-	-	244.3	230.7	379.2	553.2
Non-current.....	-	-	-	1,628.1	2,105.3	2,332.9	2,082.1

The table below sets forth our total liabilities (current and non-current) divided by type of security and maturity as of September 30, 2017:

	Less than 1 Year	1 to 3 Years	3 to 5 Years (in millions of R\$)	More than 5 years	Total
Secured.....	205.3	444.7	337.6	948.2	1,935.9
Unsecured	1074.9	719.6	234.9	879.2	2,908.6
Total	1,280.2	1,164.3	572.5	1,827.4	4,844.5

Caixa Econômica Federal

We are party to 228 loan agreements with CEF, with funds from FGTS. The proceeds of these loans are used to (i) increase and improve the coverage of our water supply and sewage systems in several cities throughout the State of Paraná, (ii) implement operational improvement programs and (iii) develop programs to reduce water losses. The final maturity of these loans is 2038. The interest rate under these loans ranges from 6.62% to 13.68% per year. These loan agreements have administration fees ranging from 1.0% to 2.0% per year and credit risk rate ranging from 0.3% and 1.7% per year. These loans are secured in part by the water supply system of the municipality of Curitiba in the form of an industrial pledge and by our revenues. In addition, we are required to maintain a reserve account held with CEF, for the term of the loan agreements.

In the year ended December 31, 2016 and the nine-month period ended September 30, 2017, R\$111.3 million and R\$66.1 million, respectively, were disbursed. As of September 30, 2017, there was R\$897.9 million outstanding under these loan agreements.

Second Issuance of Debentures

On August 15, 2011, we issued 10,000 simple non-convertible debentures, with collateral, to be sold in up to three series in the total amount of R\$395.2 million. The first series comprised 3,000 debentures, the second series comprised 3,000 debentures and the third series comprised 4,000 debentures.

The debentures of the first and third series will mature in 2024 and be paid in 121 monthly successive installments, with interest equal to TJLP plus 1.92% per year and a 36-month grace period. The second series will mature in 2024 and be paid in ten annual successive installments, with interest of 9.20% per year, based on 252 business days, calculated on the unit par value adjusted by the IPCA, and a 37-month grace period.

The first series was sold in two tranches on June 22, 2012 and March 26, 2013 for R\$118.5 million. The second series was sold in two tranches on October 29, 2013 and June 18, 2014 for R\$118.5 million. On December 19, 2014, February 9, 2015 and June 15, 2016, we sold a total of 3,092 debentures of the third series for R\$114.9 million. The remaining debentures of the third series have not been placed with investors.

The proceeds of this issuance have been used to fund our investment plan, which will increase and improve the coverage of our water supply and sewage systems in several cities throughout the State of Paraná, prepare studies and projects, and invest in our institutional development. For more information on our investment plan, see “— Investments.”

Third Issuance of Debentures

On November 15, 2013, we issued simple non-convertible unsecured debentures, in two series, in the total amount of R\$300.0 million.

The first series was priced at 110.8% of the accumulated variation of the average daily rates of interbank deposits (*depósitos interfinanceiros*), or DI, and will be paid in semi-annual successive installments, commencing on May 15, 2014 and with a final maturity on November 15, 2018. The second series was priced at 6.99% per year, adjusted by the IPCA, based on 252 business days, and will be paid in semi-annually successive installments, commencing on May 15, 2014, with final maturity on November 15, 2020.

Principal on the first series of the debentures will be paid in three annual successive installments (on November 15, 2016, November 15, 2017, and November 15, 2018), and principal on the second series of debentures will be paid in two annual successive installments (on November 15, 2019 and November 15, 2020).

The proceeds of this issuance were used for general corporate purposes, refinancing our debt, and working capital.

Fourth Issuance of Debentures

On July 15, 2014, we issued 10,000 simple non-convertible unsecured debentures, with collateral, to be sold in up to two series in the total amount of R\$328.6 million. The first series comprised 7,000 debentures and the second series comprised 3,000 debentures. The debentures of the first series will mature in 2027 and be paid in 120 monthly successive installments, with interest equal to TJLP plus 1.67% per year and a 36-month grace period. The second series will mature on 2027 and be paid in 120 successive monthly installments, with interest of 7.44% per year, based on 252 business days, calculated on the unit par value adjusted by the IPCA, and a 36-month grace period.

On November 14, 2014, June 17, 2015 and December 18, 2015, we sold 2,430, 904 and 1,500 debentures of the first series, respectively, for the total amount of R\$158.8 million. On June 17, 2015 and December 18, 2015, we sold 770 and 1,000 debentures of the second series, respectively, for the total amount of R\$58.2 million. The remainder debentures of the first and second series have not been placed with investors.

The proceeds of this issuance have been used to fund our investment plan, which will increase and improve the coverage of our water supply and sewage systems in several cities throughout the State of Paraná, prepare studies and projects, and invest in our institutional development. For more information on our investment plan, see “—Investments.”

Fifth Issuance of Debentures

On June 15, 2015, we issued simple non-convertible unsecured debentures, in two series, in the total amount of R\$300.0 million. The debentures of the first series will mature and be fully paid on June 15, 2017 and were priced at 109.7% of the accumulated variation of the average daily rates of DI. The debentures of the second series will mature and be fully paid on June 15, 2018, and were priced at 110.5% of the accumulated variation of the average daily rates of DI. The proceeds of this issuance are used to fund our investment plan and for working capital.

Sixth Issuance of Debentures

On August 15, 2016, we issued simple non-convertible unsecured debentures, in two series, in the total amount of R\$250.0 million. The debentures of the first series will mature and be fully paid on August 15, 2018 and were priced at 112.6% of the accumulated variation of the average daily rates of DI. The debentures of the second series will mature and be fully paid on August 15, 2019 and were priced at 113.0% of the accumulated variation of the average daily rates of DI. The proceeds of this issuance are used to fund our investment plan and for working capital. For more information on our investment plan, see “—Investments.”

BNDES

We entered into three loan agreements with the BNDES, the proceeds of which were used to drill and operate wells at the Guarani Aquifer, as well as to expand and optimize the water supply and sewage systems in a number of municipalities in the State of Paraná. These loans are secured by our revenues in the amount of R\$14.1 million, adjusted annually in accordance with the IPCA and by an account held with CEF.

Two loans bear interest equal to the TJLP plus 2.5% per year and are being repaid in 108 monthly successive installments. The remaining loan bears interest at a rate equal to the TJLP plus 1.8% per year and is being repaid in 138 monthly successive installments. The loan agreements have a final maturity date in 2023.

In case the TJLP is higher than 6.0% per year, any amount payable by virtue of this higher rate will be applied to the repayment of the principal. The rates of 2.5% and 1.8% per year above the TJLP, added to the non-capitalized installment of the TJLP of 6.0% per year, will be charged to the principal debt balance, which already includes the

capitalized installment. Interest will be paid quarterly during the grace period and monthly during the amortization of the principal.

Banco do Brasil – PSI (Programa de Sustentação do Investimento)

We entered into eleven loan agreements with Banco do Brasil S.A., with funds from BNDES-Finame, the proceeds of which are being used to finance our acquisition of machinery and equipment in various municipalities in the State of Paraná. These financings are secured by pledged negotiable invoices (*duplicatas*) for services rendered, covering 100% of the outstanding balance of the debt. These agreements bear interest at a fixed rate ranging from 3.0% to 6.0% per year.

Banco Itaú S.A. – PSI (Programa de Sustentação do Investimento)

We entered into 13 loan agreements with Banco Itaú S.A., with funds from BNDES-Finame, the proceeds of which are being used to finance our acquisition of machinery and equipment in various municipalities in the State of Paraná. These financings are secured by our revenues. These agreements bear interest at the fixed rate ranging from 3.0% to 6.0%.

BNDES – PAC 2

We entered into four loan agreements with the BNDES, with funds from FAT, the proceeds of which were used to expand and optimize the water supply and sewage systems in a number of municipalities in the State of Paraná. These loans are secured by our revenues and by an account held with CEF.

These financings are secured by our revenues in the amount of R\$32.1 million, adjusted annually in accordance with the IPCA, and by a reserve account held with CEF. These loan agreements have a final maturity in 2028 and bear interest at a rate of TJLP plus 1.76% to 2.05% per year. In case the TJLP is superior to 6.0% per year, any amount payable by virtue of this higher rate will be applied to the repayment of the principal.

Financing Lease

We entered into a financing lease agreement totaling R\$460.6 million, with a monthly lease amount (“VML”) of R\$2,075 to be amortized as follows starting in February 2017: (i) twelve installments of 21.1% of VML, (ii) twelve installments of 49.3% of VML, (iii) twelve installments of 79.5% of VML and (iv) two hundred and four installments of 100% of VML. As of September 30, 2017, R\$4,625 had been amortized.

For more information on our indebtedness, see Note 11 to our Unaudited Financial Statements.

Restrictive Covenants

Under the terms of the financing agreements and debentures described below, we have agreed to the following financial covenants:

Covenants under the BNDES Loan Agreements and the Second and Fourth Issuances of Debentures

Index⁽¹⁾	Threshold	Range
EBITDA/debt service	Equal or higher than 1.5	Lower than 1.5 and equal to or higher than 1.2
Net bank debt/EBITDA	Equal or lower than 3.0	Equal to or lower than 3.8 and higher than 3.0
Other debt/EBITDA	Equal or lower than 1.0	Equal or lower than 1.3 and higher than 1.0

(1) Assessed on an annual basis.

Covenants under the Third, Fifth and Sixth Issuances of Debentures

Index⁽¹⁾	Threshold
Net debt (as described in “—Shareholders’ Equity and Net Deb”)/Adjusted EBITDA	Equal to or lower than 3.0
Adjusted EBITDA/net financial expense	Equal to or higher than 1.5

(1) To be maintained at all times until final maturity.

Shareholders’ Equity and Net Debt

As of September 30, 2017, our shareholders’ equity was R\$5,032.4 million, and our net debt was R\$2,099.4 million.

Our net debt equals the sum of loans, financing, debentures and finance leases (current and non-current) minus the balance of cash and cash equivalents. Net debt is not a measure of financial performance, liquidity or indebtedness recognized by Brazilian GAAP and has no standardized meaning. Other companies, including our competitors, may calculate net debt differently from us. Our management believes that measuring net debt is a useful tool for us and our investors assessing the degree of financial leverage relative to operating cash flows.

The table below reconciles our total and net debt:

	As of December 31,			As of September
	2014	2015	2016	30,
	(in millions of R\$, except percentages)			2017
	(Unaudited financial information)			
Loans, financing, debentures and finance leases				
Current.....	244.3	230.7	379.2	553.2
Non-current	1,628.2	2,105.3	2,332.9	2,082.1
Gross debt	1,872.5	2,336.0	2,712.1	2,635.3
Cash and cash equivalents.....	69.1	163.8	638.3	536.0
Net debt⁽¹⁾	1,803.4	2,172.2	2,073.8	2,099.4

(1) Net debt equals the sum of loans, financings, debentures and finance leases (current and non-current) minus the balance of cash and cash equivalents. Net debt is not a measure of financial performance, liquidity or indebtedness recognized by Brazilian GAAP and has no standardized meaning. Other companies, including our competitors, may calculate net debt differently from us. Our management believes that measuring net debt is a useful tool for us and our investors assessing the degree of financial leverage relative to operating cash flows.

We seek to keep our cash generation in line with our working capital requirements. As of December 31, 2016, we successfully implemented our strategy to extend our debt profile and replace it by debt with lower interest rates, including issuances of our debentures.

Off-Balance Sheet Agreements

We currently do not have off-balance sheet agreements.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks resulting from the ordinary course of our activities, as described below. The main market risks affecting our business are interest rate risk, credit risk and liquidity risk.

Interest Rate Risk

Our interest rate risk refers to the fluctuation of the fair value of future cash flows from financial instruments due to market interest rate variations. Our exposure to this risk is primarily in connection with our short- and long-term obligations that are subject to variable interest rates. This risk arises from the possibility of loss due to changes in interest rates that may potentially increase our finance expenses in connection with our loans, financing and debentures.

The below sensitivity analysis shows possible change to the return rate of our financial investments and interest on our main loans, financings and debentures, as of September 30, 2017, that are subject to variable rates, which may significantly affect us. Considering a DI rate of 14.13%, a TR rate of 1.52%, a TJLP rate 5.57% (as published by the Central Bank) and IPCA of 5.51% (as obtained from the IBGE), the table below shows the impact, within a twelve-month time frame, on our profit before income taxes if these rates were to vary 25.0% and 50.0% from the current rate (considering all other variables remain the same):

Description	Index Rate	As of September 30, 2017			
		+25%	-25%	+50%	-50%
		(in thousands of R\$)			
Caixa FI Sanepar I Renda Fixa.....	CDI	11,949	(11,949)	23,898	(23,898)
Assets		11,949	(11,949)	23,898	(23,898)
Caixa Econômica Federal.....	TR	(1,104)	1,104	(2,208)	2,208
BNDES	TJLP	(1,135)	1,135	(2,270)	2,270
BNDES-PAC2	TJLP	(882)	882	(1,764)	1,765
Second issuance of debentures – 1st and 3rd Series	TJLP	(1,413)	1,413	(2,826)	2,826
Second issuance of debentures – 2nd Series	IPCA	(652)	652	(1,304)	1,304
Third issuance of debentures – 1st Series	DI	(2,939)	2,939	(5,878)	5,878
Third issuance of debentures – 2nd Series	IPCA	(614)	614	(1,228)	1,228
Fourth issuance of debentures – 1st Series	TJLP	(1,172)	1,172	(2,344)	2,344
Fourth issuance of debentures – 2nd Series	IPCA	(398)	398	(796)	796
Fifth issuance of debentures – 1st Series	DI	(1,605)	1,605	(3,210)	3,210
Fifth issuance of debentures – 2nd Series	DI	(4,151)	4,151	(8,302)	8,302
Sixth issuance of debentures – 1st Series	DI	(1,849)	1,849	(3,698)	3,698
Sixth issuance of debentures – 1 st Series	DI	(3,902)	3,902	(7,804)	7,804
Finance Lease	IPC	(4,727)	4,727	(9,454)	9,454
Liabilities		(26,543)	26,543	(53,086)	53,086
Effects on profit before income taxes		(14,594)	14,594	(29,188)	29,188

The purpose of the sensitivity analysis is to measure the impact of changes to market variables on our financial instruments. At the time of settlement, such amounts may differ from those set forth above due to the estimates used in their calculation.

Credit Risk

We do not perform any credit risk analysis mainly because we are able to interrupt the services provided to any private customer in case of a default. We do not interrupt our services to governmental customers. In the nine-month period ended September 30, 2017, our default rate (the percentage of amounts invoiced but not paid within one day after their due date) was 1.1%, and our average age of our receivables was 69 days. In order to manage our credit risk, our management focuses on the reduction of customer default levels through negotiations with defaulting municipal governments and by settling debts with past credit balances. If we fail to reach an agreement with any defaulting customer, we file for judicial collection.

Of our total accounts receivable as of September 30, 2017, 5.9% was owed by public sector entities. We may confront political obstacles in collecting such overdue receivables due to the potentially conflicting interests of our controlling shareholder, the State of Paraná, which may hinder our collection and enforcement efforts. We cannot ensure that the State of Paraná and other public sector entities will timely pay us in the future. See “Risk Factors—Risks Related to Us and Our Industry—We may face difficulties in collecting overdue amounts owed to us, including by public sector entities to which we supply water and local and state government entities, which could have an adverse effect on us.”

As of September 30, 2017, of the total overdue receivables, net of allowance for losses, totaled R\$3.2 million were due by municipal authorities, R\$165.6 million were due by private customers and R\$7.2 million were due by state and federal bodies.

Liquidity Risk

Our liquidity risk relates to the possibility of not having sufficient funds to meet our obligations. The management of our liquidity and cash flow is performed on a daily basis to ensure that our generation of operating cash flow and preliminary funding, if required, are sufficient to meet our commitment schedule. We structure the maturities of our financing agreements so as not to affect our liquidity.

Concession Risk

Our results depend on the maintenance of our concessions in the municipalities where we operate. Our concession and program agreements generally have 30-year terms. Our concession and program agreements establish targets for the expansion and maintenance of the water and sewage systems. In some cases, the municipality granting the concession is entitled to terminate our concession or program agreement before the end of the term, or not authorize their renewal, upon payment of an indemnification for the investment balances not yet depreciated or amortized that may not be sufficient. See “Risk Factors—Risks Related to Us and Our Industry—We may face difficulties in continuing to provide water and sewage services in return for payment in certain municipalities due to the lack of formal concession or program agreements with such municipalities, which may have an adverse effect on us.”

Regulatory Risk

The Brazilian Sanitation Law, including its implementation in the State of Paraná through the Water Institute of Paraná, is still undergoing a process of interpretation, and regulatory uncertainty as well as any of the changes currently proposed may adversely affect our business. Although the Brazilian Sanitation Law was passed in 2007, uncertainties continue to exist as to whether it will be regulated at the state and/or municipal level, or how courts will interpret certain aspects of the law, particularly in connection with the requirement of having a regulatory authority in the Brazilian sanitation sector, restrictions or impositions on investments and rules with respect to tariffs. The lack of clear rules and changes in current regulations could have a material adverse effect on us, particularly by increasing our costs, and it may not be possible to pass our increased costs on to our customers. See “Risk Factors—Risks Related to Us and Our Industry—The Brazilian Sanitation Law, particularly its implementation in the State of Paraná through the Water Institute of Paraná, is still undergoing a process of implementation and interpretation, and regulatory uncertainty, as well as any changes to current regulations may adversely affect our business.”

THE SANITATION SECTOR IN BRAZIL

The sanitation sector in Brazil consists of water supply, sewage services and handling of solid waste. As provided in the Brazilian Constitution, sanitation activities are considered to be common responsibilities of the federal government, the states and the municipalities. The sector is primarily regulated by the Brazilian Sanitation Law.

Currently, sanitation services are provided in Brazil (1) by states and municipal governments; (2) by cooperatives or associations organized by local users, with services limited to lower-income communities; (3) in the case of regional services, by agencies, public foundations, consortia and state-owned or mixed-capital companies either pursuant to concession and program agreements signed among different levels of government or within the scope of a public association constituted by the service providers; and (4) by companies operating as public service concessionaires, which are generally state-owned companies. These state-owned companies are responsible for the majority of sanitation services provided in Brazil.

The water supply system encompasses the collection, adduction, treatment, stocking and distribution of water, including the installation of hydrometers and physical connections to buildings, facilities and residential properties.

The sewage system encompasses the collection, transportation, treatment and final disposal of sewage, including industrial effluents from buildings, facilities and residential properties to final release into the environment. The final disposal of sewage sludge from sewage treatment stations and the reuse of water after the treatment of sewage are also components of sewage services.

Sanitation services are directly related to issues that concern public health and the environment. The capacity to supply potable water to the population and the volume of collected and treated sewage have a direct impact on public health indicators, such as infant mortality, and control of water-transmitted diseases. Maintaining levels of potable water necessary to serve the population directly depends on the rational use of water resources. Moreover, sewage collection, treatment and final disposal serve to eliminate environment pollutants and contaminants, thereby preserving the environment.

Although the access to basic public sanitation services is a fundamental right, the sanitation sector in Brazil is still in the early stages of development, which presents numerous structural problems, such as:

- inadequate services provided to low-income communities and populations in less-developed regions; and
- high levels of water loss in the course of water supply services due to leakages and an absence of consumption volume measurement and sub-measurement of the population.

According to SNIS, in 2015, 164.7 million inhabitants in Brazil had access to clean water. Additionally, 15,381 million m³ of water were produced and distributed to 53.4 million buildings, facilities and residential properties through 602.4 thousand kilometers of piping.

Historical Evolution of the Water System

	Year ended December 31,		
	2013	2014	2015
Population with access to water supply	159,964,320	163,236,203	164,765,593
Produced water volume (m ³)	16,117,584	15,991,238	15,381,099
Consumed water volume (m ³)	10,144,946	10,132,306	9,723,650
Number of water connections.....	49,635,400	51,604,335	53,400,652
Water network size (km)	571,433	586,170	602,408

Source: SNIS

The water supply service rate of the 5,088 municipalities that participated in SNIS in 2015 was 83.3%, with the southeast region having the highest service rate and the north region having the lowest service rate.

Service Rate of the Total Population with Water Network

	Year ended December 31,		
	2013	2014	2015
		(%)	
North	52.4	54.5	56.9
Northeast	72.1	72.9	73.4
Southeast	91.7	91.7	91.2
South	87.4	88.2	89.4
Center-West	88.2	88.9	89.6
Brazil.....	82.5	83.0	83.3

Source: SNIS

Water losses are a major problem of the Brazilian water supply networks. In 2015, the water supply networks suffered a 36.7% water loss out of the total water produced.

Losses in Water Distribution

	Year ended December 31,		
	2013	2014	2015
		(%)	
North	50.8	47.9	46.3
Northeast	45.0	46.9	45.7
Southeast	33.4	32.6	32.9
South	35.1	33.4	33.4
Center-West	33.4	34.2	34.2
Brazil.....	37.0	36.7	36.7

Source: SNIS

According to SNIS, we have one of the lowest indices of water loss among state sanitation companies in Brazil.

According to SNIS, in 2015, the Brazilian sewage network spanned 284.0 thousand kilometers, with 29.0 million connections. The sewage network benefited 99.4 million inhabitants by collecting and treating 5,187 million and 3,805 million cubic meters, respectively.

Historical Evolution of the Sewage System

	Year ended December 31,		
	2013	2014	2015
Population served.....	94,335,251	98,006,500	99,425,658
Collected volume (m ³).....	5,222,459	5,357,051	5,186,706
Treated volume (m ³).....	3,579,335	3,763,851	3,805,022
Treated amount (%).....	68.5	70.3	73.4
Number of sewage connections	26,398,494	27,628,416	28,988,889
Sewage network size (km)	267,329	270,661	284,041

Source: SNIS

The sewage service rate of the 3,798 municipalities that participated in SNIS in 2015 was 50.3%, with the southeast region having the highest service rate and north region the lowest service rate.

Service Rate of the Total Population with Sewage Collection System

	Year ended December 31,		
	2013	2014	2015
		(%)	
North	6.5	7.9	8.7
Northeast	22.1	23.8	24.7
Southeast	77.3	78.3	77.2
South	38.0	38.1	41.0
Center-West	42.2	46.9	49.6
Brazil.....	48.6	49.8	50.3

Source: SNIS

Sewage companies had operating revenues of approximately R\$47.3 billion in 2015. In terms of investment, sewage companies invested a total of R\$12.2 billion, including investments from municipal and state governments.

Consolidated Financial Data

	Year ended December 31,		
	2013	2014	2015
		(million of R\$)	
Operating Revenues	42,629.2	45,111.2	47,320.3
Total Investments	10,485.2	12,197.7	12,175.1

Source: SNIS

REGULATION OF THE SANITATION SECTOR IN BRAZIL

Overview

On January 5, 2007, Federal Law No. 11,445, or the Brazilian Sanitation Law, was enacted, which established nationwide guidelines for basic sanitation and sought to create solutions that reflected the needs of each state and municipality and facilitated the technical cooperation among states and municipalities. The law also ordered the Brazilian government to enact public policies to facilitate access to financing alternatives compatible with the costs and terms of the sanitation sector, which replaced the previous national sanitation plan (*Plano Nacional de Saneamento* – PLANASA). On June 21, 2010, the federal government enacted Federal Decree 7.217, thereby regulating the Brazilian Sanitation Law.

The Brazilian Sanitation Law establishes the following principles for basic public sanitation services: universality, comprehensiveness, efficiency, economic sustainability, transparency, consumption management and integrating infrastructure, services with water resource management, social control and use of appropriate technologies. The law does not define ownership of sanitation services, but establishes the minimum requirement for ownership, such as the development of a sanitation plan, the identification of the person responsible for regulation and control and the establishment of the rights and obligations of users and mechanisms of consumption management. On February 28, 2013, the federal Supreme Court established, based on a case in the State of Rio de Janeiro, that public services which are common to the metropolitan municipalities, such as basic sanitation and transportation, must be managed by a council that is represented by the state and the municipalities involved. Additionally, the law defines how services will be carried out on a regional basis (*i.e.*, one single provider serves two or more owners, for which there may be one plan for the combination of services). It also defines how services will be carried out on an interdependent basis (*i.e.*, more than one service provider performing interdependent activity in different phases of the process). See “Risk Factors—Risks Related to Us and Our Industry—The Brazilian Sanitation Law, particularly its implementation in the State of Paraná through the Water Institute of Paraná, is still undergoing a process of implementation and interpretation, and regulatory uncertainty, as well as any changes to current regulations may adversely affect us.” The Water Institute of Paraná is implementing changes in the regulation of water and sewage services in the State of Paraná, including significant changes in methods and the tax rate structure applicable to our activities. See “—Legislation in Paraná.” The lack of regulation, implementation of new rules or amendments to the existing regulation could adversely affect our business.

The Brazilian Sanitation Law defines the guidelines for federal basic sanitation policy relating to securing public funds generated or used by federal agencies or entities. The law also allows the use of subsidies as an instrument of social policy to ensure universal access to basic sanitation services, particularly for low-income populations. These subsidies may be granted either directly, through tariffs, or indirectly, depending on the characteristics of the beneficiaries and the source of funds.

The Brazilian Sanitation Law also governs cooperation among federal entities in the sanitation sector and allows sanitation service entities to delegate the organization, regulation, monitoring and provision of these sanitation services pursuant to concession and program agreements or through public associations in accordance with Law No. 11,107, dated April 6, 2005. Accordingly, after the enactment of the Brazilian Sanitation Law, authorized federal entities may continue delegating their duties pursuant to concession grants to directly provide sanitation services. In addition, the Brazilian Sanitation Law enables federal entities to enter into program agreements with sanitation services providers within the scope of public associations or pursuant to concession and program agreements between federal entities.

The Brazilian Sanitation Law establishes clear legal authority for municipalities to delegate the provision of water supply and sewage services to sanitation services providers, without the need to conduct competitive bidding processes. In order to assign a sanitation services provider without a competitive bidding process, municipalities have to sign concession and program agreements with the states and enter into program agreements with sanitation service providers that allow for joint management of sanitation services.

The validity and effectiveness of these program agreements is contingent upon fulfillment of the following requirements: (1) observance of legislation relating to concessions and permissions for providing public utility services, particularly with respect to the calculation of tariffs and the regulation of the services to be provided, and

(2) inclusion of procedures to ensure financial transparency and economic management of the services provided to the relevant public administration.

Furthermore, the Brazilian Sanitation Law also provides that sanitation services may be interrupted by the service provider in the event of default on tariff payment by the customer, among other reasons, after written notice, and as long as minimum health requirements are met.

The Brazilian Sanitation Law also establishes criteria for the reversal of assets at the time of termination of the agreement or concession, including concessions that have expired, those that are effective for an indefinite term or those that were not formalized by an agreement. In addition, the Brazilian Sanitation Law provides the basis for calculating the indemnities due to concessionaires in the case of termination. The indemnities must be calculated by a specialized institution chosen by mutual agreement among the parties.

Pursuant to the Brazilian Sanitation Law, parties to concessions may enter into an agreement regarding the indemnity payment due to the concessionaires. However, in the absence of an agreement, the Brazilian Sanitation Law establishes that the indemnity must be paid in no more than four equal and successive annual installments, with the first installment payable by the last business day of the fiscal year in which the assets are reversed.

Legislation in the State of Paraná

On December 27, 2016 Supplementary Law 202/2016 (the State of Paraná) was sanctioned, allocating the competency for exercising the regulation, inspection and control functions involving basic sanitation services consisting of public services for the supply of drinking water, sewage, urban cleaning and solid waste treatment and urban rain water drainage and handling to the Regulatory Agency of Paraná – AGEPAR, provided there is associated management between the states and municipalities in the manner approved by Federal Law 11.107 dated April 6, 2005 and pursuant to Federal Law 11.445 dated January 5, 2007. Furthermore, the same Supplementary Law revoked that competency of the Paraná Institute of Waters.

Created by Supplementary Law 94 of July 23, 2002, AGEPAR is an autonomous government entity under a special regime, with the legal personality under public law, with its own assets and revenues, independent decision-making powers and administrative, technical and financial autonomy.

With its place of business and venue in the city of Curitiba, and jurisdiction over the entire state territory of the State of Paraná, it can set up regional units linked to the Government of the State of Paraná and, in terms of budget, to the Office of the Chief of Staff.

Among its competencies, pursuant to art. 5 of Supplementary Law 94/2002, AGEPAR must regulate, inspect and control, according to the law, the delegated public infrastructure services of Paraná; and, in accordance with art. 6, among other things, it must: (i) ensure proper compliance with the legislation and the instruments of delegation involving the provision of the public services under its regulatory remit; (ii) implement the guidelines established by the contract-letting agency regarding delegations of the services under the Agency's remit; (iii) provide economic regulation of the public services under its remit, while at the same time encouraging investments and affording reasonability and moderateness to the tariffs for users; (iv) conduct inspections and technical regulation, ensuring compliance with the instruments of delegation, and the rules and regulations for developing the public service, to ensure quantity, quality, safety, suitability, purpose and continuity; (v) provide systematics and propose methodologies for establishing regulatory parameters regarding the public service, cost calculations, certifications and current and future investment plans; (vi) resolve, within the administrative sphere and as a final decision, with due regard for its remit, conflicts between the contract-letting agency, the regulated entities and users and, as the case may be, to arbitrate; (vii) classify, evaluate and define, when necessary and based on the instruments of delegation and on information provided by the contract-letting agency and by the entities regulated, directly or with the assistance of specialists, the ownership of the reversible assets; (viii) decide, ratify and set, within the administrative sphere and as a final decision, requests for adjustments to the tariffs of the regulated public services in accordance with the law, the instruments of delegation and the rules and instructions the Agency issues; (ix) provide the contract-letting agency with technical input in delegating the services owned by the state, whereby the tender notices must be submitted for prior approval by the agency; and, prior to ratification by the contract-letting agency, issue an opinion; (x) provide technical input, when requested, to other spheres of government in delegating the activities they own; (xi) measure the quality with which the regulated services are provided, with due regard for

parameters defined in the instruments of delegation and their respective agreements; (xii) ensure compliance with its administrative decisions, imposing the appropriate sanctions and compensations, with proper regard for due legal process, adverse proceeding and opportunity to be heard; (xiii) issue resolutions and instructions within the scope of its remit, and it is allowed to set deadlines for fulfillment of obligations by the providers of the regulated public services, voluntarily or when triggered by conflicts of interest; (xiv) determine or carry out diligences with the contract-letting agency, regulated entities and users, where it is assured full access to data and information about the services under its remit; (xv) contract and enter into arrangements with public and private entities, technical services, inspections, audits or examinations required for performing the activities under its remit; (xvi) create information systems for controlling aspects pertaining to the Agency's services, in collaboration with the other federal, state and municipal systems regarding the delegated public services; (xvii) draw up its in-house regulations, setting out the procedures for holding public hearings, forwarding complaints, responses to enquiries, issuing administrative rulings and the respective appeal proceedings; (xviii) draw up budget proposals to be included in the general budget of the state government; (xix) hire personnel under selections for public office; (xx) regulate the heavier and ethical conduct of its agents, irrespective of how they were hired; (xxi) respond to users by receiving, dealing with and looking into complaints and suggestions involving how the delegated public services are provided, in accordance with the regulations of this law, through the Agency's ombudsman and in cooperation with the State Consumer Protection System and the Ombudsman of the State Office of the Controller-General; (xxii) engage in all other actions required for attaining the Agency's purposes, including representation in and out of court; and (xxiii) perform the competencies provided for in Federal Law 11.445, of 2007, as an Agency, to regulate and inspect the services involving the supply of drinking water, sewage, urban cleaning, treatment of solid waste and drainage and handling of urban rain water.

Supplementary Law 202/2016, in turn, authorized the Head of the State Government to enter into cooperation agreements with the owners of the basic sanitation services, allocating the inspection and regulation of the services delegated by the owners to AGEPAR and, occasionally, to provide services to Companhia de Saneamento do Paraná – SANEPAR under a program agreement to be executed with each municipality under the arrangement. Within this context, our company appears as a component of the administration of the federal entity to which the owner can delegate the provision of the sanitation services under a program agreement authorized under a cooperation arrangement or public consortium, ratifying the provisions of Federal Law 11.107/2005 (associate management for providing services of common interest – Cooperative Federalism), with invitations to tender waived, pursuant to article 24, subsection XXVI of Law 8.666, dated June 21, 1993.

Legislation in Santa Catarina

We provide basic sanitation services in one municipality in the State of Santa Catarina. The Santa Catarina State Sanitation Services Regulatory Agency (*Agência Reguladora de Serviços de Saneamento Básico do Estado de Santa Catarina*), or AGESAN, is responsible for the regulation and inspection of Santa Catarina's basic sanitation services. AGESAN's jurisdiction is limited to situations in which the basic sanitation service is provided (directly or indirectly) by the State of Santa Catarina or by an entity created by the state to provide such service. AGESAN may also act within the scope of municipalities or public consortium of municipalities, subject to express authorization.

The duties of AGESAN include, among others, to: (i) supervise, control and evaluate the actions and activities arising from compliance with the specific law; (ii) inspect the provision of basic sanitation services, including the accounting and financial aspects and the related operational technical performance; (iii) issue technical and economic regulations to set quality standards; (iv) enter into concession and program agreements with municipalities interested in being subject to the operational scope of AGESAN; (v) establish a tariff system; (vi) analyze the costs and economic/financial performance of the services provided; and (vii) participate in the preparation and supervise the implementation of the basic sanitation state policy and plan.

Some municipalities in the State of Santa Catarina, however, have opted not to abide by the regulations of AGESAN, subjecting themselves to the regulations of other regulatory agencies. As a consequence, the Intermunicipal Sanitation Regulatory Agency (*Agência Reguladora Intermunicipal de Saneamento*), or ARIS, was officially created and currently has jurisdiction over 164 municipalities in Santa Catarina, including the municipality of Porto União. We entered into a concession agreement with this municipality, to provide water supply and sewage disposal services. The agreement has expired, but we are negotiating with the municipality for the execution of a program agreement, in order to continue providing sanitation services for another 30 years to the region.

The duties of the ARIS are to regulate and inspect all the basic sanitation activities: water supply, sewage disposal, handling of solid waste, urban cleaning and rainwater drainage. Currently, the ARIS regulates and inspects state concessionaires (CASAN and us), privately held companies, municipal independent agencies (SAMAEs) and the municipal governments themselves, when they provide the services (DAEs). The ARIS enjoys administrative, financial and budgetary independence.

Public Bidding Law

We are subject to the Paraná State Bidding Law (Law No. 15,608, dated August 16, 2007) and the Public Bidding Process Law (No. 8,666, dated June 21, 1993), which regulate bidding processes for concessions of services and engineering projects. We must also comply with these laws when awarding contracts.

Tariff Pricing for Sanitation Services

Because we are a provider of public services, our tariffs for providing water supply and sewage services are subject to regulation by the Brazilian government.

The Brazilian Sanitation Law grants to regulatory entities the authority to issue rules on the structure, levels, pricing procedures, periods of validity and increases of tariffs. The tariff structure must be based on levels of consumption, such that the average tariff obtained can preserve the economic/financial condition of providers of sanitation services. In the case of joint management of sanitation services or of regional provision of sanitation services, the same providers may adopt the same economic, social and technical criteria, including tariff policies, for the entire area covered by the joint management or regional provision of sanitation services.

Our water supply services tariff is based on cubic meter measured and the sewage tariff is billed as a percentage corresponding to 85.0% of water consumption in the municipality of Curitiba and 80.0% in the other municipalities where we provide sewage services.

Water and sewage tariffs differ based on categories of use and consumption levels, such that customers with higher purchasing power subsidize customers in less favorable conditions, and those with higher consumptions subsidize those with lower conditions, according to the following categories:

- *Social*: units inhabited by families with reduced payment capacity;
- *Residential*: units or groups of units used exclusively or primarily for residential purposes;
- *Commercial, services and other activities*: units used for commercial purposes and other activities not included in other categories;
- *Industrial*: units used for industrial purposes based on the definition of the IBGE; and
- *Public*: units used for activities exercised by public entities.

The tariffs of each consuming category are progressive in relation to billable volume.

The determination, adjustments, review and modifications of our basic sanitation tariffs must be approved by Paraná's governor, based on a proposal prepared by the Water Institute of Paraná.

Tariff adjustments may be conducted: (i) on a periodic basis in order to distribute the productivity gains from customers and as a result of new market conditions; and (ii) on an extraordinary basis, when there are facts or circumstances beyond the control of the service providers that affect their financial viability.

Tariff adjustments are set based on the following procedure: (i) we present the adjustment proposal to the Water Institute of Paraná, based on financial information and data on the Brazilian economy; (ii) after analyzing the proposal and potential reviews, the Water Institute of Paraná submits to Paraná's governor the minimum and maximum percentages of annual adjustment; and (iii) the governor decides, based on the percentages submitted by the Water Institute of Paraná, the value of the tariff adjustment.

Our tariff adjustments follow the national sanitation guidelines, as amended from time to time. Tariffs are adjusted once per year, at twelve-month intervals between adjustments. Tariff adjustments must be announced 30 days before taking effect. We have been adjusting our tariffs every year since 2011. In the years ended December 31, 2013 and 2014, our tariff increased by 6.9% and 6.4%, respectively. In the year ended December 31, 2015, our tariff increased by (i) 12.5%, of which 6.5% was applied to invoices issued from March 24, 2015 onwards and an additional 6.0% applied to invoices issued from June 1, 2015 onwards, and (ii) by 8.0% due to an extraordinary revision that applied to invoices issued from September 1, 2015 onwards. In the nine-month period ended September 30, 2016, our tariff increased by a 10.5%, which applied to invoices issued from April 1, 2016 onwards, pursuant to State Decree No. 3,576, of February 29, 2016.

BUSINESS

Overview

We are one of the largest basic sanitation companies in Brazil in terms of net operating revenue, according to *Valor Econômico* newspaper. We provide water supply and sewage services in the State of Paraná, which, according to IBGE, is the fourth largest state economy in Brazil in terms of gross domestic product, or GDP.

Our main business consists of providing the following services:

- *Water Supply Services.* We supply water in 345 municipalities in the State of Paraná, covering approximately 86.5% of the municipalities in such State, including the ten largest municipalities and the capital, Curitiba. We also provide water services to one municipality in the State of Santa Catarina. We have a 100.0% water coverage ratio, servicing approximately 3.8 million consumer units; and
- *Sewage Services.* We provide sewage collection and treatment services in 184 municipalities in the State of Paraná serving approximately 3.1 million consumer units and representing a 70.2% sewage coverage ratio.

We provide water supply services through approximately 52.4 thousand kilometers of piping and 3,068.2 million water connections, and we provide sewage services through a sewage collection network spanning approximately 34.1 thousand kilometers, with 2.0 million sewage connections. We believe we are one of the few basic sanitation companies in Brazil that treats virtually 100.0% of the sewage collected.

We also manage solid waste in the three landfills we operate in the State of Paraná: Cianorte, Apucarana and Cornélio Procopio. The landfill in Cianorte serves the municipalities of São Tomé, Terra Boa, Guaporema and Indianópolis and treated over 62,500 tons of waste in 2016. We are also investing in biogas through CS Bioenergia S.A., a joint venture with Cattalini Bioenergia Operação S.A., in which we hold a 40.0% ownership interest.

We provide our services under long-term concession and program agreements that are individually negotiated with each municipality and generally have a 30-year term. As of September 30, 2017, our ten largest concession and program agreements had an average remaining term of approximately 20 years, including our agreement with the municipality of Curitiba, which expires in 2031. Our ten largest concession and program agreements accounted for 54.9% and 55.0% of our net operating revenue during the nine-month period ended September 30, 2017 and the year ended December 31, 2016, respectively. Our concession agreement with the municipality of Curitiba individually accounted for 24.5% and 26.5% of our net operating revenue during the nine-month period ended September 30, 2017 and the year ended December 31, 2016, respectively. Historically, our renewal rate for our concession and program agreements has been 99.9%, showing the operating quality of our services and the trust we have earned in the municipalities and populations we serve.

In the nine-month period ended September 30, 2017, we had net operating revenue of R\$2,843.9 million, and net income of R\$531.9 million, representing a 13.7% increase compared to our net income for the nine-month period ended September 30, 2016. In the nine-month period ended September 30, 2016, we had net operating revenue of R\$2,550.9 million, and net income of R\$467.9 million.

In the year ended December 31, 2016, we had net operating revenue of R\$3,477.5 million, and net income of R\$626.8 million, representing a 43.0% increase compared to our net income in the year ended December 31, 2015. In the year ended December 31, 2015, we had net operating revenue of R\$2,971.2 million, and net income of R\$438.4 million, representing a 4.0% increase compared to our net income in the year ended December 31, 2014.

The tables below show our key financial and operating information as of and for the years ended December 31, 2014, 2015 and 2016, and as of and for the nine-month periods ended September 30, 2016 and 2017:

	Year ended December 31,					Nine-month period ended September 30,		
	2014	2015	2016	Variation (%)		2016 ⁽¹⁾	2017 ⁽¹⁾	Variation (%) 2016-2017 ⁽¹⁾
				2014-2015	2015-2016			
	(in millions of R\$ except percentages)							
Net operating revenue	2,617.0	2,971.2	3,477.5	13.5%	17.0%	2,550.9	2,843.9	11.5%
Revenue								
Water.....	1,733.6	1,948.6	2,263.1	12.4%	16.1%	1,663.8	1,835.0	10.3%
Sewage.....	883.4	1,022.6	1,214.4	15.8%	18.8%	887.1	1,008.9	13.7%
Gross Profit.....	1,501.9	1,626.0	2,032.4	8.3%	25.0%	1,493.2	1,701.8	14.0%
Gross Margin ⁽²⁾	57.4%	54.7%	58.4%	(2.7) p.p.	3.7 p.p.	58.5%	59.8%	1.3 p.p.
Net Income	421.6	438.4	626.8	4.0%	43.0%	467.9	531.9	13.7%
Net Margin ⁽³⁾	16.1%	14.8%	18.0%	(1.3) p.p.	3.2 p.p.	18.3%	18.7%	0.4 p.p.
EBITDA ⁽⁴⁾	835.8	894.0	1,171.0	7.0%	31.0%	912.3	999.7	9.6%
EBITDA Margin ⁽⁵⁾	31.9%	30.1%	33.7%	(1.8) p.p.	3.6 p.p.	35.8%	35.2%	(0.6) p.p.
ROE ⁽⁶⁾	11.4	11.0	13.9	(0.4) p.p.	2.9 p.p.	10.9	14.04	22.4%

(1) Unaudited financial information.

(2) Gross profit divided by net operating revenue.

(3) Net income divided by net operating revenue.

(4) EBITDA is calculated according to guidelines of CVM Instruction 527, as being net income adjusted for the financial result, income and social contribution taxes, and costs and expenses of depreciation and amortization. EBITDA is not a measure of financial performance according to the accounting practices adopted in Brazil, nor must it be considered on a stand-alone basis or as an alternative to net income as a measure of operations or an alternative to cash flows from operations, or as a measure of liquidity or the basis for the distribution of dividends. Other companies may calculate their EBITDA in a different manner from us. EBITDA serves as an indicator of our overall economic performance, not affected by fluctuations in interest rates, changes to the rates of income and social contribution taxes or the levels of depreciation and amortization. Therefore, we believe that EBITDA serves as a significant tool for periodically comparing our operating performance, as well as for basing certain decisions of an administrative nature. Since EBITDA does not factor in certain costs intrinsic to our business, or which could, in turn, have a significant effect on our earnings, such as financial expenses, taxes, depreciation, capital expenditures and other corresponding charges, it is fraught with limitations that affect its use as an indicator of our profitability.

(5) The EBITDA Margin is EBITDA divided by net operating revenue.

(6) ROE, (Return on Equity) is calculated as follows: net income divided by the arithmetic average of the shareholders' equity registered at the beginning and at the end of a given business year.

	As of December 31,					As of September 30,		
	2014	2015	2016	Variation (%)		2017 ⁽¹⁾	Variation (%) 12/31/2016 09/30/2017 ⁽¹⁾	
				2014-2015	2015-2016			
	(in millions of R\$)							
Net debt ⁽²⁾	1,803.4	2,172.2	2,073.8	20.4%	(4.5)%	2,099.4	1.2%	
Shareholders' equity.....	3,801.1	4,180.3	4,808.7	10.0%	15.0%	5,032.4	4.7%	

(1) Unaudited financial information.

(2) Net debt is the sum of the balances of current and non-current loans, financing, debentures and finance leases after deducting the balance of our cash and cash equivalents. Net debt is not a measure of financial performance, liquidity or indebtedness recognized by the accounting practices adopted in Brazil and it has no standard meaning. Other companies may calculate their net debt in a different manner from us. Our management believes that the measurement of Net Debt is useful, both for us and for investors and financial analysts, for evaluating the degree of financial leverage in relation to operating cash flow.

	Year ended December 31,					Nine-month period ended September 30,		
	2014	2015	2016	Variation (%)		2016	2017	Variation (%) 2017
				2014-2015	2015-2016			
% Water service ratio.....	100.0%	100.0%	100.0%	-	-	100.0%	100.0%	2.9p.p.

Corporate Structure

The chart below shows our corporate structure as of the date of this offering memorandum:



For more information on our Selling Shareholders, see “Principal and Selling Shareholders.”

Areas of Operation

We provide water supply services in 345 municipalities in the State of Paraná and one municipality in the State of Santa Catarina. We provide sewage collection and treatment in 184 municipalities in the State of Paraná.

We provide water supply services through approximately 52.4 thousand kilometers of piping and 3,068.2 million water connections, and we provide sewage services through a sewage collection network spanning approximately 34.1 thousand kilometers, with 1.9 million sewage connections.

In the water supply segment, according to our calculations, we have a 100.0% water coverage ratio in our area of operations. In the sewage segment, we have a 69.1% sewage coverage ratio in our areas of operation, according to our calculations, and virtually 100.0% of the sewage we collect is treated.

Concession and Program Agreements

The concession and program agreements that we enter into are drafted in accordance with the Brazilian Sanitation Law.

Our agreements are individually negotiated with each municipality and generally have a 30-year term. Each of our concession and program agreements consists of an individual concession granted to us by each municipality, which may cover more than one location belonging to the same municipality. As of September 30, 2017, our ten largest concession and program agreements had an average remaining term of approximately 20 years, including our agreement with the municipality of Curitiba, which expires in 2031. In the nine-month period ended September 30, 2017, the concession and program agreements with the principal ten municipalities we serve accounted for 55.0% of our net operating revenue. The agreement with the municipality of Curitiba individually accounted for 24.5% and 26.5% of our net operating revenue during the nine-month period ended September 30, 2017 and the year ended December 31, 2016, respectively. The historical renewal rate of our concession and program agreements reached virtually 100.0%, showing the operating quality of our services and the trust we have earned in the municipalities and populations we serve.

Generally, the principal terms of our concession and program agreements relate to:

- our responsibility to provide water supply and sewage services and to directly or indirectly plan and implement projects to mitigate water supply and sewage problems in the municipalities we service;

- tariffs charged for the services provided based on applicable legislation;
- our obligation to use our own financial resources or to obtain financing in order to carry out investments to implement, expand and improve our water supply and/or sewage systems;
- our prerogative, subject to certain payment obligations, to expropriate property when required or in the public interest, as well as to impose utility easements or other rights in order to expand our water supply and sewage services;
- our right to access municipal property to install water and sewage systems;
- our obligation to return municipal assets that are part of our water and sewage systems at the end of the concession or in the event of its early termination, subject to the municipality's payment to us of an indemnity equivalent to the value of the non-amortized assets, as determined by third-party appraisers. We have the right to retain the concession until the municipality makes this payment to us. See "Risk Factors—Risks Related to Us and Our Industry—Our concession and program agreements are subject to early termination under certain circumstances, and indemnification for termination may not be sufficient for us to recover the full value of our investments";
- the possibility of extending the duration of the concession, upon mutual agreement of the parties for a period identical to the initial term of the concession and program agreement; and
- the possibility that the municipalities may terminate our concession or program agreement if we fail to comply with our obligations under the relevant concession or program agreement, or applicable law, or if a municipality determines, through an expropriation proceeding, that terminating our concession prior to its expiration date is of public interest.

Our concession and program agreements with the largest municipalities we serve, including the municipality of Curitiba, follow the same general terms as all of our agreements, as described above.

On December 6, 2001, we entered into a concession agreement with the municipality of Curitiba for the public service operations of water supply and collection, removal and treatment of sewage, with a term of 30 years. The remuneration for the services we provide occurs by charging fees applied to the volume of water, sewage and other billable services based on our service price chart and the review process and tariff adjustments, which requires a formal request for approval by the governor of the state of Paraná. In the year ended December 31, 2016 and in the nine-month period ended September 30, 2017, the municipality of Curitiba was responsible for 26.5% and 24.5%, respectively, of our net operating revenue.

Principal Activities

Our principal activities are providing water supply and sewage services.

Water supply and distribution cycle

The water supply and distribution cycle encompasses the collection, treatment, adduction and stocking stages, as described below:

- *Collection*: the removal of water from surface and underground water supply basins, with surface water being the primary source;
- *Treatment*: the coagulation, decantation/sedimentation, filtration, flocculation, disinfection, fluorination and pH adjustment of the water;
- *Adduction*: the transport of the water from production units to distribution reservoirs;
- *Stocking*: the storage of water in reservoir tanks to both ensure regular supply of water and meet extraordinary demands; and

- *Distribution*: the distribution of water to customers through our adduction, feeding and distribution system.

Sewage collection and disposal cycle

The sewage cycle encompasses the stages of collection, treatment and final disposal of the sewage and solid waste that result from sewage treatment, as described below:

- *Collection*: the collection of household sewage through our network of drains installed for the convenience of our customers;
- *Treatment*: the purification and treatment of liquid and solid components of the sewage so that it can be disposed of in the environment; and
- *Final Disposal*: the last phase of the sewage treatment process, when the treated water is returned to nature, pollution-free, in rivers, or used, for example, in industrial plants, agricultural irrigation or landscaping for watering grass and gardens or for cleaning the streets. The solid sewage sludge remainder can be used after treatment as an organic fertilizer.

The table below shows our net operating revenue from water supply and sewage services and their share of our net operating revenue:

	Year Ended December 31,				Nine-month period ended September 30,			
	2014	% Net Revenue	2015	% Net Revenue	2016	% Net Revenue	2017 ⁽¹⁾	% Net Revenue ⁽¹⁾
	(in millions of R\$, except for percentages)							
Water.....	1,733.6	66.2	1,948.6	65.6	2,263.1	65.1	1,835.0	64.5
Sewage	883.5	33.8	1,022.6	34.4	1,214.4	34.9	1,008.9	35.5
Net Operating Revenue.....	2,617.0	100.0	2,971.2	100.0	3,477.5	100.0	2,843.9	100.0

(1) Unaudited financial information.

The table below shows our net income from water supply and sewage services and their share of our net income:

	Year Ended December 31,				Nine-month period ended September 30,			
	2014	% Net Income	2015	% Net Income	2016	% Net Income	2017 ⁽¹⁾	% Net Income ⁽¹⁾
	(in millions of R\$, except for percentages)							
Water.....	287.0	68.1	262.8	59.9	396.7	63.3	350.3	65.8
Sewage	134.6	31.9	175.6	40.1	230.1	36.7	181.6	34.2
Net Income.....	421.6	100.0	438.4	100.0	626.8	100.0	531.9	100.0

(1) Unaudited financial information.

Water Supply Operations

Overview

The supply of water involves the collection of water from various sources and its subsequent treatment and distribution to customers. During the nine-month periods ended September 30, 2016 and 2017, we produced and distributed approximately 439.6 million cubic meters and 420.6 million cubic meters, respectively, of water. We produced and distributed approximately 586.6 million cubic meters, 582.6 million cubic meters and 587.5 million cubic meters of water in the years ended December 31, 2014, 2015 and 2016, respectively.

Water Collection

To collect water, we are granted licenses to use surface water supply basins (rivers, lakes and dams) and underground water supply basins. These licenses are granted by the Water Institute of Paraná, in the case of sources belonging to the state, and by the National Water Agency (*Agência Nacional de Águas*) for sources under federal control.

We hold licenses for 88.1% of the underground water supply basins that we use. We are currently in the process of obtaining licenses for the remaining underground water supply basins. We hold licenses for 81.8% of the surface water supply basins that we use. The remaining surface water supply basins consist of supplies that we may use sporadically in the event of water shortages or contamination of our licensed surface water supply basins. Applications for licenses to use these remaining supplies are requested when needed.

Water Treatment

The water collected is treated before being funneled into the distribution network. The treatment processes vary depending on the collection source and the water quality. We use conventional water treatment processes to treat surface water, which involves a number of stages including filtering and chlorine-based disinfection. Underground water is usually purer and generally only needs to be disinfected with chlorine. Existing regulations also require that the water we distribute undergo fluorine treatment to improve the population's dental health. The principal stages in the treatment of our water are:

- *Coagulation* – Coagulation is achieved by adding chemical products known as coagulants, such as aluminum sulfate or aluminum polychloride, which react with the natural alkalinity of the water to form aluminum hydroxide. If the result is not sufficiently alkaline, it is increased by adding hydrated lime to the water;
- *Flocculation* – After coagulation, flakes are formed (resulting from the coagulated particles binding together using electrokinetic energy) in a flocculator. This process aims to make the density of the flakes greater than that of water so they will sink in decantation tanks;
- *Decantation* – A dynamic process for separating solid particles from water. These particles are heavier than water and will tend to sink to the bottom of the tank, clarifying the water and significantly reducing impurities;
- *Filtration* – After decantation, the water passes through carbon, sand and stone filters. At this stage, minute impurities are trapped in the filters, concluding the physical cleaning of the water;
- *Disinfection and Fluoridation* – Since the above purification processes are not considered sufficient to completely remove bacteria in the water, in order to make the final product safe, it is necessary to disinfect the water with chlorine or calcium hypochlorite. The purpose of fluoridation is to prevent tooth decay by adding fluoride to the water; and
- *Adjustment of pH level* – lastly, a quantity of hydrated lime or sodium carbonate is added. This procedure serves to adjust the alkalinity of the water, or pH, preserving the distribution network from corrosion.

Upon conclusion of the above steps, the water is within the standards established by the Brazilian Ministry of Health and the World Health Organization (WHO) for distribution. It is then channeled to reservoirs and distributed to customers' households.

Adduction

The water collected from the various sources is transported by mechanical pumping stations to the water treatment stations where it is treated before being sent to the distribution network. As of September 30, 2017, we had 165 water treatment stations.

Stocking

The water is accumulated in large reservoirs to meet consumer needs at peak hours and provide a constant supply of water.

Water Distribution

The water distribution process consists of channeling the water to our customers through our distribution network.

As of September 30, 2017, our water distribution systems totaled approximately 52.4 kilometers of water supply piping and 3.1 million water connections.

The table below shows the evolution of our distribution centers and water connections as of the indicated dates:

	As of December 31,			As of September 30,	
	2014	2015	2016	2016	2017
Distribution systems (in thousands of kilometers)	47.0	49.6	51.6	51.0	52.4
Total water connections (in units of connections)	2,816,414	2,909,401	3,025,780	3,008,614	3,068,242

Water Quality

We believe that we supply high-quality treated water in line with international standards. We also believe we hold one of the best records in terms of quality of water supplied among basic sanitation companies in Brazil. Under current Brazilian Ministry of Health rules, we are subject to regulatory obligations related to the quality of the water that we treat and distribute. We are fully compliant with the quality standards set forth by the relevant Brazilian Ministry of Health regulations.

Our water quality control system covers the entire water cycle. Each stage is carried out in accordance with the requirements of specific legislation enacted by environmental and public health agencies, as well as with our own internal rules. We use internal quality indices that assess the physical-chemical parameters of water supplied by us, including color, turbidity, pH, fluoride levels, residual chlorine, iron and manganese. We believe that the vast majority of our basins contain high-quality water, enabling us to meet the quality levels required by law through conventional treatment procedures.

In order to monitor water quality, we comply with all legal and regulatory requirements, from the Brazilian Ministry of Health regulations, especially Ministry of Health Ordinance 2914/11, which sets standards for drinking water and establishes criteria for monitoring and control.

To ensure quality control, we analyze, on a monthly basis, approximately 1,414 million samples in accordance with Ministry of Health Ordinance 2914/11. These analyses have shown that we have a nearly 100.0% compliance with the standard required. The results of these analyses are disclosed on our website and on the monthly invoices.

Water Loss

Water loss affects our results of operations by increasing costs and decreasing service revenues. Water loss is divided into two categories: (i) real (physical) loss, caused by leakages and overflows, and (ii) apparent (non-physical) loss, which results from unauthorized consumption (theft) and inaccurate measurement. We also experience instances of authorized water consumption that cannot be billed, such as day-to-day water use in our operating and commercial activities, maintenance of emergency supplies, system and hydrant cleaning and the emptying of our systems for repairs. Our indices of water loss are low when compared to our competitors, with a loss of 32.8%, 33.8% and 34.8% in the years ended December 31, 2014, 2015 and 2016, respectively.

The tables below show the water loss per connection rate, or IPL, as of the indicated dates, calculated according to SNIS:

Year	IPL (liters/connections/day)
2014	226.91
2015	225.76
2016	233.12

Source: SNIS

Nine-month period ended September 30,	IPL (liters/connections/day)
2016	231.44
2017	233.31

Source: SNIS

Seasonality

Our water supply operations are not very susceptible to seasonality. The fact that water is an essential commodity for life directly implies steady consumption throughout the year. Our water consumption records indicate a peak in demand during the hot and rainy summer months and a reduction in demand during the dry and mild winter months. Along the coast, demand is increased by tourism during the summer vacation months. However, seasonality does not materially affect our activities.

Sewage Operations

Overview

Our sewage operations consist of the collection, transport and treatment of sewage as well as the final disposal of sewage and solid waste resulting from treatment operations. During the nine-month periods ended September 30, 2016 and 2017, we collected and treated approximately 304.3 million cubic meters and 300.5 million cubic meters, respectively, of sewage. We collected and treated approximately 385.0 million cubic meters, 392.5 million cubic meters and 408.5 million cubic meters of sewage during the years ended December 31, 2014, 2015 and 2016, respectively.

Sewage System

Our sewage systems meet quality standards and satisfy the requirements of the Brazilian Technical Standards Association (*Associação Brasileira de Normas Técnicas*).

Sewage Treatment

The sewage treatment process consists of physical separation and natural biological processes aimed at decomposing organic materials and reducing the presence of environmentally hazardous microorganisms and chemical substances. Through this process, we reduce the pollutant effects of sewage disposal.

Sewage treatment stations are plants in which the waste and effluent collected by our sewage systems are converted in line with legal requirements, so they can be disposed of in an environmentally friendly manner.

Sewage Treatment Process

We use two systems for the treatment of collected sewage: aerobic and anaerobic.

Aerobic System

The aerobic process uses prolonged aeration through the use of electrical energy. The system is extremely efficient in its treatment of sewage. Only one of our sewage treatment plants uses the aerobic system.

The aerobic process includes the following components:

- *Lifting station* – Sewage passes through high-lift pumps in the collection network and the treatment station;
- *Preliminary treatment* – The solids and sand that arrive with the sewage are separated. The material is removed, washed and carried in waste containers, or skips, to a landfill;
- *Aeration tanks* – Oxygen is introduced into the liquid mass in these tanks. This is done to allow aerobic microorganisms to breed, as they can only survive in the presence of air and consume large quantities of material in the sewage;
- *Decanters* – The sludge is separated in sediments in the decanters by gravity, and the treated liquid is collected from the upper part through a spout and carried along a channel for further disposal in a river, without damaging the environment. Part of the deposited sludge returns to the aeration tanks to maintain the balance of the process. The surplus is pumped into a concentrator; and
- *Sludge concentrator* – The sludge is concentrated to facilitate treatment. Draining systems permit the material to dry, increasing the concentration of solids.

Anaerobic System

The anaerobic process is carried out by an Anaerobic Fluidized Sludge Reactor, or Ralf, using a technology developed by us.

When the Ralf system is used, the process of sewage treatment consists of:

- *Lifting station* – In the collection network and at the treatment station, the sewage is graded to trap coarse solids. The liquid is then pumped to the sewage treatment stations through high-lift pumps;
- *Preliminary treatment – (grading, de-sanding and flow measurement)* – The solid material that arrives with the sewage is separated to allow for an effective treatment process. The material is taken to a landfill;
- *Ralf* – The liquid is treated anaerobically by means of a layer of bacteria rich sludge that forms in the bottom of the tank. After passing through this layer, the sewage retains and decomposes the organic material. If necessary, the treated sewage is collected and sent for a final stage of treatment;
- *Post-treatment* – If necessary, sewage treated in the Ralf is treated again in biological filters or in lagoons by means of accelerated decanting and dissolved air flotation. The effluent can then be poured back into rivers without harming the environment; and
- *Sludge drying bed* – Receives the sludge that has passed through the Ralf to allow for natural drying. The material is deposited on the drying bed for up to 30 days until it completely dries. The sludge is then sanitized and subjected to agronomical analyses in order to be used for agricultural recycling.

Sewage Distribution

Our sewage operations consist of the collection, transport and treatment of sewage as well as the final disposal of sewage and solid waste resulting from treatment operations.

As of September 30, 2017, our sewage collection network totaled approximately 34.1 thousand kilometers and 2.0 million sewage connections. The table below shows the evolution of our sewage collection and treatment networks as of the indicated dates:

	As of December 31,			As of September 30,	
	2014	2015	2016	2016	2017
Sewage collection network (in thousands of kilometers).....	28.9	31.1	33.1	32.2	52.3
Total sewage connections (in units of connections).....	1,759,422	1,859,533	1,953,484	1,914,695	2,012,976

Solid Waste Management

The generation of waste in the sewage treatment system begins in the grates and grit chambers of the sewage lifting stations (*Estações Elevatórias de Esgoto*). The material retained in the grates is composed of urban solid waste that improperly enters the domestic sewage system, such as scraps of paper, cotton swabs, stones, plastic fragments, bottles, cloth, small dead animals, cans, solid organic material and others. The waste retained in the grit chambers, in turn, is composed of smaller solid material than that retained in the grates, especially sand, silt, small stones and gravel.

Like the sewage lifting stations, the sewage treatment stations (*Usinas de Tratamento de Esgoto*) have grates and grit chambers, where the same type of waste previously described is generated. Preliminary sewage treatment involves the removal of this gross waste at the sewage treatment stations. After preliminary sewage treatment, the sewage undergoes biological treatment, which generates two other types of waste: sludge and scum.

Scum is composed of floating material, primarily oils and grease, which accumulate on the surface of the sewage treatment units. Sludge results mainly from the biological treatment of sewage, and it consists of a layer of organic solid particles, sewage feeding bacteria and minerals. Among the waste produced at the sewage treatment stations, sludge stands out due to its large volume and complex management, which usually involves several processing phases.

The treatment of this waste involves segregation, dewatering, storage and final disposal, which are essential processes for the correct operation of the sewage treatment stations.

The environmentally proper final disposal of waste generated in our sewage lifting stations and sewage treatment stations, except for sewage sludge, is the transfer to landfills. The environmentally proper final disposal of sewage sludge, after treatment and cleaning, is its application in agricultural areas. Sewage sludge has also been used to close landfill cells.

We are subject to civil, administrative and criminal liability in the event of any soil and underground water contamination, provided there is a relation between any damage and our activities. Administrative penalties may vary from warning to fines, suspension or interdiction, depending on the seriousness of the infraction. Irrespective of incurring administrative violations and environmental crimes, we may be compelled to redress any damage caused.

We currently treat solid waste disposed of in landfills in the cities of Cianorte and Apucarana, and manage solid waste in the municipality of Cornélio Procopio, all located in the State of Paraná. See “Summary—Our Strategies—Expand management of solid waste and monitor basic sanitation opportunities.”

The sludge from the sewage treatment process, after sanitization, can be used as agricultural fertilizer. Our research conducted regularly since 1988 indicates that all sewage treatment stations in the State of Paraná are adequate for the agricultural recycling of sludge.

Seasonality

Our sewage operations are not very susceptible to seasonality. The fact that sewage collection and treatment is an essential commodity for life directly implies steady operation throughout the year. Seasonality does not materially affect our activities.

Bioenergy

In 2014, we created CS Bioenergia S.A., through a joint venture with Cattalini Bioenergia Operação S.A., to generate electricity from organic waste, as well as from sludge, from one of our sewage treatment plants in the municipality of Curitiba, providing us with significant savings both in terms of transportation and final disposal, in addition to helping preserve the environment. CS Bioenergia S.A. is a special-purpose entity in which we hold a 40.0% ownership interest.

In order to increase power generation efficiency, we plan to add to the sludge other organic solid waste from large generating sources, such as shopping malls, supermarkets and general warehouses, and use it to produce biogas. The power generated will be traded in the free market and used within our own system. We also plan to produce solid fertilizers using the remaining waste from the biodigestion process.

Sewage Collection

As of September 30, 2017, our sewage collection network totaled approximately 34.1 thousand kilometers and 2.0 million sewage connections.

Sales

Our operations in the sanitation market consist of the sale of water and the supply of sewage collection and treatment services, for which our customers are charged. Almost the entire urban population in the 346 municipalities where we operate is connected through our sanitation systems, with 80.347 thousand and 114.098 new water connections and 58.271 thousand and 72.974 new sewage connections in the year ended December 31, 2016 and the nine-month period ended September 30, 2017, respectively. While the purchase of water is ingrained in the collective consciousness, we have observed that consumers are generally more resistant to the purchase of sewage collection and treatment services. As a result, we have an accumulation of unsold sewage connections that we consider viable because they can be used to link properties to operational collection systems.

In light of the above, we have designed a strategy to sell new sewage connections, which involves a mass advertising program to emphasize the importance of this service. The strategy allowed us to achieve on September 30, 2017, the goal of serving with our sewage network of approximately 2,675 million consumer units (savings) in the area in which we operate.

Billing and Collection

Billing

Our water supply and sewage services are billed based on water consumption recorded by hydrometers installed at each consumer unit and the tariffs charged for each type of customer (*i.e.*, residential, public, industrial or commercial). The water used in households is measured monthly by hydrometer readings, and monthly invoices are issued for water and sewage.

Bill payment dates are first randomly assigned to customers so that bills always fall due on the same date of the month. Payment may be made in person at our network of accredited collection agencies, which includes banks and stores that sell lottery tickets.

The funds collected by accredited collection agencies are transferred to us after deduction of a service fee. Our customer billing department is responsible for the management and control of our customers' credit records, small-scale measurement, consumption volume assessments, billing and issuance of bills for our services.

The table below provides the volume of treated water billed in the periods indicated:

	<u>Year ended December 31,</u>			<u>Nine-month period ended</u>	
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>September 30,</u>	<u>2017</u>
			(in millions of m ³)		
Volume of treated water billed	586.6	582.6	587.5	439.6	420.6

The table below provides the volume of sewage billed in the periods indicated:

	Year ended December 31,			Nine-month period ended	
	2014	2015	2016	September 30, 2016	September 30, 2017
Volume of sewage billed	385.0	392.5	408.5	304.3	300.5

(in millions of m³)

Collection and Default

We believe we have an effective invoice collection procedure, which results in a monthly collection equivalent to approximately 98% of the amounts billed. The collection procedure includes actions such as the issuance of warning letters, direct negotiations and automatic debit for water and sewage bills. In case of default, we initiate both commercial and legal action, consisting of the following, which we implement chronologically: (i) debit notice; (ii) suspension of water supply; (iii) buffering; (iv) court collection; and (v) registration of the defaulting party with the relevant credit bureaus. We only assess the possibility of judicial action after we have exhausted all commercial collection efforts.

Invoices in amounts up to R\$5,000 may be written off against “losses on the realization of credits” 180 days after their maturity. Invoices in amounts ranging between R\$5,000 and R\$30,000 may be written off 360 days after maturity. Invoices in amounts above R\$30,000 can only be written off after court papers are filed. Since writing-off is only an accounting adjustment, which does not imply debt forgiveness, these debts remain in our commercial controls and are submitted to collection actions and to periodical recovery programs for customers in default.

In the nine-month period ended September 30, 2017, our default indicator was 1.1%, compared to 2.4% in the nine-month period ended September 30, 2016. In the year ended December 31, 2016, our default indicator was 2.0%, compared to 0.7% in the year ended December 31, 2015. Our default indicator is obtained by dividing amounts collected by our gross operating revenue. The chart below represents the evolution of our accounts receivable as of September 30, 2017 and December 31, 2016:

	As of December 31, 2016	As of September 30, 2017
	(in millions of R\$)	
Accounts receivable	199.4	246.2
Accounts receivable from installment payments	37.2	51.7
Present value adjustment	(3.4)	(2.9)
Accounts to be invoiced (not invoiced consumption)	160.9	156.5
	394.0	451.4
Accounts receivable overdue		
From 1 to 30 days	100.7	114.3
From 31 to 60 days	25.9	28.1
From 61 to 90 days	11.4	10.9
From 91 to 180 days	19.5	18.4
Over 180 days	165.3	168.6
Allowance for doubtful accounts	(146.3)	(164.3)
	176.5	176.0
Total Accounts receivable, net	570.5	627.4
Current	559.8	614.7
Non-current	10.7	12.7

Default represents the amounts billed but not paid on the first day after the maturity of the invoice.

Competition

We face limited competition in the municipalities where we provide water supply and sewage services due to the need to individually connect our treatment plants with our customer’s property through our water supply and sewage collection networks. Despite the absence of significant competitors in our areas of operation, we may face increased competition in the future as a result of the Brazilian Sanitation Law. There are other sanitation companies that also operate in the State of Paraná.

The municipalities where we provide our services may also become our competitors. Under the terms of existing Brazilian legislation, municipalities, for reasons of public interest, may terminate a concession or program agreement prior to its expiration date through the enactment of a law. If this happens, the municipality would be required to indemnify the amount of our investments that has not yet been repaid by the cash generated from operating activities during the concession before it may take over utility operations itself or transfer them to another provider. Certain alternative water supply sources, such as artesian wells or water from rivers or mines, are also potential sources of competition.

We believe we are less susceptible to competition than other companies operating in the sanitation sector because of the high level of investments we make in our water supply and sewage systems and because of the quality of our services, which we believe has contributed to creating a natural protection against competition.

Suppliers

Electricity

Basic sanitation operations require extensive use of electricity, and considering the volume of our operations, we are one of the principal consumers of electricity in the State of Paraná. Most of the electricity that we use is supplied by COPEL, our indirect shareholder that is also controlled by the State of Paraná. During the years ended December 31, 2014, 2015 and 2016, and the nine-month period ended September 30, 2017, the costs related to electricity corresponded to 18.1%, 28.2%, 26.5% and 23.4%, respectively, of our cost of services. See “Related Party Transactions—Relevant Related Party Transactions—COPEL.”

Other Suppliers

Our other suppliers include companies who produce chemical products and construction materials. We solicit services and suppliers through an online public bidding process pursuant to Brazilian law. Brazilian law also regulates chemicals and reagents brought to water and sanitary sewage quality control labs, some of which are also controlled by the Federal Police.

Service provider selection is made on the basis of price and/or expertise. Prices generally remain unchanged for the duration of our service contracts, except for adjustments established by law for contracts effective for more than twelve months.

The electronic auction system provides for proper security conditions at all stages of the process and enables transparency and speed in addition to facilitating participation of suppliers throughout the country.

Property, Plant and Equipment and Intangible Assets

Our principal property, plant and equipment and intangible assets consist of land, wells, water treatment stations, a distribution network of pipes, water connections and hydrometers, sewage treatment stations and sewage networks of pipes, pipelines and sewage connections. As of December 31, 2016 and September 30, 2017, the net book value of our property, plant and equipment was R\$131.3 million and R\$133.0 million, respectively, and the net book value of our intangible assets was R\$7,199.4 million and R\$7,558.0 million, respectively. As of September 30, 2017, we operate all of the properties where our water treatment stations, sewage treatment stations, land and wells are located. For additional information, see Note 9 to our Unaudited Financial Statements.

Intellectual Property

We hold title to registered trademarks, mostly related to our SANEPAR brand, including our name and logo, and certain domain names, including www.sanepar.com.br, and various customary licensing rights for the use of software related to our operational activities.

Insurance

We have acquired insurance through public bidding processes. We believe that we have standard insurance coverage for companies in the water supply and sewage services sector and that such coverage will be renewed upon expiration.

We have an insurance agreement with SOMPO Seguros S/A to cover our primary assets located throughout the state of Paraná, in the amount of R\$968.3 million, effective from January 9, 2017 to January 9, 2018. This insurance provides for basic coverage and coverage against fire, storms, and electrical damages on equipment.

Moreover, the members of our board of directors and board of executive officers are covered by a D&O Liability Insurance Policy, or D&O, issued by Zurich Minas Brasil Seguros S.A., with coverage totaling R\$20 million and the coverage period expiring on April 14, 2018. The coverage is both domestic and international.

Our insurance policies may not be enough to cover against all risks that we are subject to. See “Risk Factors—Risks Related to Us and Our Industry—We do not have insurance against all inherent risks to our business and the occurrence of any event for which we are uninsured could have an adverse effect on us.”

Environmental Aspects

The Brazilian Constitution grants authority to the Brazilian government to enact general laws establishing minimum standards for environmental protection. States and municipalities may enact laws specific to their jurisdictions. For more information, see “Risk Factors—Risks Related to Us and Our Industry—We and our activities are subject to strict environmental regulations, including those related to the protection of public health. The cost to comply with environmental laws, as well as the responsibility for environmental infractions, may have an adverse effect on us.”

Environmental Policy

In 2012, we introduced our Environmental Management System (SGA-SAN). This program establishes the procedure for an environmental efficiency analysis of all of our operational units to verify environmental performance in accordance with the applicable environmental regulations.

We are working to increase the number of water treatment stations and sewage treatment stations that hold environmental operating licenses. As of September 30, 2017, 99.4% of our water treatment stations and 97.6% of our sewage treatment stations held full environmental operating licenses. The environmental operating license applications for the remaining water treatment and sewage stations have been filed with the relevant environmental authority and are awaiting for approval. We have also been taking steps to regularize the granting of water capture concessions.

In the year ended December 31, 2012, as part of our environmental policy, we surveyed all of our operational and administrative processes to establish their environmental impact and to verify accordance with current Brazilian legislation. The survey was carried out as part of our “Use Your Common Sense” program. This program encourages our staff to reduce their environmental impact.

ISO 14001 and ISO 9001 Certification

We comply with international standards of environmental protection. In 1999, we were awarded an ISO 14001:2004 certificate for our operations in Foz do Iguaçu. In 2012, the certification scope was amplified to include the administrative work of our Environment and Social Action Department, or DMA. This certification confirms that both our operations in Foz do Iguaçu and the DMA administrative work are in accordance with the standard criteria for environmental management. We also received an ISO 14001:2004 for the Cianorte landfill in 2013.

We were also awarded an NBR ISO 9001:2008 certificate for quality management of systems of collection, adduction, treatment and stocking of water for distribution and for the collection, transportation, treatment and final disposal of sewage for our units in Curitiba – Water Production, Londrina, Cambé and Tamarana, as well as by our corporate service units in the municipality of Curitiba. In 2014, our water supply and sewage systems unit was also awarded an ISO 9001.

We cannot calculate the costs incurred in complying with environmental regulations and practices since environmental matters are intrinsic to our operations.

Environmental Licensing

Environmental licensing is the administrative procedure by which a competent environmental agency authorizes the location, installation, expansion and operation of projects and activities that use environmental resources considered effectively or potentially pollutant and those capable of causing environmental degradation of any kind.

Projects that have significant environmental impact are subject to specific studies prepared by multidisciplinary teams that submit a series of recommendations aimed at avoiding, mitigating or compensating these negative impacts. These studies are subject to review and approval by governmental authorities.

The licensing process consists of three phases, which include the following:

- *Preliminary license* – granted in the planning phase, these approve the location and design of the project and attest to its environmental viability;
- *Installation permit* – permission to start construction and installation of the project based on the approved plans, programs and projects, including environmental control measures and other technical requirements; and
- *Operating license* – permission to operate a unit or activity in full compliance with technical requirements stated in the installation permit.

Undertaking potentially polluting activities without proper environmental licensing may incur administrative and criminal penalties and civil liability in cases of environmental damage.

The three levels of environmental licensing occur in compliance with provisions of Supplementary Law 140/11, Law 6,938/81 relating to national environmental policy, and CONAMA Resolution 237/97. Depending on the characteristics of the undertaking and its impacts, the environmental licensing process will be conducted by the federal environmental agency, the state environmental agency or the municipal government.

The agency responsible for environmental control in the State of Paraná is the Environmental Institute of Paraná, which determines criteria, procedures and assumptions for granting environmental licensing for sanitation services, including water supply systems and collection and treatment of sewage.

The State Resolution SEMA 021/2009 defines the environmental licensing procedures for sanitation projects in the State of Paraná.

We have older facilities and units dating back to the period prior to current environmental regulations, which have valid licenses according to legislation at the time of licensing, but sometimes do not fulfill the requirements of current legislation. The absence of environmental licenses in accordance to current legislation may adversely affect our business and net operating revenue, since we are exposed to the risk of administrative and/or penal sanctions, particularly fines that may reach significant amounts. See “Risk Factors—Risks Related to Us and Our Industry—We and our activities are subject to strict environmental regulations, including those related to the protection of public health. The cost to comply with environmental laws, as well as the responsibility for environmental infractions, may have an adverse effect on us.”

Despite the absence of these environmental licenses, we believe it is unlikely that this fact will lead to our activities being suspended since they are essential and because of the public-utility character inherent in our business.

IBAMA

At the federal level, the National Environmental Policy Act requires certain activities that are potentially polluting or that use environmental resources to be registered in the Federal Technical Registry (*Cadastro Técnico Federal*), or CTF, which is maintained by the Brazilian Institute of Environment and Renewable Natural Resources (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*), or IBAMA. This registration must be

renewed annually by submitting the company's annual activity report to IBAMA. Failure to register or filing an expired registration certificate of registration would constitute an administrative infraction.

Human Resources

As of September 30, 2017, we had 7,417 employees. We believe we generally maintain good relationships with our employees and senior management.

The table below sets forth the number, main category of activity and geographic location of our employees as of September 30, 2017:

	As of September 30, 2017					
	Operational/ Administrative	Technical	Professionals	Trainee	Managers	Total
Eastern region of the State of Paraná.....	1.873	500	550	185	362	3,470
Northern region of the State of Paraná.....	1.006	144	65	25	60	1,300
Western region of the State of Paraná.....	766	119	61	16	55	1017
Northwestern region of the State of Paraná.....	811	108	49	10	48	1026
Central region of the State of Paraná	655	97	43	18	45	858
Total.....	5.111	968	768	254	570	7,671

In addition to the employees described above, as of September 30, 2017 we have entered into several services agreements with companies that are responsible for hiring 1,525 third-party employees who provide services such as cleaning or security.

In the years ended December 31, 2014, 2015 and 2016, and the nine-month period ended September 30, 2017, our turnover rate was 3.58%, 1.60%, 3.68% and 1.81%, respectively.

Salary and Variable Compensation Policy

Our compensation policy consists of salaries based on the title and experience of our employees. We operate using a results-oriented Employee Management System (*Sistema de Gestão de Pessoas voltadas para Resultados*) focused on recognizing individual achievements and continuously investing in training, in line with the attainment of company-wide goals. Each employee is assigned to a unit with clear indicators that measure his or her performance and the impact of his or her activity on our annual results. Our management team has management agreements tied to targets and indicators.

Our Positions, Careers and Compensation Plan (*Plano de Cargos, Carreira e Remuneração*), or PCCR, implemented in June 2012, is regulated pursuant to, and filed with, the Labor and Employment Regional Office of the State of Paraná (*Secretaria Regional do Trabalho e Emprego no Paraná*). It gives our employees a clear vision of their prospects in our company and sets forth a career plan that allows our employees to develop and grow based on institutional results, sectorial indicators and competence in their respective areas.

Qualifying employees also take part in our annual evaluation cycle where we review the results of our employees through indicators at the (i) institutional level (*i.e.*, indicators that represent our strategic goals), (ii) sectorial level (*i.e.*, indicators that represent the results of the different areas of our company (management and units)) and (iii) individual level (*i.e.*, evaluation of competence). The results of the annual evaluation cycle allow employees to gain pay raises and enable employee professional development in accordance with the criteria set forth in the regulation.

Our salary and compensation policy also includes our Profit Sharing Plan (*Programa de Participação nos Resultados*) based on targets and indicators.

Policy of Benefits

We manage a portion of the benefits we offer to our employees, including meal vouchers (*vale refeição*), transportation vouchers and day care/nanny aid, among others, while another portion, including health and dental care, complementary programs, private pension and loans, among others, is managed by Sanepar Social Assistance Foundation and Sanepar Social Security Foundation (*Fundação Sanepar de Assistência Social* and *Fundação Sanepar de Previdência Social*).

We provide training programs to our managers and coordinators through our Management Training Program. We have also enhanced our distance learning offerings and conducted in-company courses for our employees in different areas with well-known institutions. The vast majority of our employees attend our trainings.

We do not offer any stock option plans to our employees.

Fundação Sanepar de Previdência – FusanPrev

FusanPrev is a variable contribution plan with 95.1% of our employees as members, where scheduled benefits are calculated based on a defined contribution and risk benefits – disability retirement, pension, annuity death, sickness and accident – calculated as a defined benefit. In the nine month period ended September 30, 2017, we, as sponsor of FusanPrev, paid R\$21.3 million as a contribution to the fund.

As of September 30, 2017, the plan had 9.5 thousand participants, being (i) 6.9 thousand active (ii) 2.5 thousand retirees and pensioners and (iii) 98.0 self-sponsored.

Union Relations

In general terms, we believe we maintain a good relationship with approximately 22 unions representing our employees, such as the Union of Workers in Sanitation (*Sindicato dos Trabalhadores no Saneamento*), the Union of Urban Workers in the Industries of the State of Paraná (*Sindicato dos Trabalhadores Urbanos nas Indústrias do Paraná*), Union of Workers in Water, Sewage and Basic Sanitation of the Municipality of Londrina and Region (*Sindicato dos Trabalhadores em Água, Esgoto e Saneamento Ambiental de Londrina e Região*) and the Union of Engineers of the State of Paraná (*Sindicato dos Engenheiros no Estado do Paraná*), among others. Our relationship with unions in negotiating collective bargaining agreements requires the intermediation of representatives adequately grouped by category of employees and specific groups, as well as on an individual basis.

In recent years, we strengthened our relationship with unions through continuous dialogue and the creation of a permanent commission, the Union Relations Commission (*Comissão de Relações Sindicais*).

Environmental Projects

We have created a number of innovative programs to improve the quality of our services and the relationships between our customers, the environment and society.

Our environmental projects, which are part of our environmental policy, include, among others, (i) the Urban Rivers Revitalization Program (*Programa de Revitalização dos Rios Urbanos*), where we measure the amount of oxygen dissolved in various stretches of the rivers, streams and tunnels across the cities where we operate, as a way of managing the sewage collection network; (ii) calculating our greenhouse gas emission for all our activities; (iii) the *Fundo Azul* program, which funds projects for the restoration, protection and conservation of the basins from which we extract our water; (iv) the *Cortina Verde* program, a permanent program for planting saplings around the sewage treatment stations to help reduce the effects of the gases generated by the treatment; and (v) the *Ecocidadão Paraná* program, which is designed to reduce the volume of waste disposed of in water sources, streams and rivers, to extend the useful life of landfills, and to provide an income for waste collectors.

Material Agreements

For information about our concession and program agreements with the municipality of Curitiba and other significant municipalities, see “—Concession and Program Agreements.”

For information about our agreement with COPEL, see “Related Party Transactions—Relevant Related Party Transactions—COPEL.”

Legal and Administrative Proceedings

In the ordinary course of our business, we are a party to various judicial and administrative proceedings relating to labor, civil, tax and environmental matters. We make provisions for these proceedings when, based on the advice of our internal and external legal counsel, we determine that the chance of loss is probable. The difference between the provisioned amount and the total amount of the contingencies is based upon our methodology for establishing our provisions. This methodology takes into account (1) the probability of loss of each lawsuit, based on the alleged facts and a legal analysis of the case, including prevailing precedents in similar cases, (2) the value claimed by the plaintiff in each lawsuit, which is periodically updated according to the indices furnished by the relevant courts, and (3) the legal advice of counsel in charge of each case, among other factors.

We cannot give any assurances either as to the sufficiency of the provisioned amount to cover the proceedings nor as to the total amount of potential liabilities that we may incur or penalties that may be imposed on us. We may not obtain a favorable outcome in these judicial and administrative proceedings. The total amount of our contingencies, based on the value attributed to the lawsuits by the plaintiffs, may not correspond to the economic value of the lawsuits. If the economic value of the lawsuits is higher than the amount attributed to each lawsuit by the plaintiff, if the total amount of our provisions is insufficient to pay the legal proceedings due or if the judicial and administrative proceedings due become material, we could incur greater costs than those that were originally foreseen. If these costs are significant, our results of operations and financial condition could be negatively affected. For more information on the risk related to our lawsuits, see “Risk Factors—Risks Related to Us and Our Industry—Any unfavorable decision in legal, arbitral and/or administrative proceedings could adversely affect us.” See Note 15 to our Unaudited Financial Statements.

Labor Proceedings

As of September 30, 2017, we were defendants in several labor proceedings that totaled about R\$222.2 million. We have made provisions for the entire amount under dispute in our labor proceedings. For more information, see Note 16 of our Unaudited Financial Statements. Our ongoing labor proceedings are mainly related to working hours (claims for cancelation of reduced working hours and payment of salary deficiency and respective effects), overtime for exceeding working hours and working in resting periods, premiums for unhealthy work, night-shift premiums, premiums for dangerous work, proportional vacations, occupational accident, pecuniary and personal injury, including collective injury, salary deficiency, Unemployment Compensation Fund (FGTS) deficiency and severance payments.

The ongoing labor proceedings relate mainly to the reduction of work hours (request for annulment of the cases of reduction and payment of salary differences), overtime due in excess of normal working hours, additional payments due to health and safety issues, nocturnal work, proportional vacation time payments, labor accidents, material and moral damages, which includes collective damages, salary differences, FGTS deposits and the payment of severance amounts, as well as work absence related cases.

Civil Proceedings

As of September 30, 2017, we were defendants in several civil proceedings. Based on the legal advice of our internal and external counsel, we have made provisions of R\$224.4 million for civil proceedings with probable chance of loss. Our ongoing civil proceedings principally relate to the reestablishment of the economic and financial balance of our concession and program agreements.

Tax Proceedings

As of September 30, 2017, we were defendants in several tax proceedings. Based on the legal advice of our internal and external counsel, we have made provisions of R\$12.2 million for tax proceedings with a probable chance of loss. The provisions made for our tax contingencies principally relate to challenges in connection with (i) municipal services tax (*Imposto sobre Serviços de qualquer Natureza - ISS*), brought by municipal governments, and (ii) urban real estate taxes (*Imposto sobre Propriedade Territorial e Urbana - IPTU*).

Environmental Proceedings

As of September 30, 2017, we were defendants in several environmental proceedings. Based on the legal advice of our internal and external counsel, we have made provisions in the amount of R\$98.6 million for environmental proceedings with probable chance of loss.

The Company is a party to several environmental lawsuits. The object of these actions relates to the irregular discharge of effluents due to noncompliance with the required parameters or the disposal of raw sewage in water resources. The aim of these criminal proceedings is to investigate alleged environmental wrongdoing, resulting in fines issued by environmental agencies pursuant to infraction notices. Each assessment is sent to the local Public Prosecutor, that decides whether to file the procedure, or to start an investigation (police investigation), in order to obtain further information from the subject of the investigation at the administrative level.

The chance of loss in these lawsuits is rated as possible by the Company. Some of these lawsuits involve the Company and certain individuals associated with the Company.

Legal proceedings against members of our management team

Investigation against Mr. Ezequias Moreira Rodrigues

One of the members of our board of directors, Ezequias Moreira Rodrigues, is currently a defendant in a criminal proceeding and a related public-interest civil proceeding in Brazil for the alleged misappropriation of public funds by way of hiring of fictitious employees at the Legislative Assembly of the State of Paraná where he was chief of staff between 1996 and 2007. On June 20, 2017, Mr. Ezequias Moreira Rodrigues was sentenced to prison for six years and eight months, initially in semi-open conditions, as well as to the payment of a fine. Additionally, his position in the Company's Board of Directors was terminated. Mr. Ezequias Moreira Rodrigues was granted to appeal in freedom. For more information, see "Risk Factors—Ongoing decisions in legal proceedings against members of our management team could adversely affect us").

Investigation against Mr. Antonio Carlos Salles Belinati

One of our executive officers, Antonio Carlos Salles Belinati, is currently a defendant in several criminal and public-interest civil proceedings in Brazil for alleged misappropriation of public funds in connection with procurement bids by the State of Paraná agencies between 1998 and 1999. These proceedings were initiated by the Public Prosecutors' Office of the State of Paraná in the years 1999, 2000, 2001, 2002, 2008, 2009 and 2010. The criminal proceedings are currently pending before the Criminal Lower Court of Londrina, State of Paraná and the public-interest civil proceedings are pending before the Lower Court of Londrina, State of Paraná.

A final, nonappealable criminal conviction of Mr. Belinati could prevent him from carrying out his management and supervision duties at our company, thus rendering him ineligible to hold his position as a member of the board of directors.

In addition, Mr. Antonio Carlos Salles Belinati is a defendant in a public civil lawsuit of administrative misconduct and compensation of damages caused to public assets, in progress at the Second Court of the Public Treasury of Londrina, State of Paraná. The Public Prosecutor's Office of the State of Paraná filed the lawsuit in 2003 against Mr. Antonio Carlos Salles Belinati and others, claiming that he would have benefited from an alleged misuse of funds from the Companhia Municipal de Urbanização (COMURB), through bidding processes that would have been defrauded by administrative misconduct. It could subject him to the following penalties: (i) reimbursement of damages caused to the treasury; (ii) loss of assets; (iii) loss of public function; (iv) suspension of political rights; (v) payment of a civil fine; (vi) prohibition to retain with the Government or to receive, directly or

indirectly, taxation or credit benefits or incentives, even through a corporation of which it is a majority shareholder. The suit is at its initial stages.

Investigation against Mr. Eduardo Francisco Sciarra

Mr. Eduardo Francisco Sciarra is being investigated in a police inquiry for the alleged practice of the embezzlement crime, for allegedly diverting amounts of air fares that he was entitled to in the position of Federal Deputy for the State of Paraná. The Federal Public Ministry (MPF) filed for the conviction of Mr. Eduardo Francisco Sciarra in the penalties provided in article 312 of the Brazilian Criminal Code, which could subject him to prison from 2 to 12 years. On August 23, 2017, the judge of the 12th Federal Criminal Court of the Federal District rejected the complaint and ordered the filing of the case. The MPF carried out this investigation on November 21, 2017 and, to this date, there is no information on the submission of any appeal by the MPF. A final, nonappealable criminal conviction of Mr. Sciarra could prevent him from carrying out his management and supervision duties at our company, thus rendering him ineligible to hold his position as a member of the board of directors.

Investigation against Mr. Mounir Chaowiche

Mr. Mounir Chaowiche is a defendant in a public civil action of administrative misconduct, in progress in the Civil Court of the County of Jaguariaíva, State of Paraná. The Public Prosecutor's Office of the State of Paraná filed the suit in 2016 against the Companhia de Habilitação do Paraná - COHAPAR and Mr. Mounir Chaowiche (as former COHAPAR CEO), alleging that the defendants would have been aware of fraud perpetrated by the former mayor of Jaguariaíva, Mr. Otélio Renato Baroni, in the irregular concession of housing units of the Loteamento Antonio Machado Filho. The Public Prosecutor's Office of the State of Paraná requested the conviction of Mr. Chaowiche for administrative misconduct, pursuant to article 11, caput and section I, of the Administrative Misconduct Act. The Public Prosecution Service of the State of Paraná also requested the conviction of the defendants to pay compensation to the Municipality of Jaguariaíva for the collective moral damages caused in the total amount of R\$200.000,00 (two hundred thousand reais). Mr. Mounir Chaowiche presented his previous defense in April 2017, stating that the municipality is entirely responsible for the selection of borrowers. The process is still in its initial phase and there is no sentence yet.

Legal proceedings involving CS Bioenergia S.A.

The plaintiff claims that there were irregularities in the incorporation of CS Bioenergia S.A., since SANEPAR did not consult other companies in the market in order to verify the advantage of the commercial proposal. The plaintiff alleges violations of article 210-A, § 3 of the State Constitution of Paraná, and that the terms of article 7 of Law 17.314 / 2012 would be inapplicable in this case. The case is still in the stage of procedural instruction.

MANAGEMENT

Pursuant to our by-laws, we are managed by a board of directors (*Conselho de Administração*) and a board of executive officers (*Diretoria*). Our by-laws also provide for a permanent fiscal council (*Conselho Fiscal*).

In connection with this offering, we, our controlling shareholder, our directors and our officers have agreed to participate in the Level 2 listing segment of the B3, pursuant to which we have agreed to abide by the Level 2 listing rules and the arbitration chamber of the B3.

Board of Directors

Our board of directors is responsible for, among other matters, establishing policies and guidelines for our business, including our long-term strategy and performance controls, appointing and supervising our executive officers, as well as appointing our independent auditors.

Our board of directors consists of a minimum of five and a maximum of nine members and their respective alternates. The members of our board of directors can be elected at any time at our shareholders' meeting for a two-year term and are eligible for re-election. In accordance with the Level 2 listing rules, at least 20.0% of our directors must be independent directors.

According to our by-laws, our board of directors should meet once each month and on any other occasion if our corporate interests should require such meeting. The resolutions of our board of directors are adopted by a majority of votes of the members attending a duly convened meeting.

Pursuant to the Brazilian Corporate Law, members of our board of directors may not vote at any shareholders' meeting or take part in any transaction in which there is a conflict of interest. For more information on our board of directors, see "Description of Capital Stock—Board of Directors."

Prior to taking office, members of our board of directors (in accordance with Level 2 listing rules) must sign a statement acknowledging the listing and arbitration rules.

The following table lists the current members of our board of directors:

Name	Date of Birth	Position	Term End ⁽¹⁾
Mauro Ricardo Machado Costa.....	3/21/1962	Chairman	4/28/2018
Eduardo Francisco Sciarra ⁽²⁾	10/5/1952	Director	4/28/2018
Elton Evandro Marafigo.....	3/5/1965	Director	4/28/2018
Ezequias Moreira Rodrigues.....	4/3/1956	Director	4/28/2018
Luiz Carlos Brum Ferreira ⁽²⁾	6/7/1945	Director	4/28/2018
Márcia Carla Pereira Ribeiro.....	10/17/1964	Director	4/28/2018
Michele Caputo Neto.....	8/23/1962	Director	4/28/2018
Paulino Viapiana.....	4/28/1960	Director	4/28/2018
Sezifredo Paulo Alves Paz.....	01/22/1960	Director	4/28/2018
Orlando Agulhan Junior.....	04/08/1958	Director	4/28/2018
Luiz Fernando de Souza Jamur.....	07/17/1961	Director	4/28/2018
Edson Roberto Michalowski.....	10/29/1971	Director	4/28/2018
Rogério Perna.....	10/05/1969	Director	4/28/2018
Adriano Cives Seabra.....	06/19/1972	Director	4/28/2018
Fernando Real Alves da Silva.....	10/01/1964	Director	4/28/2018
Vinicius Klein.....	08/11/1978	Director	4/28/2018
Mounir Chaowiche.....	06/18/1961	Director	4/28/2018

(1) We do not expect to have any material change in the composition of our Board of Directors in the near future.

(2) Independent Board Member under the independence standards of the B3.

The following is a summary of the business experience of the current members of our board of directors.

Mauro Ricardo Machado Costa. Mr. Costa has been a member of the board of directors of Companhia de Seguros do Estado de São Paulo – COSESP since 2007. He was the chairman of the board of directors of Companhia Paulista de Parcerias – CPP from 2007 to 2011. From 2008 to 2011, he was a member of the board of

directors of Agência de Fomento do Estado de São Paulo – AFESP. From 2009 to 2011, Mr. Costa was the chairman of the board of directors of Companhia Paulista de Securitização – CPSEC. He was a member of the board of directors of Companhia São Paulo de Desenvolvimento e Mobilização de Ativos – SPDA from 2009 to 2012. From 2011 to 2012, he was a member of the board of directors of each of Empresa de Tecnologia da Informação e Comunicação do Município de São Paulo – PRODAM, Companhia São Paulo de Parcerias – SPP and Companhia Paulista de Securitização – SP Securitização, and he worked as secretary of the Municipal Ministry of Finance (*Secretaria Municipal de Finanças*) of the Municipality of São Paulo. From 2012 to 2013, he was a member of the fiscal council of Companhia do Metropolitano de São Paulo – METRÔ. He has been a member of the board of directors of each of Empresa de Turismo S.A. – SALTUR, Empresa de Limpeza Urbana de Salvador – LIMPURB, Companhia de Desenvolvimento Urbano de Salvador – DESAL and Companhia de Transporte de Salvador – CTS since 2013. From 2013 to 2014, he was secretary of the Municipal Ministry of Finance (*Secretaria Municipal da Fazenda*) of the Municipality of Salvador. He has been a member of the board of directors of SANEPAR since 2015.

Eduardo Francisco Sciarra. In 2013, Mr. Sciarra was the caucus leader for the Social Democratic Party (*Partido Social Democrático*) (“PSD”) in the Chamber of Deputies. He is currently president of the state executive branch and first secretary of the federal executive branch of the PSD. Mr. Sciarra was listed as one of the Heads of Congress (*Cabeças do Congresso*) by the Intersindical Department of Parliamentary Advisory (*Departamento Intersindical de Assessoria Parlamentar*) for 2013 and 2014. In 2014, he worked as coordinator of the campaign for the re-election of Governor Beto Richa in the State of Paraná. Mr. Sciarra has worked as secretary of the chief of staff of the state government of Paraná and has been a member of the board of directors of SANEPAR since 2015.

Elton Evandro Marafigo. Mr. Marafigo has worked as a chemical technician for SANEPAR since 2006. In 2014, he was an alternate member of the board of directors of SANEPAR. Mr. Marafigo has been a member of the board of directors of SANEPAR since May 2016.

Ezequias Moreira Rodrigues. Mr. Rodrigues has worked for SANEPAR since 1983. He has served various positions in the company including as organizational process analyst and the investor relations officer (2011-2013). He has also worked as an administrative assistant for the Municipality of Araçongá, State of Paraná, as well as the chief of the cabinet of the Municipality of Araçongá, State of Paraná. He has also served as the legislative consultant for the Legislative Assembly of Paraná, Municipal Secretary of Curitiba (*Secretaria Municipal de Curitiba*) and the chief of the cabinet of the presidency of the Municipal Council of Curitiba (*Câmara Municipal de Curitiba*). He has been a member of the board of directors of SANEPAR since 2013.

Luiz Carlos Brum Ferreira. Mr. Ferreira has served as a director of Andrade Gutierrez Concessões S.A. since 2002. He is a lifetime member of the advisory council of the Association of Public Works Businessmen of the State of Paraná (*Associação Paranaense dos Empresários de Obras Públicas*). From 2008 to 2015, he was an alternate member of the board of directors of SANEPAR. Mr. Ferreira has been a member of the board of directors of SANEPAR since 2015.

Márcia Carla Pereira Ribeiro. Ms. Ribeiro is a professor of business law at Pontifícia Universidade Católica do Paraná and an associate professor of corporate law at Universidade Federal do Paraná. She serves as attorney general of the state government of Paraná. Ms. Ribeiro has been a member of the board of directors of SANEPAR since 2015.

Michele Caputo Neto. Ms. Neto has worked as the civil servant of the State Health Department of Paraná since 1985. She has acted as the chief of the cabinet of the National Foundation of Health, the chief of the State Health Inspection Department (*Sanitária Estadual*), the general officer of the center of medicine for the State of Paraná, the officer of production of immunobiological products and other related products for the State Health Department (*Secretaria de Estado da Saúde*), the Municipal Secretary of Health for Curitiba (*Secretário Municipal de Saúde do Município de Curitiba*) twice, and the Municipal Secretary of Metropolitan Subjects (*Secretário Municipal de Assuntos Metropolitanos*). She has been a member of the board of directors of SANEPAR since 2011.

Paulino Viapiana. Mr. Viapiana has worked as secretary of the Ministry of Culture of Paraná (*Estado da Cultura do Paraná*) since 2011. Mr. Viapiana has been a member of the board of directors of SANEPAR since 2015.

Sezifredo Paulo Alves Paz. Mr. Paz was a member of the: (i) State Department of Health of Paraná (*Secretaria Estadual da Saúde do Paraná – SESA – PR*) from 1992 to 1994; (ii) Brazilian Institute of Consumer Protection (*Instituto Brasileiro de Defesa do Consumidor*) from 1995 to 2006; and (iii) National Forum of Civil Entities for Consumer Protection from 1998 to 2010 (*Fórum Nacional das Entidades Cíveis de Defesa do Consumidor – FNECDC*). He currently works as Superintendent of Health Surveillance at State Department of Health of Paraná and is a member of the board of directors of SANEPAR since 2011.

Orlando Agulhan Junior. Mr. Agulhan was the vice mayor of Irati from 2001 to 2003 and in 2004 he was a candidate for mayor in Irati. After that, he worked as political advisor in the Municipal City Administration of Curitiba from 2006 to 2010. He is a member of the board of directors of SANEPAR since 2011.

Luiz Fernando de Souza Jamur. Mr. Jamur is the director of *Paraná Edificações* since 2012. He has been working for the government of Paraná since 1992, in positions such as Chairman of the Municipal Council of Urbanism; Secretary to the Municipal Government, among others.

Edson Roberto Michaloski. Mr. Michaloski has been working as an Environmental Technician since 2011. He has been working for SANEPAR since 2002 and was a member of the board of directors of SANEPAR from 2014 until 2016.

Rogério Perna. Mr. Perna worked for *Banco do Brasil and Banco / Nossa Caixa S.A.* (capital markets) from 1989 to 2009. From 2011 to 2013 he was the Chief Administrative and Financial and Investor Relations Officer at *Companhia Paulista de Securitização*. He has been the Chief Executive and Investor Relations Officer at *Companhia Paranaense de Securitização – PRSEC* since 2015.

Adriano Cives Seabra. Mr. Seabra worked at *Opus Investimentos – Gestora de recursos* as Manager and Head of Analysis from 2011 to 2015. He worked at *Fides Asset Management – Gestora de recursos* as Manager and Head of Analysis from 2015 to 2016 and was a member of the board of directors of *Even Construtora S.A.* from May 2015 until November 2015.

Fernando Real Alves da Silva. Mr. Silva is the Chief Executive Officer at Obben Wind Power – ENERCON GmbH. He was the Executive Director at ATTA Gestão e Participação Ltda. Between 2015 and 2016 he was the Chief Executive Officer at Maestra Navegação de Logística S.A. - Ntl – Navegação e Logística S.A. and Vessel-Log – Cia Brasileira de Navegação e Logística S.A. - Maestra Shipping LLP from 2010 to 2015.

Vinicius Klein. Mr. Klein is a professor for Economics and Law at the Federal University of Paraná since 2015, a guest Professor at the Latu Sensu Graduate Program of UNICURITIBA, in Business Law and Economic Scenarios since 2012 and a guest Professor at the Latu Sensu Graduate Program of Faculdades da Industria - FIEP, in Economic Analysis and Business Contracts since 2013.

Mounir Chaowiche. From 2011 to 2014, Mr. Chaowiche worked as president of Companhia de Habitação do Paraná – COHAPAR. He was the president of the Associação Brasileira de Cohabs e Agentes Públicos de Habitação from 2009 to 2010 and 2011 to 2014. In 2015, he assumed the position of chief executive officer of SANEPAR and is an alternate member of the board of directors since 2016.

Board of Executive Officers

Our executive officers are responsible for our day-to-day management. Their individual responsibilities are established by our by-laws and our board of directors.

Pursuant to the Brazilian Corporate Law, each of our executive officers must reside in Brazil but is not required to be a shareholder. Any officer may be removed at any time by the board of directors before the expiration of his or her term.

Pursuant to our by-laws, our board of executive officers is composed of nine members who are elected by the board of directors for a three-year term and who may be reelected. Members of the board of executive officers may be removed at any time. For more information on our board of executive officers, see “Description of Capital Stock—Board of Executive Officers.”

The table below describes the current members of our board of executive officers.

Name	Date of Birth	Position	Term End
Mounir Chaowiche.....	6/18/1961	Chief Executive Officer	6/9/2018
Flávio Luis Coutinho Slivinski.....	01/14/1975	Legal Officer	6/9/2018
Paulo Rogério Bragatto Battiston.....	06/25/1971	Investor Relations Officer	6/9/2018
Jaques Geovani Schinemann.....	10/03/1966	General Counsel	
Luciano Valério Bello Machado.....	11/25/1962	Administrative Officer	6/9/2018
Paulo Alberto Dedavid.....	2/27/1952	Operations Officer	6/9/2018
	8/17/1956	Investments Officer	6/9/2018
João Martinho Cleto Reis Junior.....			
Glauco Machado Requião.....	6/22/1972	Environmental and Social Matters Officer	6/9/2018
Antonio Carlos Salles Belinati.....	1/15/1975	Commercial Officer	6/9/2018

The following is a summary of the business experience of the current members of our board of executive officers.

Mounir Chaowiche. From 2011 to 2014, Mr. Chaowiche worked as president of Companhia de Habitação do Paraná – COHAPAR. He was the president of the Associação Brasileira de Cohabs e Agentes Públicos de Habitação from 2009 to 2010 and 2011 to 2014. In 2015, he assumed the position of chief executive officer of SANEPAR.

Luciano Valério Bello Machado. Mr. Machado worked at Companhia de Habitação do Paraná – COHAPAR as director of programs and works from 2011 to 2013, as administrative and financial officer from 2013 to 2014 and as director of programs and project since 2015. From June 2015 to December 2015, he served as environmental and social matters officer of SANEPAR. In 2015, he assumed the position of administrative officer of SANEPAR.

Paulo Alberto Dedavid. Mr. Dedavid has worked as project engineer for PROBEN – Projetos e Engenharia de Sistemas in Curitiba in 1975 and for Belba – Engenheiros Consultores Ltda., located in Belo Horizonte, Minas Gerais in 1976. In 1977, he worked as an engineer for Empresas Nucleares Brasileiras S.A. Mr. Dedavid began working for SANEPAR in 1977 when he entered as a project engineer (1977-1979). He has held a number of different positions at SANEPAR, including head of the project division (1979-1983), manager of operational development (1983-1987), projects manager (1987-1991), superintendent of operational planning (1991-1992), superintendent of technical planning (1992-1995), engineer of planning (1995-1996), acquisitions manager (1998-1999), general manager of the management unit of basic sanitation projects of Paraná (1996-2003), advisor to the chief executive officer, manager of the advisory of strategic planning, and engineer responsible for the water and sewage treatment for the operational systems of SANEPAR. In 2011, he assumed the position of operations officer of SANEPAR.

João Martinho Cleto Reis Junior. From 1980 to 1983, Mr. Reis worked for Habitação S.A. Construções e Empreendimentos. From 1983 to 1989 he was the head of the planning advisory board of the Housing Company of Curitiba (*Companhia de Habitação de Curitiba*). From 1986 to 1988, he was the coordinator of the Housing Department of the Ministry of Urban Development (*Secretaria Nacional de Habitação do Ministério do Desenvolvimento Urbano*). From 1989 to 1995, Mr. Reis worked for Carandá Engenharia Civil Ltda., as director. In 1997, he worked for the Housing Company of Curitiba. From 1998 to 1999, 2002 to 2004, and 2005 to 2010, he worked for the Institute of Research and Urban Planning of Curitiba (*Instituto de Pesquisa e Planejamento Urbano de Curitiba*) as engineering service provider, technical supervisor of implantation and member of CONSECON (*Conselho do Instituto de Pesquisa e Planejamento Urbano de Curitiba*), the board of the institute, respectively. From 2000 to 2002, he served as officer of special programs for the Supply Department of Curitiba (*Secretaria Municipal de Abastecimento de Curitiba*). In 2011, he assumed the position of investments officer of SANEPAR.

Glauco Machado Requião. Mr. Requião served as chief of staff of the chairmanship of SANEPAR from 2011 to 2015. From 2013 to 2015, he was president of the commission of union relations of SANEPAR. In January 2016, Mr. Requião assumed the position of environmental and social matters officer of SANEPAR.

Antonio Carlos Salles Belinati. From 2011 to 2013, Mr. Belinati worked as commercial officer at SANEPAR. He was a state deputy (*deputado estadual*) of Paraná from 2013 to 2014. He was a member of the board of directors of SANEPAR from 2012 to 2014. In 2015, he reassumed the position of commercial officer of SANEPAR.

Flávio Luis Coutinho Slivinski. Mr. Slivinski was the Attorney General of the House of Representatives of the State of Paraná from November, 2011 to July, 2017. He was the Legal Manager and Legal Officer of SANEPAR from 2011 to 2015 and worked as a lawyer in Chevron Brasil Ltda. (Texaco Brasil Ltda.) from 2005 to 2007.

Paulo Rogério Bragatto Battiston. Mr. Battiston is a career employee of the Company, where he held various functions. In recent years he has held the following related positions: General Manager for the Northwest Region from 2011 to 2015; Concession Manager since March, 2015; and alternate member of the board of directors of FUSAN - Fundação Sanepar de Previdência Social from 2008 to 2011.

Jaques Geovani Schinemann. Mr. Geovani worked for the Banco do Estado do Paraná S.A. – BANESTADO from 1984 to 1999. He worked at *Associação Brasileira da Indústria de Hoteis Pr* – ABIH as administrative and finance director from 2011 to 2015 and as administrative vice president from 2015 to 2017.

Fiscal Council

Under the Brazilian Corporate Law, the fiscal council is a corporate body independent from the board of directors and the independent auditors. According to the Brazilian Corporate Law, the fiscal council must be formed with a minimum of three and a maximum of five members and an equal number of alternates, who must be residents of Brazil.

The table below describes the current members of our fiscal council.

Name	Date of Birth	Position	Term End
Ivens Moretti Pacheco.....	12/24/1954	President	4/27/2017
Jorge Sebastião De Bem.....	1/17/1950	Member	4/27/2017
George Hermann Rodolfo Tormin.....	3/24/1960	Member	4/27/2017
Reginaldo Ferreira Alexandre	03/07/1959	Member	4/27/2017
Anselmo Tarciso Filgueiras Mayer	10/04/1977	Member	4/27/2017
Cléver Ubiratan Teixeira de Almeida.....	01/14/1966	Member	4/27/2017
Walter Luis Bernardes Albertoni.....	09/29/1968	Member	4/27/2017
Cesar Augusta Seleme Kehrig.....	03/13/1947	Member	4/27/2017
Agostinho Creplive Filho.....	02/19/1959	Member	4/27/2017
Gilberto Calixto.....	08/14/1973	Member	4/27/2017

The following is a summary of the business experience of the current members of fiscal council.¹

Ivens Moretti Pacheco. Mr. Pacheco graduated with a degree in journalism from Universidade Católica do Paraná in 1979. From 1986 to 1987, he acted as the chief of the cabinet of the Ministry of the Environment and Urban Development (*Ministério do Desenvolvimento Urbano e Meio Ambiente*). From 1982 to 1985, he worked as the chief press agent for the Transportation Department of Paraná (*Departamento de Gestão do Transporte Oficial do Paraná*). He has also worked as the general officer of the Social Communication Department (*Secretaria de Comunicação Social*), Secretary of the State of Paraná (*Secretaria do Estado do Paraná*) and operations officer (*Diretor de Operações*) of Curitiba. From 2005 to 2010 he worked as superintendent of the Social Communication Department and Government Department (*Secretaria da Comunicação Social do Governo*). He has also worked as the executive president of the Official Press Department of Paraná (*Departamento de Imprensa Oficial do Estado do Paraná*). He has been a member of the fiscal council of SANEPAR since 2011.

Jorge Sebastião De Bem. Mr. De Bem was the chief executive officer and chairman of Paraná Previdência. He is the business sector operations manager of Agência de Fomento do Paraná since 2014. From April 2011 to August 2016, he served as an alternate member of the fiscal council of SANEPAR. Mr. De Bem has been a member of the fiscal council of SANEPAR since August 2016.

George Hermann Rodolfo Tormin. From 2011 to 2012, Mr. Tormin was secretary, deputy director and chairman of Companhia São Paulo de Desenvolvimento de Ativos – SPDA and director and chairman of Companhia

¹ NTD: Section under review/description of new members to be included.

Paulistana de Securitização SPSec, and served as a member of the board of directors of each of São Paulo Obras – SP Obras and Companhia – São Paulo de Desenvolvimento e Mobilização de Ativos – SPDA. From 2013 to 2014, he was the sub-secretary and general director of municipal revenue of the Ministry of Finance of the municipality of Salvador (*Secretaria da Fazenda do Município de Salvador*), a member of the fiscal council of each of Empresa de Turismo S.A. – SALTUR and Companhia de Governança Eletrônica de Salvador – COGEL and a member of the board of directors of each of Companhia de Desenvolvimento Urbano de Salvador and Empresa de Limpeza Urbana de Salvador – LIMPURB. He has been the general director of the Ministry of Finance of the State of Paraná and he has served as a member of the fiscal council of SANEPAR since 2015.

Reginaldo Ferreira Alexandre. Mr. Ferreira is an Economist with eighteen years of experience in investment analysis area, as an analyst, organizer and director of analysis teams and has held these positions successively at Citibank, Unibanco, BBA (now Itaú-BBA) and Itaú Corretora de Valores. He also worked as a corporate credit analyst at Citibank, a consultant in strategy at Accenture, and a consultant in corporate finance in Deloitte. Today, he works at ProxyCon; He is a member of the Accounting Pronouncements Committee (CPC). He is also the Vice Coordinator of Institutional Relations of the CPC. He is a certified investment analyst (CNPI) and a Securities Manager accredited by the CVM. Mr. Ferreira is currently a member of the Fiscal councils of the following public companies: BRF S.A.; Bradesco S.A.; CPFL Energia S.A.; Iochpe Maxion S.A.; Movida S.A.; Petrobras S.A.; Ser Educacional S.A.; and Mahle Metal Leve S.A. (Alternate).

Anselmo Tarcisio Filgueiras Mayer. Mr. Mayer worked as a reporter, editor and news head for the newspaper O Estado do Paraná and Tribuna do Paraná from 2000 to 2010. He was responsible for the communication of the Government's leadership in the State House of Representatives from 2011 to January, 2013. He has served as the Press officer at the Governor's Office since February, 2013. Mr. Mayer has served as an alternate member of the Fiscal Council of SANEPAR since April, 2014.

Cléver Ubiratan Teixeira de Almeida. Mr. Almeida has served as a civil servant of Curitiba City Administration since 1988. He was the Head of Horizontal and Vertical Signaling Division of the Department of Traffic Infrastructure - Smop / PMC from 1988 to 1989. He served in the Roads System Sector of IPPUC from 1989 to 1994 and coordinated several highway projects from 1994 to 1996. He served as an advisor to the President of IPPUC, responsible for the project of Blue Line - Santa Candida / CIC Curitiba subway from 2005 to 2008. Mr. Almeida served as a CEO of IPPUC and actively participated in the FIFA Brazil 2014 World Cup projects and the feasibility of Curitiba subway. He was the Director of Equity of Government of the State of Paraná from 2013 to 2014 and an advisor to the President - Coordination of the Metropolitan Region of Curitiba (Comec) - Government of the State of Paraná.

Walter Luis Bernardes Albertoni. Mr. Albertoni has more than 20 years of law practice experience with emphasis on corporate, civil, civil procedure, tax and commercial law, analysis and drafting of contracts. He has participated in various corporate transactions and prepared analysis and opinions on relevant corporate transactions in the Brazilian securities market since 1993. He has worked as a legal advisor to AMEC -Association of Investors in Capital Markets since 2006. Mr. Albertoni worked as a partner at a law firm for 20 years, coordinating teams of lawyers in civil litigation. He works at Albertoni Sociedade de Advogados since March, 2007. He has been a Fiscal Council Member of Petrobras S.A., from 2013; and a Fiscal Council member of Ser Educacional S.A. (alternate) from 2015. He also serves as CAF consultant - Mergers and Acquisitions Committee since 2013.

Cesar Augusta Seleme Kehrig. Mr. Kehrig was an army officer from 1971 to 1975 and worked at the SELEME Law Office Advogados from 1975 to 1998. He was elected as a member of the Municipal Council of Curitiba in 1988 and re-elected in 1992. He was elected as the State Representative for the State of Paraná in 1994 and re-elected in 1998. He worked at Silva, Kuchiminsk e Seleme Law Office from 1999 to 2008 and served as the Advisory to Sales Director of Companhia de Saneamento do Paraná of SANEPAR from 2007 to 2010. He serves as the Sales Director of Companhia de Saneamento do Paraná of SANEPAR since 2010 and as the Advisory at the Secretariat of Metropolitan Affairs of Curitiba from 2013 to 2015. Mr. Kehrig was a Superintendent FUNASA of Paraná from 2015 to 2016.

Agostinho Creplive Filho. Mr. Filho has been an effective public servant of the Ministry of Finance since 1987. He was the Chief of Staff of José Afonso Junior State Representative - House of Representatives of the State of Paraná from 1987 to 1991 and from 1994 to 1995. He served as the Chief Executive Officer of Fundação de Esporte e Turismo do Estado do Paraná from 1992 to 1994; Parliamentary Adviser of State Secretariat for Labor,

Employment and Solidarity Economy - Curitiba - PR from 1995 to 1996; Chief of Staff of State Secretariat for Labor, Employment and Solidarity Economy - Curitiba - PR from 1997 to 1998; and Chief of Staff and Director General of State Secretariat of Industry, Commerce and Mercosur Affairs - Curitiba - PR from 1999 to 2002. He was the Administrative and Financial Director of Cohapar from 2011 to 2013 and a member of the Board of Directors of Celepar from 2015 to 2016. He served as the Chief of Staff of the Government of the State of Paraná from 2015 to May, 2016. Mr. Filho was an alternate member of the Fiscal Council of SANEPAR from April, 2011 to April, 2017.

Gilberto Calixto. Mr. Calixto is the Director of Coordination of State Revenue. He has been a member of the fiscal council of SANEPAR since May 19, 2017.

Compensation

We believe our management compensation policy, including the members of the board of directors, board of executive officers and fiscal council, follows market best practices. Our management compensation policy seeks to align our interests with the interests of our managers in order to attract and retain qualified professionals.

Pursuant to Article 152 of Law No. 6,404/1976 and paragraph 6 of Articles 15, paragraph 2 of Article 22 and Article 29 of our by-laws, our shareholders' meeting approves the global compensation of the members of our management, including benefits of any kind, taking into account their responsibilities, time spent in performing their duties, competence, professional standing, and the market value of their services.

Board of Executive Officers

The members of our board of executive officers are entitled to a monthly salary, which is established by the board of directors. Our fixed salary policy seeks to incentivize productivity and efficiency in our executive officers and maintain competitiveness in the market in which we operate. Such policy aims at (i) attracting highly qualified officers; (ii) promoting the development, success, and execution of our corporate purpose; and (iii) encouraging performance and favoring the retention of our officers.

The members of our board of executive officers have the same benefits as our employees and, additionally, may choose to receive benefits such as a healthcare plan. Our policy of benefits aims at providing greater economic security and social well-being for our officers. Executive officers are also entitled to our Profit Sharing Plan (*Programa de Participação nos Resultados*) based on targets and indicators.

Board of Directors

The members of our board of directors are only entitled to a monthly salary, which is capped as established by the State Companies Control Council (*Conselho de Controle das Empresas Estatais*), or CCEE, based on meeting attendance.

Fiscal Council

The members of our fiscal council are only entitled to a monthly salary, which is capped as established by the CCEE, based on meeting attendance.

Annual Compensation

We paid an aggregate of R\$1.1 million in the year ended December 31, 2014, R\$1.2 million in the year ended December 31, 2015 and R\$1.1 million in the year ended December 31, 2016 to the board of directors.

We paid an aggregate of R\$7.5 million in the year ended December 31, 2014, R\$8.6 million in the year ended December 31, 2015 and R\$10.1 million in the year ended December 31, 2016 to the board of executive officers.

We paid an aggregate of R\$0.4 million in the year ended December 31, 2014, R\$0.4 million in the year ended December 31, 2015 and R\$0.4 million in the year ended December 31, 2016 to the fiscal council.

The following table details minimum, maximum, and average individual annual compensation of members of our three management bodies in the years ended December 31, 2014, 2015 and 2016:

	Board of Directors			Board of Executive Officers			Fiscal Council		
	As of Year ended December 31,								
	2014	2015	2016	2014	2015	2016	2014	2015	2016
No. of members compensated	9	9	9	9	9	9	5	4	5
Maximum Compensation									
Amount (R\$ thousands)...	126.6	136.7	126.5	1,040.1	1,008.8	1,397.1	76.0	82.0	81.2
Minimum Compensation									
Amount (R\$ thousands)...	3.6	3.8	5.0	334.4	60.7	1,123.9	76.0	6.4	8.7
Average Compensation									
Amount (R\$ thousands)...	122.2	136.0	126.5	835.1	952.6	1,125.0	76.0	81.9	80.6

Shares Held by the Members of our Board of Directors, Board of Executive Officers and Fiscal Council

Our company does not offer a stock-option plan. The following table shows the number of shares held by members of our board of directors, board of executive officers and fiscal council as of September 30, 2017.

	Number of common shares before completion of this offering	Number of preferred shares before completion of this offering
Board of Directors.....	0	13,000
Fiscal Council	0	0
Board of Executive Officers.....	0	0

Family Relations among the Members of our Board of Directors and Board of Executive Officers

There are no family relationships among the members of our board of directors and board of executive officers.

Relations of Members of our Board of Directors and Board of Executive Officers with our Controlling Shareholder

A number of individuals in leadership positions of our company also hold positions in the government of the State of Paraná. For more information, see “Management—Board of Directors” and “Management—Board of Executive Officers.”

Conflict of Interest

The Brazilian Corporate Law prohibits the election of directors and officers with a conflict of interest with us. Brazilian Corporate Law prohibits directors and officers from taking part in any corporate transaction in which he or she has an interest that conflicts with an interest of our company or in the decisions made by the other directors or officers on that matter. Directors and officers who have a conflict of interest must inform the other directors or officers about the conflict and include in the minutes of the meeting of the board of directors or board of executive officers the nature and extent of their interest.

Liability Insurance

The members of our board of directors and board of executive officers are covered by a D&O Liability Insurance Policy, or D&O, issued by Zurich Minas Brasil Seguros S.A., with coverage totaling R\$20 million and the coverage period expiring on April 14, 2018. The coverage is both domestic and international.

Additionally, the above-mentioned policy has complementary and supplementary coverage periods. The complementary coverage period corresponds to 36 months as of the expiration date of the insurance policy and the supplementary coverage period, which will be applied following the end of the complementary coverage period, is as follows:

Periods	Additional Premium
12 months	75.0% on the premium
24 months	120.0% on the premium

PRINCIPAL AND SELLING SHAREHOLDERS

As of the date of this offering memorandum, the total amount of our capital stock was R\$2,854,951,992.50, fully paid-in and divided into 503,735,173 registered, book-entry shares, without par value, represented by 167,911,724 common shares and 335,823,449 preferred shares.

The following tables set forth information relating to the ownership of our shares by each beneficial owner of 5.0% or more of our common and preferred shares and other key shareholders as of the date of this offering memorandum and expected holdings of such shareholders after completion of this offering, assuming the sale of Additional Units is completed.

Prior to the completion of the offering

Shareholders	Common Shares	(%)	Preferred Shares	(%)	Total	(%)
Estado do Paraná	110,900,838	66.05	39,945,053	11.89	150,845,891	29.95
Companhia Paranaense de Energia –Copel ⁽¹⁾	8,859,915	5.28	35,439,658	10.55	44,299,573	8.79
Others	48,151,000	28.68	260,438,709	77.55	308,589,709	61.26
Treasury.....	-	-	-	-	-	-
Total	167,911,753	100.00	335,823,420	100.00	503,735,173	100.00

(1) Includes the participation held jointly with Copel Comercialização S.A.

After Completion of the Offering

Shareholders	Common Shares	(%)	Preferred Shares	(%)	Total	(%)
Estado do Paraná	100,914,575	60.10	1	0.00	100,914,576	20.03
Companhia Paranaense de Energia –Copel ⁽¹⁾	2,458,198	1.46	9,832,790	2.93	12,290,988	2.44
Others	64,538,980	38.44	325,990,629	97.07	390,529,609	77.53
Treasury.....	-	-	-	-	-	-
Total	167,911,753	100.00	335,823,420	100.00	503,735,173	100.00

(1) Includes the participation held jointly with Copel Comercialização S.A.

RELATED PARTY TRANSACTIONS

Our related party policy seeks to ensure that all of our transactions are carried out on an arm's length basis and in accordance with prevailing market terms. Our decision-making process in connection with related party transactions is conducted pursuant to the Brazilian Corporate Law, which requires shareholders, officers and members of our board of directors to abstain from voting in shareholders' meetings and meetings of the board with respect to the following matters, as applicable: (i) appraisal reports related to assets contributed by a shareholder in exchange for issuance of capital stock; (ii) approval of our management's accounts; and (iii) any issues that may particularly benefit the shareholder, officer or member of our board of directors in question or in which they may have conflicting interests with the company.

In addition, the Brazilian Corporate Law prohibits directors and executive officers from: (i) freely utilizing company assets to the detriment of the company; (ii) receiving any type of direct or indirect personal benefit from a third party as a result of their position at the company, without being otherwise authorized by the company's by-laws or approved at a shareholders' meeting; and (iii) participating in any transaction that presents a conflict of interest with us or the decisions of our board members.

In the ordinary course of our business, we enter into related party transactions on an arm's length basis and in accordance with prevailing market terms. For more information about our related party transactions, see Note 17 to our Unaudited Financial Statements. These transactions are carried out in strict compliance with the law, in order to avoid potential conflict of interest which can result in actions which benefit the people involved as opposed to the shareholders. Accordingly, these transactions always undergo an exhaustive review by our management.

Relevant Related Party Transactions

We perform commercial transactions with several related parties, such as the State of Paraná, COPEL, Copel Telecomunicações S.A. and some municipalities, at regular market conditions, as well as management compensation.

State of Paraná

We have entered into extensive transactions with the State of Paraná and expect to continue to do so. We render water supply and sewage services to the State of Paraná under concession and program agreements, with revenue of R\$119.5 million, R\$130.4 million and R\$137.8 million for the years ended December 31, 2014, 2015 and 2016, respectively and R\$75.1 million on September 30, 2017.

COPEL

COPEL supplies us with the majority of our energy needs. In the years ended December 31, 2014, 2015 and 2016, supply of electricity from COPEL totaled R\$199.1 million, R\$378.6 million and R\$373.5 million, respectively and R\$1.4 billion on September 30, 2017. We do not have a formal agreement with COPEL because we are considered a *consumidor cativo*, as defined by the National Agency of Electrical Energy (*Agência Nacional de Energia Elétrica*), or ANEEL.

In terms of the relevant ANEEL resolution, a *consumidor cativo* relationship has the following characteristics: (i) energy is supplied by the distributor where the consumer is located, meaning that the amount paid includes the cost of energy as well as the cost of transmission and distribution; (ii) there is no energy price, but an "energy tariff," of which ANEEL sets the value each year for each distributor; (iii) the consumer is not free to negotiate the conditions of the agreement and the flexibility of its supply of energy to meet its demands, but must depend on the distributor; and (iv) the consumer is subject to the unpredictability of an annual variation in the amount of fees from the distributors, which brings uncertainties about the cost of energy.

Municipalities

We also have arrangements for services of water supply and the collection and treatment of sewage with several public entities of the State of Paraná, with which we maintain concession and program agreements for the rendering of water distribution and the collection and treatment of sewage services. In the years ended December 31, 2014,

2015 and 2016, our revenue derived from these municipalities amounted to R\$67.4 million, R\$76.0 million and R\$97.0 million, respectively and R\$78.1 million on September 30, 2017.

These transactions are carried out on arm's length basis and in accordance with prevailing market terms, except for some municipalities that have discounts in their invoices for water supply and sewage, depending on the maximum consumption established in each contract with the relevant government.

Management Compensation

We also provide management compensation, approved at the Annual General Meeting. In the years ended December 31, 2017 and 2016, the amounts of R\$14,255 thousand and R\$13,055 thousand, respectively, were approved.

Dividends

We regularly pay dividends to our shareholders, including the State of Paraná. In the past, we have withheld part of the dividends to which the state was entitled in order to offset it against our pending receivables from the state.

DESCRIPTION OF CAPITAL STOCK

Set forth below is a brief discussion of certain significant provisions of our by-laws, the Brazilian Corporate Law, CVM regulations, and the listing rules of the Level 2 segment of the B3 relating to our capital stock, management, periodic information disclosure and other corporate matters. This is a descriptive summary, and therefore may not contain all of the information that may be important to you. This section is qualified in its entirety by reference to our by-laws, the Brazilian Corporate Law, CVM regulations, and the listing rules of the Level 2 segment of the B3 relating to our capital stock, management, periodic information disclosure and other corporate matters.

General

We are a mixed capital corporation (*sociedade por ações de economia mista*), incorporated under the laws of Brazil. We obtained our registration to be a public company with the CVM on March 10, 2000.

Our common and preferred shares have since May 2002 been listed on the exchange traded market (*Mercado de Bolsa*) of the B3 S.A. under the symbols “SAPR3” and “SAPR4,” respectively, and, concurrently with this offering, we have applied to migrate the listing of our shares to the Level 2 segment of the B3. We expect that our shares will be approved for listing on the Level 2 segment of the B3 prior to the closing of this offering.

Capital Stock

As of the date of this offering memorandum, the total amount of our capital stock was R\$2,854,951,992.50, fully paid-in and divided into 503,735,173 registered, book-entry shares, without par value, represented by 167,911,753 of which were common shares and 335,823,420 which were preferred shares.

Pursuant to our by-laws, our board of directors may increase our capital stock up to the limit of our authorized capital, or R\$4.0 billion, without amendment to our by-laws. Our shareholders must approve in a shareholders’ meeting any capital increase that exceeds the amount of our authorized capital.

Material Changes in Our Capital Stock

During the last three years, our capital stock has undergone the following changes:

In April 2014, Dominó Holdings S.A. converted 57,237,359 of our common shares held by them into preferred shares. Concurrently, it transferred (i) 39,567,777 of our preferred shares to Daleth Participações S.A., (ii) 36,343,267 of our preferred share to COPEL and (iii) 10,004,423 of our preferred shares to Andrade Gutierrez Concessões S.A. That same year, our preferred shares owned by Daleth Participações S.A. were transferred to the participants of the investment funds managed by it.

In 2014, the State of Paraná transferred to Fundo Garantidor das Parcerias Público – Privadas of Paraná 35,000,000 of our preferred shares. As a result, as of year ended December 31, 2014, the State of Paraná owned 74.97% of our common shares and 29.02% of our preferred shares.

In the year ended December 31, 2015, there was no material change in our capital stock.

On July 31, 2015, the State of Paraná and Fundo Garantidor das Parcerias Público-Privadas do Paraná entered into an Assignment of Economic Rights Agreement (*Contrato de Cessão Onerosa de Direitos Econômicos Decorrentes de Participações Societária*), pursuant to which the State of Paraná assigned its economic rights with respect to dividends and interests on shareholders’ equity on our common shares held by it for a period of 30 years.

On November 25, 2016, the State of Paraná and Dominó Holdings S.A. converted 23,056,232 and 41,000,000, respectively, of our common shares held by them into preferred shares. As a result of such conversions, the State of Paraná currently holds 89.84% and 30.47% of our common and preferred shares, respectively, and Dominó Holdings S.A. currently holds 9.67% and 13.52% of our common and preferred shares, respectively. Due to the decrease in the ownership of common shares held by Dominó Holdings S.A., the Shareholders’ Agreement was terminated.

In December 2016, a capital increase of the Company was approved, in accordance with the Primary Public Offering of preferred shares issued by the Company in the amount of R\$257,592,186.50 within the limit of the authorized capital, as provided for in article 9 of the Bylaws, through the issuance by the Company of 27,114,967 preferred shares.

Following the increase, our capital stock increased from R\$2,597,359,806.00 to R\$2,854,951,992.50, divided into one 167,911,724 common shares and 335,823,449 preferred shares.

On October 27, 2017, the Company's Extraordinary General Meeting approved the implementation of a program for the issuance of certificates of deposit of shares of the Company for the formation of units ("Units Program"). The Units Program was effectively implemented, in accordance with the Company's Board of Directors' Meeting held on November 17, 2017, as soon as more than 40% of the preferred shares issued by the Company were outstanding. Our Units began trading on the B3 on November 22, 2017.

As part of the Units Program, 252,556,567 preferred shares issued by the Company were verified, corresponding to approximately 75.2% of the preferred shares issued by the Company, and 63,139,105 common shares issued by the Company, corresponding to approximately 37.6% of the Company's common shares, totaling 315,695,672 shares issued by the Company, corresponding to approximately 62.7% of the shares issued by the Company.

Corporate Purpose

Our corporate purpose is to provide public services and private systems of water supply, collection, removal and to dispose of effluents and solid wastes and industrial byproducts, urban drainage, related services protecting the environment and water resources. We also provide other services relating to population health, providing advice, technical assistance and certification in these areas and other services of interest to SANEPAR and to the State of Paraná. To meet these goals, we may participate, as majority or minority member, in a consortia with private companies.

Rights of Our Preferred Shares

Our preferred shares do not have voting rights, except for the following matters provided for in the B3 Level 2 Corporate Governance Rules:

- approval of our conversion into another corporate form, consolidation, merger or spin-offs;
- approval of agreements between us and our controlling shareholder, directly or through third-parties, as well as other companies in which the controlling shareholder holds interests whenever, as provided by our by-laws, the approval of such agreements is subject to shareholders' approval;
- evaluation of in-kind contributions offered by a shareholder in consideration for issuance of shares of our capital stock;
- appointment of the appraisal firm to be hired for determining our economic value for public tender offers if (i) we withdraw from Level 2 listing segment of the B3 or (ii) our registration as a publicly held company is canceled; and
- amendment or revocation of by-laws provisions in the result of our compliance with requirements in the Level 2 Corporate Governance Rules, with the reservation that this right to vote will continue so long as the Level 2 Participation Agreement remains in effect.

Pursuant to our by-laws, holders of our preferred shares have priority in capital reimbursement, without a premium. Our by-laws also establish that our preferred shareholders are entitled to receive dividend payments that are at least 10.0% greater than those dividends paid to our common shareholders.

Our preferred shares are entitled to the general voting rights provided in the Level 2 Corporate Governance Rules, as described above. Also, our preferred shares give their holders the right to a restricted vote in our General

Meetings for the following matters: (a) transformation, merger, consolidation or spin-off of our company; (b) approval of contracts between our company and the Controlling Shareholder, directly or through third parties, as well as other companies in which the Controlling Shareholder is interested, whenever, as provided for in legal or statutory provision, they are resolved in a General Meeting; (c) appraisal of properties intended for integration of our capital increase; (d) choice for the institution or company specialized in determining our Economic Value, according to Article 34, paragraphs 1 and 2 of the our bylaws.

Rights of Common Shares

Each common share entitles its holder to one vote in any extraordinary or annual shareholders' meetings. Under our by-laws and the Brazilian Corporate Law, the owners of our common shares have the right to receive dividends for other distributions made in relation to the common shares in the proportion of their ownership interest in our total capital stock. See "Allocation of Profit and Distribution of Dividends," below and "Dividends and Dividend Policy—Payments of Dividends and Interest on Shareholders' Equity," in this offering memorandum for a more detailed discussion of dividends and other distributions made in relation to our shares.

In the event of our liquidation, our shareholders will receive any remaining amount of our capital stock in proportion to their ownership interest. The shareholders have a preemptive right to subscribe to new shares we issue, as provided under the Brazilian Corporate Law, but they are not required to subscribe to our future capital increases.

According to the Brazilian Corporate Law, neither our by-laws nor resolutions may prevent shareholders the right to: (i) participate in the distribution of profit; (ii) participate, in proportion to their ownership interest in our capital stock, in the distribution of any residual assets if we are liquidated; (iii) exercise a preemptive right to subscribe for shares, debentures convertible into shares or warrants, except in certain circumstances provided for in the Brazilian Corporate Law and described in "—Preemptive Rights;" (iv) monitor, in the manner provided for in the Brazilian Corporate Law, the management of our business; and (v) withdraw in the circumstances defined by the Brazilian Corporate Law, including a merger or acquisition, as described in "—Withdrawal Rights."

Rights of Units

The Units entitle their holders to the same rights and benefits of the shares represented by them, including the payment of dividends, interest on shareholders' equity, and any other bonus as payments, or income they may be entitled to.

Treasury Shares and Stock Options

As of the date of this offering memorandum, we do not hold any treasury shares or have granted any stock option.

Other Securities

In addition to the common and preferred shares that make up our capital stock, we have also issued debentures. For further information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Indebtedness."

Shareholders' Meetings

According to the Brazilian Corporate Law, at regularly called and convened shareholders' meetings, holders of our common shares have the authority to take any action relating to our corporate purpose and to pass all resolutions as they believe appropriate to our protection and development. Common shareholders at the annual shareholders' meeting, which must take place in the first four months following the end of the previous fiscal year, have the exclusive power to approve our audited financial statements and to determine the allocation of our net income and the payment of dividends with respect to the fiscal year ended immediately prior to the relevant annual shareholders' meeting. The members of our board of directors and fiscal council are elected at shareholders' meetings.

An extraordinary shareholders' meeting may be held simultaneously with the annual shareholders' meeting and at other times during the year. Our common shareholders have the exclusive authority to resolve the following matters at general meetings under our by-laws and the Brazilian Corporate Law:

- amending our by-laws;
- deciding on the issuance of shares and warrants, except for an issue within the limit of the authorized capital, in which case the board of directors can decide;
- electing and removing the members of our board of directors and our fiscal council and define their compensation;
- annual approval of management accounts and our financial statements;
- deciding on the allocation of profit and distribution of dividends, in accordance with a proposal presented by the board of directors;
- authorization for the issuance of debentures, except where the board of directors is authorized to do so under article 59(1) of the Brazilian Corporate Law;
- deciding on stock awards (*bonificações*) and splitting or grouping our shares;
- suspending the exercise of a shareholder's rights in the event of breach of law or provisions of our by-laws;
- acceptance or rejection of the appraisal of assets to be contributed by a shareholder in consideration for issuance of shares of our capital stock;
- approving our conversion into another corporate form, merger, consolidation or spin-off or our dissolution and liquidation, election and dismissal of the liquidator and members of our fiscal council, who shall be installed in the event of our liquidation, as well as approving the report of the liquidator describing our acts, transactions and final accounts;
- delisting our shares from the B3's Level 2 listing segment and the cancellation of our registration as a publicly held company, as well as hiring a specialized, independent company to prepare the valuation report for our shares in such event;
- authorizing bankruptcy filing or filing for our judicial or extrajudicial recovery; and
- approving stock option plans intended for our directors, officers, employees, or individuals rendering services to us or to companies directly or indirectly controlled by us.

Quorum

As a general rule, the Brazilian Corporate Law provides that a quorum at a shareholders' meeting consists of shareholders representing no less than 25.0% of our issued and outstanding voting capital stock on first summons and, if that quorum is not reached, any percentage of our voting capital stock on second call. A quorum for purposes of amending our by-laws consists of shareholders representing at least two-thirds of our issued and outstanding capital stock on first summons and any percentage on second call.

Also as a general rule, the affirmative vote of shareholders representing at least the majority of our issued and outstanding common shares present at a shareholders' meeting in person, or represented by a proxy, is required to approve any proposed action, with abstentions not taken into account. However, the affirmative vote of shareholders representing at least 50.0% of our issued voting capital is required, among other things, for:

- reducing the mandatory dividends for distribution to our shareholders;
- changing our corporate purpose;
- approving our consolidation with, or merger into, another company;

- approving the spin-off of our assets or liabilities;
- approving our participation in a group of companies;
- cancellation of any voluntary liquidation; and
- approving our dissolution.

The CVM may authorize the reduction of the quorum provided for in the Brazilian Corporate Law in the case of listed companies with a high free float provided that at least three shareholders' meetings of the company have been held with less than 50.0% of shareholders representing voting shares present.

Location of a Shareholders' Meeting

Our shareholders' meetings are held at our registered office, in the municipality of Curitiba, State of Paraná, Brazil. The Brazilian Corporate Law allows our shareholders to hold meetings outside our registered office during an event of force majeure, provided that the meetings are held in the region of our registered office and the relevant notice states clearly the place where the shareholders' meeting should take place.

Who May Call our Shareholders' Meetings

In addition to our board of directors, shareholders' meetings may also be called by:

- any shareholder, if our board of directors fails to call a shareholders' meeting within 60 days after the date they were required to do so under the Brazilian Corporate Law and our by-laws;
- shareholders holding at least 5.0% of our capital stock if our board of directors fails to call a meeting within eight days after receipt of a justified request to call the meeting by those shareholders indicating the proposed agenda; and
- shareholders holding at least 5.0% of our capital stock if our board of directors fails to call a meeting within eight days after receipt of a request to call a meeting for the establishment of the fiscal council; and our fiscal council if our board of directors fails to call an annual shareholders' meeting within one calendar month after the date it was required to do so under the Brazilian Corporate Law. The fiscal council may also call a special shareholders' meeting if it believes that there are important or urgent matters to be addressed.

Notice of a Shareholders' Meeting

The Brazilian Corporate Law requires that notice of a shareholders' meeting be published on three different dates in the official gazette of the State of Paraná and in one other widely circulated newspaper. The first notice must be published no later than 15 days before the date of the meeting on the first summons, and no later than eight days before the date of the meeting on the second call. In certain circumstances, upon request of any shareholder and after hearing our opinion, the CVM may require that the first notice be published not later than 30 days prior to the meeting.

Conditions for Admission to Our Shareholders' Meetings

Shareholders attending a shareholders' meeting must produce proof of their status as shareholders and proof that they hold the shares they intend to vote.

A shareholder may be represented at a shareholders' meeting by a proxy if such proxy is appointed less than a year before the meeting. Such proxy must be a shareholder, a manager, a lawyer or a financial institution. An investment fund must be represented by its manager or a proxy.

CVM Rule No. 561 provides for proxy voting, which will be mandatory with respect to the Shareholders of the Company as from 1 January 2018, given that as of such date, the Company's shares will no longer be listed on the

Brasil Index - IbrX 100, or Bovespa Index - IBOVESPA, pursuant to Article 11, paragraph III, of said CVM Rule No. 561. Accordingly, the Company is still evaluating the steps to be taken to implement proxy voting mechanisms.

Board of Directors

Our board of directors is our decision-making body responsible for determining the guidelines and general policies of our business, including our overall long-term strategy as well as controlling and overseeing our performance. Our board of directors is also responsible for, among other matters, supervising the activities of our executive officers.

Pursuant to our by-laws, our board of directors must be composed of a minimum of five and maximum of nine members. The members of our board of directors are elected at the shareholders' meeting for a two-year term and are eligible for reelection. According to state law, one director will be elected by employees. The Level 2 regulations require that at least 20.0% of the members of our Board of Directors be independent directors. An independent director must: (i) have no relationship with our company, except for the director's share participation; (ii) not be a controlling shareholder, nor be a spouse, sibling or any relative up to the second degree of our controlling shareholders, or within the last three years, have had any relationship with any corporation or organization related to our controlling shareholders (excluding persons related to public schools and/or research institutions); (iii) not have been, within the last three years, our employee or officer, or an employee or officer of our controlling shareholders or any entity controlled by our company; (iv) not be our direct or indirect supplier or customer to an extent that it could compromise such director's independence; (v) not be an employee or officer of any company or organization that is offering services and/or products to, or soliciting services and/or products from, our company; (vi) not be the spouse, sibling or any relative up to the second degree of any of our directors or officers; and (vii) not receive any remuneration from us other than as a director or shareholder.

The number of members of the board of directors that should be in office is decided by a majority vote at a shareholders' meeting before their election. According to the Brazilian Corporate Law, any holder of at least 10.0% of our capital stock may request the adoption of the multiple vote procedure. Holders of voting shares individually or collectively representing 15.0% of our capital stock or holders of preferred shares with no voting rights or restricted voting rights, representing 10.0% of our capital stock may appoint one director by a separate vote. If none of these groups are able to elect a director, the Brazilian Corporate Law allows them to aggregate their shares to appoint one director by separate vote, only if the aggregate shares represent at least 15.0% of our capital stock.

Pursuant to CVM Instruction No. 282, dated June 26, 1998, depending on the capital stock of a company, the minimum percentage required for a voting shareholder to request adoption of multiple vote procedure may be reduced to a percentage between 5.0% and 10.0% of the voting shares, which in our case is 5.0% of our voting shares.

Board of Executive Officers

Our eight executive officers are our legal representatives, and are principally responsible for our day-to-day management and for implementing the policies and general guidelines established by our board of directors.

According to the Brazilian Corporate Law and our by-laws, all of our officers must be residents of Brazil, but are not required to be shareholders. Our executive officers are elected at a meeting of our board of directors for three-year terms, reelection being permitted. Our board of directors may elect to remove officers at any time.

Fiscal Council

Under the Brazilian Corporate Law, the fiscal council is a corporate body independent from the board of directors and the independent auditors. According to the Brazilian Corporate Law, the fiscal council must be formed with a minimum of three and a maximum of five members and an equal number of alternates, who must be residents of Brazil. The main responsibilities of the fiscal council are to review our management's activities and our financial statements and report their findings to our shareholders.

Our fiscal council, however, is permanent and composed of four members and their respective alternates, all of whom are elected by the shareholders. Members of the fiscal council serve one-year term. For more information, see “Management—Fiscal Council.”

Conflict of Interest

The Brazilian Corporate Law prohibits directors and officers from:

- performing any charitable act at our expense, except for such reasonable charitable acts for the benefit of employees or of the community in which we participate, subject to approval by our board of directors or our executive officers;
- by virtue of his or her position, receiving any type of direct or indirect personal advantage from third parties without authorization in the by-laws or from a shareholders’ meeting;
- borrowing money or any corporate assets from our company, or using our property, services or credits for his or her own benefit or for the benefit of a company in which he or she has an interest or of a third party, without prior written authorization of our shareholders or board of directors;
- taking part in any corporate transaction in which he or she has an interest that conflicts with an interest of our company, or in the decisions made by the other directors or officers on the matter;
- using, for the director’s or officer’s own benefit or for the benefit of third parties, commercial opportunities made known to him or her as a result of his or her participation in our management;
- failing to exercise or protect our rights or, for the purposes of obtaining benefits for him or herself or third parties, missing business opportunities for the company; and
- purchasing, for resale, assets or rights known to be of interest to the company, or necessary for our activities, or that we may intend to acquire.

Allocation of Profit and Distribution of Dividends

Before each annual general meeting, our management must prepare a proposal for the allocation of net income from the year, if any, which our shareholders will vote on. For purposes of the Brazilian Corporate Law, net income is defined as the result for the period minus accumulated losses from previous years, an income and social contributions tax provision and any other amounts allocated for the payment of by-laws-authorized profit sharing to employees and management. Under the Brazilian Corporate Law, net income may be allocated to a profit reserve for the payment of dividends.

Withdrawal Rights

Any of our shareholders who disagree with certain decisions made in a shareholders’ meeting have the right to withdraw from our company and receive reimbursement for the value of their shares. Pursuant to the Brazilian Corporate Law, the right of withdrawal may be exercised under the following circumstances:

- change in the preferences, benefits and redemption and amortization conditions of one or more classes of preferred shares, or the creation of a new more beneficial class of shares (in this case only shareholders harmed by the change or creation will have the right to withdraw);
- any spin-off as a result of the circumstances described below;
- a reduction of our minimum mandatory dividends;
- a change in our corporate purpose;
- the merger of our shares, in accordance with Article 252 of the Brazilian Corporate Law;

- our participation in a corporate group (as defined in the Brazilian Corporate Law);
- our acquisition of control of another company for a price that exceeds the limits established in paragraph two of Article 256 of the Brazilian Corporate Law;
- a change in our corporate form; or
- our merger into or consolidation with another company.
- However, under the Brazilian Corporate Law, a spin-off will not trigger withdrawal rights, unless it:
 - causes a change in our corporate purpose, except if the assets and liabilities spun off were transferred to a company, of which the primary activities are consistent with our corporate purpose;
 - reduces our minimum mandatory dividends; or
 - results in our participation in a centralized group of companies (as defined in the Brazilian Corporate Law).

In cases involving (1) our merger into or consolidation with another company, (2) our participation in a corporate group (as defined in the Brazilian Corporate Law), or (3) the acquisition by us of the control of another company for a price that exceeds the limits established in paragraph two of Article 256 of the Brazilian Corporate Law, our shareholders will not be entitled to withdrawal rights if our shares:

- are “liquid,” meaning they are part of the B3 Index or other stock exchange index (as defined by the CVM), and
- are widely held, such that our controlling shareholder or its affiliates hold less than 50.0% of our shares.

The right to withdraw expires 30 days after publication of the minutes of the relevant shareholders’ meeting. Additionally, we are entitled to reconsider any action that may give rise to withdrawal rights for ten days after the expiration of this period if we deem that the payment of the redemption amount to the dissenting shareholders would jeopardize our financial stability.

Upon the exercise of withdrawal rights, shareholders are entitled to receive the net worth of their shares, based on our most recent financial statements approved by our shareholders. If the resolution giving rise to the withdrawal rights is made later than 60 days after the date of our most recent approved financial statement, the shareholder may demand, together with the redemption, that his or her shares be valued according to a new financial statement dated no more than 60 days before the resolution date. In this case, we must immediately pay 80.0% of the net worth of the shares, calculated on the basis of the most recent statement of financial position approved by our shareholders, and the balance must be paid within 120 days after the date of the resolution of the shareholders’ meeting.

Redemption

According to the Brazilian Corporate Law, we may redeem our shares subject to the approval of our shareholders at a special shareholders’ meeting, where shareholders representing at least 50.0% of the shares that would be affected are present. Redemption can be paid with the company’s profits, profit reserves or capital reserve.

If the redemption does not cover all the shares of a particular type, the redemption will be conducted by lottery. If custodial shares are drawn, a financial institution will specify, by lottery, the shares to be redeemed, unless another matter is provided for in the custody agreement.

Registration of Our Shares

Our shares are held as book-entry shares at Itaú Corretora de Valores S.A. Transfer of our shares will be carried out through an entry by Itaú Corretora de Valores S.A. in its registration systems as a debit in the account of the

disposing shareholder and a credit in the account of the acquiring shareholder, on the written order of the disposing shareholder or a court order or authorization.

Preemptive Rights

Except as described in the paragraph below, our shareholders have a general preemptive right to subscribe to shares in any capital increase in proportion to their shareholding at the time of such capital increase. While our shareholders also have a general preemptive right to subscribe to any debenture convertible into shares and subscription warrants that we may issue, no preemptive rights apply to actual conversions of debentures, acquisitions of shares resulting from the exercise of subscription warrants and granting of call options and issuance of shares as a result of their exercise. A period of at least 30 days following the publication of the notice of the capital increase or issuance of convertible debentures or subscription warrants is allowed for the exercise of the preemptive right. Shareholders may waive their preemptive rights.

However, pursuant to the Brazilian Corporate Law and our by-laws, our board of directors is authorized to exclude preemptive rights or reduce their exercise period with respect to the issuance of new shares, convertible debentures and subscription warrants, up to the limit of the authorized stock capital, if the distribution of those shares, debentures or warrants is effected through a stock exchange, through a public offering or through an exchange of shares in a public offering, the purpose of which is to acquire control of another company.

Arbitration

According to the Level 2 Corporate Governance Rules and our by-laws, we, our shareholders, directors and officers and members of the fiscal council, if one is in place, must commit to resolve by means of arbitration any and all disputes or controversies which may arise related to or arising from the application, validity, efficacy, interpretation, violations and effects of provisions contained in the Brazilian Corporate Law, our by-laws, rules and regulations of the CMN, the Central Bank, and the CVM, as well as those in the Level 2 Corporate Governance Rules, the Level 2 Corporate Governance Practices Agreement, and the B3's Market Arbitration Chamber.

Going Private Process

We may become a private company if we or our controlling shareholder conduct a public tender offer for the acquisition of all of our outstanding shares in accordance with the rules and regulations of the Brazilian Corporate Law, the CVM regulations and Level 2 Corporate Governance Rules. The offering price should be the economic value of those shares, as determined in a report prepared by a specialized company.

The appraisal report will be prepared by a specialized company that is independent from us, our managers and our controlling shareholder. Our shareholders choose the institution or specialized company responsible for determining our economic value at a general meeting from a list with three alternatives. Blank ballots will not be counted for this vote and each share will have the right to one vote, regardless of its type or class. The resolution will be carried by the majority of votes of shares in free float that are present at the meeting.

The meeting will be instated on the first summons with the presence of shareholders representing at least 20.0% of the total shares in free float, or on the second call with the presence of any number of shareholders representing shares in free float. The right to a review of the value of the offer is assured if holders of at least 10.0% of our shares in free float request that our management call a special shareholders' meeting to decide on conducting a new valuation based on the same or another criteria to determine our value. Such a request must be presented within 15 days from the disclosure of the value of the shares in the public tender offer. The shareholders who request a new valuation, as well as those who vote in favor of it, must reimburse us for the costs incurred if the new value is the same or less than the initial amount of the tender offer. However, if the amount calculated in the second valuation is higher, the public tender offer must adopt this higher value.

Delisting from the Level 2 Listing Segment of the B3

At any time, we may delist our Units from the Level 2 listing segment of the B3, provided that shareholders approve the decision and that we give written notice to the B3 at least 30 days in advance. The decision should specify whether our securities that are being delisted will be listed for trading outside of Level 2, or if we are going

private. Our delisting from the Level 2 listing segment of the B3 will not result in the loss of our registration as a public company on the B3.

If our shareholders approve our delisting from the Level 2 listing segment of the B3 in order for our units to be tradable outside the Level 2 listing segment of the B3, or engage in a corporate reorganization in which the surviving company is not admitted to trading on the Level 2 listing segment of the B3, our controlling shareholder must conduct a public offering for the acquisition of our outstanding shares, within the time limit set forth in the Brazilian Corporate Law and Level 2 Corporate Governance Rules. Our shareholders choose the institution or specialized company responsible for determining our economic value at a general meeting from a list with three alternatives presented by the board of directors.

Blank ballots will not be counted for this vote and each share will have the right to one vote, regardless of its type or class. The resolution will be carried by the majority of votes of shares in free float that are present at the meeting. The meeting will be instated on the first summons with the presence of shareholders representing at least 20.0% of the total shares in free float, or on the second call with the presence of any number of shareholders representing shares in free float. The cost of preparing the report must be fully paid by the one making the offer.

The public tender offer must be communicated to B3 and immediately disclosed to the market after the general meeting that approved the delisting from the Level 2 listing segment. Under the Level 2 listing regulations, in the event of a transfer of our control within twelve months following our delisting from the Level 2 listing segment of the B3, the selling controlling shareholder and the acquirer must jointly and severally offer to acquire the remaining shares for the same price and terms offered to the selling controlling shareholder, adjusted for inflation.

If we delist from the Level 2 listing segment of the B3, we will not be permitted to have shares listed on the Level 2 listing segment of the B3 for a period of two years after the delisting date, unless there is a change in control in the company after this delisting from the Level 2 listing segment of the B3.

Sale of a Controlling Stake in our Company

According to the rules of the Level 2 Corporate Governance Rules, the sale of control of our company in one transaction or in a series of transactions, must contemplate an obligation by the acquirer to complete a public tender offer for the acquisition of all other outstanding shares on the same terms and conditions granted to the selling controlling shareholder. This public tender offer must be made by the deadline provided in the Brazilian Corporate Law and the Level 2 Corporate Governance Rules.

A public tender offer is also required:

- when there is an assignment for value of share subscription rights or rights of other securities convertible into our shares, which results in the transfer of control of the company;
- in case of a sale of control of the controlling shareholder; and
- when an existing shareholder acquires a controlling stake in us through a private share purchase agreement. In this event, the acquiring shareholder must conduct a public offering and reimburse the shareholders from whom the shares were acquired in a stock exchange six months prior to the sale of control the amount equivalent to the difference between the price paid to the selling controlling shareholder and the price paid in the stock exchange for our shares adjusted for inflation until the date of payment.

The acquiring shareholder, if applicable, shall, within six months after the acquisition of the control, take the necessary steps to guarantee a minimum of 25.0% of the total shares of our capital stock are in free float. The controlling shareholder cannot transfer our shares that it holds, nor can we make any registration of the transfer of the shares, until the buyer signs the Controlling Shareholders' Instrument of Agreement mentioned in the Level 2 Corporate Governance Rules.

Disclosure Requirements

We are subject to the reporting requirements established by the Brazilian Corporate Law and the CVM. Furthermore, as a result of our listing in the Level 2 listing segment of the B3, we must also follow the disclosure requirements contained in the Level 2 Corporate Governance Rules.

Information Requested by the CVM

The Brazilian Corporate Law and CVM regulations require corporations to provide the CVM and the B3 certain periodic information, including annual information (through *Formulário de Referência*), quarterly information and quarterly reports for management and our independent auditors. This legislation also requires that we file shareholders' agreements, general meeting call notices and general meeting minutes with the CVM, among other documents.

Disclosure of Trading of Our Shares by Our Controlling Shareholder, Directors, Executive Officers and Fiscal Council Members

Pursuant to CVM rules and regulations, our directors, officers, and members of our fiscal council, if installed at the time, as well as members of any other technical or advisory committee created under our by-laws, are required to disclose to us the ownership and trading of our securities or securities of publicly held subsidiaries or controlling companies (when applicable), held by them or by persons related to them, including derivatives of such securities, as well as any change in their respective interests. In the case of individuals, they should include information as to securities held by a spouse, companion or dependent for income tax purposes, and by companies directly or indirectly controlled by these persons.

The information on securities must include:

- name and qualification of the person providing the information;
- the amount, per type and/or class of shares traded and other characteristics in case of other securities traded, the issuer and the balance of the amount withheld before and after the trading; and
- form, price and date of the transaction.

This information must be sent (1) on the first business day after the appointment of the director, officer or member for his or her position, (2) when the request for the registration of the publicly held company is submitted to the authorities, and (3) within five days after each trade. The company must send these information to the CVM and, if applicable, to the stock exchanges and organized over-the-counter exchanges where the company's securities are listed, within ten days after the end of each month in which any change in such equity interests occurred or after the end of each month in which any of the persons above assumed their positions.

The above mentioned information must be delivered individually and consolidated by each category of persons indicated therein, and the consolidated information will be available in the CVM electronic system Periodic and Eventual Information (*Informações Periódicas e Eventuais*), or IPE.

The investor relations officer is responsible for the transmission of the information received by the company to the CVM and, if applicable, to the stock exchanges and organized over-the-counter exchanges where the company's securities are listed.

If our controlling shareholders, shareholders which have elected our directors and members of the fiscal council, if installed, and/or any person or company, individually or as a group, acting jointly or representing the same interest, reaches an equity interest directly or indirectly equal to at least 5.0% of our shares, such persons or entities must disclose to us the following information:

- the name and qualification of the person providing the information;
- the purpose of the ownership interest and the quantity sought to be acquired;

- the number of shares, share subscription rights and stock options, by type and class, or debentures convertible into share are already held, directly or indirectly, by the acquirer or by its affiliates; and
- whether there is any agreement governing voting rights or the purchase and sale of our securities. We are required to send this information to the CVM and B3 upon receipt.

This information is also required from any person, or group of persons sharing similar interests, holding 5.0% or more of our shares, whenever their interest should increase or reduce by 5.0%.

Disclosure of Material Developments

Under Brazilian law, we are required to inform the CVM and the B3 of any material developments relating to us and our business. We should also publish notices to disclose such information to the market. A material development consists of an event with the potential to affect the price of our securities, the decision of investors to buy, sell, or keep such securities, or their decision to exercise any of the rights inherent in such securities. Under exceptional circumstances, we may submit to the CVM a request for confidential treatment of certain material developments.

Trading on Exchanges

Our shares will be traded on Level 2 listing segment of the B3. Trading on the B3 is conducted by brokers with access to the B3 trading system. The CVM and B3 have discretionary authority to suspend trading in the shares of a particular publicly held company in certain circumstances. Settlement of transactions conducted on the B3 takes place three business days after the date of the transaction. Delivery and payment of the shares is conducted through an independent clearinghouse.

The clearinghouse that conducts settlements for the B3 is the Central Depository B3. The Central Depository B3 is the central counterparty guarantor of transactions conducted on the B3 and carries out multilateral settlements for both the financial obligations and the handling of securities. Under regulations of the Central Depository B3, financial settlement is done through the Central Bank Reserve Transfer System. Transfer of the securities is done within the Central Depository B3 custody system. Both deliveries and payments are final and irrevocable.

Reporting Periodic Information

Statements of Cash Flows

The Level 2 Corporate Governance Rules requires that our financial statements at the end of each quarter and at the end of each fiscal year includes a statement of cash flows, which must indicate, at least, the changes in our cash and cash equivalents, separated into cash flows from operations, from investing and financing activities.

According to the Level 2 Corporate Governance Rules, we must start to submit this information no later than six months after the Level 2 Corporate Governance Differential Practices agreement is signed.

Financial Statements Prepared in Accordance with International Standards

Under Level 2 Corporate Governance Rules, after the end of each fiscal year and quarter, we must release annual financial statements, prepared in English, together with our annual report or comments on SANEPAR's performance, the notes to our financial statements and including information on our net income and shareholders' equity at the end of such fiscal year or interim period. The independent auditors must be registered with the CVM.

According to the Level 2 Corporate Governance Rules, we must begin submitting this information no later than the date in which we disclose our annual financial information for the second fiscal year after the Level 2 Corporate Governance Differential Practices agreement is signed. Disclosure of the financial information prepared under international standards must occur within four months after the end of the fiscal year.

Quarterly Information in English or Prepared in Accordance with International Standards

We must either (i) disclose our quarterly information translated into English or (ii) disclose our financial statements in accordance with the U.S. GAAP or IFRS standards. This information must include an opinion or special review report from the independent accountants, and must occur after disclosure of the first financial statement prepared according to U.S. GAAP or IFRS standards. This information must be disclosed within a maximum of 15 days from the deadline under Brazilian law to disclose the quarterly information.

Additional Requirements for the Quarterly Information

In addition to the information referred to above, we must disclose the following information together with our quarterly information: (i) a balance sheet, income statement and a discussion and analysis of our performance, to the extent that we are required to prepare financial statements at year end; (ii) any direct or indirect ownership interest exceeding 5.0% of our capital stock, up to the ultimate individual beneficial owners; (iii) the number and characteristics of our securities held directly or indirectly by our controlling shareholder, members of our board of directors, executive officers and members of the fiscal council; (iv) changes in the number of securities held by the persons referred to above, immediately preceding twelve months; (v) a cash flow statement, to be included in the explanatory notes to the financial statements; (vi) the number of our free float shares and their respective percentage in relation to the total of shares issued; and (vii) the existence and our submission to the arbitration clause.

Additional Requirements for the Reference Form

Level 2 also requires that items (iii), (iv) and (vii) above be included in our Reference Form in accordance with CVM Instruction No. 480 of December 7, 2009, as amended.

Public Meeting with Analysts

The Level 2 Corporate Governance Rules provide that at least once a year, SANEPAR must hold a public meeting with analysts and other interested parties, for disclosure of information on its economic and financial condition, its projects and its prospects.

Annual Agenda

The Level 2 Corporate Governance Rules state that we must provide to the B3 and disclose, by the end of January every year, an annual agenda setting forth information about scheduled corporate events and containing information on our company, the event, its date and time, its publication and the distribution of the documents related to such event to the B3.

Contracts with Related Parties

According to Level 2 Corporate Governance Rules, we must send to the B3, and disclose information regarding, any and all agreements entered into between us and our controlling shareholders, directors, executive officers and controlled companies and affiliates of the directors, executive officers or controlling shareholders, as well as agreements with other companies with which any of the above participates in the same group, with a value of more than R\$200,000 or 1.0% of our shareholders' equity, whichever is greater.

This disclosed information must include the object of the contract, the term, the value, termination or extinction conditions, and any impact the contract may have on our business. See "Related Party Transactions."

DIVIDENDS AND DIVIDEND POLICY

Amounts Available for Distribution

Pursuant to our by-laws, we are required to distribute to our shareholders at least 25.0% of our annual net income, adjusted in accordance with and subject to the Brazilian Corporate Law, as dividends. Our by-laws also establish that our preferred shareholders are entitled to receive payments, as interest on shareholders' equity or dividends, that are at least 10.0% greater than the distributions paid to our common shareholders. If we decide that future investments will be financed by incurring debt, we and our shareholders may agree to make additional distributions, as dividends or interest on shareholders' equity. In addition, according to the Brazilian Corporate Law, a corporation's net income may be allocated to profit reserves as well as to the payment of dividends.

Payment of Dividends and Interest on Shareholders' Equity

While we are required under the Brazilian Corporate Law to pay a mandatory distribution every year, we are also allowed to suspend the mandatory distribution of dividends if our board of directors decides that such distribution would be inadvisable given our financial condition. Any suspension of the mandatory distribution must be reviewed by our fiscal council. In addition, management of publicly traded companies must submit a report setting forth the reasons for any suspension of dividends to the CVM. Net income that is not distributed as a result of a suspension is allocated to a separate reserve and, if not absorbed by subsequent losses, is required to be distributed as soon as the financial condition of the company permits such payments.

Pursuant to the Brazilian Corporate Law, the shareholders' meeting of a publicly traded company may, provided there is no objection from any shareholder in attendance, decide to distribute dividends in an amount lower than the mandatory minimum dividends, or decide to retain the whole net income exclusively to raise funds by issuing debentures that are not convertible into shares.

According to the Brazilian Corporate Law, the mandatory dividend may be paid in the form of interest on shareholders' equity, which is tax deductible.

Dividends

We are required, pursuant to the Brazilian Corporate Law and our by-laws in effect as of the date of this offering memorandum, to hold a shareholders' meeting by no later than the fourth month after the end of each fiscal year, at which, among other matters, the shareholders shall vote on the annual dividend distribution. The annual dividend payment is based upon our audited financial statements for the immediately preceding fiscal year.

Any holder of record of shares at the time that a dividend is declared is entitled to receive dividends. Under the Brazilian Corporate Law, dividends are generally required to be paid within 60 days following the date on which the dividend is declared, unless the shareholders' resolution establishes another date of payment, which, in any case, must occur before the end of the fiscal year in which the dividend is declared. Our by-laws do not require that dividend payments be adjusted for inflation.

A shareholder has a three-year period from the date of the dividend payment to claim dividends or the payment of interest on shareholders' equity with respect to its shares, after which the aggregate amount of any unclaimed dividends shall legally revert to us.

According to our by-laws, our board of directors may declare interim dividends. The total amount of dividends paid in each semiannual period may not exceed the amount of our capital reserve.

Interest on Shareholders' Equity

Since January 1, 1996, Brazilian companies have been authorized to pay interest on shareholders' equity to shareholders, and to treat those payments as a deductible expense for purposes of calculating corporate income tax and, since 1998, the social contribution. Payment of this interest on shareholders' equity shall be made at the discretion of the board of directors, subject to approval by shareholders at a general meeting.

The amount of the tax deduction in each year is limited to the greater of 50.0% of our net income (after the deduction of any allowances for social contribution tax, but before considering allowances for corporate income tax and interest on shareholders' equity) for the period in respect of which the payment is made; and 50.0% of our accumulated profits and profit reserves at the beginning of the relevant period. Payments of interest on shareholders' equity, net of withholding income tax, may be considered as part of the mandatory dividend distribution. The rate applied in calculating interest on shareholders' equity cannot exceed the *pro rata* variation of the TJLP. Under applicable law, we are required to pay to our shareholders an amount sufficient to ensure that the net amount they receive with respect to interest on shareholders' equity, after payment of any applicable withholding tax, plus the amount of distributed dividends, is at least equivalent to the minimum mandatory dividend amount.

Reserve Accounts

Capital Reserve. Under the Brazilian Corporate Law, a capital reserve consists of: a premium on the issuance of shares, special premium reserve from mergers, disposition of subscription warrants and participation bonuses (*partes beneficiárias*). The amounts accounted as a capital reserve are disregarded for the purpose of determination of mandatory dividends. Capital reserves may only be applied to (1) absorb losses that exceed accumulated earnings and profit reserves; (2) redeem, repay or purchase our shares; (3) increase our capital stock; and (4) pay dividends to preferred shares, if applicable.

Legal Reserve. Under the Brazilian Corporate Law and our by-laws, we are required to maintain a legal reserve to which we must allocate 5.0% of our net income for each fiscal year, after certain deductions permitted by law, until the aggregate amount of the reserve equals 20.0% of our capital stock. However, we are not required to make any allocations to our legal reserve in a fiscal year in which the legal reserve, when added to our other capital reserves, exceeds 30.0% of our capital stock. The amounts to be allocated to such reserve must be approved by our shareholders in a shareholders' meeting, and may be used only to increase our capital stock or to offset net losses. Therefore, funds in our legal reserve are not available for the payment of dividends.

Under Article 193 of the Brazilian Corporate Law, the legal reserve is intended to ensure the integrity of our capital stock and can only be used to offset losses or increase our capital stock. For the years ended December 31, 2014, 2015 and 2016, we did allocate funds to our legal reserve in the amounts of R\$21.1 million, R\$21.9 million and R\$31.3 million, respectively.

Contingency Reserve. Pursuant to the Brazilian Corporate Law, a percentage of our net income may be allocated to a contingency reserve for anticipated losses that are deemed probable in future years, if the amount of such losses may be estimated. Management must indicate the cause of the probable loss and justify the creation of the reserve. Any amount so allocated must be reversed in the fiscal year in which the loss that had been anticipated does not occur as projected or charged-off in the event that the anticipated loss occurs. As of September 30, 2017, we had not established a contingency reserve.

Retained Profit Reserve. Pursuant to the Brazilian Corporate Law, our shareholders may decide at the annual shareholders' meeting to retain a portion of our net income for capital expenditures by our company. The amount retained must be used as provided for in a capital expenditure budget previously approved by our shareholders. If the budget relates to more than one year, it must be reviewed annually. The allocation of funds to this reserve cannot effect the payment of the mandatory dividends. As of September 30, 2017, we had not established a retained profit reserve.

Unrealized Profit Reserve. Pursuant to the Brazilian Corporate Law, the amount by which the mandatory dividend exceeds the realized net income in a given year may be allocated to an unrealized profit reserve account, and the mandatory dividends may be limited to the realized portion of the net income. The Brazilian Corporate Law defines realized net income as the amount by which our net income exceeds the sum of our net positive results, if any, under the equity method of accounting, and the income, profits or net gains resulting from the market value of our assets and liabilities or transactions that occurred in the relevant fiscal year but that will be received by us after the end of the next year. Profit recorded in the unrealized profit reserve, if realized and not absorbed by losses in subsequent years, must be added to the next mandatory dividend distributed after the realization. As of September 30, 2017, we had not established an unrealized profit reserve.

Statutory Reserve. Under the Brazilian Corporate Law, our by-laws may provide for the allocation of part of our net income to discretionary reserve accounts, in which case our by-laws shall also indicate the purpose, allotment criteria and maximum amount of these reserve accounts. The allocation of our net income to discretionary reserve accounts may not be made if it is established for the purpose of preventing the distribution of the minimum mandatory dividend. As of September 30, 2017, we had not established a statutory reserve.

Fiscal Incentives Reserve. Under the Brazilian Corporate Law, our shareholders may decide at the annual shareholders' meeting to allocate the portion of our net income originated from tax incentives to a tax incentives reserve designated for capital expenditures. Amounts credited to the tax incentives reserve are not included in the calculation of the minimum mandatory dividend. As of September 30, 2017, we had established a fiscal incentive reserve of R\$9.0 million.

History of Dividend Payments

We paid dividends and interest on shareholders' equity in the amounts of R\$130.0 million, R\$191.3 million, R\$197.6 million in the years ended December 31, 2014, 2015 and 2016, respectively.

In the years ended December 31, 2016, 2015 and 2014, we distributed Interest on Shareholders' Equity and/or Dividends based on income for the respective years, while dividends were not declared against retained earnings or reserves set up in previous years.

As decided in the Board of Directors' meeting held on June 13, 2017, an accounting credit was recorded on June 30, 2017, in the amount of one hundred fifty-nine million, five hundred nine thousand, eight hundred seventy-three Reais, and forty-five cents (R\$159,509,873.45), regarding "Interest on Shareholders' Equity" in order to replace mandatory dividends, as provided for in our By-laws, based on the results achieved by the Company in the period from January to June 2017.

The respective amounts of Interest on Shareholders' Equity will be made available to shareholders in accordance with the equity position as of June 30, 2017, within the maximum term of sixty (60) days as from the date of the Shareholders' Meeting authorizing their distribution, or as resolved by the Annual Shareholders' Meeting to be held in April 2018.

Such interest on shareholders' equity will be deducted from any credit that may be attributed to shareholders at the closing of the year 2017, being subject to a fifteen percent (15%) Withholding Income Tax, except for shareholders that certify that they are exempt.

TAXATION

The following summary contains a description of certain Brazilian federal income tax consequences of the acquisition, ownership and disposition of our shares, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase shares. The summary is based upon the tax laws of Brazil and regulations thereunder as in effect on the date hereof, which are subject to change. Prospective purchasers of our shares should consult their own tax advisers as to the tax consequences of the acquisition, ownership and disposition of such shares in the future.

Although there is at present no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the holders of our shares.

Prospective shareholders should consult their own tax advisers as to the Brazilian federal income tax consequences of the acquisition, ownership and disposition of such shares in their particular circumstances.

Material Brazilian Tax Considerations

The following discussion summarizes the main Brazilian tax consequences of the acquisition, ownership and disposition of our shares by a holder that is not domiciled in Brazil for purposes of Brazilian taxation (a “Non-Resident Holder”). The following is only a general discussion of applicable Brazilian tax laws, and, therefore, does not specifically address all of the Brazilian tax considerations applicable to any particular Non-Resident Holder. The discussion does not address tax consequences under the laws of any particular state or municipality of Brazil. The description hereof is based on the tax laws of Brazil as in effect on the date of this offering memorandum, which are subject to change and to differing interpretations, which may result in different tax consequences than those described below. Each prospective purchaser is urged to consult its own tax advisor about the particular Brazilian tax consequences to it of an investment in our shares.

This summary does not address any tax issues that affect us solely, such as the deductibility of expenses.

Income Tax

Dividends

Dividends paid by a Brazilian corporation, such as ourselves, including stock dividends and other dividends paid to a Non-Resident Holder of shares, are currently not subject to Withholding Income Tax (“WHT”) in Brazil to the extent that such amounts are related to profits generated on or after January 1, 1996. Dividends paid from profits generated before January 1, 1996 may be subject to Brazilian withholding income tax at variable rates, according to the tax legislation applicable to each corresponding year.

Law No. 11,638, dated December 28, 2007, significantly altered the Brazilian Corporations Law in order to align the Brazilian GAAP with the International Financial Reporting Standards (“IFRS”). Nonetheless, Law No. 11,941 dated May 27, 2009 introduced the Transitory Tax Regime (“RTT”) in order to render neutral, from a tax perspective, all the changes provided by Law 11,638/07. Under the RTT, for tax purposes, legal entities should observe the accounting methods and criteria as in force on December 31, 2007.

Profits determined pursuant to Law 11,638, or IFRS Profits, may differ from the profits calculated pursuant to the accounting methods and criteria as effective on December 31, 2007 (“2007 Profits”). While it was general market practice to distribute exempted dividends with reference to the IFRS Profits, Rule No. 1,397, issued by the Brazilian tax authorities on September 16, 2013, established that legal entities should observe the accounting methods and criteria in force on December 31, 2007, or 2007 Profits, in order to determine the amount of profits that could be distributed as exempted income to its beneficiaries.

Any profits paid in excess of said 2007 Profits, or Excess Dividends, should, in the tax authorities’ view and in the specific case of non-resident beneficiaries, be subject to the following rules of taxation: (i) 15.0% WHT, in case of beneficiaries domiciled abroad, but not in Low or Nil Tax Jurisdiction (as defined below), and (ii) 25.0% WHT, in the case of beneficiaries domiciled in Low or Nil Tax Jurisdiction (as defined below).

In order to mitigate potential disputes on the subject, Law No. 12,973, dated May 13, 2014, in addition to revoking the RTT, introduced a new set of tax rules, or the New Brazilian Tax Regime, including new provisions with respect to Excess Dividends. Under these new provisions: (i) Excess Dividends related to profits assessed from 2008 to 2013 are exempt of taxation; (ii) potential disputes remain concerning the Excess Dividends related to 2014 profits, unless our company had voluntarily elected to apply the New Tax Regime in 2014; and (iii) as of 2015, as the New Brazilian Tax Regime is mandatory and has completely replaced the RTT, dividends calculated based on IFRS standards should be considered fully exempt.

Interest on Shareholders' Equity

Law No. 9,249, of December 26, 1995, as amended, permits a Brazilian corporation, such as us, to make distributions to shareholders of interest on shareholders' equity and treat those payments as a deductible expense for purposes of calculating Brazilian corporate income tax and social contribution on net profits. For tax purposes, this interest is limited to the daily pro rata variation of the TJLP rate (long-term interest rate), as determined by the Central Bank from time to time, and the amount of the deduction may not exceed the greater of:

- 50.0% of net profits (after social contribution on net income, but before taking into account the provision for corporate income tax and the amounts attributable to shareholders as interest on shareholders' equity) related to the period with respect to which the payment is made; and
- 50.0% of the sum of retained profits and profit reserves as of the date of the beginning of the period with respect to which the payment is made.

Payment of interest attributable to shareholders' equity to a Non-Resident Holder is subject to WHT at the rate of 15.0%, or 25.0% if the Non-Resident Holder is domiciled in Low or Nil Tax Jurisdiction (as defined below) or where applicable local laws impose restrictions on the disclosure of the shareholding composition or the ownership of investments or the ultimate beneficiary of the income derived from transactions carried out and attributable to a Non-Resident Holder.

Payments of interest on shareholders' equity to a Non-Resident Holder may be included, at their net value, as part of any mandatory dividend. To the extent payment of interest attributable to shareholders' equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable Brazilian withholding income tax plus the amount of declared dividends, is at least equal to the mandatory dividend.

Distributions of interest on shareholders' equity to Non-Resident Holders may be converted into U.S. dollars and remitted outside of Brazil, subject to applicable exchange controls, to the extent that the investment is registered with the Central Bank.

Discussion on Low or Nil Taxation Jurisdictions

On June 4, 2010, Brazilian tax authorities enacted Normative Ruling No. 1,037 listing (i) the countries and jurisdictions considered as Low or Nil Taxation Jurisdiction or where the local legislation does not allow access to information related to the shareholding composition of legal entities, to their ownership or to the identity of the effective beneficiary of the income attributed to non-residents and (ii) the privileged tax regimes, which definition is provided by Law No. 11,727, of June 23, 2008.

Although we believe that the best interpretation of the current tax legislation could lead to the conclusion that the above mentioned "privileged tax regime" concept should apply solely for purposes of Brazilian transfer pricing and thin capitalization rules, we cannot assure you whether subsequent legislation or interpretations by the Brazilian tax authorities regarding the definition of a "privileged tax regime" provided by Law No. 11,727 will also apply to a Non-Resident Holder on payments of interest on shareholders' equity.

According to Law No. 9,430, dated December 27, 1996, as amended, a Low or Nil Tax Jurisdiction is a country or location that (i) does not impose taxation on income, (ii) imposes income tax at a maximum rate lower than 20.0% or (iii) imposes restrictions on the disclosure of shareholding composition or the ownership of the investment. A regulation issued by the Brazilian tax authorities on November 28, 2014 (Ordinance 488/14) decreased, from

20.0% to 17.0%, this minimum threshold for certain specific cases. The reduced 17.0% threshold applies only to countries and regimes aligned with international standards of fiscal transparency in accordance with rules to be established by the Brazilian tax authorities.

Law No. 11,727/08 created the concept of Privileged Tax Regimes, which encompasses the countries and jurisdictions that (i) do not tax income or tax it at a maximum rate lower than 20.0%; (ii) grant tax advantages to a non-resident entity or individual (a) without the need to carry out a substantial economic activity in the country or a said territory or (b) conditioned to the non-exercise of a substantial economic activity in the country or a said territory; (iii) do not tax or taxes proceeds generated abroad at a maximum rate lower than 20.0%; or (iv) restrict the ownership disclosure of assets and ownership right or restrict disclosure about economic transactions carried out. In contrast to the changes to the Low or Nil Tax Jurisdictions described above, the list of Privileged Tax Regimes has not been amended after enactment of Ordinance 488.

We recommend prospective investors to consult their own tax advisors from time to time to verify any possible tax consequence arising of Normative Ruling No. 1,037 and Law No. 11,727. If the Brazilian tax authorities determine that payments made to a Non-Resident Holder are considered to be made under a “privileged tax regime,” the WHT applicable to such payments could be assessed at a rate of up to 25.0%.

Capital Gains

According to Article 26 of Law No. 10,833, of December 29, 2003, as amended, gains realized by a Non-Resident Holder related to the disposition or sale of assets located in Brazil, such as our shares, are generally subject to income tax in Brazil. This rule is applicable regardless of whether the sale or other disposition conducted in Brazil or abroad and/or if the disposition is made or not to an individual or entity resident or domiciled in Brazil.

As a general rule, capital gains realized as a result of sale or disposition of common shares are equal to positive difference between the amount realized on sale or exchange of a security and its respective acquisition cost.

Under Brazilian law, income tax on such gains can vary depending on the domicile of the Non-Resident Holder, the type of registration of the investment held by the Non-Resident Holder with the Central Bank and how the disposition is carried out, as described below. Moreover, there is a controversy regarding the currency that should be considered for purposes of determining the capital gain realized by a Non-Resident Holder on a sale or disposition of shares in Brazil, more specifically, if such capital gain is to be determined in foreign or in local currency.

Currently, capital gains realized by a Non-Resident Holder on a sale or disposition of shares carried out on the Brazilian stock exchange, which includes the transactions carried out on the organized Over-the-Counter Market (“OTC”), are:

- exempt from income tax when realized by a Non-Resident Holder that (1) has registered its investment in Brazil with the Central Bank under rules of CMN Resolution No. 4,373/14 (“4,373 Holder”) and (2) is not resident or domiciled in a Law or Nil Tax Jurisdiction; or
- subject to income tax at a rate of 15.0% in the case of gains realized by (A) a Non-Resident Holder that (1) is not a 4,373 Holder and (2) is not resident or domiciled in a Law or Nil Tax Jurisdiction; or by (B) a Non-Resident Holder that (1) is a 4,373 Holder, and (2) is resident or domiciled in a Law or Nil Tax Jurisdiction; or
- subject to income tax at a rate of up to 25% in case of gains realized by a Non-Resident Holder that (1) is not a 4,373 Holder and (2) is resident or domiciled in a Low or Nil tax Jurisdiction

A WHT of 0.005% of the sale value shall be applicable and withheld by the intermediary institution (i.e., a broker) that receives the order directly from the Non-Resident Holder, which can be later offset against any income tax due on the capital gain earned by the Non-Resident Holder.

Any other gains assessed on a sale or disposition of the shares carried outside the Brazilian stock exchange are subject to (i) income tax at a rate ranging from 15.0% up to 22.5% when realized by any Non-Resident Holder that is not resident or domiciled in a Low or Nil Tax Jurisdiction as from January 1, 2017; and (ii) income tax at a rate

of 25.0% when realized by a Non-Resident Holder domiciled or resident in a Low or Nil Tax Jurisdiction.

If these gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, a WHT of 0.005% on the sale value will also apply and can be used to offset the income tax due on the capital gain.

On September 22, 2015, the Brazilian federal government enacted Provisional Measure No. 692/2015, converted into Law No. 13,259, of March 16, 2016, or Law No. 13,259/16, which introduced a regime based on the application of progressive tax rates for income taxation on capital gains recognized by Brazilian individuals on the disposition of assets in general. Under Law No. 13,259/16, effective as from January 1, 2017, the income tax rates on capital gains recognized by Brazilian individuals, which also applies to a Non-Resident Holder, would be: (i) 15% for the part of the gain that does not exceed R\$5 million, (ii) 17.5% for the part of the gain that exceeds R\$5 million but does not exceed R\$10 million, (iii) 20% for the part of the gain that exceeds R\$10 million but does not exceed R\$30 million and (iv) 22.5% for the part of the gain that exceeds R\$30 million.

As a general rule, the increased capital gains taxation regime should apply to transactions conducted outside of the Brazilian stock exchange or the organized OTC market. Also, as a general rule, a foreign investor who is a resident of or has a domicile in a Low or Nil Tax Jurisdiction would be subject to income tax at a rate of up to 25%, as mentioned above. However, although debatable, if the Non-Resident Holder is a 4,373 Holder, it is possible to sustain that the income tax should not apply at progressive rates. Furthermore, as a rule, gains recognized by a Non-Resident Holder in transactions executed on the Brazilian stock exchange or the organized OTC market should not be subject to the increased capital gains taxation under Law No. 13,259.

In the case of a redemption of shares or a capital reduction by a Brazilian corporation, the positive difference between the amount received by the Non-Resident Holder and the acquisition cost of the redeemed shares is treated, for tax purposes, as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market, and is therefore subject to income tax at the progressive rates described above, or the 25% flat rate mentioned above, as the case may be. However, although debatable, if the Non-Resident Holder is a 4,373 Holder, it is possible to sustain that the income tax should not apply at progressive rate.

Any exercise of preemptive rights relating to the shares will not be subject to Brazilian income taxation. Gains realized by a Non-Resident Holder on the disposition of preemptive rights in Brazil will be subject to Brazilian income taxation according to the same rules applicable to the sale or disposition of shares. Tax authorities may attempt to tax such gains even when the sale or assignment of such right takes place outside Brazil, based on the provisions of Law No. 10,833.

There can be no assurance that the current favorable tax treatment of 4,373 Holders will continue in the future.

Tax on Foreign Exchange and Financial Transactions

Tax on Foreign Exchange Transactions (IOF/Exchange)

Pursuant to Decree No. 6,306/07, dated December 14, 2007, as amended, the conversion of *reais* into foreign currency (*e.g.*, for purposes of paying dividends and interest on shareholders' equity), and the conversion of foreign currency into *reais*, may be subject to the Tax on Foreign Exchange Transactions ("IOF/Exchange"). The current applicable rate for most foreign currency exchange transactions is 0.38%. Other rates apply to specific types of transactions. Nevertheless, currency exchange transactions carried out for the inflow of funds to Brazil in connection with investments made by a foreign investor (including a Non-Resident Holder, as applicable) are subject to IOF/Exchange at (1) 0% rate in case of variable income transactions carried out on the Brazilian stock, futures and commodities exchanges, as well as in the acquisitions of shares of Brazilian publicly-held companies in public offerings or subscription of shares related to capital contributions, provided that the issuer company has registered its shares for trading in the stock exchange, and (2) 0% for the outflow of funds from Brazil related to these type of investments, including payments of dividends and interest on shareholders' equity and the repatriation of funds invested in the Brazilian market. The Brazilian government is permitted to increase the rate of the IOF/Exchange at any time up to 25.0% of the amount of the foreign exchange transaction. However, any increase in rates may only apply to transactions carried out after this increase in rate and not retroactively. Uncertainty over whether the Brazilian government will implement changes in policy or regulation affecting these or other factors in the future

may contribute to economic uncertainty in Brazil and heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian companies. This uncertainty and other future events affecting the Brazilian economy and the actions of the Brazilian government may adversely affect our business, results of operations and the market price of our shares.

Tax on Transactions Involving Bonds and Securities (IOF/Bonds)

Brazilian law, pursuant to Decree No. 6,306/07, dated December 14, 2007, as amended, imposes a Tax on Transactions Involving Bonds and Securities (“IOF/Bonds”), on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange. The rate of IOF/Bonds applicable to most transactions involving shares is currently zero. The Brazilian government is permitted to increase such rate at any time up to 1.5% per day, but only in respect to future transactions.

Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of common shares, except for gift and inheritance taxes imposed by some Brazilian states on gifts or bequests made by Non-resident Holder to individuals or entities resident or domiciled within such states. There is no Brazilian stamp, issue, registration or similar tax or duty payable by holders of shares.

U.S. Federal Income Tax Considerations

The following discussion is a summary of certain U.S. federal income tax consequences of acquiring, holding and disposing of our shares. This discussion applies only to beneficial owners of shares that are “U.S. Holders,” as defined below, that hold the shares as “capital assets” for U.S. federal income tax purposes (generally, property held for investment). This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing final, temporary and proposed Treasury Regulations, administrative pronouncements by the U.S. Internal Revenue Service (the “IRS”), and judicial decisions, all as of the date hereof and all of which are subject to change (possibly on a retroactive basis) and to different interpretations.

This discussion does not purport to address all U.S. federal income tax consequences that may be relevant to a particular U.S. Holder and you are urged to consult your own tax advisor about your specific tax situation. The discussion does not address the tax consequences that may be relevant to U.S. Holders subject to special tax rules, including, for example:

- insurance companies;
- tax-exempt organizations;
- dealers in securities or currencies;
- traders in securities that make a mark-to-market election;
- banks or other financial institutions;
- real estate investment trusts;
- regulated investment companies;
- grantor trusts;
- entities or arrangements classified as partnerships or other pass-through entities for U.S. federal income tax purposes or holders of equity interests therein;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- U.S. expatriates;

- persons subject to the alternative minimum tax;
- persons that hold our shares as part of a hedge, straddle, conversion or other integrated transaction; or
- persons that own or have owned, directly, indirectly, or constructively, 10.0% or more of the total combined voting power, if any, of our shares.

Except where specifically described below, this discussion assumes that we are not a Passive Foreign Investment Company (a “PFIC”) for U.S. federal income tax purposes. See the discussion under “—Passive Foreign Investment Company Rules” below. This discussion does not address the state, local and non-U.S. tax consequences of acquiring, owning and disposing of our shares. This discussion also does not address any U.S. federal tax consequences other than U.S. federal income tax consequences (such as the estate and gift tax or the Medicare tax on net investment income).

As used herein, the term “U.S. Holder” means a beneficial owner of our shares that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or any other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

If a partnership (or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our shares, the tax treatment of a partner in such partnership generally will depend on the status of the partner and on the activities of the partnership. Partnerships considering the purchase of our shares, and partners in such partnership, should consult their own independent tax advisors.

Investors should consult their own tax advisors with respect to the tax consequences to them of acquiring, owning and disposing of our shares, including the tax consequences under U.S. federal, state, local and non-U.S. tax laws.

Distributions on Shares

Subject to the discussion below under “—Passive Foreign Investment Company Rules,” distributions made by us of cash or property (including amounts withheld in respect of Brazilian taxes and distributions paid in the form of interest on shareholders’ equity for Brazilian tax purposes and any additional amounts with respect thereto) with respect to our shares generally will be treated as dividends for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not expect to maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles, U.S. Holders should expect that a distribution will generally be reported to U.S. Holders as a dividend for U.S. federal income tax purposes. As used below, the term “dividend” means a distribution that constitutes a dividend for U.S. federal income tax purposes.

The amount includible in the income of a U.S. Holder will include distributions characterized for Brazilian tax purposes as interest attributable to shareholders’ equity, including any additional amounts with respect thereto, and any amounts withheld in respect of Brazilian taxes. A U.S. Holder will be entitled, subject to a number of complex limitations and conditions, to claim a U.S. foreign tax credit with respect to any Brazilian income taxes withheld on dividends received on our shares. U.S. Holders who do not elect to claim a credit for any foreign income taxes paid or accrued during the taxable year may instead claim a deduction of such Brazilian income taxes. Dividends

received with respect to the shares generally will be treated as foreign source “passive category income.” The rules relating to computing foreign tax credits or deducting foreign taxes are extremely complex, and U.S. Holders are urged to consult their own tax advisors regarding the availability of foreign tax credits in their particular situation.

Dividends paid by us will not be eligible for the dividends received deduction provided under the Code for certain U.S. corporate shareholders. Also, dividends paid by us are not expected to qualify for the preferential tax rates available to non-corporate U.S. Holders for qualified dividend income.

The amount recognized by a U.S. Holder on any cash dividend paid in *reais* will equal the U.S. dollar value of the dividend, calculated by reference to the exchange rate in effect at the time the dividend is received by the U.S. Holder in accordance with their regular method of accounting for federal income tax purposes, regardless of whether the payment in *reais* is in fact converted to U.S. dollars at that time. A U.S. Holder should not recognize any foreign currency gain or loss with respect to such dividend if such *reais* are converted into U.S. dollars on the date received by the U.S. Holder. If the *reais* are not converted into U.S. dollars on the date of receipt, however, gain or loss may be recognized upon a subsequent conversion, sale or other disposition of the *reais*. Such foreign currency gain or loss, if any, will be U.S.-source ordinary income or loss. U.S. Holders should consult their own tax advisors regarding the treatment of any foreign currency gain or loss if any *reais* received as a dividend on the shares is not converted into U.S. dollars on the date of receipt.

Sale, Exchange or Other Taxable Disposition of Shares

Subject to the discussion below under “—Passive Foreign Investment Company Rules,” a U.S. Holder generally will recognize capital gain or loss upon the sale, exchange or other taxable disposition of our shares measured by the difference between the amount realized on the sale, exchange or other taxable disposition of the shares and the U.S. Holder’s adjusted tax basis in the shares. Any such gain or loss will be long-term capital gain or loss if the shares have been held for more than one year. Certain non-corporate U.S. Holders (including individuals) may be eligible for preferential rates of U.S. federal income tax with respect to long-term capital gains. The deductibility of capital losses is subject to limitations under the Code.

If a Brazilian income tax is withheld on the sale, exchange or other taxable disposition of our shares, the amount realized by a U.S. Holder will include the gross amount of the proceeds of that disposition before deduction of the Brazilian tax. Capital gain or loss, if any, realized by a U.S. Holder on the sale, exchange or other taxable disposition of our shares generally will be treated as U.S.-source gain or loss for U.S. foreign tax credit purposes. Consequently, in the case of a gain from the disposition of a share that is subject to Brazilian income tax (see “—Material Brazilian Tax Considerations—Income Tax—Capital Gains”), the U.S. Holder may not be able to benefit from the foreign tax credit for that Brazilian income tax (*i.e.*, because the gain from the disposition would be U.S.-source), unless the U.S. Holder can apply the credit against U.S. federal income tax payable on other income from foreign sources. Alternatively, the U.S. Holder may take a deduction for the Brazilian income tax if it does not elect to claim a foreign tax credit for any foreign taxes paid or accrued during the taxable year.

If you are a U.S. Holder, the initial tax basis of your shares will be the U.S. dollar value of the *reais* denominated purchase price determined on the date of purchase. If the shares are treated as traded on an “established securities market,” a cash method U.S. Holder, or, if it elects, an accrual method U.S. Holder, will determine the U.S. dollar value of the cost of such shares by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. The amount realized generally will be the U.S. dollar value of the payment received determined on the date of disposition. If the shares are treated as traded on an established securities market, a cash basis taxpayer or, if it elects, an accrual basis taxpayer, will determine the U.S. dollar value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale.

Passive Foreign Investment Company Rules

Special adverse U.S. federal income tax rules apply to U.S. persons owning shares of a PFIC. A non-U.S. corporation generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying the relevant look-through rules with respect to the income and assets of subsidiaries, either:

- at least 75.0% of its gross profit is “passive income;” or
- at least 50.0% of the average quarterly value of its gross assets is attributable to assets that produce passive income or are held for the production of passive income.

For this purpose, passive income generally includes, among other things, dividends, interest, rents, royalties, gains from the disposition of passive assets and gains from commodities transactions.

Based on current estimates of our income and the value of our assets, we do not believe that we will be classified as a PFIC for our current taxable year, nor do we currently expect to become a PFIC in the foreseeable future. However, there can be no assurance in this regard because the application of the relevant rules is complex and involves some uncertainty. Additionally, the PFIC determination is made annually and is based on the portion of our assets and income that is characterized as passive under the PFIC rules. Our PFIC status will depend, in part, on the market valuation of our shares, which we cannot control. Moreover, our business plans may change, which may affect the PFIC determination in future years.

If we are or become a PFIC, unless a U.S. Holder validly makes the election described below, any gain realized on a sale or other taxable disposition of our shares and certain “excess distributions” (generally distributions in excess of 125.0% of the average distribution over a three-year period or shorter holding period for our shares) would be treated as realized ratably over the U.S. Holder’s holding period for our shares, and amounts allocated to prior years during which we were a PFIC would be taxed at the highest tax rate in effect for each such year. An additional interest charge will apply to the portion of the U.S. federal income tax liability on such gains or distributions treated under the PFIC rules as having been deferred by the U.S. Holder. Amounts allocated to the year of sale or excess distribution and to any year before we became a PFIC would be taxed as ordinary income in the year of sale or excess distribution.

If we are treated as a PFIC, some of the adverse U.S. federal income tax consequences described in the foregoing paragraph can be mitigated by a U.S. Holder that makes a mark-to-market election with respect to the shares. In certain circumstances a U.S. Holder can make a qualified electing fund election, or QEF election, to mitigate some of the adverse tax consequences described with respect to an ownership interest in a PFIC by including in income its share of the PFIC’s income on a current basis. However, we do not currently intend to prepare or provide the information that would enable a U.S. Holder to make a QEF election.

A U.S. Holder may make a mark-to-market election for our shares if our shares constitute “marketable stock” as defined in the U.S. Treasury Regulations. Our shares will be “marketable stock” if they are “regularly traded” on a “qualified exchange or other market.” For this purpose, a “qualified exchange or other market” includes a securities exchange in a foreign country that is regulated by such foreign country’s governmental authority, provided that (i) the foreign exchange has certain requirements in place designed to prevent fraudulent and manipulative acts and practices, remove impediments to and perfect the mechanism of a free, open, fair, and orderly market, and protect investors (and the laws of the foreign country and the rules of the foreign exchange ensure that such requirements are actually enforced), and (ii) the rules of such foreign exchange effectively promote active trading of listed stocks. Shares generally will be treated as “regularly traded” for any calendar year during which shares are traded other than in de minimis quantities on at least 15 days during each calendar year. While we expect that our listing shares will satisfy these requirements, we cannot provide any assurance that our shares are or will be considered “marketable stock” for this purpose. If a mark-to-market election were made, a U.S. Holder would take into account each year the appreciation or depreciation in value of its shares as if the shares were sold at fair market value at the end of the year. Such appreciation or depreciation generally would be treated as ordinary income or ordinary loss (only to the extent of any net appreciation on the shares included in income for prior taxable years), as would gains or losses on actual dispositions of shares.

U.S. Holders should be aware, however, that if we are determined to be a PFIC, the interest charge regime described above could be applied to indirect distributions or gains deemed to be attributable to U.S. Holders in respect of any of our subsidiaries (if any in the future) that may also be determined to be a PFIC, and the mark-to-market election generally would not be effective for such subsidiaries.

A U.S. Holder who directly or, in some cases, indirectly (including through certain pass-through entities) owns shares during any year that we are a PFIC in excess of certain de minimis amounts and fails to qualify for certain other exemptions would be required to file IRS Form 8621.

U.S. Holders should consult their own independent tax advisors regarding the application of the PFIC rules to the shares.

Backup Withholding and Information Reporting

In general, dividends on shares, and payments of the proceeds of a sale, exchange or other taxable disposition of shares, paid within the United States or through certain U.S.-connected financial intermediaries to a U.S. Holder are subject to information reporting and may be subject to backup withholding unless the holder (1) establishes that it is a corporation or other exempt recipient or (2) with respect to backup withholding, provides an accurate taxpayer identification number and certifies that it is a U.S. person and that no loss of exemption from backup withholding has occurred.

Backup withholding is not an additional tax. The amount of any backup withholding tax required to be withheld from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS. A U.S. Holder generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed its U.S. federal income tax liability by timely filing a refund claim with the IRS.

Foreign Financial Asset Reporting

Certain U.S. Holders may be required to report to the IRS certain information relating to an interest in the shares unless such shares are held in accounts maintained by certain financial institutions. A U.S. Holder required to report such information must file a complete IRS Form 8938 (Statements of Specified Foreign Financial Assets) with its tax return for each year in which it holds an interest in the shares. Penalties apply if a U.S. Holder is required to submit such information to the IRS and fails to do so. U.S. Holders are urged to consult their own tax advisors regarding the applicability of these rules to their particular circumstances.

The above discussion is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership or disposition of our shares. You should consult your own tax advisor concerning the tax consequences applicable in your particular situation.

CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain requirements on employee benefit plans subject to Title I of ERISA and on entities that are deemed to hold the assets of such plans (together, “ERISA Plans”), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements, including, but not limited to, the requirement of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, the “Plans”)) and certain persons (referred to as “parties in interest” or “disqualified persons”) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the Units are acquired by a Plan with respect to which the Company, any of the Selling Shareholders, any of the Brazilian Underwriters, any of the Placement Agents or any of their respective affiliates (collectively, the “Transaction Parties”) is a party in interest or a disqualified person, unless the Units are acquired in accordance with an applicable statutory, class or individual prohibited transaction exemption. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The U.S. Department of Labor has issued Prohibited Transaction Class Exemptions, or “PTCEs,” that may apply to a Plan’s purchase of the Units. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting transactions involving insurance company pooled separate accounts, PTCE 91-38 respecting transactions involving bank collective investment funds, PTCE 95-60 respecting transactions involving life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, a statutory exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provides relief from the prohibited transaction provisions under Section 406 of ERISA and Section 4975 of the Code for certain transactions between a Plan and a person who is a party in interest or disqualified person solely as a result of providing services to such Plan or a relationship to such a service provider, provided the Plan receives no less, and pays no more, than adequate consideration in connection with the transaction. There can be no assurance that all of the conditions of any of the foregoing exemptions will be satisfied in connection with a Plan’s investment in the Units.

Any Plan fiduciary that proposes to cause a Plan to purchase the Units should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such purchase will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of Title I of ERISA or the Code.

Non-U.S. plans, governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA), while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA and Section 4975 of the Code, may nevertheless be subject to other federal, state, local or non-U.S. laws or regulations that are similar to the foregoing provisions of ERISA and the Code (“Similar Law”). Fiduciaries of any such plans should consult with their counsel before purchasing the Units to determine the need for, and the availability of, any exemptive relief under any Similar Law.

The Transaction Parties may receive fees or other compensation as a result of a Plan’s acquisition of the Units. Furthermore, none of the Transaction Parties are undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with the acquisition of any of the Units by any Plan.

Any purchaser and subsequent transferee of the Units will be deemed to have represented by its purchase of the Units that it either (1) is not a Plan or a plan subject to Similar Law and is not purchasing or holding the Units on behalf of or with the assets of any Plan or a plan subject to Similar Law or (2) the purchase and holding of the Units will not constitute or result in a non-exempt prohibited transaction under ERISA or the Code or a violation of any Similar Law.

In addition, each purchaser and transferee of a Unit that is a Plan and any fiduciary purchasing or holding the

Units on behalf of a Plan (“Plan Fiduciary”) is deemed to represent and warrant by its acquisition of the Units that the decision to acquire such Units has been made by the Plan Fiduciary, and that the Plan Fiduciary is an “independent fiduciary with financial expertise” as described in 29 C.F.R. Sec. 2510.3-21(c)(1). Specifically, this requires the Plan and the Plan Fiduciary to represent and warrant that:

1. The Plan Fiduciary is independent of the Transaction Parties, and the Plan Fiduciary either:
 - a. is a bank as defined in Section 202 of the U.S. Investment Advisers Act of 1940 (the “Advisers Act”), or similar institution that is regulated and supervised and subject to periodic examination by a U.S. state or U.S. federal agency;
 - b. is an insurance carrier which is qualified under the laws of more than one U.S. state to perform the services of managing, acquiring or disposing of assets of an employee benefit plan described in Section 3(3) of ERISA or any plan described in Section 4975(e)(1)(A) of the Code;
 - c. is an investment adviser registered under the Advisers Act, or, if not registered as an investment adviser under the Advisers Act by reason of paragraph (1) of Section 203A of the Advisers Act, is registered as an investment adviser under the laws of the U.S. state in which it maintains its principal office and place of business;
 - d. is a broker-dealer registered under the U.S. Securities Exchange Act of 1934, as amended; or
 - e. holds, or has under its management or control, total assets of at least \$50 million (provided that this clause (e) shall not be satisfied if the Plan Fiduciary is either (i) an individual directing his or her own individual retirement account or relative of such individual or (ii) a participant or beneficiary of such Plan purchasing the Units or a relative of such participant or beneficiary);
2. The Plan Fiduciary is capable of evaluating investment risks independently, both in general and with respect to particular transactions and investment strategies, including the acquisition by the Plan of the Units ;
3. The Plan Fiduciary is a “fiduciary” with respect to the Plan within the meaning of Section 3(21) of ERISA, Section 4975 of the Code, or both, and is responsible for exercising independent judgment in evaluating the Plan’s acquisition of the Units;
4. None of the Transaction Parties has exercised any authority to cause the Plan to invest in the Units or to negotiate the terms of the Plan’s investment in the Units;
5. The Plan Fiduciary has been informed by the Transaction Parties:
 - a. that none of the Transaction Parties are undertaking to provide impartial investment advice or to give advice in a fiduciary capacity, and that no such entity has given investment advice or otherwise made a recommendation, in connection with the Plan’s acquisition of the Units; and
 - b. of the existence and nature of the Transaction Parties financial interests in the Plan’s acquisition of the Units, as described in this Offering Memorandum; and
6. The Plan Fiduciary confirms that no fee or other compensation will be paid directly to any of the Transaction Parties by the Plan, or any fiduciary, participant or beneficiary of the Plan, for the provision of investment advice (as opposed to other services) in connection with the Plan’s acquisition of the Units.

PLAN OF DISTRIBUTION

The Selling Shareholders intend to offer Units through the Brazilian Underwriters in Brazil and through the Placement Agents outside Brazil in an international offering.

General

Under the terms of a Brazilian underwriting agreement, dated December 12, 2017, among us, the Selling Shareholders, Bank of America Merrill Lynch Banco Múltiplo S.A. and Banco Itaú BBA S.A., as Brazilian Underwriters, the Brazilian Underwriters have, severally and not jointly, agreed to place the following respective numbers of Units:

Brazilian Underwriters	Number of Units
Bank of America Merrill Lynch Banco Múltiplo S.A.	9,423,089
Banco Itaú BBA S.A.	9,423,089
Total	18,846,177

We and the Selling Shareholders have also entered into a placement facilitation agreement, dated December 12, 2017, pursuant to which Merrill Lynch, Pierce, Fenner & Smith Incorporated and Itau BBA USA Securities, Inc. are acting as Placement Agents for the offering of our Units outside Brazil to investors that are authorized to invest in Brazilian securities under the requirements established by the CMN and the CVM. The placement facilitation agreement contains conditions for the placement of the Units by the Placement Agents similar to those of the Brazilian underwriting agreement. All placement of Units in the United States will be made by U.S. registered broker-dealers.

The Brazilian underwriting agreement and the placement facilitation agreement provide that the obligation of the Brazilian Underwriters to place our Units is subject to, among other conditions, the absence of any material adverse change on our business and the delivery of certain certificates, legal opinions and letters from us, our and their legal counsel. The Brazilian underwriting agreement also provides that, if any of the placed Units, other than the sale of Additional Units is not completed, are not settled by its investors, the Brazilian Underwriters are, severally and not jointly, obligated to purchase them on a firm commitment basis on the settlement date, in proportion to their respective commitment as per the above, subject to certain conditions and exceptions. The Units are initially offered by the Brazilian Underwriters at the price indicated on the cover page of this offering memorandum less the after deducting estimated taxes, commissions and offering expenses payable by us. After the initial offering, the offering price and other selling terms may be changed.

We and the Selling Shareholders have also been advised by the Brazilian Underwriters that they propose to offer the Units to the public in Brazil and to place the Units, through the Placement Agents, to (1) certain persons in the United States whom the Placement Agents reasonably believe to be “qualified institutional buyers,” as defined in Rule 144A under the Securities Act, in reliance on exemptions from registration provided under the Securities Act and the rules thereunder and (2) non-U.S. persons elsewhere outside the U.S. and Brazil in transactions meeting the requirements of Regulation S under the Securities Act. The offering of the shares by the Brazilian Underwriters is subject to receipt and acceptance and to the Brazilian Underwriters’ right to reject any order in whole or in part.

Our Units have not been and will not be registered under the Securities Act nor any U.S. state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to QIBs pursuant to exemptions from registration provided under the Securities Act and the rules thereunder and to non-U.S. persons in offshore transactions in reliance of Regulation S under the Securities Act. Resale of the Units is restricted, as described under “Transfer Restrictions.”

Until 40 days after the commencement of the offering of the Units, an offer or sale of Units within the United States by a broker-dealer whether or not it is participating in the offering may violate the registration requirements of the Securities Act if such offer to sell is made otherwise than in accordance with Rule 144A.

Pursuant to the Brazilian underwriting agreement and the placement facilitation agreement, we and the Selling Shareholders have agreed to indemnify the several Brazilian Underwriters, the Placement Agents and each of their

officers, partners, members, directors, employees and its affiliates and any person that controls such Brazilian underwriter or placement agent against certain liabilities, including liabilities under the Securities Act and under the Brazilian securities laws, and contribute to payments that the Brazilian Underwriters, the Placement Agents and each of their officers, partners, members, directors, employees and its affiliates and any person that controls such Brazilian underwriter or placement agent may be required to make in respect thereof.

Purchasers of Units outside of the United States may be required to pay stamp taxes and other charges in compliance with the laws and regulations of the country of purchase in addition to the price to investors on the cover page of this offering memorandum.

Our Units will be offered exclusively to “qualified investors” (as such term is defined in the Prospectus Directive) in the EEA in an offering that is not subject to the obligation to produce a prospectus under the Prospectus Directive.

Our Units are listed and trade on the Level 2 listing segment of the São Paulo Stock Exchange (*B3 S.A. – Brasil, Bolsa, Balcão*), or the B3, under the symbol “SAPR11”. The ISIN number for our Units is “BRSAPRC DAM13.”

No action has been or will be taken in any country or jurisdiction by us, the Brazilian Underwriters or the Placement Agents that would permit a public offering of the Units, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons who gain access to this offering memorandum are required by us, the Brazilian Underwriters and the Placement Agents to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell, or deliver Units or have in their possession or distribute such offering material, in all cases at their own expense.

The Units will be initially offered by the Brazilian Underwriters and the Placement Agents at the price indicated on the cover page of this offering memorandum. After the initial offering of the Units, the price per share and other selling terms may from time to time be varied by the Brazilian Underwriters and the Placement Agents.

The expenses incurred in connection with the offering and the underwriting commission will be shared between us and the Selling Shareholders.

The Brazilian Underwriters have informed us that the price at which the Units will be offered will be based primarily on the demand they encounter at various price levels in the course of the bookbuilding process.

The Units may be offered outside of Brazil only to investors registered with the CVM and acting through custody accounts managed by local agents pursuant to CVM Instruction No. 560, dated March 27, 2015, and CMN Resolution No. 4,373, dated September 29, 2014, as amended, or with Law No. 4,131, dated September 3, 1962, as amended.

Transfer Restrictions

Other than with respect to the public offering of the Units listed on the Level 2 segment of the B3, no action has been or will be taken in the United States, the United Kingdom or any country or jurisdiction by us or the Brazilian Underwriters or the Placement Agents that would permit a public offering of the Units, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, the Units may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the Units may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This offering memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons in possession of this offering memorandum are advised to inform themselves about and to observe any restrictions relating to the offering of the Units, the distribution of this offering memorandum and resale of the Units. See “Transfer Restrictions.”

Purchase of Units by Persons Outside of Brazil

Foreign investors must register their investment in our shares under Law No. 4,131, or CMN Resolution No. 4,373/14 and CVM Instruction No. 560.

Under CMN Resolution No. 4,373/14, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are met. In accordance with CMN Resolution No. 4,373/14, the definition of foreign investor includes individuals, companies, mutual funds and other collective investment entities domiciled or headquartered abroad. Under CMN Resolution No. 4,373/14, a foreign investor must: (1) appoint at least one representative in Brazil, with powers to perform actions relating to its investment; (2) appoint an authorized custodian in Brazil for its investment, which must be a financial institution duly authorized by the Central Bank or the CVM; (3) through its representative, register as a foreign investor with the CVM; (4) register its foreign investment with the Central Bank; and (5) obtain a tax payer identification number from the Brazilian tax authorities.

In addition, an investor operating under the provisions of CMN Resolution No. 4,373/14 must be registered with the Brazilian Internal Revenue Service pursuant to its Regulatory Instruction No. 1,183 of August 19, 2011, as amended. This registration process is undertaken by the investor's legal representative in Brazil.

Securities and other financial assets held by non-Brazilian investors pursuant to CMN Resolution No. 4,373/14 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading by non-Brazilian investors is generally restricted to transactions carried out in the stock exchanges or through organized over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will.

Foreign investors may also invest directly under Law No. 4,131, dated September 3, 1962, as amended, and may sell their shares in both private and trading market transactions, but these investors are subject to less favorable tax treatment on gains than CMN Resolution 4,373/14 investors. A foreign direct investor under Law No. 4,131 must: (1) register as a foreign direct investor with the Central Bank; (2) obtain a tax payer identification number from the Brazilian tax authorities; (3) appoint a tax representative in Brazil; and (4) appoint a representative in Brazil for service of process in respect of suits based on the Brazilian Corporate Law.

Lock-Ups

We, our directors, officers and the Selling Shareholders have entered into lock-up agreements, through which we and they have agreed with the Brazilian Underwriters and the Placement Agents from the date of the placement facilitation agreement and during the period of 90 days after the publication in Brazil of the announcement of commencement of this offering, not to, without prior consent of the Brazilian Underwriters and the Placement Agents: (i) issue, offer, sell, contract to sell, pledge, loan, grant any option to purchase, make any short sale or otherwise directly or indirectly dispose of or grant any rights, or file or cause to be filed a registration statement pursuant to the Securities Act, Brazilian laws, or any other securities regulatory authority, in all cases with respect to our Units or any additional shares of our capital stock (collectively referred to as the capital stock of SANEPAR), options or warrants to purchase any capital stock of SANEPAR or any securities convertible into or exchangeable for, or that represent the right to receive, capital stock of SANEPAR, whether owned directly or indirectly, or enter into a transaction which would have the same effect; (ii) enter into any swap, hedge or any other agreement that, in whole or in part, transfers to the other party, any economic consequences of ownership of our shares or any security that may be convertible into, or exercisable or exchangeable for our shares, or warrants or other rights to purchase our shares, whether any such transaction is to be settled by the delivery of our shares or such other securities, in cash or otherwise; or (iii) publicly announce the intent of performing any of the transactions above; except for certain limited exceptions below.

We may transfer these securities under certain conditions, which may include:

- as bona fide gifts;
- to any of our affiliates (as such term is defined in Rule 405 under Securities Act); or

- with the prior written consent of the Placement Agents;

provided that in the case of the first and second items, prior to any such transfer the recipient thereof agrees in writing with the Brazilian Underwriters and Placement Agents to be bound by the terms of the lock-up agreement and confirms that he, she or it has been in compliance with the terms of this lock-up agreement since the date hereof.

Our directors, officers and the Selling Shareholders may transfer these securities under certain conditions, which may include:

- as bona fide gifts;
- as dispositions to any trust for the direct or indirect benefit of the undersigned and/or the immediate family of the undersigned;
- to any of their respective affiliates (as such term is defined in Rule 405 under Securities Act); or
- with the prior written consent of the Placement Agents;

provided that in the case of the first three items, prior to any such transfer the recipient thereof agrees in writing with the Brazilian Underwriters and Placement Agents to be bound by the terms of the lock-up agreement and confirms that he, she or it has been in compliance with the terms of this lock-up agreement since the date hereof.

In addition, under the regulations of the Level 2 listing segment, during the 90 days after the publication in Brazil of the announcement of commencement of this offering, our controlling shareholder and our directors and executive officers are prohibited from selling and/or offering any of our Units, or derivatives (as defined under the regulations of the Level 2 listing segment). After the initial period of 180 days, our controlling shareholder and our directors and executive officers will, for another period of 180 days, be prevented from selling and/or offering more than 40.0% of our shares and derivatives held by them immediately after this offering.

We cannot assure you that the Brazilian Underwriters and the Placement Agents will not waive these lock-up obligations or the Level 2 rules will not change, in which cases these Units would become eligible for sale earlier.

We cannot predict the effect, if any, that future sales of the Units, or the availability of such Units for future sale, will have on the market price of the Units prevailing from time to time or on our ability to raise capital in the future. Sales of substantial amounts of Units in the public market, or the perception that such sales could occur, could adversely affect the prevailing market price of the Units and our ability to sell Units in the future at a time and at a price that we deem appropriate.

Settlement of the Units

We expect to deliver the Units on or about December 18, 2017 against payment in *reais* through the facilities of the Central Depository of the B3 (*Central Depositária de Ativos da B3*).

Other than with respect to this offering on the Level 2 segment of the B3, no action has been or will be taken in any country or jurisdiction by us, the Brazilian Underwriters or the Placement Agents that would permit a public offering of the Units, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this offering memorandum comes are required by us, the Brazilian Underwriters and the Placement Agents to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver our Units or have their possession or distribute such offering material, in all cases at their own expense.

We will pay for expenses and fees incurred by the Brazilian Underwriters and the Placement Agents, their agents, auditors and legal counsel, among other things, in connection with the primary offering. The Selling Shareholders will pay, pro rata to the number of shares they hold as of the date hereof, for expenses and fees incurred by the Brazilian Underwriters and the Placement Agents, their agents, auditors and legal counsel, among other things, in connection with the secondary offering. Expenses and fees incurred for the registration of this offering with the CVM or with respect to other authorities will be paid by us.

Relationship with Brazilian Underwriters and Placement Agents

The Brazilian underwriters, the international placement agents and their respective affiliates are full service financial institutions engaged in various activities, which may include securities sales and trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, market making, financing and brokerage activities, as well as other financial and nonfinancial activities and services. In addition to the commercial relationships with us and the selling shareholders arising in connection with this offering, the Brazilian Underwriters, the Placement Agents and/or their respective affiliates have provided, currently provide or may provide in the future various investment banking, credit facilities, commercial banking, financial advisory and/or similar financial and nonfinancial services to us or our subsidiaries (if any in the future), and/or the selling shareholders on a regular basis, and maintain normal business relationships with us and/or the selling shareholders in their capacity as credit institutions or as lenders under credit facilities, for which they have received and may continue to receive customary fees and commissions. As a result of these transactions, these parties may have interests that may not be aligned, or could possibly conflict, with the interests of investors and us.

In the ordinary course of their various business activities, the Brazilian Underwriters, the Placement Agents and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer. The Brazilian Underwriters, the Placement Agents and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to customers that they acquire, long and/or short positions in such securities and instruments.

In the future, we may contract the Brazilian Underwriters, the Placement Agents and/or their affiliates to assist us and the Selling Shareholders in any transactions necessary for conducting our business activities, including investment activities.

The Brazilian Underwriters, the Placement Agents and/or their affiliates may enter into derivative transactions with customers, at their request, in connection with our Units. The Brazilian Underwriters, the Placement Agents and/or their affiliates may also purchase some of the Units to hedge their risk exposure in connection with such transactions. Such transactions may have an effect on demand, price or other terms of the offering.

Except for the commissions to be received within the scope of this offering, no other remuneration will be paid by us to the Placement Agents, the Brazilian Underwriters, or their respective affiliates, whereby the calculation of which is related to the price per Unit of this offering.

Selling Restrictions

No action has been or will be taken in any country or jurisdiction by us, the Brazilian Underwriters or the Placement Agents that would permit a public offering of the Units, or possession or distribution of any offering material in relation to the Units, in any country or jurisdiction where action for that purpose is required. Anyone who receives this offering memorandum is required to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Units or have in their possession or distribution such offering material, in all cases at their own expense.

The Units may only be sold or transferred in Brazil, including by or between residents of jurisdictions outside Brazil. Investors in the Units must be registered with the CVM and must act through custody accounts managed by local agents.

United Kingdom

Each Placement Agent has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the

Financial Services and Markets Act 2000 (“FSMA”) received by it in connection with the issue or sale of the Units in circumstances in which section 21(1) of the FSMA does not apply to us; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Units in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Relevant Member State, each Placement Agent has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it has not made and will not make an offer of Units which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor, as defined in the Prospectus Directive;
- (b) fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Units shall require us or the Placement Agents to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any Units in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Units to be offered so as to enable an investor to decide to purchase or subscribe for the Units, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

Notice to Prospective Investors in Canada

The Units may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Units must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (“NI 33-105”), the Brazilian Underwriters and the Placement Agents are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

France

This offering memorandum has not been prepared, and is not distributed, in the context of a public offering of financial securities in France within the meaning of Article L. 411-1 of the *French Code monétaire et financier*. Consequently, no Units have been offered or sold or will be offered or sold, directly or indirectly, to the public in

France, and any other offering material relating to the Units may not be, and will not be distributed or caused to be distributed to the public in France or used in connection with any offer to the public in France.

Such offers, sales and distributions of Units will be made only to Permitted Investors, consisting of (i) persons licensed to provide the investment service of portfolio management for the account of third parties, and (ii) qualified investors (*investisseurs qualifiés*) acting for their own account, all as defined in, and in accordance with, Articles L. 411-2, D. 411-1, D. 744-1 D. 754-1, and D. 764-1 of the *French Code monétaire et financier* and applicable regulations thereunder.

Prospective investors, including Permitted Investors, are informed that (i) this offering memorandum has not been and will not be submitted to the clearance of the French Financial Market Authority (“AMF”), (ii) in compliance with articles L. 411-1, D. 411-1, D. 744-1, D. 754-1, and D. 764-1 of the *French Code monétaire et financier*, any qualified investor subscribing to the Units should be acting for their own account, and (iii) the direct or indirect distribution or sale to the public of the Units acquired by them may only be made in compliance with Articles L. 411-1, L. 411-2, L. 412-1, and L. 621-8 through L. 621-8-3 of the *French Code monétaire et financier*.

Germany

The Units will not be offered, sold or publicly promoted or advertised in the Federal Republic of Germany other than in compliance with the German Securities Prospectus Act (*Wertpapierprospektgesetz*) as of June 22, 2005, effective as of July 1, 2005, as amended, or any other laws and regulations applicable in the Federal Republic of Germany governing the issue, offering and sale of securities. No securities prospectus (*Wertpapierprospekt*) within the meaning of the German Securities Prospectus Act has been or will be filed with the Financial Supervisory Authority of the Federal Republic of Germany or otherwise published in Germany and no public offer of the Units will be permitted in Germany. No offer, sale or delivery of the Units or distribution of copies of any document relating to the Units will be made in Germany except: (a) to qualified investors, as defined in Section 2 no. 6 of the German Securities Prospectus Act; or (b) in any other circumstances where an express exemption from compliance with the public offer restrictions applies, as provided under Section 3(2) of the German Securities Prospectus Act.

Australia

This offering memorandum is not a product disclosure statement or a prospectus under the Corporations Act 2001 (Cth) (“Corporations Act”).

Accordingly, the Units, including in the form of ADSs, may not be offered, issued, sold or distributed in Australia by the Placement Agents, or any other person, under the offering memorandum other than by way of or pursuant to an offer or invitation that does not need disclosure to investors under Part 6D.2 or Part 7.9 of the Corporations Act, whether by reason of the investor being a ‘wholesale client’ (as defined in section 761G of the Corporations Act and applicable regulation) or otherwise.

This offering memorandum does not constitute or involve a recommendation to acquire, an offer or invitation for issue or sale, an offer or invitation to arrange the issue or sale, or an issue or sale, of Units, including in the form of ADSs, to a ‘retail client’ (as defined in section 761G of the Corporations Act and applicable regulations) in Australia.

China

This offering memorandum does not constitute a public offer of the Units whether by sale or subscription, in the People’s Republic of China (“China”). The Units are not being offered or sold directly or indirectly in China to or for the benefit of, legal or natural persons of China. Further, no legal or natural persons of China may directly or indirectly purchase any of the Units or any beneficial interest therein without obtaining all prior governmental approvals that are required in China, whether statutorily or otherwise. Persons who come into possession of this offering memorandum are required by us and the Placements Agents to observe these restrictions.

Hong Kong

This offering memorandum has not been reviewed or approved by or registered with any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this offering memorandum, you should obtain independent professional advice. No person may offer or sell in Hong Kong, by means of any document, any Units other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer or invitation to the public within the meaning thereof. No person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Units which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Units which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made thereunder or to any persons in the circumstances referred to in paragraph (ii) above.

Japan

The Units have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, as amended, or the FIEL, and, accordingly, the Units may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Units may not be circulated or distributed, nor may the Units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than:

- (a) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”),
- (b) to a relevant person, pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 SFA, or
- (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Units, including in the form of ADSs, are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Units under Section 275 of the Securities and Futures Act except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person where the transfer arises from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments)(Shares and Debentures) Regulations 2005 of Singapore.

South Korea

The Units have not been and will not be registered with the Financial Services Commission of Korea for public offering in Korea under the Financial Investment Services and Capital Markets Act, or the FSCMA. The Units may not be offered, sold or delivered, or offered or sold for re-offering or resale, directly or indirectly, in Korea or to any Korean resident (as such term is defined in the Foreign Exchange Transaction Law of Korea, or FETL) other than the Accredited Investors (as such term is defined in Article 11 of the Presidential Decree of the FSCMA), for a period of one year from the date of issuance of the Units except pursuant to the applicable laws and regulations of Korea, including the FSCMA and the FETL and the decrees and regulations thereunder. The Units may not be resold to Korean residents unless the purchaser of the Units complies with all applicable regulatory requirements (including but not limited to government reporting requirements under the FETL and its subordinate decrees and regulations) in connection with the purchase of the Units.

Kuwait

The Units have not been and will not be offered, sold, promoted or advertised in Kuwait except on the basis that an offer is made in compliance with Decree Law No. 31 of 1990 and the implementing regulations thereto, as amended, and Law No. 7 of 2010 and the bylaws thereto, as amended governing the issue, offering and sale of securities. No private or public offering of the Units is being made in Kuwait, and no agreement relating to the sale of the Units will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Units in Kuwait.

Qatar

This international offering of Units does not constitute a public offer of securities in the State of Qatar under Law No. 5 of 2002 (the Commercial Companies Law). The Units are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Units. This offering memorandum does not constitute an offer to the public and is for the use only of the named addressee and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof). No transaction will be concluded in the jurisdiction of Qatar.

United Arab Emirates

FOR UNITED ARAB EMIRATES RESIDENTS ONLY

This offering memorandum, and the information contained herein, does not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Units are only being offered to a limited number of sophisticated investors in the United Arab Emirates (a) who are willing and able to conduct an independent investigation of the risks involved in an investment in such Units, and (b) upon their specific request. The Units have not been approved by or licensed or registered with the United Arab Emirates Central Bank, the Emirates Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the United Arab Emirates. This offering memorandum is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof). No transaction will be concluded in the jurisdiction of the United Arab Emirates.

The Dubai International Financial Centre

The Units have not been offered and will not be offered to any persons in the Dubai International Financial Centre except on that basis that an offer is:

- (i) an “Exempt Offer” in accordance with the Markets Rules (MKT) module of the Dubai Financial Services Authority (the “DFSA”); and
- (ii) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Kingdom of Saudi Arabia

This offering memorandum may not be distributed in the Kingdom of Saudi Arabia (“KSA”), except to such persons as are permitted under the Offers of Securities Regulations (the “Saudi Regulations”) issued by the Board of the Capital Market Authority (the “Capital Market Authority”) resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008.

The Capital Market Authority does not make any representations as to the accuracy or completeness of this offering memorandum, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this offering memorandum. Prospective investors of the Units should conduct their own diligence on the accuracy of the information relating to the Units. If a prospective purchaser does not understand the contents of this Offering Memorandum, he or she should consult an authorized financial adviser.

The Units must not be advertised, offered or sold and no memorandum, information circular, brochure or any similar document has or will be distributed, directly or indirectly, to any person in the KSA other than to Sophisticated Investors within the meaning of Article 10 of the Saudi Regulations. The offer of Units in the KSA shall not, therefore, constitute a “public offer” pursuant to the Saudi Regulations. Prospective investors are informed that Article 17 of the Saudi Regulations places restrictions on secondary market activity with respect to the Units. Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above stated jurisdictions shall not be recognized by us.

Argentina

This offering memorandum has not been registered with the Comisión Nacional de Valores and may not be offered or distributed publicly in Argentina. This offering memorandum includes a private invitation to invest in Units. It is addressed only to you on an individual, exclusive, and confidential basis, and its unauthorized copying, disclosure, or transfer by any means whatsoever is absolutely and strictly forbidden. Neither us nor any Placement Agent will provide copies of this offering memorandum, nor provide any kind of advice or clarification, nor accept any offer or commitment to purchase the Units to or from persons other than the intended recipient. The offer herein contained is not a public offering, and as such it is not and will not be registered with, or authorized by, the applicable enforcement authority. The information contained herein has been compiled by us and we assume the sole responsibility for the accuracy of the data herein disclosed.

Brazil

WITHIN BRAZIL, THE OFFERING OF OUR UNITS IS DIRECTED ONLY TOWARD A LIMITED NUMBER OF QUALIFIED INVESTORS (*INVESTIDORES QUALIFICADOS*) AS DEFINED UNDER CVM INSTRUCTION NO. 476, AS AMENDED, WHICH PROVIDES FOR SPECIFIC TRANSFER RESTRICTIONS REGARDING OUR UNITS, SPECIFICALLY SELECTED PURSUANT TO THE RULES OF CVM INSTRUCTION NO. 476 (THE “INTENDED QIBS”) AND IS NOT DIRECTED TOWARD PERSONS WHO ARE NOT INTENDED QIB BRAZILIAN RESIDENTS. THIS OFFERING MEMORANDUM IS NOT ADDRESSED TO BRAZILIAN RESIDENTS AND IT SHOULD NOT BE FORWARDED OR DISTRIBUTED TO, NOR READ OR CONSULTED BY, ACTED ON OR RELIED UPON BY BRAZILIAN RESIDENTS. ANY INVESTMENT TO WHICH THIS OFFERING MEMORANDUM RELATES IS AVAILABLE ONLY TO NON-BRAZILIAN RESIDENTS AND WILL BE ENGAGED IN ONLY WITH NON-BRAZILIAN RESIDENTS. IF

YOU ARE A BRAZILIAN RESIDENT AND RECEIVED THIS OFFERING MEMORANDUM, PLEASE DESTROY ANY COPIES.

Colombia

This offering memorandum does not constitute a public offer in the Republic of Colombia. The Units have not been and will not be registered on the Colombian National Registry of Securities and Issuers or in the Colombian Stock Exchange. Therefore, the Units may not be publicly offered in Colombia. The offer of the Units is addressed to less than one hundred specifically identified investors. The Units may not be promoted or marketed in Colombia or to Colombian residents, unless such promotion and marketing is made in compliance with Decree 2555 of 2010 and other applicable rules and regulations related to the promotion of foreign securities in Colombia.

The distribution of this offering memorandum and the offering of Units may be restricted in certain jurisdictions. This material is for your sole and exclusive use as a determined entity, including any of your shareholders, administrators or employees, as applicable. The Colombian laws and regulations (specifically foreign exchange and tax regulations) applicable to any transaction or investment consummated pursuant hereto and represent that you are the sole liable party for full compliance with any such laws and regulations. The information contained in this offering memorandum is for general guidance only, prospective applicants for Units should inform themselves of any applicable legal requirements, exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

Mexico

The Units have not been registered in Mexico with the Securities Section (*Sección de Valores*) of the National Securities Registry (*Registro Nacional de Valores*) maintained by the Mexican National Banking Commission (*Comisión Nacional Bancaria y de Valores*), and that no action has been or will be taken that would permit the public offer or sale of the Units in Mexico absent an available exemption under Article 8 of the Mexican Securities Market Law (*Ley del Mercado de Valores*). We and the Placement Agents may offer and sell the Units in Mexico, to Institutional and Accredited Investors, on a private placement basis, pursuant to Article 8 of the Mexican Securities Market Law. Specific requirements apply in relation to any marketing materials relating to such an offer or sale to Institutional and Accredited Investors, on a private placement basis.

Chile

This offer commenced on November 29, 2017 and it avails itself of the General Regulation No. 336 of the Superintendence of Securities and Insurance. This offer relates to securities not registered with the Securities Registry or the Registry of Foreign Securities of the Superintendence of Securities and Insurance, and therefore such shares are not subject to oversight by the latter. Being unregistered securities, there is no obligation on the issuer to provide public information in Chile regarding such securities. These securities may not be subject to a public offer until they are registered in the corresponding Securities Registry.

ESTA OFERTA SE INICIÓ EL DÍA 29 DE NOVIEMBRE DE 2017 Y SE ACOGE A LAS DISPOSICIONES DE LA NORMA DE CARÁCTER GENERAL N° 336 DE LA SUPERINTENDENCIA DE VALORES Y SEGUROS. ESTA OFERTA VERSA SOBRE VALORES NO INSCRITOS EN EL REGISTRO DE VALORES O EN EL REGISTRO DE VALORES EXTRANJEROS QUE LLEVA LA SUPERINTENDENCIA DE VALORES Y SEGUROS, POR LO QUE TALES VALORES NO ESTÁN SUJETOS A LA FISCALIZACIÓN DE ÉSTA. POR TRATAR DE VALORES NO INSCRITOS NO EXISTE LA OBLIGACIÓN POR PARTE DEL EMISOR DE ENTREGAR EN CHILE INFORMACIÓN PÚBLICA RESPECTO DE LOS VALORES SOBRE LOS QUE VERSA ESTA OFERTA. ESTOS VALORES NO PODRÁN SER OBJETO DE OFERTA PÚBLICA MIENTRAS NO SEAN INSCRITOS EN EL REGISTRO DE VALORES CORRESPONDIENTE.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of our Units.

Our Units have not been registered under the Securities Act. They may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except:

- in compliance with the registration requirements of the Securities Act and all applicable securities laws of the states of the United States; or
- pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable securities laws of the states of the United States.

Accordingly, our Units are being offered and sold only:

- inside the United States to qualified institutional buyers, as defined in Rule 144A; and
- outside the United States in accordance with Rule 903 under the Securities Act.

Purchasers of our Units may not be able to exercise the preemptive rights relating to the Units unless an exemption from the registration requirements of the Securities Act is available or a registration statement under the Securities Act is effective with respect to those rights. We are not obligated to file a registration statement with respect to the Units relating to these preemptive rights, and we may not file such a registration statement.

Each purchaser of our Units in the United States will be deemed to have agreed not to deposit such Units into an unrestricted American depository receipt facility for as long as those Units are “restricted securities” within the meaning of Rule 144A under the Securities Act. Each purchaser of our Units offered hereby or its duly authorized agent or representative, by virtue of its acquisition of the Units, will be deemed to acknowledge, represent to and agree with us and the Brazilian Underwriters and the Placement Agents as follows:

1. It understands and acknowledges that the Units have not been registered under the Securities Act or any other applicable securities law, are being offered in transactions not requiring registration under the Securities Act or any other securities law, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act, or any other applicable securities law, pursuant to an exemption from registration or in a transaction not subject to registration. **We make no representation as to the availability of the exemption provided by Rule 144 under the Securities Act for resales of our Units.**

2. It is not an affiliate (as defined in Rule 144 under the Securities Act) of us or acting on our behalf; it is aware that any sale of our Units to it will be made in reliance on an exemption from the Securities Act; and it is either:

- a qualified institutional buyer as defined under Rule 144A (or a QIB) and is aware that any sale of the Units to it will be in reliance on an exemption from the Securities Act. Such acquisition will be for its own account or for the account of another QIB; or
- a person who, at the time the buy order for the Units was originated, was outside the United States and was not a U.S. person (and was not purchasing for the account or benefit of a U.S. person) within the meaning of Regulation S under the Securities Act.

3. It understands that the Units (to the extent they are in certificated form in the future), unless otherwise determined in accordance with applicable law, will bear a legend substantially to the following effect:

THIS UNIT HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER

THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (4) PURSUANT TO ANY EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, OR (5) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THIS SHARE.

4. If it is a purchaser in a sale that occurs outside the United States within the meaning of Regulation S under the Securities Act, it agrees that until the expiration of a 40-day “distribution compliance” period within the meaning of Rule 903 of Regulation S under the Securities Act, no offer or sale of the Units shall be made by it to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902(k) of the Securities Act except to a QIB and in compliance with the applicable selling restrictions. Such purchaser agrees that, during such 40-day distribution compliance period, it will not cause any advertisement with respect to the Units (including any “tombstone” advertisement) to be published in any newspaper or periodical or posted in any public place and will not issue any circular relating to the Securities, except such advertisements as permitted by and include the statements required by Regulation S.

5. Pursuant to CMN Resolution No. 4,373/14, subject to certain exceptions, transfers of Units purchased in accordance with its terms and conditions, including by or between residents of jurisdictions outside Brazil, may be effected only in Brazil. See “Plan of Distribution—Purchase of Units by Persons Outside of Brazil.”

6. Neither we, the Brazilian Underwriters nor any person representing us or the Brazilian Underwriters have made any representation to it with respect to us or the offering or sale of any Units, other than the information contained or incorporated by reference in this offering memorandum, which has been delivered to it and upon which it is relying in making its investment decision with respect to the Units. It acknowledges that no representation or warranty is made by the Brazilian Underwriters or its Placement Agents or their respective representatives as to the accuracy or completeness of such materials. It has had access to such financial and other information concerning us and the Units as it has deemed necessary in connection with its decision to purchase the Units, including an opportunity to ask questions of and request information from us and the Brazilian Underwriters or its Placement Agents or their respective representatives.

7. It acknowledges that we, the Brazilian Underwriters and its Placement Agents and our respective counsel and their respective representatives will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties deemed to have been made by its purchase of Units are no longer accurate, it shall promptly notify us and the Brazilian Underwriters. In the event that it is acquiring any Units as a fiduciary or agent for one or more investment accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account. Each purchaser of our Units, by purchasing our Units will be deemed to have made the acknowledgments, representations and agreements set forth above. In the event that an agent or representative of the purchaser is making any acknowledgment, representation or agreement on behalf of the purchaser, such agent or representative represents that it is duly authorized to execute the subscription agreement on behalf of the purchaser and has confirmed the foregoing acknowledgments, representations and agreements with the purchaser.

Subject to certain exceptions, pursuant to the terms of CMN Resolution No. 4,373/14 for non-Brazilian holders, any U.S. person that acquires the Units in this offering will be permitted to transfer such purchased Units solely in a transaction effected on the B3 or another securities exchange in Brazil other than in a pre-arranged trade with a counter party. To the extent that the provisions of CMN Resolution No. 4,373/14 are modified in the future to permit transfers by non-Brazilian holders other than on the B3 or another securities exchange in Brazil, we will require, and each purchaser acknowledges and agrees, as a condition to any such transfer by a U.S. person that acquires the Units

in this offering, that the transferee execute a document confirming each of the representations and agreements set forth above.

LEGAL MATTERS

Tauil & Chequer Advogados, our Brazilian counsel, has advised us and the Selling Shareholders in connection with this offering, and will pass on the validity of our Units. Mayer Brown LLP, our U.S. counsel, will pass on certain legal matters for us and the Selling Shareholders. Lefosse Advogados, acting as Brazilian counsel to the Brazilian Underwriters and the Placement Agents, and Davis Polk & Wardwell LLP, acting as U.S. counsel to the Brazilian Underwriters and the Placement Agents, will pass on certain U.S. legal matters for the Brazilian Underwriters and the Placement Agents.

INDEPENDENT AUDITORS

Our financial statements as of and for the years ended December 31, 2016, 2015 and 2014, included elsewhere in this offering memorandum, have been audited by Ernst & Young Auditores Independentes S.S., independent auditors, as stated in their reports appearing herein.

With respect to our unaudited interim financial information for the nine-month period ended September 30, 2016, Ernst & Young Auditores Independentes S.S. has applied limited procedures in accordance with professional standards for a review of such information. However, they did not audit and do not express an opinion on that interim financial information. Accordingly, the degree of reliance on such information should be restricted in light of the limited nature of the review procedures applied.

With respect to our unaudited interim financial information as of September 30, 2017 and for the three and nine-month periods ended September 30, 2017, included in this offering memorandum, BDO RCS Auditores Independentes S.S. reported that they have applied limited procedures in accordance with professional standards for a review of such information. Therefore, their report dated October 31, 2017, included in this offering memorandum, states that they did not audit and do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

SERVICE OF PROCESS AND ENFORCEMENT OF JUDGMENTS

We are a mixed capital corporation organized under the laws of Brazil. The State of Paraná, Companhia Paranaense de Energia - COPEL and Copel Comercialização S.A., our Selling Shareholders, are a Brazilian state, a mixed capital corporation organized under the laws of Brazil and a private company with public control organized under the laws of Brazil, respectively. All of our shareholders, as applicable, directors and officers are Brazilian residents. As a result, it may not be possible, or it may be difficult, for you to effect service of process upon us or these other persons within the United States or to enforce judgments obtained in United States courts against us or them, including those predicated upon the civil liability provisions of the federal securities laws of the United States.

In addition, any claims under the *Novo Mercado* segment of the B3 regulations must be submitted to arbitration proceedings conducted in accordance with the rules of the arbitration chamber of the B3. See “Description of Capital Stock—Arbitration”

We have been advised by Tauil & Chequer Advogados, our Brazilian counsel, that a judgment of a United States court for civil liabilities predicated upon federal securities laws of the United States may be enforced in Brazil, subject to certain requirements described below. Such counsel has advised that a judgment against us, our selling shareholder, the directors and officers or certain advisors named herein obtained in the United States would be enforceable in Brazil upon confirmation of that judgment by the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*, or the STJ) without reexamination on the merits. That confirmation will only be available if the U.S. judgment:

- is issued by a court of competent jurisdiction after proper service of process is made in accordance with Brazilian law or after sufficient evidence of our absence has been given, as requested under the laws of the United States;
- is not rendered in an action upon which Brazilian courts have exclusive jurisdiction, pursuant to the provisions of art. 23 of the Brazilian Code of Civil Procedure (Law No. 13,105/2015, as amended);
- is final and therefore not subject to appeal (*res judicata*) in the United States;
- there is no conflict between the United States judgment and a previous final and binding (*res judicata*) judgment on the same matter and involving the same parties issued in Brazil;
- is authenticated by a Brazilian consular office in the United States and is accompanied by a sworn translation into Portuguese. If such decision was authenticated in a country that is signatory of the Hague Convention Abolishing the Requirement of Legalization for Foreign Public Documents dated as of October 5, 1961 (Apostille Convention), authentication by a Brazilian consular office is not required; and
- is not contrary to Brazilian public policy.

The judicial recognition process may be time consuming and may also give rise to difficulties in enforcing the foreign judgment in Brazil. Notwithstanding the foregoing, we cannot assure you that confirmation will be obtained, that the process described above will be conducted in a timely manner, or that Brazilian courts will enforce a monetary judgment for violation of the U.S. securities laws with respect to the common shares.

We have been further advised by Tauil & Chequer Advogados that:

- original lawsuits may be brought in Brazilian courts in connection with this offering memorandum predicated solely on the federal securities laws of the United States and that, subject to applicable law, Brazilian courts may enforce liabilities in such lawsuits against us or the directors and officers and certain advisors named herein (provided that provisions of the federal securities laws of the United States do not contravene Brazilian public policy, good morals or national sovereignty and provided further that Brazilian courts can assert jurisdiction over the particular action); and
- the ability of a creditor or other persons named above to satisfy a judgment by attaching certain assets

of ours or any selling shareholder's, respectively, is limited by provisions of Brazilian law.

In addition, a plaintiff (whether Brazilian or non-Brazilian) that resides outside Brazil during the course of litigation in Brazil and who does not own real property in Brazil must post a bond to guarantee the payment of the defendant's legal fees and court expenses, including attorneys' fees, except in the case of (i) enforcement on an instrument (a title that shall be enforced in Brazilian courts without a review on the merits, or *título executivo extrajudicial*); (ii) the enforcement of foreign judgments that have been duly confirmed by the STJ; (iii) counterclaims; and (iv) when some international agreement signed by Brazil dismisses the obligation to post a bond.

If proceedings are brought in the courts of Brazil seeking to enforce our obligations under the new shares, payment shall be made in *reais*. Any judgment rendered in Brazilian courts in respect of any payment obligations under the new shares would be expressed in *reais*.

Notwithstanding the foregoing, we cannot assure you that enforcement of any judgment will be successful, or that the process described above can be conducted in a timely manner.

INDEX TO FINANCIAL STATEMENTS

Unaudited interim financial information as of September 30, 2017 and for the nine-month period ended September 30, 2017 and 2016

Independent auditors' report on the quarterly information	F-3
Statement of financial position	F-5
Statements of income	F-6
Statements of comprehensive income	F-7
Statements of changes in equity	F-8
Statements of cash flows	F-10
Statements of value added	F-11
Comments on the Company's performance in the third quarter 2017	F-12
Notes to the financial statements	F-20

Financial statements as of and for the years ended December 31, 2016 and 2015

Independent auditors' report on financial statements	F-58
Balance sheets	F-64
Statements of income	F-66
Statements of comprehensive income	F-67
Statements of changes in shareholders' equity	F-68
Statements of cash flows	F-69
Statements of value added	F-70
Notes to the financial statements	F-71

Financial statements as of and for the years ended December 31, 2015 and 2014

Independent auditors' report on financial statements	F-135
Balance sheets	F-137
Statements of income	F-139
Statements of comprehensive income	F-140
Statements of changes in shareholders' equity	F-141
Statements of cash flows	F-142
Statements of value added	F-143
Notes to the financial statements	F-144

(English version from the original previously
issued in Portuguese)

**COMPANHIA DE SANEAMENTO DO PARANÁ -
SANEPAR**

Independent auditor's report

**Interim financial information
As at September 30, 2017**

INDEPENDENT AUDITOR'S REPORT ON THE QUARTERLY INFORMATION

To the
Shareholders, Board Members and Management of
Companhia de Saneamento do Paraná - SANEPAR
Curitiba - PR

Introduction

We have reviewed the interim financial information of **Companhia de Saneamento do Paraná - SANEPAR (the "Company")**, included in the Quarterly Information (ITR) for the quarter ended September 30, 2017, which comprises the statement of financial position as at September 30, 2017, and the respective statements of income and comprehensive income for the quarter and nine-month period then ended, and of changes in equity and cash flows for the nine-month period then ended, including a summary of significant accounting policies and other notes.

Management is responsible for the preparation of the interim financial information in accordance with Technical Pronouncement CPC 21 (R1) - Interim financial information, and for the presentation of this interim financial information in accordance with the standards issued by the Brazilian Securities and Exchange Commission (CVM) applicable to Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of the review

We conducted our review in accordance with Brazilian and international standards for reviewing interim information (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity). An interim review consists principally of applying analytical and other review procedures, and making enquiries of and having discussions with persons responsible for financial and accounting matters. An interim review is substantially less in scope than an audit conducted in accordance with auditing standards. An interim review does not provide assurance that we would become aware of any or all significant matters that might be identified in an audit. Accordingly, we do not express such an audit opinion.

Conclusion on the interim financial information

Based on our review, we are not aware of any fact that leads us to believe that the interim financial information included in the quarterly information referred to above have not been prepared, in all material respects, in accordance with CPC 21 (R1) applicable to Quarterly Information - ITR, and presented in accordance with the standards issued by the Brazilian Securities and Exchange Commission (CVM).

Other matters

Statements of value added

We have also reviewed the Statements of Value Added (DVA) for the nine-month period ended September 30, 2017, prepared under the responsibility of the Company's management, whose disclosure in the interim financial information is required in accordance with the standards issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of the Quarterly Information (ITR). These statements were submitted to the same review procedures previously described and based on our review, we are not aware of any fact that would lead us to believe that they have not been fairly stated, in all material respects, in relation to the interim financial information taken as a whole.

Reissuance of the report

This report is being reissued in accordance with note 2.1 because of certain lines items in the operating expenses of the statement of income, current and non-current assets and current and non-current liabilities have been expanded in comparison to the previous version of the report. These changes did not affect totals for current and non-current assets, current and non-current liabilities and neither the total of operating expenses in the statement of income compared to the previous version of these financial statements. Our conclusion in this report is not affected by these changes.

Comparative interim financial information

The interim financial information included in the quarterly information related to the statement of financial position of December 31, 2016 and the statements of income, cash flows, changes in equity and value added for the quarter ended September 30, 2016, presented for comparison purposes, were audited and reviewed, respectively, by other independent auditors, whose audit report thereon, dated January 30, 2017, and review report, dated October 18, 2016, were unmodified.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Curitiba, November 30, 2017



BDO RCS Auditores Independentes S.S.
CRC 2 PR 006853/F-9

Paulo Sérgio Tufani
Accountant CRC 1SP 124504/O-9 - S - PR

CIA. DE SANEAMENTO DO PARANÁ - SANEPAR

Statements of financial position As at September 30, 2017 and December 31, 2016. (In thousands of Brazilian Reals)

Asset	Notes	09/30/2017	12/31/2016	Liabilities and equity		
				Notes	09/30/2017	12/31/2016
Current		1,254,071	1,307,24		1,280,228	967,318
Cash and cash equivalents	4	535,957	638,330		238,182	157,379
Trade accounts receivable	5	614,697	559,797		134,172	133,505
Inventories		35,579	36,722	13	97,159	63,260
Recoverable taxes	6	1,194	39,021	11	553,232	379,163
Earmarked deposits	25	7,260	9,844	12	7,662	7,501
Other current assets	7	59,384	23,526		2,562	2,338
				14	4,200	542
				15	36,486	36,513
				18	148,100	134,055
				26	58,473	53,062
Noncurrent		8,622,650	8,146,879		3,564,142	3,678,128
Long-term assets					2,082,101	2,332,911
Accounts receivable	5	12,724	10,706	11	85,161	89,425
Deferred taxes	17	425,745	373,997	12	1,328	1,411
Earmarked deposits	25	49,051	45,834	13	14,350	-
Recoverable taxes	6	796	760	14	5,266	4,939
Court deposits	16	181,927	156,442	15	557,317	506,576
Contractual financial assets	10	198,211	172,381	26	818,619	742,866
Other noncurrent assets	7	43,296	43,695			
Investments	8	19,869	12,403			
Fixed assets	9	133,034	131,268			
Intangible assets	9	7,557,997	7,199,393	19	5,032,351	4,808,673
					2,847,664	2,847,664
					83,064	87,200
					1,631,145	1,779,937
					377,190	-
					9,826	10,410
					83,462	83,462
Total assets		9,876,721	9,454,119		9,876,721	9,454,119
The accompanying notes are an integral part of these financial statements.						

CIA. DE SANEAMENTO DO PARANÁ - SANEPAR

Statements of income As at September 30, 2017 and 2016 (In thousands of Brazilian Reais)

	Notes	Current Quarter 07/01/2017 to 09/30/2017	Accumulated in Current Period 01/01/2017 to 09/30/2017	Same Quarter of Previous Year 07/01/2016 to 09/30/2016	Accumulated in Previous Period 01/01/2016 to 09/30/2016
Net revenue from services rendered	20	1,008,668	2,843,946	868,215	2,550,911
Cost of services rendered	21	(398,940)	(1,142,108)	(348,650)	(1,057,700)
Gross result		609,728	1,701,838	519,565	1,493,211
Operating expenses/revenues					
Selling expenses	22	(75,078)	(239,316)	(65,014)	(176,407)
General and administrative expenses	22	(163,654)	(474,251)	(145,282)	(457,592)
Other operating expenses	22	(650)	(4,465)	(1,639)	(3,251)
Profit sharing program	23	(28,977)	(28,977)	(15,925)	(15,925)
Provisions		(50,974)	(131,905)	(70,636)	(85,533)
Equity in earnings (losses) of controlled companies	8	(730)	(1,388)	(831)	(2,257)
		(320,063)	(880,302)	(299,327)	(740,965)
Income before financial income (loss) and taxes		289,665	821,536	220,238	752,246
Financial income (loss)	24				
Financial revenues		21,576	76,041	14,275	59,764
Financial expenses		(48,873)	(175,844)	(63,813)	(183,152)
		(27,297)	(99,803)	(49,538)	(123,388)
Income before taxes		262,368	721,733	170,700	628,858
Income and Social Contribution Taxes		(87,302)	(189,753)	(56,138)	(160,938)
Net income from continuing operations		175,066	531,980	114,562	467,920

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

CIA. DE SANEAMENTO DO PARANÁ - SANEPAR

Statements of comprehensive income As at September 30, 2017 and 2016 (In thousands of Brazilian Reais)

	Current Quarter 07/01/2017 to 09/30/2017	Accumulated in Current Period 01/01/2017 to 09/30/2017	Same Quarter of Previous Year 07/01/2016 to 09/30/2016	Accumulated in Previous Period 01/01/2016 to 09/30/2016
Profit for the period	175,066	531,980	114,562	467,920
Other comprehensive income	-	-	-	(6,288)
Total comprehensive income for the period	<u>175,066</u>	<u>531,980</u>	<u>114,562</u>	<u>461,632</u>

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

CIA. DE SANEAMENTO DO PARANÁ - SANEPAR

Statements of changes in equity
From 01/01/2017 to 09/30/2017
(In thousands of Brazilian Reais)

	Paid-in capital stock	Capital reserves, Granted options and Treasury shares	Income reserves	Retained earnings or accumulated profits	Other comprehensive income	Equity
Beginning balances	2,847,664	-	1,779,937	-	181,072	4,808,673
Capital Transactions with Shareholders	-	-	(148,792)	(159,510)	-	(308,302)
Total comprehensive income	-	-	-	536,700	(4,720)	531,980
Ending balances	<u>2,847,664</u>	<u>-</u>	<u>1,631,145</u>	<u>377,190</u>	<u>176,352</u>	<u>5,032,351</u>

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

CIA. DE SANEAMENTO DO PARANÁ - SANEPAR

Statements of changes in equity
From 01/01/2016 to 09/30/2016
(In thousands of Brazilian Reals)

	Paid-in capital stock	Capital reserves, Granted options and Treasury shares	Income reserves	Retained earnings or accumulated profits	Other comprehensive income	Equity
Beginning balances	2,597,360	-	1,398,472	-	184,475	4,180,307
Capital Transactions with Shareholders	-	-	(103,951)	(143,307)	-	(247,258)
Total comprehensive income	-	-	-	472,622	(10,990)	461,632
Ending balances	2,597,360	-	1,294,521	329,315	173,485	4,394,681

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

CIA. DE SANEAMENTO DO PARANÁ - SANEPAR

Statements of cash flows As at September 30, 2017 and 2016 (In thousands of Brazilian Reais)

	09/30/2017	09/30/2016
Net cash provided by operating activities	1.039,865	819,072
Cash from operations	1.021,804	904,706
Net income for the period	531,980	467,920
Depreciation and amortization	178,211	160,081
Cost of fixed and intangible assets write-off	2,738	3,669
Adjustment to Impairment	(585)	(427)
Cost of investments write-off	214	-
Discount to Present Value - Financial Assets	(5,331)	(21,000)
Allowance for doubtful accounts	19,242	14,445
Deferred Income and Social Contribution taxes, Net	(51,748)	(20,080)
Provision for contingencies	50,741	9,036
Pension plan and Health Insurance	81,164	76,497
Interest on financing	179,368	172,792
Monetary variation on financing	31,710	39,350
Equity in earnings (losses) of controlled companies	1,388	2,257
Recognition of costs on Funds Raised from Third Parties	623	166
Fair Value Adjustment - Investments	2,089	-
Changes in assets and liabilities	18,061	(85,634)
Trade accounts receivable	(76,160)	(83,343)
Recoverable Taxes and Contributions	37,791	28,000
Inventories	1,143	284
Court deposits	(25,485)	(17,071)
Other Receivables and Accounts Receivables	(35,459)	(39,294)
Loans and Trade Accounts Payable	667	(2,417)
Service concession agreements	(4,103)	(96)
Taxes and contributions	20,332	2,786
Payroll and Charges	80,803	31,349
Collaterals and Contractual Retentions	224	(75)
Unearned revenue	18,008	(2,438)
Notes payable	-	(3,087)
Other accounts payable	300	(232)
Net cash used in investing activities	(519,879)	(532,576)
Investments in fixed and intangible assets	(508,722)	(526,715)
Investments	(11,157)	(5,861)
Net cash used in financing activities	(622,359)	(73,813)
Financing Obtained	95,224	402,789
Repayment of financing	(250,620)	(117,396)
Payments of interest on financing	(185,557)	(151,364)
Costs on Funds Raised from Third Parties	-	(1,823)
Restricted deposits	(633)	(8,458)
Payment of interest on equity capital	(280,773)	(197,561)
Increase (decrease) in cash and cash equivalents	(102,373)	212,683
Beginning balance of cash and cash equivalents	638,330	163,797
Ending balance of cash and cash equivalents	535,957	376,480

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

CIA. DE SANEAMENTO DO PARANÁ - SANEPAR

Statements of value added As at September 30, 2017 and 2016 (In thousands of Brazilian Reais)

	09/30/2017	09/30/2016
Revenues	3,042,044	2,724,721
Sales of merchandise, products and services	3,064,209	2,742,417
Other revenues	(2,923)	(3,251)
Allowance/Reversal of Doubtful Accounts	(19,242)	(14,445)
Acquired Inputs	(940,090)	(820,938)
Cost of goods, merchandise and services sold	(337,701)	(306,798)
Materials, energy, third-party services and others	(462,642)	(460,405)
Loss/recovery of assets	(1,542)	-
Others	(138,205)	(53,735)
Gross value added	2,101,954	1,903,783
Withholdings	(178,211)	160,081
Depreciation, amortization and depletion	(178,211)	160,081
Net generated value added	1,923,743	1,743,702
Value added received in transfer	74,653	57,507
Equity in earnings (losses) of controlled companies	(1,388)	(2,257)
Financial revenues	76,041	59,764
Total value added to be distributed	1,998,396	1,801,209
Value added distribution	1,998,396	1,801,209
Personnel	717,238	650,660
Direct compensation	436,379	378,834
Benefits	248,875	243,954
Severance Pay Fund (FGTS)	31,984	27,872
Taxes, fees and contributions	537,893	466,263
Federal	535,487	464,001
State	373	458
Municipal	2,033	1,804
Return on debt capital	211,285	216,366
Interest	175,844	183,152
Rents	35,441	33,214
Return on equity capital	531,980	467,920
Interest on equity capital	159,510	143,307
Retained earnings/Net income	372,470	324,613

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

Companhia de Saneamento do Paraná – SANEPAR

COMMENTS ON THE COMPANY PERFORMANCE IN 3rd QUARTER 2017

01. OPERATING CONTEXT

Companhia de Saneamento do Paraná – SANEPAR (herein also “Company” and/or “Sanepar”), established in 1963, company of the basic sanitation sector, holder of the concession to operate the services of distribution of water and collection and treatment of sewage in 346 municipalities, of which 345 out of a total of 399 existing in the state of Paraná and 01 municipality in the State of Santa Catarina. In activity in the sector for 54 years, it is one of the agencies responsible for Paraná being ranked among the states with the best social indicators in the country, as well as displaying one of the best indicators in service coverage among similar entities. The company vision is one of excellence, committed to universal delivery of environmental sanitation.

02. MANAGEMENT

SANEPAR has continually reinforced a strategy of running its business with organizational flexibility in order to respond with agility and efficiently to the new market requirements and contextual changes, with the strategic objective of achieving corporate economic-financial and social-environmental sustainability.

Fully in line with the market requirements, the company’s management has been driven by the qualification of its functional staff, the quest for efficiency in the use of inputs, better management of revenues, costs and expenses, thus guaranteeing continuity for investments and good service delivery to its customers.

On April 12, 2017, through Ratified Decision (Resolução Homologatória) No. 003 of Delegated Public Infrastructure Utility Services Regulatory Agency (Agência Reguladora de Serviços Públicos Delegados de Infraestrutura do Paraná – AGEPAR), the First Periodic Tariff Review (Revisão Tarifária Periódica – RTP) was performed for Sanepar.

In 2017, the Company established the Incentive Retirement Program (Programa de Aposentadoria Incentivada – PAI) and the Voluntary Dismissal with Transfer of Knowledge Program (Demissão Voluntária com Transferência de Conhecimento – PDVTC) with the purpose of allowing employees entitled to those programs to request their dismissal from SANEPAR’s staff, which resulted in 299 employees joining the programs (285 joining PAI and 14 joining PDVTC).

03. MARKET

The current rate of delivery with treated water is of 100.0% and the coverage of sewage collection is of 70.2% of the urban population within the concession area, with a treatment rate of 100.0% as per the Corporate Information System.

Revenues stem mainly from residential water connections, representing 91.0% of the total water connections existing at September 30, 2017.

Companhia de Saneamento do Paraná – SANEPAR

COMMENTS ON THE COMPANY PERFORMANCE IN 3rd QUARTER 2017

The number of existing water connections of 3,068,242 in September 2017 is 2.0% higher than the number of connections (3,008,614) existing in September 2016, representing an increment of 59,628 new water connections, as shown below:

Number of Water Connections *

Classes	September/2016	September/2017	Var. %
Residential	2,746,823	2,790,986	1.6
Commercial	201,358	215,658	7.1
Industrial	12,289	12,576	2.3
Public Utility	22,300	23,094	3.6
Public Administration	25,844	25,928	0.3
Total	3,008,614	3,068,242	2.0

* Information not reviewed by independent auditors.

The number of sewage connections of 2,012,976 in September 2017 is 5.1% higher than the number of connections (1,914,695) existing in September 2016, representing an increase of 98,281 new sewage connections, as shown below:

Number of Sewage Connections *

Classes	September/2016	September/2017	Var. %
Residential	1,733,758	1,816,860	4.8
Commercial	150,456	163,915	8.9
Industrial	4,705	4,979	5.8
Public Utility	13,032	13,964	7.2
Public Administration	12,744	13,258	4.0
Total	1,914,695	2,012,976	5.1

* Information not reviewed by independent auditors.

04. TECHNOLOGY

Operational efficiency is one of the focus points of the SANEPAR management model. Over the years, the Company has achieved significant results due to investments in more effective systems and processes.

SANEPAR has been keeping up with the sectors technological advances around the world, in addition to developing its own solutions in achieving maximal rationality in the use of water and avoid compromising the environment.

The development of innovative solutions and obtaining of new knowledge are facilitated through the exchange with research institutes, studies and publication of technical papers.

05. ENVIRONMENT AND COMMUNITY

More than simply complying with environmental legislation, SANEPAR continually acts in its segment of activities in line with the concept of sustainable development, i.e., maximum rationalization of the use of natural inputs and reduction to the minimum in environmental

Companhia de Saneamento do Paraná – SANEPAR

COMMENTS ON THE COMPANY PERFORMANCE IN 3rd QUARTER 2017

impacts. In applying this philosophy, the Company has an Environmental Strategic Plan, with the objective of identifying the main impacts stemming from this activity and, in this way, enabling drafting programs and establishing targets and actions to mitigate risks.

Social responsibility, in particular in connection with public health, is delivered through countless programs and actions targeted at well-being for communities in which SANEPAR is present. The Company also maintains a complex bacteriological, chemical-physical, spectrophotometric, chromatography and hydro-biology laboratory system that guarantees ideal conditions for the water consumed by its customers.

The Company endeavors to increase its activity in solid waste collection and destination, not only through the management of sanitary landfills but also by looking for new technologies that enable generation of energy. In 2014, SANEPAR, in partnership with another company, established CS Bioenergia S.A., which will produce energy from the waste generated by the Sewage Treatment Station of Belém, in Curitiba. The mentioned partnership started its pre operating phase in July 2017, transforming the sludge, main raw material of sewage treatment stations, into a new high economic value-added product. The sludge processed will generate energy, bringing major savings in its transportation and final disposal costs, in addition to preserving the environment.

The importance of the relationship between the Company and society can also be observed in the values that are added and distributed to the different segments of the national economy such as, for instance, remuneration to Governments, that reverts into benefits for society.

Distribution of the Economic Wealth Generated (BRL million)

	9M16	9M17	Var. %	3Q16	3Q17	Var. %
Personnel compensation	650.7	717.2	10.2	222.1	275.5	24.0
Government Compensation	466.3	537.9	15.4	162.3	208.0	28.2
Third-party compensation	33.2	35.5	6.9	11.7	12.2	4.3
Return on debt capital (Interest and monetary variations)	183.1	175.8	(4.0)	63.8	48.8	(23.5)
Interest on equity capital	143.3	159.5	11.3	-	-	-
Net income for the period not distributed	324.6	372.5	14.8	114.5	175.1	52.9
Total Economic Wealth	1,801.	1,998.	10.9	574.4	719.6	25.3

06. PRODUCTIVITY

For YTD up to September 30, 2017, the volume of treated water measured was of 372.7 million m³, as compared to 361.5 million m³ for the same period in 2016, representing an increase of 3.1%, which shows the continuous growth of the Company, as follows:.

Companhia de Saneamento do Paraná – SANEPAR

COMMENTS ON THE COMPANY PERFORMANCE IN 3rd QUARTER 2017

COMPARATIVE TABLE OF MEASURED WATER VOLUME - million m³ *

Classes	9M16	9M17	Var. %	3Q16	3Q17	Var. %
Residential	305.6	315.7	3.3	99.8	103.7	3.9
Commercial	29.4	30.1	2.4	9.7	10.2	5.2
Industrial	8.4	8.4	0.0	2.7	2.7	0.0
Public Utility	4.2	4.3	2.4	1.4	1.5	7.1
Public Administration	13.9	14.2	2.2	4.7	4.9	4.3
TOTAL INVOICED	361.5	372.7	3.1	118.3	123.0	4.0

* Information not reviewed by independent auditors.

For YTD up to September 30, 2017, the volume of treated water billed was 420.6 million m³, as compared to 439.6 million m³ for the same period of 2016, which corresponds to a reduction of 4.3%. In comparing the third quarters of 2016 and 2017, a reduction of 12.1% was perceived, resulting from the change in the Company's tariff structure, with changes in consumption ranges, and mainly from the change in the minimum tariff, from 10m³ to 5m³, as shown below:

COMPARATIVE TABLE OF INVOICED WATER VOLUME - million m³ *

Classes	9M16	9M17	Var. %	3Q16	3Q17	Var. %
Residential	376.2	358.8	(4.6)	124.3	108.0	(13.1)
Commercial	36.0	34.7	(3.6)	11.9	10.8	(9.2)
Industrial	8.8	8.5	(3.4)	2.9	2.7	(6.9)
Public Utility	4.0	3.9	(2.5)	1.3	1.3	(0.0)
Public Administration	14.6	14.7	0.7	5.0	5.0	0.0
TOTAL INVOICED	439.6	420.6	(4.3)	145.4	127.8	(12.1)

* Information not reviewed by independent auditors.

For YTD up to September 30, 2017, the volume of sewage billed showed a reduction of 1.2% as compared to the same period for the previous year. In comparing the third quarters of 2016 and 2017, a reduction of 9.2% was perceived, also resulting from the change in the Company's tariff structure, as shown below:

COMPARATIVE TABLE OF INVOICED SEWAGE VOLUME - million m³ *

Classes	9M16	9M17	Var. %	3Q16	3Q17	Var. %
Residential	257.7	254.0	(1.4)	86.2	77.3	(10.3)
Commercial	31.1	30.7	(1.3)	10.4	9.8	(5.8)
Industrial	2.3	2.2	(4.3)	0.8	0.7	(12.5)
Public Utility	2.9	2.9	0.0	1.0	1.0	0.0
Public Administration	10.3	10.7	3.9	3.5	3.7	5.7
TOTAL INVOICED	304.3	300.5	(1.2)	101.9	92.5	(9.2)

* Information not reviewed by independent auditors.

In the ongoing search for rationalizing its resources and operational control of the water supply systems, the company adopts actions such as:

- renewal of its hydrometer park, currently around 16.5% a year;

Companhia de Saneamento do Paraná – SANEPAR

COMMENTS ON THE COMPANY PERFORMANCE IN 3rd QUARTER 2017

- research in the detection of hidden leaks, clandestine connections and damaged or defrauded hydrometers;
- operational development through the implementation of a technical registry, geographic, supervision and control system, automation, optimization of macro-measurements and systematizing of operational diagnosis; and
- improvements in the operational networks and units.

Despite these measures, there was an increase in this period of 0.19 liters lost per connection/day, corresponding to 0.1% in comparison with December 2016 as shown in the table below:

LOSSES PER CONNECTION INDEX *		
Year	Liters/ Connection/ Day	Variation Liters/ Connection/ Day
2010	235.14	(1.87)
2011	244.80	9.66
2012	247.00	2.20
2013	239.03	(7.97)
2014	226.91	(12.12)
2015	225.77	(1.14)
2016	233.12	7.35
2017 (1)	233.31	0.19

* Information not reviewed by independent auditors.

(1) Cumulative amounts from January to September 2017.

07. ECONOMIC INDICATORS

SANEPAR's growth and development strategy to operate on a public utility service market, also open to the private initiative, is based on the search for effective results, commitment to the quality of services provided and, in particular, to addressing the needs of the granting power and shareholders.

Companhia de Saneamento do Paraná – SANEPAR

COMMENTS ON THE COMPANY PERFORMANCE IN 3rd QUARTER 2017

The figures below display the economic-financial results achieved by the Company in supporting the investment programs, providing adequate conditions for the delivery of future demands.

Description	R\$ million					
	9M16	9M17	Var. %	3Q16	3Q17	Var. %
Net operating revenue (1)	2,550.9	2,843.9	11.5	868.2	1,008.7	16.2
Operating profit	752.2	821.5	9.2	220.2	289.7	31.6
Net Profit	467.9	532.0	13.7	114.6	175.1	52.8
% Operating margin	22.9	23.6	2.7	18.3	24.1	31.7
% Net margin	18.3	18.7	2.2	13.2	17.4	31.8
% Mean PL profitability	10.9	10.8	(0.9)	2.6	3.5	34.6
Net debt/ EBITDA (Accumulated 12 month)	2.0	1.7	(15.0)	-	-	

(1) The increase in operating revenue between the months of September 2016 and September 2017, stems from the tariff adjustment of 10.48% starting on 04/01/2016, with full impact in 2017, as well from the 1st Tariff Review authorized by AGEPAR of 8.53% in 2017, starting on 06/01/2017, pro-rata since 05/16/2017, in addition to an increase in water and sewage services, increasing the number of water (2.0%) and sewage (5.1%) connections.

At the end of the third quarter 2017, total Company assets reached R\$ 9,876.7 million (R\$ 9,454.1 million on 12/31/2016), with total liabilities at the end of the same quarter being R\$ 4,844.4 million (R\$ 4,645.4 million on 12/31/2016).

Of the total liability amount, R\$ 2,635.3 million (R\$ 2,712.1 million on 12/31/2016) are in reference to loans, financing and debentures, showing a reduction of 2.8% as compared to the end of the 2016 tax year.

Description	R\$ million			
	Reference	12/31/2016	09/30/2017	Var. %
Net equity	R\$ million	4,808.7	5,032.4	4.7
Share value	R\$	9.55	9.99	4.6
Indebtedness level	%	49.1	49.0	(0.2)
Current ratio	R\$	1.35	0.98	(27.4)
Quick ratio	R\$	1.30	0.95	(26.9)

Generation of Operating Cash

EBITDA accumulated up to the third quarter 2017, representing the Company's operating results was of R\$ 999.8 million, as compared to R\$ 912.3 million for the same period in the previous year, mainly the result from the increase in revenues. EBITDA margin was reduced from 35.8% to 35.2%.

Operating cash generation was of R\$ 1,040.0 million, growth of 27.0% as compared to the same period in 2016. Conversion of EBITDA into Operating Cash was of 104.0%.

Companhia de Saneamento do Paraná – SANEPAR

COMMENTS ON THE COMPANY PERFORMANCE IN 3rd QUARTER 2017

In comparing EBITDA between the third quarters of 2016 and 2017, an increase of 27.2% is perceived, stemming mainly from the increase in net revenue.

Description	R\$ million					
	9M16	9M17	Var. %	3Q16	3Q17	Var. %
Net profit for the period	467.9	532.0	13.7	114.6	175.1	52.8
(+) Taxes on profit	160.9	189.8	18.0	56.1	87.3	55,6
(+) Financial result	123.4	99.8	(19.1)	49.5	27.3	(44,8)
(+) Depreciation and amortization	160.1	178.2	11.3	55.2	60.5	9,6
(=) EBITDA	912.3	999.8	9.6	275.4	350.2	27,2
% EBITDA margin	35.8	35.2	(1.7)	31.7	34.7	9.5
% EBITDA conversion into operating cash	89.8	104.0	15.8	110.4	107.9	(2.3)

08. ECONOMIC PERFORMANCE

Operating revenue

Gross operating revenue grew 11.7%, from R\$ 2,742.4 million accumulated for the third quarter 2016, to R\$ 3,064.2 million for the equal period of 2017. This growth is the outcome of the tariff readjustment, the increased delivery of water and sewage services and an increase in the number of connections.

Operating costs and expenses

Operating costs and expenses for the third quarter of 2017 grew 12.4% in comparison to the same period in 2016. The main variations occurred were as a result of a growth of 9.2% in expenses on personnel, in particular, due to the 4.69% readjustment to the labor and meal resulting from signing 2017/2018 Collective Bargaining Agreement and provision for expenses on the programs PAI and PDVTC (nonrecurring cost totaling 45.8 million), growth of 14.5% in expenses on materials, in particular due to the increased level in deployment of treatment materials and electro-mechanical maintenance, of 2.7% with expenses on third-party services, mainly related to operating maintenance and removal of sewage residue services and of 35.3% with other operating expenses, mainly from the increase with third party indemnity payments, amortizations and provision for losses in realization of credits.

Net Profit

The Company had a net profit of R\$ 532.0 million accumulated up to the third quarter 2017, 13.7.0% higher than the net result of R\$ 467.9 million posted for the same period in 2016. The result was mainly affected by the increase in operating revenue and management of operating costs and expenses.

Companhia de Saneamento do Paraná – SANEPAR

COMMENTS ON THE COMPANY PERFORMANCE IN 3rd QUARTER 2017

Following is the reclassification of income (loss) up to the 3rd quarter, excluding non-recurring items.

Description	Accumulated September/2016	Accumulated September/2016
Net Profit	467.9	532.0
PAI and PDVTC	53.2	45.8
Collective Bargaining Agreement	(38.7)	-
Review of the analysis of contingent risk	(48.7)	-
Environmental provision	40.0	-
Regulatory fee	-	9.5
Actions, lack of water in Maringá	-	27.0
Installment payments of accounts receivable from municipal governments	(0.8)	-
Tax effects	3.6	28.0
Pro forma net profit	476.5	642.3
Net margin	18.7%	22.6%
EBITDA	917.3	1.082.1
EBITDA margin	36.0%	38.0%

Results reclassified per quarter, less nonrecurring items, as shown next:

Description	1Q17	2Q17	3Q17
Net Profit	160.0	196.9	175.1
PAI and PDVTC	15.5	-	30.3
Regulatory fee	-	4.7	4.8
Actions, lack of water in Maringá	45.8	(18.8)	-
Tax effects	20.8	(4.8)	12.0
Pro forma net profit	242.1	178.0	222.2
Net margin	26.1%	19.6%	22.0%
EBITDA	390.4	306.4	385.3
EBITDA margin	42.1%	33.7%	38.2%

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017
(In thousands of Brazilian Reais)

1. OPERATIONS

Companhia de Saneamento do Paraná – SANEPAR (also identified as “Company” or “Sanepar”), located at Rua Engenheiros Rebouças in Curitiba – Paraná, is a private company, controlled by the government of the state of Paraná and its municipalities, and engaged in rendering basic sanitation services, mainly water distribution, collection and treatment of sewage and solid waste, as well as studies, projects and construction work of new facilities, expansion of water distribution and collection and treatment of sewage networks, and rendering of advisory services and technical assistance in its areas of activity. The Company also collaborates with federal, state, municipal agencies and other entities in issues relevant to the achievement of its basic purposes.

By means of municipal concessions, the Company renders services of treatment and distribution of water and collection and treatment of sewage. Contract renewals have average term of 30 years. From a total of 346 municipalities served, about 5.2% of the contracts are currently being renewed for being expired, 17.6% expire from 2017 to 2026, and 77.2% were renewed and expire after 2027. In the case of non renewed concessions, the municipalities shall reimburse to the Company the residual amounts of the assets related to the concession upon termination.

Only the concession related to the municipality of Curitiba has rules determining a concession cost to be paid by the Company, as mentioned in Note 12.

The Company is registered with CVM (Brazilian Securities and Exchange Commission) as a public company type A (issuers authorized to negotiate any securities) and has its shares negotiated in São Paulo’s stock exchange (B3 – Brasil, Bolsa, Balcão), listed in Level 2 of Corporate Governance.

The Company has 40% interest in the Special Purpose Entity, organized as a closely-held corporation, named “CS Bioenergia S/A”, engaged in rendering services of proper final destination of solid and organic waste and of the sludge generated in the sewage stations, production of biogas and generation of energy, as mentioned in Note 8. In September 2017, the Board of Directors approved in its annual meeting an increase of 11% in the interest held in CS Bioenergia S.A, after approval from the proper agencies.

The Company was authorized by AGEPAR - *Agência Reguladora de Serviços Públicos Delegados de Infraestrutura do Paraná* (Delegated Public Infrastructure Utility Services Regulatory Agency of the State of Paraná), by means of Ratifying Resolution No. 003, of April 12, 2017, to apply a rate adjustment of 25.63%, as provided for in article 3:

“Article 3 – Determine that the application of the tariff revision approved according to article 2 of this Resolution shall be deferred for eight (8) years, with the first installment corresponding, in 2017, to an average adjustment of eight point fifty-three percent (8.53%), and the remaining installments to two point eleven percent (2.11%), plus the corresponding inflation adjustments according to the weighted average SELIC rate (Central Bank Overnight Rate), as provided for in Technical Note approved in article 1 of this Resolution.”

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

1. OPERATIONS - continued

In accordance with Technical Orientation OCPC 08 – Recognition of Certain Assets and Liabilities in Financial Reporting of Energy Distributors issued pursuant to Brazilian and International Accounting Standards, the Company does not record in its Financial Statements the amounts receivable resulting from deferral, considering that: (i) the realization or payment of these amounts depend of a future event not fully under the control of the entity – future billing of water and sewage services; (ii) it is not possible to know, when the receivables are generated, which are the debtors of these amounts; and (iii) the actual receipt of these amounts shall only occur if the concession is maintained. The estimated receivable resulting from the difference between the Required Revenue and the Verified Revenue shall be measured and disclosed during the whole deferral period, representing, up to the 3rd quarter of 2017, R\$ 219,232. This amount represents the best estimate as at September 30, 2017 and may change according to the Selic variation.

Additionally, on July 21, 2017, the Company filed an official letter with AGEPAR requesting the agency to define the rules for the regulatory bookkeeping, for evidencing financial assets and liabilities. On September 18, 2017 the additional information required by AGEPAR was sent.

2. PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Statement of Compliance

These financial statements are presented in conformity with Laws 6.404/76, 11.638/07 and 11.941/09 and were prepared in accordance with Brazilian Accounting Practices which include the Brazilian Corporate Law, the Pronouncements, Guidelines and Interpretations issued by CPC (Committee of Accounting Pronouncements) and also based on the standards and accounting procedures determined by CVM.

The original financial statements in Portuguese were authorized for disclosure by the Company's Management on October 31, 2017.

These translated financial statements are replacing the previous version issued as of October 31, 2017 because of certain translation corrections and certain lines items in the operating expenses of the statement of income, current and non-current assets and current and non-current liabilities have been expanded in comparison to the previous version of the report. These changes did not affect totals for current and non-current assets, current and non-current liabilities and neither the total of operating expenses in the statement of income compared to the previous version of these financial statements.

2.2. Measurement Basis

The financial statements were prepared considering historical cost as base value and financial assets measured at fair value.

2.3. Functional and Reporting Currency

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

All amounts presented in the financial statements, including the amounts in the notes, are stated in thousands of Brazilian Reais, which the Company's functional currency, unless otherwise stated.

3. MAIN ACCOUNTING PRACTICES

The main accounting practices used in the preparation of the Interim Financial Information for the quarter ended September 30, 2017 are consistent with the practices described in Note 3 of the Company's financial statements for the year ended December 31, 2016.

4. CASH AND CASH EQUIVALENTS

These have the following composition:

Description	09/30/2017	12/31/2016
Cash	-	-
Unrestricted bank deposits	185	2,988
Restricted bank deposits	16,823	24,687
	<u>17,008</u>	<u>27,675</u>
Financial investments		
Caixa FI Sanepar I Renda Fixa (1)	414,980	511,541
CDB Flex Empresarial (2)	103,969	99,114
	<u>518,949</u>	<u>610,655</u>
Total cash and cash equivalents	<u>535,957</u>	<u>638,330</u>

The financial investments are of short term type, with high liquidity and low risk of change in value. They consist of fixed income funds invested in Funds with average return at 99.78% of CDI (Interbank Deposit Rate) (100.18% in 2016) and CDBs (Bank Certificates of Deposit) of CAIXA (Federal Bank).

(1) The Investment Fund CAIXA FI SANEPAR I RENDA FIXA is exclusive for the Company's investments. As at 09/30/2017, 83/72% of the funds were allocated to NTN-B (National Treasury Notes) repurchase agreements, with option of immediate repurchase of the notes by the bank, 0.10% to government bonds (LFT - Zero coupon floating rate bills and LTN - Zero coupon fixed rate bills), and 16.18% to CDBs from top-tier financial institution (61.46%, 0.07% and 38.47%, respectively, in 2016);

(2) The CDB is issued by Caixa Econômica Federal at floating rate of 100.50% to 102.00% of CDI with high liquidity, according to the investment period contracted and elapsed.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

5. TRADE ACCOUNTS RECEIVABLES, NET

a) The balances of trade receivables break down per maturity as follows:

Description	09/30/2017	12/31/2016
Falling due accounts receivable	246,181	199,442
Accounts receivable from installment payments	51,676	37,151
Adjustment to present value	(2,936)	(3,408)
Accounts to be billed (Unbilled consumption)	156,494	160,852
	451,415	394,037
Overdue accounts receivable		
From 1 to 30 days	114,289	100,748
From 31 to 60 days	28,073	25,850
From 61 to 90 days	10,906	11,431
From 91 to 180 days	18,439	19,505
Over 180 days	168,608	165,268
Allowance for doubtful accounts	(164,309)	(146,336)
	176,006	176,466
Total accounts receivable, net	627,421	570,503
Current	614,697	559,797
Noncurrent	12,724	10,706

From the total of overdue accounts receivable, net of the allowance for doubtful accounts, R\$ 3,163 (R\$ 6,244 as at 12/31/2016) refers to outstanding amounts from municipal governments; R\$ 165,637 (R\$ 145,499 as at 12/31/2016) from private customers; R\$ 521 (R\$ 453 as at 12/31/2016) from the Federal government, and R\$ 6,685 (R\$ 24,270 as at 12/31/2016) from the State government.

b) Changes in the allowance for doubtful accounts were as follows:

Description	09/30/2017	12/31/2016
Balances at beginning of period	(146,336)	(125,395)
Amounts recorded as expenses	(19,242)	(21,775)
Write-offs, net of recoveries	1,269	834
Balances at end of period	(164,309)	(146,336)

c) The balance of the allowance for doubtful accounts breaks down as follows:

Description	09/30/2017	12/31/2016
Private customers	97,824	81,558
Federal government agencies	1	7
Municipal governments	66,484	64,771
Total	164,309	146,336

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

6. RECOVERABLE TAXES AND CONTRIBUTIONS

These have the following composition:

Description	09/30/2017	12/31/2016
Income tax to offset	796	29,219
Social contribution tax to offset	-	9,422
Withheld taxes and contributions – public agencies	1,194	1,140
Total	1,990	39,781
Current	1,194	39,021
Noncurrent	796	760

7. OTHER ACCOUNTS RECEIVABLE

These break down as follows:

Description	09/30/2017	12/31/2016
Advances to employees	36,381	3,739
Reimbursable payments	4,414	4,092
Guarantee deposits	2,112	1,888
<i>Fundo Municipal de Meio Ambiente</i> (Municipal Fund for the Environment)	43,586	44,462
Prepaid expenses	4,664	12,105
Bonds and other receivables	11,523	935
Total	102,680	67,221
Current	59,384	23,526
Noncurrent	43,296	43,695

8. INVESTMENTS

Description	09/30/2017	12/31/2016
Jointly controlled investment - CS Bioenergia S.A.	19,235	9,466
Investment recognized at cost method	522	522
Investment recognized at fair value	112	2,415
Total	19,869	12,403

Investments in joint venture

The Company holds 40% interest in CS Bioenergia S.A. referring to a capital contribution of R\$ 25,858. The Company's interest is accounted for under the equity method in the investee's financial statements, which are summarized below:

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

8. INVESTMENTS - continued

Statement of financial position – CS Bioenergia S.A.	09/30/2017	12/31/2016
Current assets	2,172	1,139
Noncurrent assets	60,570	59,858
• Fixed assets	40,757	39,831
• Finance lease	19,810	20,026
• Others	3	1
Total Assets	62,742	60,997
Current liabilities	1,848	37,334
• Loans, financing and finance lease	910	37,334
• Others	938	-
Noncurrent liabilities	12,806	-
Equity	48,088	23,663
Total Liabilities	62,742	60,997

Statement of operations – CS Bioenergia S.A.	09/30/2017	12/31/2016
Revenue	631	-
(-) Operating expenses	(3,556)	(2,701)
Financial income (loss)	(544)	(5,693)
Income (loss) before taxes	(3,469)	(8,394)
IRPJ (Corporate Income Tax) and CSLL (Social Contribution Tax)	-	-
Loss for the period	(3,469)	(8,394)

Changes in the investment in the period are as follows:

Description	09/30/2017	12/31/2016
Balance at beginning of period	9,466	5,287
Capital contribution	11,157	7,540
Equity in earnings (losses) of controlled company (percentage of interest 40%)	(1,388)	(3,361)
Balance at end of period	19,235	9,466

Other investments

The Company maintains several investments over which it exercises no significant influence, assessed and recorded by the cost method and for a total of R\$ 522 (R\$ 522 as at 12/31/2016).

The Company has investments in FINAM (Fund of Investment in Amazônia) resulting from the investment of the Tax Incentive from the Income Tax for the amount of R\$ 2,201, which brought the fair value considering the price for 09/30/2017 equivalent to R\$ 112.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

9. FIXED AND INTANGIBLE ASSETS

a) Fixed assets

These have the following composition:

By lines			09/30/2017	12/31/2016
Description	Cost	Accumulated depreciation	Net Amount	
Administration	240,146	(108,678)	131,468	130,449
Other fixed assets	8,181	(6,615)	1,566	819
Total	248,327	(115,293)	133,034	131,268

By nature			09/30/2017	12/31/2016
Description	Annual depreciation rate	Cost	Accumulated depreciation	Net Amount
Plots of land	-	2,309	-	2,309
Civil construction	*1.84%	68,765	(14,721)	54,044
Improvements	2%	1,788	(648)	1,166
Facilities	*5.83%	3,684	(2,080)	1,604
Equipment	*6.23%	49,646	(20,509)	29,137
Furniture and fixtures	7.14%	37,891	(18,025)	19,866
IT equipment	*19.82%	34,750	(23,630)	11,120
Vehicles	*13.05%	30,740	(20,383)	10,357
Machinery, tractors and similar	*19.35%	18,187	(14,972)	3,215
Tools	6.67%	567	(325)	242
Total		248,327	(115,293)	133,034

* Weighted average rate

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

b) Intangible assets

These have the following composition:

By lines			09/30/2017	12/31/2016
Description	Cost	Accumulated amortization	Net Amount	
Water mains	4,142,152	(1,362,127)	2,780,025	2,731,814
Sewage mains	4,535,394	(932,961)	3,602,433	3,323,219
Solid waste	3,730	(1,943)	1,787	-
System Use and Operation Rights	125,091	(66,063)	59,028	62,153
Other intangible assets	91,456	(55,356)	36,100	32,924
Projects and Works in Progress	1,033,586	-	1,033,586	1,000,861
Inventory for Construction Work	45,038	-	45,038	48,422
Total	9,976,447	(2,418,450)	7,557,997	7,199,393

9. FIXED AND INTANGIBLE ASSETS-- continuation

b) Intangible assets -- continuation

By nature			09/30/2017	12/31/2016
Description	Annual amortization rate	Cost	Accumulated amortization	Net Amount
Plots of land	-	134,789	-	134,789
Wells	*3.10%	128,267	(34,528)	93,739
Dams	*2.67%	144,559	(51,399)	93,160
Civil construction	*2.59%	1,955,924	(436,015)	1,519,909
Improvements	*2.67%	20,172	(2,332)	17,840
Piping	*2.64%	4,711,466	(1,099,269)	3,612,197
Building connections	3.33%	634,483	(203,758)	430,725
Facilities	*5.83%	147,009	(43,927)	103,082
Hydrometers	10%	173,226	(70,987)	102,239
Macro-meters	10%	5,502	(3,397)	2,105
Equipment	*6.23%	520,686	(243,683)	277,003
Furniture and fixtures	7.14%	5,033	(3,208)	1,825
IT equipment	*19.82%	88,394	(80,510)	7,884
Computer programs	20%	46,259	(35,881)	10,378
Vehicles	*13.05%	17,561	(13,645)	3,916
Machinery, Tractors and similar	*19.35%	16,676	(14,628)	2,048
Tools	6.67%	286	(181)	105
Rights of Use of Transmission Lines	6.25%	156	(126)	30

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

Environmental protection and preservation	20%	22,284	(14,913)	7,371	8,844
Concession of the Mun. of Curitiba (1)	3.33%	125,000	(65,972)	59,028	62,153
Concession of the Mun. of Cianorte (2)	5%	91	(91)	-	-
Projects and Works in Progress	-	1,033,586	-	1,033,586	1,000,861
Inventory for Construction Work	-	45,038	-	45,038	48,422
Total		9,976,447	(2,418,450)	7,557,997	7,199,393

* Weighted average rate

- (1) It refers to the cost of the concession agreement in return for payment. It is effective for 30 years and its amortization rate is an integral part of the costs incurred with the sanitation services rendered to the municipality of Curitiba, as mentioned in Note 12.
- (2) Cost of the concession agreement with the Municipality of Cianorte to provide public utility services of collection, treatment and final disposition of solid waste for a period of 20 years.

The balance of line “Projects and Works in progress” as at September 30, 2017, is in reference to 129 (144 as at 12/31/2016) works in expansion and implementation of Water Supply Systems in 96 (109 as at 12/31/2016) localities, for the amount of R\$383,326 (R\$295,787 as at 12/31/2016); 95 (161 as at 12/31/2016) works in connection with Sewage Collection and Treatment Systems in 69 (99 as at 12/31/2016) localities, for the amount of R\$492,047 (R\$ 569,947 as at 12/31/2016), as well as R\$158,213 (R\$ 135,127 as at 12/31/2016) in investments in different operational projects and works in the systems operated by the Company.

b) Intangible assets -- continuation

Up to the quarter ended September 30, 2017 interest and other financial charges incurred on resources and loans funding Company projects and works were capitalized, for the amount of R\$37,713 (R\$34,623 for the same period of 2016). The average rate applied in determining cost amounts for loans subject to capitalization was of 17.8%.

Finance lease the Company has Asset Lease contracts evaluated at R\$ 199.3 million preceded by the concession of effective use rights for the areas and the execution of the works required for expansion of the sewage system in the municipalities of Matinhos and Pontal do Paraná, for a term of two hundred and forty (240) months, with payback starting in February 2017. The asset subject of this Finance Lease are built and will be delivered by the lease holder in four stages, with intervals of one (1) year between them. At the end of August 2017, 47% of the object of said contracts were concluded and delivered, equivalent to the delivery of the first and second stages of the contract (49% of physical object). The obligations stemming from this contract will be shown in Note 11.

As at September 30, 2017, the book value for each class of asset under the Finance Lease commitment is entered in the Intangible Asset line and shown below:

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

By lines			09/30/2017	12/31/2016
Description	Cost	Accumulated amortization	Net Amount	
Buildings	25,234	(197)	25,037	11,390
Piping	60,547	(558)	59,989	26,647
Building connections	3,920	(62)	3,858	1,815
Facilities	208	(7)	201	94
Equipment	3,710	(87)	3,623	1,090
Total	93,619	(911)	92,708	41,036

9. FIXED AND INTANGIBLE ASSETS-- continuation

c) Changes to fixed and Intangible assets in the 3rd Quarter 2017:

Description	12/31/2016	Additions	Depreciation and amortization	Write-offs and losses	Transfers	09/30/2017
Fixed assets						
Plots of land	2,309	-	-	-	-	2,309
Civil construction	54,241	30	(1,004)	-	777	54,044
Improvements	1,166	-	(26)	-	-	1,140
Facilities	1,722	3	(116)	-	(5)	1,604
Equipment	24,626	5,431	(1,822)	33	869	29,137
Furniture and fixtures	19,554	1,685	(1,424)	5	46	19,866
IT equipment	13,101	235	(2,279)	6	57	11,120
Vehicles	8,683	2,669	(983)	3	(15)	10,357
Machinery, tractors and similar	5,629	11	(2,426)	-	1	3,215
Tools	237	18	(13)	-	-	242
Total fixed assets	131,268	10,082	(10,093)	47	1,730	133,034
Intangible assets						
Plots of land	113,041	5,668	-	-	16,080	134,789
Wells	89,045	179	(1,301)	12	5,804	93,739
Dams	93,351	15	(1,903)	-	1,697	93,160
Civil construction	1,387,226	15,988	(28,800)	140	145,355	1,519,909
Improvements	16,072	85	(353)	9	2,027	17,840
Piping	3,480,386	44,944	(76,016)	1	162,882	3,612,197
Building connections	414,824	2,300	(13,869)	(211)	27,681	430,725
Facilities	99,680	503	(6,522)	85	9,336	103,082
Hydrometers	100,813	-	(11,720)	(1,099)	14,245	102,239
Macro-meters	1,939	-	(265)	-	431	2,105
Equipment	254,223	14,414	(16,939)	(1,425)	26,730	277,003
Furniture and fixtures	1,888	96	(139)	4	(24)	1,825
IT equipment	8,712	15	(869)	2	24	7,884
Computer programs	10,372	2,915	(2,909)	-	-	10,378
Vehicles	4,352	5	(456)	-	15	3,916
Machinery, tractors and similar	3,052	-	(1,004)	-	-	2,048
Tools	103	11	(9)	-	-	105
Rights of Use of Transmission Lines	34	-	(4)	-	-	30
Environmental protection and preservation	8,844	414	(1,910)	25	(2)	7,371
Concession of the Mun. of Curitiba	62,153	-	(3,125)	-	-	59,028
Concession of the Mun. of Cianorte	-	-	(5)	5	-	-
Subtotal intangible assets	6,150,110	87,552	(168,118)	(2,452)	412,281	6,479,373
Projects and Works in Progress	1,000,861	466,984	-	252	(434,511)	1,033,586
Inventories for Construction Work	48,422	(3,385)	-	-	1	45,038

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

Total intangible assets	<u>7,199,393</u>	<u>551,151</u>	<u>(168,118)</u>	<u>(2,200)</u>	<u>(22,229)</u>	<u>7,557,997</u>
Grand total	<u>7,330,661</u>	<u>561,233</u>	<u>(178,211)</u>	<u>(2,153)</u>	<u>(a) (20,499)</u>	<u>7,691,031</u>

(a) Amount transferred to the Contractual Financial Assets line with reference to the expected residual amount receivable by the end of the program contracts, net of present value adjustment.

10. CONTRACTUAL FINANCIAL ASSETS

Changes in financial assets are as follows:

Description	12/31/2016	Additions	PVA revenue	PVA expense	09/30/2017
Investment Not Amortized	480,131	55,487	-	-	535,618
Present Value Adjustment (PVA)	(307,750)	(34,988)	5,333	(2)	(337,407)
Total	172,381	20,499	5,333	(2)	198,211

The equivalent discount rate applied to calculate the present value adjustment was 3.8% (spread between the IPCA projected for the period and the Company's WACC rate) and took into account Program Contracts with terms of 23 to 30 years.

11. LOANS, FINANCING, DEBENTURES AND FINANCE LEASE

a) Composition of loans, financing, debentures and finance lease is as follows:

Description	Effective Annual Interest Rate	Index	09/30/2017			12/31/2016		
			Current	Noncurrent	Total	Current	Noncurrent	Total
Debentures 6th Issuance - 1st series	1.28%	DI	80,715	-	80,715	3,566	79,803	83,369
Debentures 6th Issuance - 2nd series	1.32%	DI	1,689	169,623	171,312	7,822	169,315	177,137
Debentures 5th Issuance - 1st series	0.98%	DI	-	-	-	111,886	-	111,886
Debentures 5th Issuance - 2nd series	1.06%	DI	194,418	-	194,418	1,225	188,819	190,044
Debentures 3rd Issuance - 1st series	1.10%	DI	71,875	66,689	138,564	68,997	66,690	135,687
Debentures 3rd Issuance - 2nd series	6.99%	IPCA	3,451	129,622	133,073	1,130	127,166	128,296
BNDES	1.82% and 2.50%	TJLP	32,000	62,044	94,044	34,393	92,168	126,561
Banco do Brasil - PSI	3.00% to 6.00%	-	3,400	16,602	20,002	3,406	19,129	22,535
Debentures 2nd Issuance - 1st series	1.92%	TJLP	12,337	72,413	84,750	12,284	80,788	93,072
Debentures 2nd Issuance - 2nd series	9.20%	IPCA	17,788	103,929	121,717	20,551	118,953	139,504
Debentures 2nd Issuance - 3rd series	1.92%	TJLP	16,450	96,550	113,000	16,378	107,718	124,096
Banco Itaú - PSI	3.00% to 6.00%	-	3,587	19,554	23,141	3,595	22,211	25,806
Debentures 4th Issuance - 1st series	1.67%	TJLP	18,497	158,564	177,061	10,162	170,597	180,759
Debentures 4th Issuance - 2nd series	7.44%	IPCA	8,658	74,183	82,841	4,680	78,955	83,635
BNDES - PAC2	1.76% and 2.05%	TJLP	21,265	173,579	194,844	17,934	160,215	178,149
Finance lease	12.40%	IPC - FIPE	1,860	106,042	107,902	562	40,546	41,108
Caixa Econômica Federal	6.62% to 12.68%	TR (Reference Rate)	65,242	832,707	897,949	60,592	809,838	870,430
Balances at end of period			553,232	2,082,101	2,635,333	379,163	2,332,911	2,712,074
Loans and financing			125,494	1,104,486	1,229,980	119,920	1,103,561	1,223,481
Debentures			425,878	871,573	1,297,451	258,681	1,188,804	1,447,485
Finance lease			1,860	106,042	107,902	562	40,546	41,108

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

11. LOANS, FINANCING, DEBENTURES AND FINANCE LEASE -- continuation

b) Description of loans, financing, debentures and finance lease:

Description	Period of Issuance	Final maturity	Amount Contracted	Number of Debentures	Payments	
					Amortization	Interest
Debentures 6th Issuance - 1st series (1)	2016	2018	80,000	8,000	2018	Six-monthly
Debentures 6th Issuance - 2nd series (1)	2016	2019	170,000	17,000	2019	Six-monthly
Debentures 5th Issuance - 1st series (2)	2015	2017	111,160	11,116	2017	Six-monthly
Debentures 5th Issuance - 2 nd series (2)	2015	2018	188,840	18,884	2018	Six-monthly
Debentures 3rd Issuance - 1st series (3)	2013	2018	199,670	19,967	2016/2017/2018	Six-monthly
Debentures 3rd Issuance - 2nd series (3)	2013	2020	100,330	10,033	2019/2020	Six-monthly
BNDES - 3 Contracts (4)	2007	2023	295,967	-	Monthly	Quarterly during grace period and monthly at amortization
Banco do Brasil - PSI - 11 Contracts (5)	2013 to 2014	2024	30,793	-	Monthly	Quarterly during grace period and monthly at amortization
Debentures 2nd Issuance - 1 st and 3rd series (9)	2011	2024	276,609	7,000	Monthly	Quarterly during grace period and monthly at amortization
Debentures 2nd Issuance - 2nd series (9)	2011	2024	118,547	3,000	Annual	Annual
Banco Itaú - PSI - 13 Contracts (6)	2013 to 2014	2025	33,175	-	Monthly	Quarterly during grace period and monthly at amortization
Debentures 4th Issuance - 1st series (10)	2014	2027	230,012	7,000	Monthly	Quarterly during grace period and monthly at amortization
Debentures 4th Issuance - 2nd series (10)	2014	2027	98,576	3,000	Monthly	Quarterly during grace period and monthly at amortization
BNDES - PAC2 - 4 Contracts (7)	2011 to 2013	2028	395,902	-	Monthly	Quarterly during grace period and monthly at amortization
Finance lease (11)	2013	2036	460,592	-	Monthly	Monthly
Caixa Econômica Federal - 224 Contracts (8)	1991 to 2017	2041	1,558,903	-	Monthly	Monthly

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

11. LOANS, FINANCING, DEBENTURES AND FINANCE LEASE -- continuation

Description of loans, financing, debentures and finance lease -- continuation

- (1) Debentures 6th Issuance – issued on 08/15/2016 and with placement on 09/05/2016 of 25,000 debentures in the amount of R\$ 250,000. These debentures are simple type, not convertible into shares, unsecured, in two series, for public distribution, intended to complement the investment plan and working capital.
- (2) Debentures 5th Issuance – issued on 06/15/2015 and with placement on 06/25/2015 of 30,000 debentures in the amount of R\$ 300,000. These debentures are simple type, not convertible into shares, unsecured, in two series, for public distribution, to complement the investment plan and working capital. The full payments of amortization of 2nd series corresponding to 11,116 debentures, as well as the due interest were made on 06/16/2017.
- (3) Debentures 3rd Issuance – issued on 11/15/2013 and with placement on 11/27/2013 of 30,000 debentures in the amount of R\$ 300,000. These debentures are of the simple type, not convertible into shares, unsecured, in two series, for public distribution, intended for repayment of debt and working capital.
- (4) BNDES loans, used to drill wells in the Guarani aquifer and the operation, expansion, and optimization of water supply and sanitation systems in several municipalities in the State of Paraná. These loans are guaranteed by the Company's own revenue and the escrow accounts, maintained at Caixa Econômica Federal, with balance not less than 3 maturing installments, recorded in restricted deposits in non-current assets.
- (5) Banco do Brasil loans - PSI, with resources of BNDES - FINAME for the acquisition of machinery and equipment for various municipalities in the State of Parana. This financing is guaranteed by a pledge of receivables, falling due within 180 days and since it does not exceed the final maturity of the contract, covering 100% of the outstanding balance of the debt.
- (6) Banco Itaú loans - PSI, with resources of BNDES - FINAME, intended for the acquisition of machinery and equipment for various municipalities in the State of Parana. This financing is guaranteed by the Company's own revenues.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

11. LOANS, FINANCING, DEBENTURES AND FINANCE LEASE -- continuation

Description of loans, financing, debentures and finance lease -- continuation

- (7) BNDES loans - PAC 2, with resources of the Fundo de Amparo ao Trabalhador to expand the water supply system, and the implementation and expansion of the sanitary sewage system in several municipalities in the State of Parana. These financing are guaranteed by the Company's own revenue and escrow accounts, maintained at Caixa Econômica Federal, with balance not less than 03 maturing instalments. By the end the 3rd quarter, the amount of R\$ 29,122 was released.
- (8) Caixa Econômica Federal loans, with resources from the FGTS, intended to increase and improve the coverage of water supply and sanitation systems for several cities in the State of Parana, as well as institutional development with operational improvement programs and reduction of losses. These loans, have an interest rate of 1.00% to 2.00% a year and spreads of 0.30% to 1.70% a year, and they are partly guaranteed by the water supply system of Curitiba, in the form of industrial pledge and the Company's revenues. An escrow account is maintained at Caixa throughout the term of the financing contracts, equivalent to a monthly charge. By the end of the 3rd quarter there was a release in the amount of R\$ 66,102.
- (9) Debentures 2nd Issue - Based on the exclusive underwriting between Sanepar, BNDES and BNDESPAR, they were issued on 08/15/2011 in 3 series with a nominal unit value of R\$ 39,515.53, with the first two series with 3,000 debentures each, and 4,000 debentures in the 3rd series, totaling 10,000 debentures for the total amount of R\$ 395,155. These debentures are simple type, not convertible into shares, with collateral for private distribution.
- (10) Debentures 4th Issuance – Through exclusive underwriting between Sanepar, BNDES and BNDESPAR, were issued on 07/15/2014 for placement in two series, with a nominal value of R\$ 32,858.80, with the first series of 7,000 debentures and the second series of 3,000 debentures, totaling 10,000 debentures amounting to R\$ 328,588. These debentures are simple type and registered, not convertible into shares, with collateral for private distribution.
- (11) Finance Lease – contracted for the amount of R\$ 460,592 with Monthly Lease Amount (VML) of R\$ 2,075, to be amortized in four steps: 1st Step: twelve installments of 21.1% of VML, started in February 2017; 2nd Step: twelve installments of 49.3% of VML; 3rd Step: twelve installments of 79.5% of VML and 4th Step: two-hundred and four installments of 100% of VML. By the third quarter 2017, R\$4,625 had been amortized.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

11. LOANS, FINANCING, DEBENTURES AND FINANCE LEASE -- continuation

c) Changes in loans, financing, debentures and Finance Lease were:

Description	09/30/2017		12/31/2016	
	Current	Non-Current	Current	Non-Current
Balances at beginning of period	379,163	2,332,911	230,660	2,105,348
Releases	-	95,224	-	494,178
Interest and fines	179,368	-	238,666	-
Monetary Variations	-	31,710	-	50,055
Transfers	430,818	(430,818)	356,452	(356,452)
Amortization	(436,177)	-	(446,496)	-
Costs of funds raised with third parties	60	563	(681)	(764)
Delivery of Finance Lease	-	52,511	562	40,546
Balances at end of period	553,232	2,082,101	379,163	2,332,911

d) The amortization timeline is as follows:

Description	2017	2018	2019	2020	2021	2022	2023 to 2038	Total
Debentures 2nd Issue	8,134	45,482	45,482	45,482	45,482	45,482	83,923	319,467
Debentures 3rd Issue	75,326	66,690	64,811	64,810	-	-	-	271,637
Debentures 4th Issue	7,393	26,350	26,350	26,350	26,350	26,350	120,759	259,902
Debentures 5th Issue	5,598	188,820	-	-	-	-	-	194,418
Debentures 6th Issue	2,909	79,392	169,726	-	-	-	-	252,027
Subtotal Debentures	99,360	406,734	306,369	136,642	71,832	71,832	204,682	1,297,451
BNDES	8,231	31,691	30,789	7,567	7,567	7,567	632	94,044
BNDES – PAC2	5,779	20,648	20,648	20,648	20,648	18,200	88,273	194,844
Banco do Brasil – PSI	873	3,369	3,369	3,369	3,369	3,369	2,284	20,002
Banco Itaú – PSI	930	3,542	3,542	3,542	3,542	3,542	4,501	23,141
Caixa Econômica Federal	17,056	64,977	71,039	74,176	64,714	54,837	551,150	897,949
Subtotal loans and financing	32,869	124,227	129,387	109,302	99,840	87,515	646,840	1,229,980
Lease	800	1,622	1,823	2,048	2,302	2,586	96,721	107,902
Total	133,029	532,583	437,579	247,992	173,974	161,933	948,243	2,635,333

As at September 30, 2017, present value of minimum future financial obligations in reference to Finance Lease is shown below:

Description	09/30/2017		12/31/2016	
	Minimum Future Payments	Finance charges	Present Value of Minimum Future Payments	Present Value of Minimum Future Payments
Less than one year	14,625	(12,497)	2,128	562
Later than one year and not later than 5 years	70,440	(59,002)	11,438	3,019
Over 5 years	185,505	(91,169)	94,336	37,527
Total	270,570	(162,668)	107,902	41,108

Discount rate applied was of 11.5%.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

11. LOANS, FINANCING, DEBENTURES AND FINANCE LEASE -- continuation

e) Restrictive Contractual Clauses – *Covenants*

Covenants and restrictive clauses linked to the loans, financing and debentures are shown below:

(i) *Covenants in BNDES contracts and 2nd and 4th Issuance of Debentures*

<u>Index</u>	<u>Limit</u>	<u>Range</u>
EBITDA Debt Service	Equal to or higher than 1.5	Less than 1.5 and equal to or higher than 1.2
Net Bank Debt/ EBITDA	Equal to or under 3.0	Equal to or under 3.8 or higher than 3.0
Other Onerous Debt/ EBITDA	Equal to or under 1.0	Equal to or under 1.3 or higher than 1.0

(ii) *Contract Covenants for the 3rd, 5th and 6th Debenture Issuances*

<u>Index</u>	<u>Limit</u>
Net Bank Debt / adjusted EBITDA	Equal to or under 3.0
Adjusted EBITDA /Net Financial Expenses	Equal to or higher than 1.5

For BNDES contracts and the 2nd and 4th Issuance of Debentures, the Company shall maintain throughout the term of the financing agreements the limit ratios, calculated on a quarterly basis and related to cumulative values for the past 12 months.

In case one or more of the Company covenants should exhibit for a minimum of two (02) quarters, consecutive or not, within 12 months, ratios within the range mentioned above, the monthly amount for the installment of the transferred rights granted in escrow in the terms of the clause “Fiduciary Assignment of Rights” for each of the contracts will be automatically increased by twenty percent (20%).

For contracts in item (ii), of the 3rd, 5th and 6th issuances of simple debentures, not convertible into shares, the type species, considering that it does not confer any special or general privilege to the holders, the Company must maintain the ratios mentioned above throughout the period and until the final maturity.

As at September 30, 2017, the Company is fully compliant with the restrictive clauses stipulated for the issuance of debentures and BNDES financing operations.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

12. CONCESSION AGREEMENT

The Company has an onerous concession contract for the operation of the public utility services of water supply and collection, removal and treatment of sewage with the Municipality of Curitiba, with a 30-year term, signed on December 06, 2001. Based on this contract, the amount to be paid for the concession was fixed, for a total of R\$ 125,000, owed in separate installments during the contract period, adjusted based on the IPCA by IBGE. Balance as at September 30, 2017 is of R\$ 92,823 (R\$ 96,926 as at 12/31/2016), of which R\$ 7,662 (R\$ 7,501 as at 12/31/2016) entered in current liabilities and R\$ 85,161 (R\$ 89,425 as at 12/31/2016) in non-current liabilities.

Maturity of the debts is as follows:

<u>Maturity years</u>	<u>Balance payable</u>
2017	1,874
2018	7,629
2019	7,629
2020	7,629
2021	7,629
2022 to 2031	60,433
Total	92,823

13. TAXES AND CONTRIBUTIONS

The composition is as follows:

<u>Description</u>	<u>09/30/2017</u>	<u>12/31/2016</u>
Income tax payable	41,919	-
Social Contribution Tax payable	15,749	-
COFINS (tax on sales) payable	21,495	20,237
Social Integration Program (PASEP) payable	4,657	4,378
COFINS - installment payment (1)	4,079	4,079
Property tax (IPTU) - installment payment (2)	1,714	1,749
Taxes and Contributions Retained at Source	8,874	34,228
Total taxes and contributions	98,487	64,671
Current	97,159	63,260
Noncurrent	1,328	1,411

- (1) Refers to installments of COFINS fine for the period September/1994 to September/1996 in accordance with Law No. 11.941/2009. The debt was divided into 60 monthly installments, restated at SELIC interest rate by the Attorney General of the National Treasury, being settled on October 31, 2014. The Company filed a writ of mandamus before the 2nd Curitiba Justice Court on 06/28/2011, challenging the consolidated amount of debt alleged by the Attorney General National Treasury, obtaining an injunction on 06/29/2011 to reduce the debt amount. The process was judged on 06/12/2011 favorable to the Company. The Attorney General of the National Treasury filed an appeal on

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

02/07/2012, which was judged and denied. On August 27, 2014, the Federal Prosecutor's Office expressed the Union's special appeal dismissal. On October 13, 2014, the special feature was the conclusion of Minister Marga Tesler the first Supreme Court Panel, which in view of the completion of the call, the case was returned without order for new distribution the successor of the Minister. On 06/08/2015 the case was reallocated to the Minister Olindo Herculano de Menezes. On 03/02/2016 the case was reallocated to the Minister Gurgel de Faria.

- (2) This amount is in reference to IPTU (Urban Property Tax) by the City of Curitiba, relevant to the legal expropriation of property subject to an area occupied by ETE CIC/Shale, for the period 2002-2013, encompassing interest, and monetary indexed and legal fees of 10% on the total amount of debt. The amount of debt of R\$ 1,664, was divided by the Company in 90 monthly installments restated by the IPCA, plus moratorium interest of 1% per month, and until 09/30/2017, 37 installments had been paid for the amount of R\$ 923.

14. UNEARNED REVENUE

On January 23, 2017, the Company renewed the session contract for operation of financial services with Caixa Econômica Federal for a sixty-month term (sixty), starting in March/2017, for the amount of R\$ 21,000. Revenues corresponding to this contract are recognized on a monthly basis, for the term of the contract, on the accrual basis. The amount recognized in the results for the third quarter 2017 was of R\$ 2,992 (R\$ 1,625 for the same period in 2016). The balance as at September 30, 2017 was of R\$ 18,550 (R\$ 542 as at 12/31/2016), with R\$ 4,200 (R\$ 542 as at 12/31/2016) entered in current liability and R\$ 14,350 in non-current liabilities.

15. OTHER ACCOUNTS PAYABLE

The composition is as follows:

Description	09/30/2017	12/31/2016
Programs Linked to Agência Nacional de Águas - ANA	7,899	7,409
Contracts and Agreements with third parties	9,421	12,224
Agreements with municipal administrations	12,391	11,338
Collaterals and amounts reimbursable	9,881	6,701
Agreement with Instituto Ambiental do Paraná - IAP (1)	2,160	3,780
Total	41,752	41,452
Current	36,486	36,513
Noncurrent	5,266	4,939

- (1) In reference with the term of commitment signed on June 3, 2016 for establishing and installment plan to pay fines issued by the Instituto Ambiental do Paraná - IAP, for the 41 Environmental Violation Notifications – AIA. The agreement was signed for the amount of R\$ 4,320 payable in 24 installments of R\$ 180, and by 09/30/2017 had been paid in 12 installments for the amount of R\$ 2,160.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

16. PROVISIONS, CONTINGENT LIABILITIES AND COURT DEPOSITS

a) Provisions

The Company books provisions for civil, labor, tax and environmental claims classified as probable losses, with the following changes:

Nature	12/31/2016	Additions	Reversals	09/30/2017
Labor claims	184,236	72,162	(34,207)	222,191
Civil claims	196,994	81,684	(54,270)	224,408
Environmental claims	113,228	5,307	(19,976)	98,559
Tax claims	12,118	55	(14)	12,159
Total	506,576	159,208	(108,467)	557,317

Labor

Labor claims are mostly related to claims filed by former employees of the company and providers (joint responsibility), who vindicate salary differences and labor charges. The main suits involving the Company are in relation to: i) premium for unhealthy work when calculating overtime; ii) premium for dangerous work at the level of 30%; iii) divisor of overtime by 200.

Civil

Civil proceedings are related to requests for compensation of customers and suppliers, and third-party damages. The main suits involving the Company are in relation to: i) request of annulment of concession contract of the municipality of Maringá; ii) indemnity referring to contracts of construction work due to economic and financial instabilities and iii) other proceedings arising from indemnity referring to contract suspension, traffic accident, material damages, loss of profits, among others.

In May 2017 the Civil Court of TJ-PR issued a decision on the Incident of Resolution of Repetitive Claims, determining the immediate suspension of all claims being judged in the Special Civil Claims Court of the County of Maringá and Appeal Courts of the Special Civil Claims Court of the State of Paraná, in connection with indemnity requests for moral damages due to shortage of water in the municipality of Maringá. In 2017, provisions for R\$ 66,177 were entered with consequent reversal of R\$ 39,213, resulting in a net provision of R\$ 26,964.

Environmental

Environmental claims are in connection with violation notices issued by different environmental agencies, mainly for: i) damages to the environment and leaks/extra leakage of sewage collection systems, and discharge of effluents of sewage treatment plants not compliant with parameters required by legislation; ii) installation and operation of water and sewage treatment plants without environmental license.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

16. PROVISIONS, CONTINGENT LIABILITIES AND COURT DEPOSITS – continuation

a) Provisions -- continuation

Tax

Tax proceedings are mainly in relation to queries connected to collection of ISSQN (Tax over Services of Any Nature) due to divergent interpretations of the law. The main claims with which the Company is involved include the municipalities of Piraquara, Paranavai, Campo Mourão and Porecatu.

b) Contingent liabilities

The Company, given the nature of the claim proceedings in which it is involved and supported by the opinion of its legal advisors, discloses its contingent liabilities that are expected to incur possible losses. For these actions, no provisions were made for possible losses, as established by CPC 25 of the Accounting Pronouncement Committee.

The position of contingent liabilities with possible loss for civil, environmental and tax claims, is as follows:

Nature	Contingent liabilities	
	09/30/2017	12/31/2016
Civil claims	189,090	143,176
Environmental claims	311,244	252,819
Tax claims	14,615	8,328
Total	514,949	404,323

Civil

Civil proceedings are related to requests for compensation of customers and suppliers, and third-party damages. The main suits involving the Company are in relation to: i) request of annulment of concession contract of the municipality of Maringá; ii) indemnity referring to contracts of construction work due to economic and financial instabilities and iii) other proceedings arising from indemnity referring to traffic accident, material damages, loss of profits, among others.

Environmental

Environmental claims are in connection with violation notices issued by different environmental agencies, mainly for: i) damages to the environment and leaks/extra leakage of sewage collection systems, and discharge of effluents of sewage treatment plants not compliant with parameters required by legislation; ii) installation and operation of water and sewage treatment plants without environmental license.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

16. PROVISIONS, CONTINGENT LIABILITIES AND COURT DEPOSITS – continuation

b) Contingent liabilities -- continuation

Tax

Tax proceedings are mostly related to queries connected to tax collection due to divergent interpretations of the law. The main suits involving the Company are in relation to: i) fiscal execution for ISSQN collection (Tax on Services of Any Nature) and; ii) fiscal execution for IPTU collection (Urban Property Tax).

c) Court deposits

The Company has made court deposits that will only be recovered in case of a favorable sentence for the Company.

The breakdown is as follows:

Nature	Court deposits	
	09/30/2017	12/31/2016
Labor claims	111,538	91,216
Civil claims	55,579	57,259
Environmental claims	6,013	2,981
Tax claims	8,797	4,986
Total	181,927	156,442

17. INCOME AND SOCIAL CONTRIBUTION TAXES

a) Reconciliation of Income Tax and Social Contribution Expenses Recorded in the Statements of Income

Description	09/30/2017		09/30/2016	
	Income tax	Social Contribution Tax	Income tax	Social Contribution Tax
Income before Income and Social Contribution Taxes	721,733	721,733	628.858	628.858
Income and social contribution taxes - current rate	(180,433)	(64,956)	(157.215)	(56.597)
Interest Deductibility Benefit on Interest on Equity Capital	39,877	14,356	35.827	12.898
Subventions and Donations Received from Public Agencies (1)	116	42	44	15
Adjustment to Present Value for Accounts Receivable (1)	118	42	(116)	(42)
Workers' Meal Program – PAT (2)	6,539	-	5.290	-
Corporate Citizen Incentive (3)	520	-	296	-
Equity in earnings (losses) of controlled companies	(347)	(125)	(564)	(203)
Finance Lease	(3,571)	(1,285)	-	-
Others	(424)	(222)	(389)	(182)
Total expenses	(137,605)	(52,148)	(116.827)	(44.111)
Total Income and Social Contribution taxes		(189,753)		(160,938)
Effective rate		26.3%		25.6%

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

- (1) According to Law no. 11.941, of 05/27/2009;
- (2) According to Law no. 6.321, of 04/14/1976;
- (3) According to Decree 7.052, of December 23, 2009, regulating Law no. 11.770, of 09/09/2008.

b) Current and deferred income and social contribution taxes

The composition of these items for the period is as follows:

Description	09/30/2017	09/30/2016
Income tax	(162,781)	(131,847)
Social Contribution Tax	(60,866)	(49,171)
Realization of Deferred Income Tax	25,176	15,020
Realization of Deferred Social Contribution	8,718	5,060
Total	(189,753)	(160,938)

Possible tax impacts for the recognition of actuarial gains and losses in Net Equity are disclosed in the statement of Comprehensive Income.

c) Deferred Income and Social Contribution taxes

The composition of the basis for deferred income tax and social contribution on assets and liabilities for future realization is as follows:

Description	Estimated Realization Term	Calculatio n basis	09/30/2017 12/31/2016			
			Income tax	Social contribution	Total	Total
ASSETS						
PVA on Contractual Financial Assets	30 years	337,407	84,352	30,367	114,719	104,635
Pension and Health Plans	15 years	877,092	219,273	78,938	298,211	270,615
Reduction of Recovery Value for Assets	10 years	11,938	2,984	1,074	4,058	4,258
Civil, Labor, Tax and Environmental Provisions	5 years	557,317	139,329	50,159	189,488	172,236
Provision for Losses in Realizing Credits	3 years	46,839	11,710	4,215	15,925	15,912
Provision for PPR	1 year					12,647
PAI – Encouraged Retirement Program	2 years	41,474	10,369	3,733	14,102	-
AVJ – Investment FINAM	1 year	2,089	522	188	710	-
Total			468,539	168,674	637,213	580,303
LIABILITIES						
PVA on Contractual Financial Assets	30 years	343,352	85,838	30,901	116,739	107,900
IRPJ Deferred on Construction and Improvements	25 years	132,836	33,209	-	33,209	34,169
Finance lease	20 years	40,197	10,049	3,618	13,667	13,952
Revaluation surplus	16 years	125,855	31,464	11,327	42,791	44,922
Attribution of New Cost to Fixed Assets	6 years	14,888	3,722	1,340	5,062	5,363
Total			164,282	47,186	211,468	206,306
Total Net			304,257	121,488	425,745	373,997

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

17. INCOME TAX AND SOCIAL CONTRIBUTION -- continuation

d) Estimated Future Realization of Deferred Income Tax and Social Contribution

The estimated future realization of deferred tax assets and deferred tax liabilities as at September 30, 2017 is as follows:

Periods of Realization	Deferred tax assets			Deferred tax liabilities		
	Income tax	Social Contribution	Total	Income tax	Social Contribution	Total
		Tax			Tax	
2017	15,378	5,536	20,914	1,954	580	2,534
2018	18,990	6,837	25,827	7,816	2,320	10,136
2019	29,659	10,677	40,336	7,816	2,320	10,136
2020 to 2022	193,177	69,544	262,721	23,448	6,962	30,410
2023 to 2025	53,848	19,385	73,233	21,321	6,197	27,518
2026 to 2028	53,141	19,131	72,272	21,321	6,197	27,518
2029 to 2031	53,141	19,131	72,272	21,321	6,197	27,518
2032 to 2034	20,250	7,290	27,540	17,194	4,711	21,905
2035 to 2037	9,286	3,343	12,629	14,563	3,764	18,327
2038 to 2040	9,286	3,343	12,629	13,558	3,402	16,960
2041 to 2043	9,287	3,343	12,630	10,820	3,402	14,222
2044 to 2046	3,096	1,114	4,210	3,150	1,134	4,284
Total	468,539	168,674	637,213	164,282	47,186	211,468

18. RELATED-PARTY TRANSACTIONS

As at September 30, 2017, the State of Paraná holds credits for interest on Self Owned Capital for the amount of R\$44,781 (R\$72,073 for the same period in 2016). The Company also supplied water and sewage services to the state of Paraná for a revenue of R\$75,073 and R\$66,681 up to the third quarters of 2017 and 2016, respectively.

COPEL (Holding and Copel Comercialização S/A. – direct shareholders of the Company and controlled by the State of Paraná), as at September 30, 2017, holds credits in connection with Interest on Equity Capital for the amount of R\$ 12,096. (R\$ 9,718 for the same period in 2016).

Additionally, COPEL provided electric energy and telecommunications services to the Company for the amounts of R\$ 262,597 and R\$ 2,734, respectively up to the third quarter of 2017 (R\$ 291,728 and R\$ 2,822, respectively for the same period in 2016). The Company provided water and sewage services to COPEL for a revenue of R\$ 1,379 and R\$ 1,162 for the third quarter of 2017 and 2016, respectively.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

18. RELATED-PARTY TRANSACTIONS -- continuation

The Company provides water and sanitary sewage services to a number of city administrations, in particular in the state of Paraná, with which it maintains Concession Contracts and Municipal Program Contracts, with the revenues from said contracts with municipal administrations being, until the third quarter of 2017, R\$ 71,811 (R\$ 70,785 for the same period in 2016). The Company also provides services in urban solid waste management in some municipalities of the State of Paraná, with the revenue for this service for the third quarter of 2017 being R\$ 6,291 (R\$ 5,797 for the same period in 2016).

These transactions are considered by the Management of Sanepar, as normal market, except for some municipalities that have discounts on invoices of water supply and sewage, depending on the set maximum consumption in each special contract with the government to obtain the benefit. As to the form of payment for these services, in addition to paying in the authorized banking network, settlement of accounts with the debtor municipalities that have receivables from the Company is also possible.

Management compensation

The overall annual management compensation for the year ending December 31, 2017 was approved by 53rd/2017 Annual General Meeting (AGO) of April 27, 2017, for the amount of R\$ 14,255. For 2016, the approval was issued by the 53rd/2016 Annual General Meeting (AGO) held on April 28, 2016, for the amount of R\$ 13,055, of which R\$ 9,142 paid as compensation and R\$ 2,454 in connection with charges and benefits, for a total amount of R\$ 11,596. Of the amount in relation to charges and benefits, R\$ 2,272 are in connection with social charges, R\$ 51 are in reference to profit sharing, R\$ 47 are in reference to the health insurance plan (SANESAÚDE), R\$ 65 are in benefits from Fundação Sanepar (FUSAN) and R\$ 19 are in reference to Supplementary Programs.

Up to third quarter of 2017, an amount of R\$ 9,484 (R\$ 7,664 for the same period in 2016), was disbursed, of which R\$ 7,523 (R\$ 6,138 for the same period in 2016) for compensation and R\$ 1,961 (R\$ 1,526 for the same period in 2016) with reference to charges and benefits. Of the amount for charges and benefits, R\$ 1,853 (R\$ 1,435 for the same period in 2016) are with respect to social charges, R\$ 39 (R\$ 34 for the same period in 2016), for health insurance plan (SANESAÚDE), R\$ 63 (R\$ 48 for the same period in 2016) for Fundação Sanepar (FUSAN) benefits and R\$ 6 for Supplementary Programs (R\$ 9 for the same period in 2016).

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

19. EQUITY

a) Capital stock

The Company's Capital stock is comprised of 503,735,173 shares, of which 167,911,724 are ordinary shares and 335,823,449 or preferential shares without nominal value, fully paid in by individuals and legal entities residing and domiciled in the country and abroad. Preferential shares are not entitled to vote, but they have assured: (i) equally participate with ordinary shares in the distribution of shares or any other bonds or benefits, including incorporation of reserves to capital stock; (ii) priority treatment in the reimbursement of capital in case of the Company's liquidation; and (iii) the right to receive compensation, of at least 10% higher than the amount attributed to each ordinary share.

As at September 30, 2017, share value is R\$9.99 (R\$ 9.55 as at December 31, 2016).

The Capital stock underwritten and fully paid in as at September 30, 2017 is of R\$ 2,854,952, that net of the share issuance costs is of R\$ 2,847,664, and the shareholding structure is the following:

Shareholders	Number of shares					
	Ordinary	%	Preferential	%	Total	%
State of Paraná	150,845,890	89.8	1	-	150,845,891	29.9
Cia. Paranaense de Energia - Copel	7,956,306	4.7	36,343,267	10,8	44,299,573	8.8
Andrade Gutierrez Concessões S/A	7,000,000	4.2	-	-	7,000,000	1.4
Municipal Administrations	-	-	2,292,955	0,7	2,292,955	0.5
Foreign Investors	400	-	153,001,101	45,6	153,001,501	30.4
Other Investors	2,109,128	1.3	144,186,125	42,9	146,295,253	29.0
Total	167,911,724	100.0	335,823,449	100,0	503,735,173	100.0

b) Revaluation surplus

The reevaluation surplus was realized up to the second quarter, transferring to Accumulated Profits the amount of R\$ 4,136 (R\$ 4,228 for the same period in 2016), net of Income Tax and Social Contribution. The realization of this reserve occurs in the same ratio as of right down and depreciation of assets registered in the fixed and intangible assets line, object of said reevaluation.

The changes in the realization of the Reevaluation Surplus were as follows:

Description	09/30/2017	09/30/2016
Balances at beginning of period	87,200	92,825
Realization of revaluation surplus	(6,267)	(6,406)
Realization of Taxes on the Revaluation surplus	2,131	2,178
Balances at end of period	83,064	88,597

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

19. EQUITY – continuation

c) Reserve for Investment Plan

The investment plan reserve corresponds to remaining profit, after constituting the legal reserve, the fiscal incentives reserve, and the distribution of interest on shareholders' equity and dividends. The limit for constituting this reserve is the value of the paid-in shareholders capital. The funds allocated to the investment plan reserve will be invested in construction projects and expansion of water supply systems, collection and treatment of sewage, as established in the Company's investment plans.

d) Shareholders' compensation

The Company Bylaws provide for the mandatory distribution of dividends of 25% of the adjusted net income in accordance with the Brazilian Corporate Law. Holders of preferential shares was assigned interest on shareholders' equity (dividend) per share 10% higher than that of holders of common shares.

The tax laws allow companies to proceed, within certain limits, with payments of interest on shareholders' equity to shareholders and to treat said payments as deductible expenses in calculating Income Tax and Social Contribution owed. This distribution, applicable to mandatory dividends payable by the Company, is treated for accounting purposes as a deduction of the shareholders' equity, similar to dividends. On these values is withheld income tax at the rate of 15%, and paid by the Company upon the payment of interest.

On April 27, 2017, the Shareholder Meeting approved the payment of Interest on Equity Capital and Additional Dividends, credited to shareholders in the year of 2016, for the gross amount of R\$ 297,585, that Net of Income Tax Withheld at the Source represented R\$ 281,471. By September 30, 2017, the amount of R\$ 280,771 was settled.

In June 2017, Company Management and Management Council approved, according to the 6th/2017 Ordinary Management Council Meeting of June 13, 2017, the credit for Interest on Equity Capital at a ratio of 50%, observing the legal limit of the variation of the TJLP for the period, based on the results posted for the 1st half of 2017. The gross amount of Interest on Shareholder Capital, calculated for the first half of 2017, was of R\$ 159,510, with R\$ 13,560 being withheld as Income Tax Withheld at the Source. This credit generated a tax saving of R\$ 54,233.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

19. EQUITY – continuation

e) Earnings (losses) per share

The table below establishes the calculation of the profit per share (in thousands, except amounts per share):

Basic and diluted earnings (loss) per share	09/30/2017	09/30/2016
Numerator		
Net profit for the period attributed to Company shareholders		
Common Shares	166,244	216,615
Preferred shares	365,736	251,305
Denominator (in thousands of shares)		
Weighted average of number of common shares	167,912	231,968
Weighted average of number of preferential shares	335,823	244,652
Basic and diluted earnings (loss)		
Per ordinary share	0.99007	0.93381
Per preferential share	1.08907	1.02719

f) Statutory reserve

Statutory reserve is recorded in compliance with the Brazilian Corporate Law and Company By-Laws, based on 5% of net income for each year, up to the limit of 20% of the paid-in capital stock. The statutory reserve may only be used to increase capital or absorb accumulated losses. Also in accordance with the Brazilian Corporate Law, Management respects the limits of the capital stock for the constitution of profit reserves.

g) Tax incentive reserve

Tax incentives reserve is recorded in compliance with Article 195-A of the Brazilian Corporate Law, related to the portion of net income from donations and government grants.

h) Asset and liability valuation adjustments

Established in compliance with article 182 of the Brazilian Corporate law, with reference to the Asset and liability valuation adjustments, whilst not computed in the results for the year in compliance with the accrual basis, the counterparts to value increases or reductions attributed to elements of assets and liabilities, stemming from their assessment at fair value.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

During this period, the amount of R\$ 584 (R\$ 474 for the same period in 2016), was transferred to Accumulated Profits, net of Income Tax and Social Contribution. The realization of this account occurs in the same proportion as the write-offs and depreciation of assets recorded in the fixed and intangible assets, based on the new value attributed.

h) Asset and liability valuation adjustments – continuation

Changes in realization of the Asset and liability valuation adjustments were as follows:

Description	09/30/2017	09/30/2016
Balances at beginning of period	10,410	12,147
Realization of Adjustments to Cost Attributed	(885)	(718)
Realization of Taxes on Adjustments to Cost Attributed	301	244
Balances at end of period	9,826	11,673

20. OPERATING REVENUES

Operating Revenues composition, by nature, is the following:

Description	09/30/2017	09/30/2016
Revenues		
Revenues from Water	1,872,169	1,696,300
Revenues from Sewage	1,060,560	928,664
Revenues from services	97,282	92,141
Revenues from Solid Waste	6,291	5,797
Services Provided to Municipalities	10,285	5,770
Donations made by clients	12,444	10,194
Other revenues	5,178	3,551
Total operating revenues	3,064,209	2,742,417
Deductions from Operating Revenues		
COFINS	(181,099)	(157,416)
PASEP	(39,164)	(34,090)
Total Deductions	(220,263)	(191,506)
Total operating revenues, net	2,843,946	2,550,911

The Company had revenues and incurred in costs from construction contracts linked to the program contracts of R\$ 87,552 up to the 3rd quarter 2017 (R\$ 32,506 for the same period in 2016), i.e., with a null margin. These revenues are shown net of construction costs.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

21. COST OF PRODUCTS AND SERVICES

The composition of costs, by nature, is the following:

Description	09/30/2017			09/30/2016		
	Water	Sewage	Total	Water	Sewage	Total
Personnel	214,776	73,405	288,181	181,131	57,301	238,432
Materials	58,854	25,650	84,504	56,298	17,542	73,840
Electricity	241,649	25,944	267,593	267,840	29,046	296,886
Third-party services	143,401	102,760	246,161	135,219	82,441	217,660
Depreciation and amortization	84,977	77,155	162,132	76,621	67,792	144,413
Other costs	70,794	22,743	93,537	65,975	20,494	86,469
Total	814,451	327,657	1,142,108	783,084	274,616	1,057,700

22. SELLING, ADMINISTRATIVE AND OTHER EXPENSES

The composition of these expenses, by nature, is the following:

Description	09/30/2017	09/30/2016
Selling		
Personnel	87,612	71,640
Materials	3,189	2,511
Third-party services	58,308	50,361
Depreciation and amortization	4,489	4,249
Losses in Realization of Credits	19,242	14,560
Municipal Sanitation and Environmental Management Fund	20,787	13,214
Indemnities of third-party damages	15,455	13,569
Sanepar Rural program	8,119	-
Other expenses	22,115	6,303
Total selling expenses	239,316	176,407
Administrative		
Personnel	434,616	432,289
Materials	28,200	24,830
Third-party services	115,516	104,497
Depreciation and amortization	11,590	11,419
Regulatory fee	9,506	31
Travel expenses	6,347	5,079
Environmental and social programs	5,947	1,848
Other expenses	20,707	33,330
Transfers to Selling expenses and cost (a)	(97,383)	(91,199)
Expenses Capitalized (b)	(60,795)	(64,532)
Total administrative expenses	474,251	457,592
Other operating revenues (expenses)		
Expenses		
Write-off of assets	(2,376)	(3,251)
Adjustment to Fair Value – Investments	(2,089)	-
Total other operating revenues (expenses), net	(4,465)	(3,251)

(a) These amounts are first recorded as administrative expenses and later transferred to costs of selling expenses;

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

(b) These amounts refer to capitalized administrative expenses, as they relate to projects and works in progress, allocated directly by the Service Units.

23. PROFIT SHARING PROGRAM

In July 2017, the Company recorded in accounting a supplementary provision for profit sharing program for 2016 in the amount of R\$ 28,977.

24. FINANCIAL INCOME (LOSS)

Description	09/30/2017	09/30/2016
Financial revenues		
Monetary variation gains	11,541	13,062
Financial investments	54,742	23,766
Other financial revenues	9,758	22,936
Total financial revenues	76,041	59,764
Financial expenses		
Financing and Debenture Interest and Charges	(143,056)	(139,954)
Monetary variation losses	(30,931)	(37,573)
Other financial expenses	(1,857)	(5,625)
Total financial expenses	(175,844)	(183,152)
Financial income (loss), net	(99,803)	(123,388)

25. FINANCIAL INSTRUMENTS AND RISKS

The comparison by class of the carrying amount and the fair value of the Company's financial instruments presented in the financial statements is as follows:

Description	Book value		Fair value	
	09/30/2017	12/31/2016	09/30/2017	12/31/2016
Financial assets				
Cash and cash equivalents	535,957	638,330	535,957	638,330
Accounts receivables from customers, net	627,421	570,503	627,421	570,503
Restricted deposits	56,311	55,678	56,311	55,678
Contractual financial assets	198,211	172,381	198,211	172,381
Total	1,417,900	1,436,892	1,417,900	1,436,892
Financial liabilities				
Loans, financing, debentures and finance lease	2,635,333	2,712,074	2,635,333	2,712,074
Contractors and Suppliers	134,172	133,505	134,172	133,505
Concession agreements	92,823	96,926	92,823	96,926
Total	2,862,328	2,942,505	2,862,328	2,942,505

The Company used the following methods and assumptions to calculate the fair value of its financial investments:

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

Cash and cash equivalents: the amounts presented in the statement of financial position are close to fair value. The balance refers basically to high liquidity short-term investments maintained at Caixa Economica Federal in fixed income funds, with portfolio consisting mostly of securities issued by the Federal Government.

Restricted deposits: Long-term restricted deposits refer to the National Water Agency programs - ANA for the amount of R\$ 4,470 (R\$ 4,180 in 2016); as well as reserves maintained at Caixa Econômica Federal, for R\$ 16,390 (R\$ 15,351 in 2016), R\$ 11,847 (R\$ 11,094 in 2016), R\$ 16,244 (R\$ 15,209 in 2016) and R\$ 100.

Accounts receivable: the amounts disclosed in the statement of financial position for these accounts approximate their fair values, taking into consideration the respective provisions set up, and the lack of monetary restatement of the receivables' portion already overdue.

The balances of short- and long-term trade accounts receivable arising from installment payments have been discounted to present value.

The changes in present value adjustment was as follows:

Description	January to September 2017	January to September 2016
Balances at beginning of period	(3,408)	(2,840)
Adjustment at Present Value	472	(463)
Balances at end of period	(2,936)	(3,303)

Contractual financial assets: represent the expectation of receivable residual value at the end of the program contracts, based on the terms of the concessions.

Accounts payable: accounts payable to contractors and suppliers have a maximum due date maturity of thirty (30) days, and, as a result, recognized as fair value. The average payment period is twenty-eight (28) days.

Loans, financing and debentures: are recorded at fair value at initial recognition, net of incurred transaction costs and subsequently measured by the amortized cost. Any difference between the proceeds (net of transaction costs) and the settlement value is recognized in profit or loss during the period in which the loans and financing are outstanding, using the method of effective interest rate, and do not include future charges in their balances. The details and interest rates are described in Note 11, and do not represent additional risks to the Company at this time. All loans and financing, as at 09/30/2017, are related to investments in fixed and intangible assets.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

Finance lease: are booked when the object lease is effectively available, considering initially the fair value for the assets leased or, when lower, the present value of the minimum payments for the Finance Lease contract. The amount payable for the Finance Lease is separated between financial charges and current liabilities. The financial charges are accrued during the entire contract term. Eventual contingent payments are entered as expenses for the period in which they incur. The details and interest rates are described in Note 11, and do not represent additional risks to the Company at this time.

Concession agreements: represent the balance payable for onerous concession contracts in providing public utility services to the City Hall of Curitiba, for a thirty-year term signed on December 06, 2001 (see Note 12).

Business risk: The Company's business relates primarily to capture, treat and distribute water, collect and treat sewage for 345 municipal centers operated in the State of Paraná and 1 municipality in the State of Santa Catarina, for which the Company holds its municipal concession.

There are a number of associated risks, normal to Sanepar's business activity, but these are all managed or mitigated in order not to impact, significantly, on the Company's operating results. These risks are basically associated to the following factors:

Interest rate risk: Interest rate risk is the risk that the fair value of future cash flows of a certain financial instrument changes due to variations in market interest rates. The Company's exposure to the risk of changes in market interest rates refers mainly to the Company's long-term obligations subject to variable interest rates.

This risk is due to the possibility of the Company incurring losses on account of interest rate fluctuations, which may increase the financial expenses on loans and financing.

The composition of the Company's loans, financing, debentures and finance lease expressed in Brazilian reais subject to variable and fixed interest rates are shown below:

Index	09/30/2017	12/31/2016
TR (Reference Rate)	897,949	870,430
TJLP	663,699	702,637
IPCA	337,631	351,435
DI	585,009	698,123
IPC-FIPE	107,902	41,108
No Monetary Adjustment	43,143	48,341
	2,635,333	2,712,074

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

Sensitivity analysis of interest rate: the following is the calculation sensitivity to a possible change in the rate of return on financial investments and interest on the principal of loans and financing subject to variable interest rates, which can have significant impact to the Company. If the return rates of investments and interest on the loans held in real varied around 25% and 50% more or less, with all other variables held constant, the effect on profit before taxes would have been R\$ 14,594 and R\$ 29,188 plus or minus in particular due to the revenues stemming from financial investments and interest rates expenses lower or higher than in the financial loans as variable interest rates described below:

Analysis					
Description	Index	+ 25%	-25%	+50%	-50%
Caixa FI Sanepar I Renda Fixa	DI	11,949	(11,949)	23,898	(23,898)
Assets		11,949	(11,949)	23,898	(23,898)
Caixa Econômica Federal	TR	(1,104)	1,104	(2,208)	2,208
BNDES	TJLP	(1,135)	1,135	(2,270)	2,270
BNDES-PAC2	TJLP	(882)	882	(1,764)	1,764
Debentures 2nd Issuance - 1st and 3rd series	TJLP	(1,413)	1,413	(2,826)	2,826
Debentures 2nd Issuance – 2nd series	IPCA	(652)	652	(1,304)	1,304
Debentures 3rd Issuance – 1st series	DI	(2,939)	2,939	(5,878)	5,878
Debentures 3rd Issuance – 2nd series	IPCA	(614)	614	(1,228)	1,228
Debentures 4th Issuance – 1st series	TJLP	(1,172)	1,172	(2,344)	2,344
Debentures 4 th Issuance – 2nd series	IPCA	(398)	398	(796)	796
Debentures 5th Issuance – 1st series	DI	(1,605)	1,605	(3,210)	3,210
Debentures 5th Issuance – 2nd series	DI	(4,151)	4,151	(8,302)	8,302
Debentures 6th Issuance – 1st series	DI	(1,849)	1,849	(3,698)	3,698
Debentures 6th Issuance – 2nd series	DI	(3,902)	3,902	(7,804)	7,804
Finance lease	IPC	(4,727)	4,727	(9,454)	9,454
Liabilities		(26,543)	26,543	(53,086)	53,086
Effects on Profit before Taxation		(14,594)	14,594	(29,188)	29,188

The TR considered was of 1.09% and the TJLP, 7.25%, obtained from BACEN - Banco Central do Brasil, IPCA rate of 2.54%, obtained from IBGE – Instituto Brasileiro de Geografia e Estatística, and DI rate of 8.14% obtained from CETIP SA and IPC – FIPE of 2.25%, obtained from the Fundação Instituto de Pesquisas Econômicas – FIPE.

Credit risk: Virtually the whole population of the State is a client of the Company. Considering our type of business, we do not perform a credit history analyses, and adopt the practice of cutting the supply in case of default, with a minimum prior notice of thirty days. The level of losses on accounts receivable is considered normal for the sanitation sector.

The practice of cutting the supply is not applicable to the public bodies, however, Management is intensifying efforts to reduce delinquency levels with negotiations with these municipalities and attempting to offset accounts with those who have credits with the Company, and it adopts Credit Recovery Program of Municipal Administrations – RECRED. In case there is no agreement, the company files for judicial recovery.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

Concession risk: the Company's results depend on the maintenance of concessions in the municipalities where it operates, usually the concession contracts and program contracts have a term of 30 years. These contracts foresee goals to expand and maintain water and sewage systems, related to the rate of service with water supply and the rate of service with sewage collection. In some situations, the grantor may terminate the contract before its termination or not authorize its renewal upon compensation for the fair value of investment balances not yet depreciated/amortized.

Derivatives: the Company has no swap contracts or transactions that may be characterized as derivative financial instruments, and does not have speculative investments or other assets risk, and its market transactions and loans and financing are not exposed to fluctuations in foreign currencies, not requiring entering into hedge instruments.

Liquidity risk: Liquidity risk is the possibility that the Company might not have sufficient funds to meet its commitments due to the different currencies and realization / settlement terms for their rights and obligations. The Company structures the maturities of non-derivative financial agreements, as shown in Note 11, so as not to affect its liquidity. The management of liquidity and cash flow is performed daily by the Company's management, to ensure that the operating cash generation and the upfront funding raise, when necessary, are sufficient to maintain its schedule of commitments, not generating liquidity risks. Additionally, Company Management approved the dividends and treasury and Market risks policy.

Capital management: The purpose of the capital management of the Company is to guarantee a strong credit *rating* to financial institutions and an optimal capital ratio in order to support business and maximize values to the shareholders. The Company manages its capital structure by means of adjustments and adequacy to current economic conditions. With this objective, the company can make payments of dividends, enter into new loans, issue promissory notes and contract operations with derivatives. For the period ended on September 30, 2017, there was no change in the objectives, policies or capital structure processes. The Company includes in net debt structure balances of loans, financing and debentures (Note 11), less cash and cash equivalents (Note 4).

In order to preserve its liquidity and payment capability, the Company uses as leverage metrics on net debt / equity. For net debt effect loans, financing and debentures are considered, minus cash and cash equivalents:

	<u>09/30/2017</u>	<u>12/31/2016</u>
Loans, financing, debentures and finance lease	2,635,333	2,712,074
Cash and cash equivalents	(535,957)	(638,330)
Net debt	2,099,376	2,073,744
Equity	5,032,351	4,808,673
Ratio Net Debt/Net Equity	0.42	0.43

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017
(In thousands of Brazilian Reais)

26. PENSION PLAN AND MEDICAL INSURANCE

Sanepar sponsors the Fundação Sanepar de Previdência e Assistência Social – FUSAN, non-profit legal entity, with the main purpose of managing the company's retirement plan that targets supplementing pension benefits for Company staff.

The retirement/pension plan managed by FUSAN has the following main features: defined contribution during the working phase and defined benefit with lifetime income for retirees, pensioners and risk benefits (disability retirement, death pension, sickness and accident). Up to the 3rd quarter, the Sponsor passed on the amount of R\$ 21,280 (R\$ 18,800 for the same period in 2016) as contribution to FUSAN.

The Company also sponsors the Fundação Sanepar de Assistência Social, a non-profit social welfare association that manages health care for active and retired Sanepar employees, called SaneSaúde.

SaneSaúde is a collective of medical and dental care insurance plan, self-managed, financed by pre-payment, and the contributions made on average 63.8% for the sponsor and 36.2% for active and retired beneficiaries through defined monthly contributions for the regulation of the plan, which are determined annually based on actuarial calculations, which take into account the age of the beneficiary, and the existence of limiting factors for use of the services offered.

As a contribution to the Foundation, up to the 3rd Quarter, the Company transferred the amount of R\$44,680 (R\$40,378 for the same period in 2016).

The technical reserves for the purpose of meeting the standards set by Previc – National Complementary Welfare Superintendence shall be determined by the actuary responsible for the pension plan, establishing starting January/2017 a plan to solve the technical deficit, according to the legislation and approval of statutory bodies and sponsors. Additionally, for the purposes of compliance with the determinations contained in CPC 33 (R1), approved by CVM Deliberation 695, Assistants Assessoria, Consultoria e Participações Ltda, was hired and issued detailed reports that support the information included in this Note.

The information below shows the actuarial position of liabilities related to pension and health care plans. The Projected Unit Credit method (PUC) was used to calculate the actuarial liability.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

26. PENSION PLAN AND MEDICAL INSURANCE – continuation

Statement of actuarial liability:

Description	Pension Plan	Medical Insurance	09/30/2017	12/31/2016
Current	21,394	37,079	58,473	53,062
Noncurrent	299,518	519,101	818,619	742,866
Total	320,912	556,180	877,092	795,928

The table below shows the projected expenses for the year of 2017:

Description	Pension Plan	Medical Insurance	2017
Current service cost	11,526	10,303	21,829
Interest cost	103,656	55,232	158,888
Expected return on the plan's assets	(70,538)	-	(70,538)
Contributions of the sponsor	(2,064)	-	(2,064)
Total	42,580	65,535	108,115

The amount of R\$ 108,115 was the actuarial estimate for expected variation in the plans for year 2017, which is being booked by the Company on a monthly basis with an accrual up to the 3rd quarter 2017 of R\$ 81,164 (R\$ 76,497 up to 3rd quarter 2016). At the end of 2017, a new actuarial review will be performed to determine the accounting adjustments in the plans. If abnormal variations in the rules of the pension and health care plan occur during the year, or even in the base of participants, which have not occurred to date, an interim actuarial review can be performed.

27. INFORMATION BY BUSINESS SEGMENT

The Company has two clearly identifiable business segments, to wit, water distribution and treatment and sewage collection and treatment. The process of collecting and treating solid waste was considered in the sewage segment. The operational profit by segment is represented by the revenue, with deductions of direct costs and direct and indirect operating expenses that can be allocated to these segments. The identifiable assets and liabilities per segment are presented separately. Corporate assets and liabilities were not directly attributed to each business segment. The Company evaluates the performance targeting, based on information generated by the accounting records, and miscellaneous expenses are allocated by means of apportionment, as shown in following table:

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

27. INFORMATION BY BUSINESS SEGMENT -- continuation

Description	01/01/2017 to 09/30/2017			01/01/2016 to 09/30/2016		
	Water	Sewage	Total	Water	Sewage	Total
Direct operating revenue	1,947,127	1,089,175	3,036,302	1,765,436	957,466	2,722,902
Other operating revenues	16,278	11,629	27,907	11,533	7,982	19,515
Total gross operating Revenue	1,963,405	1,100,804	3,064,209	1,776,969	965,448	2,742,417
Revenue Deductions (PASEP and COFINS)	(128,408)	(91,855)	(220,263)	(113,155)	(78,351)	(191,506)
Net operating revenue	1,834,997	1,008,949	2,843,946	1,663,814	887,097	2,550,911
Cost	(814,451)	(327,657)	(1,142,108)	(783,084)	(274,616)	(1,057,700)
Gross profit	1,020,546	681,292	1,701,838	880,730	612,481	1,493,211
Selling expenses	(139,590)	(99,726)	(239,316)	(104,252)	(72,155)	(176,407)
Administrative expenses	(276,625)	(197,626)	(474,251)	(270,425)	(187,167)	(457,592)
Other operating revenues (expenses)	(3,414)	(1,051)	(4,465)	(3,255)	4	(3,251)
Equity in earnings (losses) of controlled companies	-	(1,388)	(1,388)	-	(2,257)	(2,257)
Financial income (loss), net	(31,695)	(68,108)	(99,803)	(53,329)	(70,059)	(123,388)
Profit sharing program	(16,902)	(12,075)	(28,977)	(9,411)	(6,514)	(15,925)
Provisions	(29,672)	(21,069)	(50,741)	(5,146)	(3,890)	(9,036)
Pension plan and medical insurance	(47,322)	(33,842)	(81,164)	(45,205)	(31,292)	(76,497)
Income before taxes and contributions	475,326	246,407	721,733	389,707	239,151	628,858
Income and social contribution taxes	(124,969)	(64,784)	(189,753)	(99,734)	(61,204)	(160,938)
Net income for the period	350,357	181,623	531,980	289,973	177,947	467,920
Operating margin	24.2%	22.4%	23.6%	21.9%	24.8%	22.9%
Net margin	19.1%	18.0%	18.7%	17.4%	20.1%	18.3%
EBTIDA	601,374	398,373	999,747	528,917	383,410	912,327
EBITDA margin	32.8%	39.5%	35.2%	31.8%	43.2%	35.8%
Investments in fixed /Intangible assets in the Period (a)	255,410	305,823	561,233	210,461	316,254	526,715
Shareholding Interest – CS Bioenergia	-	19,235	19,235	-	8,891	8,891
Indebtedness – Loans, Financing, Debentures and Finance Lease	1,006,925	1,628,408	2,635,333	1,091,045	1,589,477	2,680,522
Fixed assets and intangible assets, net	3,351,259	4,339,772	7,691,031	3,175,565	4,015,319	7,190,884
Depreciation and amortization for the period	(94,353)	(83,858)	(178,211)	(85,881)	(74,200)	(160,081)
Accounts receivable (current and non-current) (b)	525,643	269,023	794,666	461,155	237,189	698,344
Total assets	4,303,643	5,573,078	9,876,721	3,963,056	5,011,054	8,974,110
Total current and noncurrent liabilities	1,951,495	2,892,875	4,844,370	1,863,951	2,715,478	4,579,429
Number of Users – Not Audited/Reviewed (c)	3,068,242	2,012,976	-	3,008,614	1,914,695	-
Volume Thousand m ³ Invoiced – Not Audited/Reviewed (d)	420,576	300,466	-	439,607	304,261	-

(a) The amounts invested in administrative assets were allocated in proportion to the investments of each segment;

(b) Presented by the gross value;

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

(d) Billed volumes of the sewage sector are derived from the billed volumes of the water utility sector.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Base date September 30, 2017

(In thousands of Brazilian Reais)

28. INSURANCE

The Company has insurance contract with SOMPO Seguros S/A covering its main assets located in a number of localities throughout the State of Paraná, for the amount of R\$ 968,336, with coverage term from 01/09/2017 to 01/09/2018, basic cover for fire, wind and electrical damages to the equipment.

Assets	Amount insured
Buildings	497,299
Machinery, equipment and vehicles	411,931
Inventory	59,106
Total	968,336

Additionally, the Company has legal guarantee insurance policies to guarantee values that would be deposited and/or replace the values already deposited and/or seized property in legal proceedings of labor, civil, environmental, and tax proceedings. Until September 30, 2017, the Company posted guarantees using the Guarantee Insurance in 75 lawsuits for the amount of R\$ 214,907 of which 02 policies with insurer Fairfax Brasil Seguros Corporativos S/A and 73 policies with Pottencial Seguradora S/A.

The Company also entered into an agreement with Zurich Minas Brasil Seguros S.A. for insurance coverage for members, directors and managers of Sanepar (D&O - Directors and Officers) with national and international coverage, with an indemnity cap of R\$ 20,000, effective contract for 365 days and expiring on 04/14/2018.

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(A free translation from Portuguese into English of the independent auditor's report originally issued in Portuguese)

Independent auditor's report on the financial statements

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

Opinion

We have audited the financial statements of Companhia de Saneamento do Paraná - SANEPAR (the "Company"), which comprise the balance sheet as at December 31, 2016, and the statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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, and of its financial performance and its cash flows for the year then ended in accordance with the accounting practices adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with the 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 in accordance with the Code of Ethics for Accountants (*Código de Ética Profissional do Contador*) and the professional requirements issued by the Federal Accounting Council (*Conselho Federal de Contabilidade*), 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 provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements 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 revenue recognized by the Company refer to services rendered but unbilled to the end consumers (“unbilled revenue”), once billing is carried out based on the billing cycles, which in some cases is after the reporting date. At each month’s closing date, the Company determines, based on estimates that include historical data such as the average consumption rate 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 revenue recognition, as well as, the appropriate amounts for each business segment in which the Company operates, is included in Notes 19 and 26.

This matter was considered significant to our audit, considering the magnitude of the amounts involved and the level of Management’s 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 audit 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 revenue recorded for the year.

Additionally, we assessed the adequacy of disclosures made by the Company on this matter, included in the related notes.

Pension plan and health care plan

The Company sponsors the supplementary pension plan classified as defined benefit and also sponsors a health care plan for its employees, active and retired. The 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.

This matter was 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 compared 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 this matter. Regarding the pension plan assets, our audit procedures included tests to ensure the existence of assets and the valuation of these assets together with subject-matter experts.

Legal and administrative contingencies

As a result of its operations, the Company is part in 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.

This matter was 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 from the 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 the adequacy of the disclosures made by the Company on this matter and specifically on the most significant contingencies included in Note 15.

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.

This matter was considered significant to our audit, due to the significance of the amounts involved, also considering that said bifurcation and the calculation of present value of the financial assets are complex and involve judgment and the use of subjective assumptions by the Company's 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 effect, as well as the recalculation of amortization based on rates included in the useful life report prepared by the Company.

Other matters

Statement of value added

The statement of value added for the year ended December 31, 2016, prepared under the responsibility of the Company's Management, was submitted to the same audit procedures performed in accordance with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether this statement is reconciled with the financial statements and accounting records, as applicable, and whether its form and content are in accordance with the criteria provided for in Accounting Pronouncement CPC 9 – Statement of Value Added. In our opinion, this statement of value added were prepared fairly, in all material respects, in accordance with the criteria defined in Accounting Pronouncement CPC 9 and is consistent with the overall financial statements as a whole.

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 the 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 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 the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from 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 taken 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 for 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 policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of 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 conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a 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 control 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 to communicate with them 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 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

Companhia de Saneamento do Paraná - SANEPAR

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

ASSETS

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Current assets			
Cash and cash equivalents	4	638,330	163,797
Accounts receivable, net	5	559,797	477,281
Inventories		36,722	35,662
Taxes and contributions recoverable	6	39,021	28,829
Restricted deposits		9,844	9,166
Other assets	7	23,526	23,648
Total current assets		<u>1,307,240</u>	<u>738,383</u>
Non-current assets			
Accounts receivable, net	5	10,706	9,736
Taxes and contributions recoverable	6	760	684
Restricted deposits	24	45,834	34,559
Contractual financial assets	10	172,381	77,420
Judicial deposits	15.c	156,442	132,894
Deferred income taxes	16.c	373,997	334,775
Other assets	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 *Brazilian Reais*)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>Note</u>	<u>2016</u>	<u>2015</u>
Current liabilities			
Loans, financing, debentures and finance leases	11	379,163	230,660
Contractors and suppliers		133,505	125,404
Service concession arrangements	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 shareholders' equity	17/18	134,055	95,101
Accounts payable		-	3,087
Deferred revenue		542	3,250
Collateral and contractual retention		2,338	2,684
Pension and health care plans	25	53,062	46,896
Other liabilities	14	36,513	36,957
Total current liabilities		<u>967,318</u>	<u>741,501</u>
Non-current liabilities			
Loans, financing, debentures and finance leases	11	2,332,911	2,105,348
Service concession arrangements	12	89,425	91,115
Taxes and contributions	13	1,411	1,468
Deferred revenue		-	542
Provisions	15.a	506,576	463,423
Pension and health care plans	25	742,866	656,541
Other liabilities	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
Deemed cost adjustment		10,410	12,147
Income reserves		1,779,937	1,398,472
Other comprehensive results		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 explanatory notes are part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENTS OF INCOME

Years ended December 31, 2016 and 2015

(In thousands of *Brazilian Reais*, except earnings per share)

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

The explanatory notes are part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

	<u>2016</u>	<u>2015</u>
Net income for the year	626,847	438,444
Other comprehensive income to be reclassified to profit or loss in subsequent periods	3,959	144,723
Actuarial gains and losses	5,998	219,277
Tax effects	(2,039)	(74,554)
Comprehensive income for the year	<u>630,806</u>	<u>583,167</u>

The explanatory notes are part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reals*)

	Capital stock	Revaluation reserve	Deemed cost adjustment	Investments Reserve	Income reserves			Proposed additional dividends	Accumulated profit	Other comprehensive results	Total
					Legal reserve	Fiscal incentives reserve	Fiscal reserves				
Balances on 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	-	-	
Tax effects on realization of revaluation reserve	-	3,052	-	-	-	-	-	(3,052)	-	-	
Realization of deemed cost adjustment	-	-	(2,919)	-	-	-	-	2,919	-	-	
Tax effects on realization of deemed cost adjustment	-	-	993	-	-	-	-	(993)	-	-	
Actuarial gains and losses	-	-	-	-	-	-	-	-	219,277	219,277	
Tax effects on actuarial gains and losses	-	-	-	-	-	-	-	-	(74,554)	(74,554)	
Additional dividends of 2015	-	-	-	-	-	-	(99,993)	-	-	(99,993)	
Net income for the year	-	-	-	-	-	-	-	438,444	-	438,444	
Proposed destination	-	-	-	-	21,922	-	-	(21,922)	-	-	
Legal reserve	-	-	-	-	-	715	-	(715)	-	-	
Fiscal incentive reserve	-	-	-	-	-	-	-	(204,396)	-	(204,396)	
Interest on shareholders' equity	-	-	-	-	-	-	-	(3,507)	-	100,444	
Additional proposed dividends	-	-	-	-	-	-	103,951	(215,755)	-	-	
Profit retention	-	-	-	215,755	-	-	-	-	-	-	
Balances on 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	
Share issuance costs	(7,288)	-	-	-	-	-	-	-	-	(7,288)	
Realization of revaluation reserve	-	(8,522)	-	-	-	-	-	8,522	-	-	
Tax effects on realization of revaluation reserve	-	2,897	-	-	-	-	-	(2,897)	-	-	
Realization of deemed cost adjustment	-	-	(2,631)	-	-	-	-	2,631	-	-	
Tax effects on realization of deemed cost adjustment	-	-	894	-	-	-	-	(894)	-	-	
Actuarial gains and losses	-	-	-	-	-	-	-	-	5,998	5,998	
Tax effects on actuarial gains and losses	-	-	-	-	-	-	-	-	(2,039)	(2,039)	
Additional dividends for 2015	-	-	-	-	-	-	(103,951)	-	-	(103,951)	
Net income for the year	-	-	-	-	-	-	-	626,847	-	626,847	
Proposed destination	-	-	-	-	31,343	-	-	(31,343)	-	-	
Legal reserve	-	-	-	-	-	335	-	(335)	-	-	
Fiscal incentive reserve	-	-	-	-	-	-	-	(293,404)	-	(293,404)	
Interest on shareholders' equity	-	-	-	-	-	-	-	(4,181)	-	144,611	
Additional proposed dividends	-	-	-	-	-	-	148,792	(4,181)	-	-	
Profit retention	-	-	-	304,946	-	-	-	(304,946)	-	-	
Balances on 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 explanatory notes are part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENTS OF CASH FLOWS Years ended December 31, 2016 and 2015 (in thousands of *Brazilian Reais*)

	2016	2015
OPERATING ACTIVITIES		
Net income for the year	626,847	438,444
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	217,111	194,194
Write off of property, plant and equipment and intangible assets	12,651	11,965
Adjustment to the impairment of assets	1,285	7,145
Write off of investments	-	(65)
Net present value adjustment of financial assets	(22,625)	(4,568)
Provision for losses on accounts receivable	21,775	(4,799)
Deferred income taxes	(41,261)	(30,254)
Provisions	43,153	(4,349)
Pension and health care plans	98,489	77,861
Interest on financing	238,666	203,015
Monetary indexation of financing	50,055	50,423
Equity result	3,361	1,688
Borrowing costs	378	270
	623,038	502,526
Decrease (increase) of assets		
Accounts receivable	(105,261)	(80,673)
Taxes and contributions recoverable	(10,268)	(5,936)
Judicial deposits	(23,548)	33,853
Inventories	(1,060)	(496)
Other assets	(27,216)	1,219
	(167,353)	(52,033)
Increase (decrease) of liabilities		
Contractors and suppliers	8,101	(15,675)
Service concession arrangements	(1,241)	3,089
Taxes and contributions	(3,150)	(4,118)
Salaries and related charges	17,093	11,449
Collateral and contractual retention	(346)	(180)
Deferred revenue	(3,250)	(3,250)
Accounts payable	(3,087)	(6,542)
Other liabilities	65	(1,460)
	14,185	(16,687)
Net cash flows from operating activities	1,096,717	872,250
INVESTING ACTIVITIES		
Property, plant and equipment and intangible assets	(701,293)	(795,089)
Investments	(7,540)	(1,643)
Net cash flows used in investing activities	(708,833)	(796,732)
FINANCING ACTIVITIES		
Issuance of financing	494,178	652,815
Financing repayment	(219,152)	(243,208)
Interest payments	(227,344)	(199,565)
Borrowing costs	(1,823)	(235)
Restricted deposits	(11,953)	705
Payment of dividends and interest on shareholders' equity	(197,561)	(191,294)
Share issuance	257,592	-
Share issuance cost	(7,288)	-
Net cash flows from financing activities	86,649	19,218
INCREASE IN 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 explanatory notes are part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

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

	<u>2016</u>	%	<u>2015</u>	%
Revenues				
Products and services	3,741,006		3,183,352	
Other revenue	(11,197)		(8,211)	
Losses in the realization and recovery of assets	(21,775)		(2,346)	
	<u>3,708,034</u>		<u>3,172,795</u>	
Inputs acquired from third parties				
Consumed chemical products	(73,173)		(68,117)	
Consumed materials	(66,626)		(61,024)	
Electricity	(385,599)		(390,862)	
Other costs of products and services	(347,222)		(314,391)	
Contracted third party 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 in transfer				
Equity result	(3,361)		(1,688)	
Finance income	80,526		51,999	
Total value added to distribute	<u>2,435,923</u>		<u>1,990,101</u>	
Distribution of value added				
Employees and management				
Salaries and related charges	787,199	32.3	710,739	35.7
Fees of Board and Councils	9,141	0.4	8,346	0.4
Profit sharing plan	53,123	2.2	40,947	2.1
Pension and health care plans	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
Municipal 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>
Lenders				
Leases	45,309	1.9	38,838	1.9
Interest and monetary variations	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 shareholders' equity	<u>293,404</u>	<u>12.0</u>	<u>204,396</u>	<u>10.3</u>
Dividends	<u>4,181</u>	<u>0.2</u>	<u>3,507</u>	<u>0.2</u>
Undistributed net income of the year	<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 explanatory notes are part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

1. OPERATIONS

Companhia de Saneamento do Paraná – SANEPAR (the “Company” or “Sanepar”), has its headquarter at Rua Engenheiros Rebouças in Curitiba – Paraná, is a mixed-capital 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 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 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 agencies 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. 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 and expire after 2027. In cases where concessions are not renewed upon expiration, the municipalities 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 determine a cost for the concession payable by the Company, as described 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 FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

2. PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Declaration of conformity

The financial statements are presented in accordance with Laws 6404/76, 11638/07 and 11941/09. They were prepared in accordance with the accounting practices adopted in Brazil, which are based on the Brazilian corporate law, the pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee (*Comitê de Pronunciamentos Contábeis* – CPC) and the rules established by the Brazilian Securities Commission – CVM.

The financial statements were authorized for issuance by the Company's Management on January 30, 2017.

2.2 Measurement basis

The financial statements were prepared based on historical cost, with the financial assets assessed at fair value.

2.3 Functional Currency and Presentation Currency

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

3. SIGNIFICANT ACCOUNTING PRACTICES

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

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

- a) **Cash and cash equivalents** – Note 4
- b) **Accounts receivable** – Note 5
- c) **Provision for losses**– Note 5
- d) **Investments** – Note 8
- e) **Property, plant and equipment** – Note 9
- f) **Intangible assets** – Note 9
- g) **Finance leases:** The classification of leases as operating or finance is determined by analyzing the terms and conditions of the agreements. Finance lease agreements are those that demonstrate a substantial transfer of the risks and benefits of ownership of the leased assets. Leased assets are described in Note 9, and the corresponding debt in Note 11.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian 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 taxes** – Note 16
- m) **Related parties** – Note 17
- n) **Interest on shareholders' equity** – Note 18.d
- o) **Revenues** – Note 19
- p) **Financial instruments** – Note 24
- q) **Post-employment benefit granted to employees** – Note 25
- r) **Inventories:** Inventories consist primarily of maintenance and repair materials, recorded 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 presented at known or estimated amounts and, when applicable, restated *pro rata die* until the closing date of the financial statements, based on the agreed indicators and charges, without the need to adjust them to present value.
- t) **Concessions:** The Company records the infrastructure it uses to operate the public basic sanitation services, as follows:

Concession Contracts: the Company's assets arising from "Concession Contracts" signed before Law 11445/07, and governed by the Concessions Law – Law 8987/95, are recorded as intangible assets and amortized over their useful economic lives, based on technical study carried out by the Company.

Program Contracts: the Company's assets arising from "Program Contracts", in accordance with the rules from the Law 11445/07 – Regulatory Framework, which defines the national guidelines for basic sanitation, in which the grantor (the municipality) is obligated to draw up a Municipal Basic Sanitation Plan, are recorded in accordance to the bifurcated 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 Contract. The financial asset represents the remaining amount of the intangible assets to be reimbursed to the Company by the grantor when the agreement finally expires. The Company's assets are amortized according to the periods of the contracts or by their useful lives, whichever is shorter.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

3. SIGNIFICANT ACCOUNTING PRACTICES -- continued

- u) **Statements of cash flows and value added:** The statements of cash flows were prepared and are presented in accordance with Technical Pronouncement CPC 3 (R2) – Statement of Cash Flows. The statements of value added were prepared and are presented in accordance with Technical Pronouncement CPC 9 – Statement of Value Added.
- v) **Use of estimates and judgments:** the preparation of the financial statements in accordance with the accounting practices adopted in Brazil requires the Company's management to use estimates and assumptions that affect the amounts disclosed in the financial statements 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 financial assets

The Company evaluates at the reporting dates if there is any evidence that determines whether the financial asset or a group of financial assets is impaired.

A financial asset, or group of financial assets, is impaired if, and only if, there is objective evidence of non-recoverability as a result of one or more events that may have occurred after the initial recognition of the asset (a “loss event”) and this loss event has affected the future estimated cash flows of the financial asset or group of financial assets that can be reasonably estimated.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value, less costs of disposal, and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is sensitive to the discount rate used in the discounted cash flow model, as well as, the expected future cash inflows and the growth rate used for extrapolation purposes.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

3. SIGNIFICANT ACCOUNTING PRACTICES -- continued

Provisions for tax, civil, labor and environmental proceedings

The Company recognizes provisions for tax, civil, labor and environmental proceedings. The assessment of the probability of loss includes the assessment of the available evidences, the hierarchy of laws, available jurisprudences, recent court decisions and their relevance within the legal system, in addition to the assessment of our legal counsels.

The Company's management believes that the provisions for tax, civil, labor and environmental proceedings are necessary and appropriated, based on current legislation.

Provision for losses on accounts receivable

Provision for losses on accounts receivable is recorded in an amount considered by management to be sufficient to cover losses in the realization of the accounts receivable, taking into consideration the history of losses and an individual assessment of the accounts receivable under realization risks.

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 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 to determine 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.

Pension and health care plans

The cost of the defined benefits pension plan and other post-employment health care 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 reporting date.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

3. SIGNIFICANT ACCOUNTING PRACTICES -- continued

w) New pronouncements not yet effective on December 31, 2016

The standards and interpretations not yet adopted on the issuance date of the Company's financial 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 2014, the IASB issued the final version of IFRS 9 – Financial Instruments, that replaces IAS 39 – Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 introduces all the project's three aspects of how financial instruments are recorded: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods commencing on January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not mandatory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company has assessed the matter and believes that there will be no effects on its Financial Statements.

IFRS 15 Revenues from Contracts with Customers: IFRS 15 issued in May 2014, presents 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 method or modified retrospective method is required in the case of annual periods beginning on January 1, 2018, with early adoption permitted. The Company has assessed the effects on its financial 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 beginning 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 FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

3. SIGNIFICANT ACCOUNTING PRACTICES -- continued

w) New pronouncements not yet effective on December 31, 2016 -- continued

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 - Leases, 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 recognition, measurement, presentation and disclosure of leases operations, and requires lessees to book all leases under a single model in the balance sheet, similar to the accounting of finance 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 accounting 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 finance. 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 beginning on 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 impacts of the changes from this standard.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

4. CASH AND CASH EQUIVALENTS

Accounting Practice:

Include cash, bank deposits and short-term investments recorded at cost, plus income earned at the rates agreed with the financial institutions, calculated pro rata die and appropriated on a monthly basis. A financial 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
Unrestricted bank deposits	2,988	4,568
Linked bank deposits	24,687	11,823
	<u>27,675</u>	<u>16,392</u>
Short-term investments		
Caixa FI Sanepar I Renda Fixa (1)	511,541	74,071
CDB Flex Empresarial (2)	99,114	73,333
Itaú Corp Plus Referenciado	-	1
	<u>610,655</u>	<u>147,405</u>
Total Cash and Cash Equivalents	<u>638,330</u>	<u>163,797</u>

The financial 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 CAIXA.

(1) 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 repurchase commitments 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 first tier 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.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Brazilian Reais)

5. ACCOUNTS RECEIVABLE

Accounting Practice:

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

Adjustment to present value: The balances of 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 municipalities 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 payable to the State of Paraná as dividends and/or interest on shareholders' equity.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

5. ACCOUNTS RECEIVABLE -- continuation

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

Description	2016	2015
Accounts receivable not due	199,442	182,698
Accounts receivable in installments	37,151	33,057
Net present value adjustment	(3,408)	(2,840)
Unbilled invoiced (consumption not yet billed)	160,852	134,104
	394,037	347,019
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	(146,336)	(125,395)
	176,466	139,998
Total accounts receivable, net	570,503	487,017
Current	559,797	477,281
Non-current	10,706	9,736

Of the total overdue receivables, net of losses on realization of credits, R\$6,244 (R\$3,922 in 2015) refer to outstandings from municipalities; R\$145,499 (R\$118,403 in 2015) from private consumers; R\$453 (R\$886 in 2015) from the federal sector and R\$24,270 (R\$16,787 in 2015) from the state sector.

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

Description	2016	2015
Balances at the beginning of the year	(125,395)	(132,505)
Amounts recorded as expenses	(21,775)	4,799
Write-offs, net of recoveries	834	2,311
Balance at and of the year	(146,336)	(125,395)

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

Description	2016	2015
Private consumers	81,558	64,355
Federal government	7	11
Municipalities	64,771	61,029
Total	146,336	125,395

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

6. TAXES AND CONTRIBUTIONS RECOVERABLE

The composition is as follows:

Description	2016	2015
Recoverable income tax	29,219	20,998
Recoverable social contribution	9,422	7,207
Withheld taxes and contributions	1,140	1,026
Other recoverable taxes	-	282
Total	39,781	29,513
Current	39,021	28,829
Non-current	760	684

7. OTHER ASSETS

The composition shows the following amounts:

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

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Brazilian Reais)

8. INVESTMENTS

Accounting Practice:

Joint Venture: The Company's investment in the joint venture is accounted 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 will be also presented in the Company's comprehensive income.

The joint venture's financial statements have been prepared for the same reporting period, and the accounting policies are in line with those of the Company.

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

Description	2016	2015
Investment in joint venture – CS Bioenergia S.A.	9,466	5,287
Other investments recognized at the cost method	2,937	2,937
Total	12,403	8,224

Investments in joint venture

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 an advance on future capital increase – AFAC. The Company's equity stake is recorded using the equity method of accounting in the investee's financial statements which are summarized below:

Balance Sheet - CS Bioenergia S.A.	2016	2015
Current assets	1,139	719
Non-current assets	59,858	42,830
• Property, plant and equipment	39,831	42,774
• Finance leases	20,026	-
• Other	1	56
Total Assets	60,997	43,549
Current liabilities	37,334	30,294
• Loans, financing and finance leases	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 FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

8. INVESTMENTS -- continued

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

The movement of investments during the year is as follows:

Description	2016	2015
Balances at beginning of the year	5,287	1,894
Capital injections:	7,540	5,081
Equity pick-up (40% interest)	(3,361)	(1,688)
Balances at the end of the year	9,466	5,287

Other investments

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

Guarantee

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, totaling 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 FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Brazilian Reais)

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Accounting Practice:

Property, plant and equipment: recorded at cost of acquisition or construction, including periodic revaluations in previous years and deemed cost adjustments, less depreciation calculated on the straight-line method at the rates described in this note. Impairment test 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 related to the concession contracts are recorded at their cost of acquisition, construction or contracting and include the right of use and concession contracts. Intangible assets related to Program Contracts 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 described in Note 10. This is an intangible asset with a defined useful life whose value will be amortized over the term of the contract.

Amortization of intangible assets related to concession contracts is based on the useful economic life, while amortization of assets related to program contracts takes into account the effective periods of the contracts 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 contract, a financial asset is created as mentioned in Note 3(t). Impairment test is carried out annually on the balances of the intangible assets, whenever there is any indication that their book value may not be recoverable.

Finance leases: are recorded 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 described in Note 11. After initial recognition, the assets are recorded 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 finance expense.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian 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 Value
Administrative	227,838	(97,389)	130,449	129,585
Other assets	8,160	(7,341)	819	458
Total	235,998	(104,730)	131,268	130,043

By nature			2016	2015
Description	Rate yearly depreciation	Cost	Accumulated depreciation	Net Value
Land	-	2,309	-	2,309
Civil construction	*1.84%	67,945	(13,704)	54,241
Improvements	2%	1,788	(622)	1,166
Installations	*5.83%	3,700	(1,978)	1,722
Equipment	*6.23%	42,806	(18,180)	24,626
Furniture and utensils	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
Machinery, tractors and similar items	*19.35%	18,170	(12,541)	5,629
Tools	6.67%	549	(312)	237
Total		235,998	(104,730)	131,268

* weighted average rate

b) Intangible assets

The composition is as follows:

By account			2016	2015
Description	Cost	Accumulated amortization		Net Value
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 operation of systems	125,087	(62,934)	62,153	66,320
Other intangible assets	83,163	(50,239)	32,924	34,311
Projects and construction in progress	1,000,861	-	1,000,861	1,243,864
Inventories for construction in progress	48,422	-	48,422	52,019
Total	9,456,762	(2,257,369)	7,199,393	6,761,600

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

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

By nature				2016	2015
Description	Rate of annual amortization	Cost	Accumulated amortization	Net Value	
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 constructions	*2.59%	1,794,388	(407,162)	1,387,226	1,187,208
Improvements	*2.67%	18,051	(1,979)	16,072	11,752
Piping	*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
Installations	*5.83%	137,080	(37,400)	99,680	65,895
Hydrometers	10%	165,506	(64,693)	100,813	89,317
Macrometers	10%	5,072	(3,133)	1,939	1,768
Equipment	*6.23%	481,948	(227,725)	254,223	221,063
Furniture and utensils	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
Machinery, tractors and similar items	*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
Concession of the Municipality of Curitiba (1)	3.33%	125,000	(62,847)	62,153	66,320
Concession of the Municipality of Cianorte (2)	5%	87	(87)	-	-
Projects and construction in progress	-	1,000,861	-	1,000,861	1,243,864
Inventories for construction in progress	-	48,422	-	48,422	52,019
Total		9,456,762	(2,257,369)	7,199,393	6,761,600

*Average weighted rate

- (1) Cost of the onerous concession contract, with a term 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) Cost of the concession contract with the Municipality of Cianorte for operating public services involving the collection, treatment and final disposal of solid waste, with a term of 20 years.

The balance of the "Projects and Construction 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.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

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

In 2016, the capitalization of interest and other financial charges incurred on funds and loans that financed the Company's projects and works, totaled 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%.

Finance leases: 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 240 months, payment of which will commence in February 2017. The assets under this finance lease will be built and handed over to the lessor in four stages, with an interval of one 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 described in Note 11.

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

	2016		
Description	Cost	Accumulated amortization	Net Value
Buildings	11,406	(16)	11,390
Piping	26,691	(44)	26,647
Building connections	1,820	(5)	1,815
Installations	95	(1)	94
Equipments	1,096	(6)	1,090
Total	41,108	(72)	41,036

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

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
Installations	1,851	9	(157)	(1)	20	1,722
Equipment	24,427	2,273	(2,120)	(44)	90	24,626
Furniture and utensils	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
Machinery, tractors and similar items	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 constructions	1,187,208	12,391	(34,000)	(2,728)	224,355	1,387,226
Improvements	11,752	-	(383)	(21)	4,724	16,072
Piping	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
Installations	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 utensils	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
Machinery, tractors and similar items	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
Concession of the Municipality of Curitiba	66,320	-	(4,167)	-	-	62,153
Concession of the Municipality of Cianorte	-	-	(6)	6	-	-
Subtotal of intangible assets	5,465,717	87,772	(204,072)	(12,204)	812,897	6,150,110
Projects and construction in progress	1,243,864	646,670	-	(325)	(889,348)	1,000,861
Inventories for construction in progress	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 related to the expected residual value receivable at the end of the program agreements, net of the Adjustment to Present Value for the year.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

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

d) Analysis of the Recoverable Value of the Assets

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

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

- To determine the recoverable amount of the Company's assets or cash generating 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 generating 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 eliminated 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 generating 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 was no need to record a provision for impairment.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

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

d.2) Cash Generating Unit – Solid Waste

The cash generating 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 generating 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 increment, by R\$1,285, the provision that already existed on December 31, de 2015, of R\$7,145, totaling 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 grantor 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 expiration date of the agreement.

Adjustment to present value: *The financial assets are recored at 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.*

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

10. CONTRACTUAL FINANCIAL ASSETS -- continued

The changes in financial assets is as follows:

<u>Description</u>	<u>2015</u>	<u>Additions</u>	<u>NPV Revenue</u>	<u>NPV Expenses</u>	<u>2016</u>
Investment non-amortized	256,038	224,093	-	-	480,131
Present value adjustment	(178,618)	(151,757)	22,712	(87)	(307,750)
Total	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 FINANCE LEASES

Accounting Practice:

Loans, financing and debentures are initially recognized at fair value when the funds are received, net of transaction costs. Thereafter, they are recorded 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 from leases, 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 lease term.

The Company's debentures are not convertible to shares and are recorded as debt.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

11. LOANS, FINANCING, DEBENTURES AND FINANCE LEASES -- continued

a) The composition of loans, financing, debentures and finance leases is as follows:

Description	Effective Annual Interest Rate	Index	2016			2015		
			Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	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
Finance leases	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 year			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
Finance leases			562	40,546	41,108	-	-	-

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

11. LOANS, FINANCING, DEBENTURES AND FINANCE LEASES -- continued

b) Descriptions of the loans, financing, debentures and finance leases:

Description	Issuance Period	Final Maturity	Contracted Amount	Quantity of 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
Finance Leases (11)	2013	2036	460,592	-	Monthly	Monthly
Caixa Econômica Federal – 224 Agreements (8)	1991 to 2014	2038	1,528,916	-	Monthly	Monthly

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

11. LOANS, FINANCING, DEBENTURES AND FINANCE LEASES -- continued

b) Descriptions of the loans, financing, debentures and finance leases -- 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 into shares, in two series, for public distribution, intended to fund the investment plan and working capital.
- (2) Debentures 5th Issue – issued on June 15, 2015 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 into shares, in two series, for public distribution, intended to fund 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 into shares, in two series, for public distribution, intended to fund 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 restricted deposits in non-current assets. In 2016 the amount of R\$2,760 was released.
- (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.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

11. LOANS, FINANCING, DEBENTURES AND FINANCE LEASES -- continued

b) Descriptions of the loans, financing, debentures and finance leases -- 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. In 2016, the amount of R\$61,059 was released.
- (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* during the term of the financing agreements. In 2016, the amount of R\$111,307 was released.
- (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) Finance leases – 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: 12 installments of 21.1% of the VML, commencing February 2017; 2nd Phase: 12 installments of 49.3% of the VML; 3rd Phase: 12 installments of 79.5% of the VML and 4th Phase: 204 installments of 100% of the VML. There were no amortization during 2016.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

11. LOANS, FINANCING, DEBENTURES AND FINANCE LEASES -- continued

c) The loans, financing, debentures and finance leases show the following movement:

Description	2016		2015	
	Current Liabilities	Non-Current Liabilities	Current Liabilities	Non-Current Liabilities
Balances at the beginning of the year	230,660	2,105,348	244,334	1,628,159
Issuances	-	494,178	-	652,815
Interest and charges	238,666	-	203,015	-
Monetary indexation	-	50,055	-	50,423
Transfers	356,452	(356,452)	226,012	(226,012)
Repayment	(446,496)	-	(442,773)	-
Borrowing costs	(681)	(764)	72	(37)
Leases	562	40,546	-	-
Balances at the end of he year	379,163	2,332,911	230,660	2,105,348

d) The amortization timeline 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
Debentures	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	119,920	123,308	127,307	103,968	94,320	82,251	572,407	1,223,481
Finance leases	562	631	707	793	889	997	36,529	41,108
Total	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 finance leases is described below:

Description	2016		
	Minimum Future Payments	Interest	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
Total	105,207	(64,099)	41,108

A discount rate of 12.1% was applied.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reals*)

11. LOANS, FINANCING, DEBENTURES AND FINANCE LEASES -- 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, there were new issuances of R\$111,178.

BNDES Financing - During 2016, there were new issuances of 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.

Finance leases – 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 on the loans, financing and debentures are described below:

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

<u>Index</u>	<u>Threshold</u>	<u>Range</u>
Adjusted EBITDA / Debt Service	Not less than 1.5	Less than 1.5 and equal to or higher than 1.2
Adjusted Net Bank Debt / Adjusted EBITDA	Equal or under 3.0	Equal or under 3.8 and higher than 3.0
Other Onerous Debt / Adjusted EBITDA	Equal or under 1.0	Equal or under 1.3 and higher than 1.0

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

11. LOANS, FINANCING, DEBENTURES AND FINANCE LEASES -- continued

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

<u>Index</u>	<u>Limit</u>
Net Bank Debt / Adjusted EBITDA	Equal or under 3.0
EBITDA / Net Finance Expenses	Not less than 1.5

In the case of the BNDES and the 2nd and 4th Debenture Issuance Agreements, the Company has to maintain, during the entire term of the financing agreements, the ratio limits calculated on a quarterly basis in respect of the latest 12 months.

If one or more of the Company's covenants shows, for at least two 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 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 debentures issuances and the BNDES financing.

12. CONCESSION AGREEMENTS

The Company has onerous concession contracts for providing public services involving water supply and the collection, removal and treatment of sewage with the Municipality of Curitiba, for a term of 30 years, which was signed 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 contract and adjusted 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.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

12. CONCESSION AGREEMENTS -- continued

The maturity dates of the obligation 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 payable	20,237	14,884
PASEP payable	4,378	3,220
COFINS – Installments (1)	4,079	4,361
Urban Property Tax - IPTU – Installments (2)	1,749	1,751
Taxes and contributions withheld	34,228	27,376
Total taxes and contributions	64,671	51,592
Current liabilities	63,260	50,124
Non-current liabilities	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 FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

13. TAXES AND CONTRIBUTIONS -- continued

- (2) This amount refers to IPTU (Urban Property Tax) owed to the City 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 LIABILITIES

The composition shows the following amounts:

Description	2016	2015
Programs linked to National Water Agency - ANA	7,409	6,646
Contracts and agreements with third parties	12,224	12,442
Arrangements with municipalities	11,338	9,011
Surety and values to reimburse	6,701	8,238
Agreement with public prosecution of Paraná (1)	-	5,050
Settlement with the Environmental Institute of Paraná - IAP (2)	3,780	-
Total	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 2016, 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.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

15. PROVISIONS, CONTINGENT LIABILITIES AND JUDICIAL DEPOSITS

Accounting Practice:

The Company records provisions when management, supported by the opinion of its legal counsels, believes that the probability exists of losses on certain proceedings that arise in the normal course of its business. In the case of labor proceedings, based on the history of rulings, provisions are recorded for the total amounts of these proceedings.

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 inspection and additional exposure identified, based on new issues or court decisions.

a) Provisions

The Company records provisions for civil, labor, tax and environmental proceedings classified as probable losses, as follows:

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

Labor proceedings

Labor proceedings 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 proceedings 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 proceedings

Civil proceedings involve requests for compensation from consumers and suppliers and for damage caused to third parties. The main proceedings 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.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

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

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 proceedings for pain and suffering due to the lack of water in the municipality of Maringá.

Environmental proceedings

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 main provision recorded relates to discussions with the environmental authorities of R\$40,000 for the period when the Sewage Treatment Stations did not have an operating license.

Tax proceedings

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 recorded for possible losses, in accordance with CPC 25.

The position of contingent liabilities where a loss is considered 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
Total	404,323	608,863

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

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

b) Contingent Liabilities -- continued

Civil

Civil proceedings relate to claims for indemnity by consumers, 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 main 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) Judicial Deposits

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

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

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

The breakdown is as follows:

Type	Judicial 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
Total	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 in accordance 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 presented on a net basis, provided that there is a legal or contractual right to offset them.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reals*)

16. INCOME AND SOCIAL CONTRIBUTION TAXES

a) Statement of reconciliation of income tax and social contribution expenses registered in the statement of income

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

Current and deferred income tax and social contribution recorded in profit or loss for the year are as follows:

Description	2016	2015
Current income tax	(148,607)	(96,410)
Current social contribution	(55,392)	(35,714)
Deferred income tax	30,694	22,658
Deferred social contribution	10,567	7,596
Total	(162,738)	(101,870)

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

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

16. INCOME AND SOCIAL CONTRIBUTION TAXES -- continued

c) Deferred income taxes

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

Description	Term					2016	2015
		Estimated realization	Calculation base	Income tax	Social contribution	Total	Total
ASSETS							
NPV over contractual financial assets	30 years	307,750	76,938	27,697	104,635	60,731	
Pension and health care plans	15 years	795,928	198,982	71,633	270,615	239,168	
Reduction to recoverable value of assets	10 years	12,522	3,131	1,127	4,258	3,777	
Civil, labor, tax and environmental proceedings	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	
Total			426,694	153,609	580,303	484,156	
LIABILITIES							
NPV over 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	
Finance leases	20 years	41,036	10,259	3,693	13,952	-	
Revaluation reserve	16 years	132,122	33,031	11,891	44,922	47,819	
Demeed cost adjustment	6 years	15,773	3,943	1,420	5,363	6,257	
Total			160,740	45,566	206,306	149,381	
Net total			265,954	108,043	373,997	334,775	

d) Estimate of future realization of deferred taxes

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

Realization periods	Deferred tax assets			Deferred tax liabilities		
	Income tax	Social Contribution	Total	Income tax	Social Contribution	Total
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
Total	426,694	153,609	580,303	160,740	45,566	206,306

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

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 described in this note.

The Company distributed to the State of Paraná interest on shareholders' equity for 2016 of 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 distribution 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 in 2016 and 2015, respectively. According to the Paraná State Attorney General's Office, the Company can off set amounts receivable against amounts payable to the State of Paraná for dividends or interest on shareholders' equity.

The Company distributed to Dominó Holdings S/A interest on shareholders' equity for 2016 of 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 distribution 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) has credits, as of December 31, 2016, of R\$13,177 for interest on shareholders' equity (R\$15,063 in 2015) and proposed additional dividends of R\$113 (R\$280 in 2015) totaling R\$13,290 (R\$15,343 in 2015). The disbritutions 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, in 2016 (R\$378,576 and R\$2,886, respectively, in 2015). The Company provided water and sewage services to COPEL with revenues of R\$1,566 and R\$1,409 in 2016 and 2015, respectively.

The Company provides water and sewage services to a number of municipalities, mainly in the State of Paraná, under concession agreements and municipal programs. Revenues from these municipalities in 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 FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reals*)

17. RELATED PARTIES -- continued

The management of Sanepar considers these to be normal market operations, except in the case of certain municipalities 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 issuance of shares, which started on December 20, 2016, added 27,114,967 new preferred shares and changed the share structure of the Company as follows:

<u>Description</u>	<u>Sep. 30, 2016</u>	<u>%</u>	<u>Conversion</u>	<u>Issuance</u>	<u>Dec. 31, 2016</u>	<u>%</u>
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
Total	476,620,206	100.0	-	27,114,967	503,735,173	100.0

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

18. SHAREHOLDERS' EQUITY -- 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 condition 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 enters 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-in capital as at December 31, 2016, was R\$2,854,952, or R\$2,847,664 after deducting share issuance 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
Total	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 accumulated profit. 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 were as follows:

Description	2016	2015
Balances at beginning of the year	92,825	98,750
Revaluation reserve	(8,522)	(8,977)
Tax effects on revaluation reserve	2,897	3,052
Balances at the end of the year	87,200	92,825

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

18. SHAREHOLDERS' EQUITY -- continued

c) Investments reserve

The investments reserve is the profit remaining after setting up the legal reserve and the fiscal incentives reserve, and after distributing interest on shareholders' equity and dividends. This reserve cannot exceed the amount of paid-in capital stock. Funds intended for the investments 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 proposed, subject to approval by the shareholders in general meeting, to allocate R\$304,946 of retained earnings to the investments reserve. 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 shareholders' equity is calculated according to the law, at the official long-term interest rate (TJLP) applied to adjusted shareholders' equity. Interest on shareholders' equity is recorded as a finance expense and reclassified to shareholders' equity for presentation and publication of the financial statements. If the amount paid as interest on shareholders' 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 as adjusted by the Brazilian corporate law. Preferred shareholders are paid interest on shareholders' equity or dividends per share at a rate 10% higher than for the holders of common shares.

The tax legislation allows companies to pay interest on shareholders' 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, as dividends. Tax at a rate of 15% is withheld at source on these amounts when the interest is credited.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reals*)

18. SHAREHOLDERS' EQUITY -- continued

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

The Company's 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
Constitution of legal reserve	(31,343)	(21,922)
Donations and government grants	(335)	(715)
Basis for calculation of mandatory dividends	<u>595,169</u>	<u>415,807</u>
Mandatory dividends (25%)	148,792	103,952
Additional dividends proposed	148,793	103,951
Proposed dividends and interest on shareholders' 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 shareholders' 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 current liabilities.

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

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

18. SHAREHOLDERS' EQUITY -- continued

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

Interest on shareholders' 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
Total	476,620,206	143,307	

Interest on shareholders' 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
Total	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
Total	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 shareholders' 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.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

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 and diluted earnings per share	2016	2015
Numerator		
Net income for the year attributed		
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 Brazilian 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-in capital. The legal reserve can only be used to increase capital or absorb accumulated losses. Management also complies with the Brazilian Corporate Law in respect of the limit of capital applicable to income reserves.

g) Fiscal incentives 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 grants, in accordance with Article 195-A of the Corporate Law this amount was excluded from the base for calculating dividends.

h) Demeed cost adjustments

Set up in compliance with Article 182 of the Corporate Law related to revaluation adjustments to fair value.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

18. SHAREHOLDERS' EQUITY -- 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 accumulated profit. 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>
Balances at beginning of the year	12,147	14,073
Realization of deemed cost adjustment	(2,631)	(2,919)
Tax effects on realization of deemed cost adjustments	894	993
Balances at the end of the year	10,410	12,147

19. OPERATING REVENUES

Accounting Practice:

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

Construction revenues: According to CPC 17 (R1) – Construction contracts, 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 recorded up to the balance sheet date must be in the same proportion to the total estimated cost as the contractual costs are recorded. The Company uses a zero margin to measure construction revenues and costs.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

19. OPERATING REVENUES -- continued

The different types of operating revenue are as follows:

Description	2016	2015
Revenues		
Water revenue	2,309,458	1,944,616
Sewage revenue	1,270,631	1,044,242
Services revenue	125,877	100,477
Solid waste revenue	7,867	8,060
Services provided to municipalities	7,870	6,190
Other revenue	19,303	79,767
Total gross operating revenue	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 revenue	3,477,525	2,971,185

The Company obtained revenues and incurred costs on construction contracts linked to program contracts 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 SERVICES

Types of costs are as follows:

Description	2016			2015		
	Water	Sewage	Total	Water	Sewage	Total
Personnel	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
Third party services	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
Total	1,055,868	389,240	1,445,108	992,747	352,415	1,345,162

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

21. OPERATING EXPENSES

The expenses can be broken down as follows:

Description	2016	2015
Selling expenses		
Personnel	104,757	92,508
Materials	3,497	3,125
Third party services	69,785	58,193
Depreciation and amortization	5,723	5,405
Losses in realization of credits	21,890	(5,862)
Other expenses	47,415	49,411
Total of selling expenses	253,067	202,780
Administrative expenses		
Personnel	582,353	544,900
Materials	34,571	28,849
Third party services	144,943	134,215
Depreciation and amortization	15,218	16,011
Losses in realization of credits	(115)	1,063
Other expenses	49,202	64,231
Transfers to cost of services and selling expenses (a)	(122,900)	(107,853)
Capitalized expenses (b)	(87,111)	(89,464)
Total administrative expenses	616,161	591,952
Other operating expenses, net		
Expenses		
Write-off of assets	(13,948)	(19,150)
Revenues		
Sale of assets	2,751	3,794
Total of other operating 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 PLAN

The Company has recorded R\$37,198 (R\$25,988 in 2015) for profit sharing in 2016, and the provision is recorded in Payroll and related charges in current liabilities. In August 2016, the Company recorded a supplementary provision for the 2015 profit-sharing program of R\$15,925, totaling the amount of R\$53,123 in 2016.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of Brazilian Reais)

23. FINANCE RESULTS

<u>Description</u>	<u>2016</u>	<u>2015</u>
Finance income		
Monetary indexation	15,092	19,239
Short term investments	39,510	23,698
Other finance income	25,924	9,062
Total finance income	80,526	51,999
Finance expenses		
Interest on loans, financing and debentures	(193,566)	(157,189)
Monetary indexation	(44,914)	(42,011)
Other finance expenses	(6,327)	(12,273)
Total finance expenses	(244,807)	(211,473)
Financel results, 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: financial assets measured at fair value through profit or loss, loans and receivables, held to maturity investment and available for sale financial assets. 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 investments or available for sale financial assets.

Financial assets measured at fair value through profit or loss: 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 profit or loss. 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 presented 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 accounts receivable, loans to related parties, judicial deposits, advances and other receivables. Loans and receivables are recognized at fair value in the initial recognition and subsequently recorded at amortized cost, using the effective interest rate method.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

24. FINANCIAL INSTRUMENTS AND RISKS -- continued

Financial liabilities

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

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

The Company's loans and borrowings include the balances of loans, financing, debentures, finance 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 profit or loss.

The carrying amount and fair value of the Company's financial instruments presented in the financial statements are compared in the following table:

Description	Carrying amount		Fair value	
	2016	2015	2016	2015
Financial assets				
Cash and cash equivalents	638,330	163,797	638,330	163,797
Accounts receivable, net	570,503	487,017	570,503	487,017
Restricted deposits	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 finance leases	2,712,074	2,336,008	2,712,074	2,336,008
Contractors and suppliers	133,505	125,404	133,505	125,404
Accounts payable	-	3,087	-	3,087
Service concession arrangements	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 presented 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 bonds.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

24. FINANCIAL INSTRUMENTS AND RISKS -- continued

Restricted deposits: Long-term restricted deposits 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 presented 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 accounts receivable in installments were discounted to present value.

Changes in adjustments to present value are as follows:

Description	2016	2015
Balances at the beginning of the year	(2,840)	(1,661)
Present value adjustment	(568)	(1,179)
Balances at the end of 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.

Contractors and suppliers: accounts payable to contractors and suppliers are commitments maturing within 30 days, and are therefore close to fair value. The average period for payments by the Company is 28 days.

Loans, financing and debentures: they are recorded at fair value at inception, 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 profit or loss during the time when the loans and financing and debentures are outstanding, using the effective interest rate method, and their balances do not include future charges. Details and interest rates are described in Note 11. They do not represent additional risks for the Company at present. All loans and financing and debentures outstanding as at December 31, 2016, are related to investments in property, plant and equipment and intangible assets.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

24. FINANCIAL INSTRUMENTS AND RISKS -- continued

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

Service concession arrangements: 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 interest rates.

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

The following are the loans, financing, debentures and finance 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

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

24. FINANCIAL INSTRUMENTS AND RISKS -- continued

Interest rate sensitivity analysis: a calculation is presented below of sensitivity to possible changes in the yields of financial investments and interest on the larger loans and financing and debentures subject to floating interest rates, which could give rise to significant effects for the Company. If the yields on financial investments and interest on debt in *Reais* increased or decreased 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 presented 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
Effects of profit before tax		(28,953)	28,953	(57,906)	57,906

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

Credit risk: practically the entire population of the state are consumers 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 30 days before the disconnection date. The level of losses on payment of accounts receivable is considered normal for the sanitation sector.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

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 municipalities 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 shareholders' 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 30 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, neither 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

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

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, debentures and finance leases (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 considers loans, financing, debentures and finance leases, less cash and cash equivalents:

	<u>2016</u>	<u>2015</u>
Loans, financing, debentures and finance 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/net equity ratio	0.43	0.52

25. PENSION AND HEALTH CARE PLANS

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 employees, dependents and pensioners. The costs are recorded 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's employees.

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 its employees, both active and retired, called SaneSaúde.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

25. PENSION AND HEALTH CARE PLANS-- continued

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.

In 2016, 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 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 presented below. The Projected Credit Unit (PCU) Method was used to calculate the actuarial liability.

Statement of actuarial liability:

Description	Pension plan	Health care plan	2016	2015
Present value of actuarial liabilities	979,126	510,374	1,489,500	1,183,073
Fair value of plan assets	(690,149)	(3,423)	(693,572)	(479,636)
Total	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

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

25. PENSION AND HEALTH CARE PLANS-- continued

Calculation of actuarial liability:

Description	Pension plan	Health care plan	2016	2015
Present value of the obligation at beginning of the year	719,453	473,147	1,192,600	1,286,477
Interest cost over the obligation	97,880	67,183	165,063	143,335
Cost of current service	8,900	9,815	18,715	5,449
Benefits paid in the year	(85,438)	(15,279)	(100,717)	(68,214)
Actuarial gains and (losses) in the year	238,331	(24,492)	213,839	(178,709)
Assisted extraordinary contribution - TAC adjustment)	-	-	-	(5,265)
Total obligation of 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 over plan assets	(63,812)	(88)	(63,900)	(54,434)
Contribution of participants	(1,897)	-	(1,897)	(1,668)
Contribution of sponsor	-	(19,493)	(19,493)	(14,820)
Benefits paid in the year	85,438	15,279	100,717	68,214
Gain (loss) over plan assets in the year	(231,623)	2,260	(229,363)	(7,084)
Rollback account balance (TAC)	-	-	-	(28,219)
Fair value of assets in the year	(690,149)	(3,423)	(693,572)	(479,636)
Recognized liability at the end of year	288,977	506,951	795,928	703,437

The following assumptions were used in the actuarial valuation:

	2016	2015
Economic hypothesis		
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 of health care assets	11.53% p.a.	14.20% p.a.
Expected rate of return of pension assets	11.54% p.a.	14.20% p.a.
Future salary growth	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
Disability life table	Winklevoss D10	Winklevoss D10
Disability entry table	Light Average D40	Light Average D30
Retirement age	55 years	55 years

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

25. PENSION AND HEALTH CARE PLANS-- continued

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

Description	Pension plan	Health care plan
Database used		
Effective date	October 31, 2016	October 31, 2016
Active participants (main liability)	7,050	2,094
Covered/ Beneficiaries on benefit	2,501	2,635
a. Retirees	1,848	2,102
b. Pensioner	653	533
Dependents	-	2,739
Total participants	9,551	5,374

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

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

¹ Joined on or before March 1, 2002

Investment profitability

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.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

25. PENSION AND HEALTH CARE PLANS -- continued

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

Segment/ Term	Allocation %			Benchmark	Profitability goal
	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
Overseas investment	1.5	0.0	10.0	MSCI World	INPC + 12% pa
Real estate	3.6	0.0	8.0	INPC	INPC
Operations with participants	5.4	0.0	15.0	INPC + 10% pa	INPC + 10% pa

Risks associated with the Pension Plan - FusanPrev:

- Risk of survival;
- Salary growth;
- Investment return (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.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

25. PENSION AND HEALTH CARE PLANS -- continued

Risks associated with the medical assistance plan - SaneSaúde:

- Real growth of medical costs;
- Interest rate;
- Survival;
- Simple distribution 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.

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.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

25. PENSION AND HEALTH CARE PLANS -- continued

SaneSaúde Costing Plan: The SaneSaúde costing plan is financed 70% by the Company and 30% by the employees. 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.

SaneSaúde is paid for by Sanepar, as sponsor, and by the beneficiaries registered under the plan, through monthly contributions of amounts described 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 described 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 FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

25. PENSION AND HEALTH CARE PLANS -- 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)				
Quotes of fixed income funds	934,743		859,345	
Quotes of private credit investment funds	93,067		65,163	
Quotes of multimarket investment funds	28,201		14,895	
Total fixed income	1,056,011	79.6	939,403	81.3
Variable income (b)				
Quotes of open investment funds	32,479		28,943	
Quotes of mutual investment funds	49,257		40,199	
Share portfolio	12,929		12,899	
Total income	94,665	7.1	82,041	7.1
Real estate (c)	41,240	3.1	38,994	3.4
Operations with participants (d)	66,198	5.0	63,637	5.5
Structured (e)				
Quotes of private equity funds	22,637		18,920	
Quotes of multimarket investment funds	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 FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

25. PENSION AND HEALTH CARE PLANS -- 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	Pension plan	Health care plan	2017
Current service cost	11,526	10,303	21,829
Interest cost	103,656	55,232	158,888
Expected return of plan assets	(70,538)	-	(70,538)
Contribution of participants / employer	(2,064)	-	(2,064)
Total	42,580	65,535	108,115

Description	Pension plan	Health care plan
Value of the obligation in the period	979,125	510,374
Interest rate		
With a 1% accrual	887,235	462,475
Variation %	(9.0%)	(9.0%)
With a 1% reduction	1,080,533	563,233
Variation %	10.0%	10.0%
Cost growth		
With a 1% accrual	-	562,044
Variation %	-	10.0%
With a 1% reduction	-	463,454
Variation %	-	(9.0%)
Growth in salaries		
With a 1% accrual	987,071	-
Variation %	1.0%	-
With a 1% reduction	971,926	-
Variation %	(1.0%)	-

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reals*)

26. SEGMENT INFORMATION

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 presented 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 accounting records. Various expenses are shared, as follows:

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

26. SEGMENT INFORMATION -- continued

Description	2016			2015		
	Water	Sewage	Total	Water	Sewage	Total
Direct operating revenue	2,402,458	1,311,375	3,713,833	2,023,923	1,073,472	3,097,395
Other operating revenue	16,027	11,146	27,173	51,359	34,598	85,957
Total gross operating revenue	2,418,485	1,322,521	3,741,006	2,075,282	1,108,070	3,183,352
Revenue deductions (PASEP and COFINS)	(155,364)	(108,117)	(263,481)	(126,722)	(85,445)	(212,167)
Net operating revenue	2,263,121	1,214,404	3,477,525	1,948,560	1,022,625	2,971,185
Cost of services	(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)
Other operational expenses	(8,587)	(2,610)	(11,197)	(10,184)	(5,172)	(15,356)
Equity results	-	(3,361)	(3,361)	-	(1,688)	(1,688)
Finance expenses, net	(71,665)	(92,616)	(164,281)	(78,331)	(81,143)	(159,474)
Profit-sharing plan	(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 and health care plans	(58,103)	(40,386)	(98,489)	(46,564)	(31,297)	(77,861)
Profit before income taxes	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 (a)	280,391	462,010	742,401	318,247	476,842	795,089
Company participation – CS Bioenergia	-	12,403	12,403	-	5,287	5,287
Loans, financing, debentures and finance 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 – unaudited (c)	3,025,780	1,953,484	-	2,979,363	1,859,533	-
Volume thousands of m ³ billed – unaudited (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) Presented 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 FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(in thousands of *Brazilian Reais*)

27. INSURANCE

The Company has an insurance contract with SOMPO Seguros S/A to cover 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.

Assets	Value insured
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 proceedings. 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) coverage 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 EVENT

The first ordinary meeting of the Board of Directors for 2017 was held on January 18, 2017, 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.



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A free translation from Portuguese into English of the independent auditors' report on financial statements originally issued in Portuguese.

Independent Auditors' Report on Financial Statements

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

We have audited the accompanying financial statements of Companhia de Saneamento do Paraná – SANEPAR (the “Company”), which comprise the balance sheet as at December 31, 2015, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the Company's financial statements 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. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Companhia de Saneamento do Paraná - SANEPAR as at December 31, 2015, and its financial performance and its cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

Emphasis of matter

Reclassification of balance sheet balances as at December 31, 2014

As disclosed in Note 2.2, the Company changed the accounting practice for recording of assets related to concession contracts governed by the Brazilian Concession Law No. 8987/95. The balances of assets related to such contracts, previously classified as property, plant and equipment, were reclassified as at December 31, 2014 and January 1, 2014, for comparative purposes, and restated as set forth in CPC 23 (Accounting Policies, Changes in Accounting Estimates and Errors). Our opinion is not qualified in respect of this matter.

Other matter

Statement of Value Added

We have also audited the statement of value added for the year ended December 31, 2015, prepared under the responsibility of the Company's management, the presentation of which is required by Brazilian corporate law for publicly held companies. This statement has been subject to the same auditing procedures previously described and, in our opinion, is presented fairly, in all material respects, in relation to the overall financial statements.

Curitiba, February 22, 2016

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

Alexandre Rubio
Accountant CRC 1SP223361/O-2

Companhia de Saneamento do Paraná - SANEPAR

BALANCE SHEETS

As of December 31, 2015 and 2014
(In thousands Brazilian Reais)

ASSETS

	<u>Note</u>	<u>12/31/2015</u>	<u>12/31/2014</u> Reclassified	<u>01/01/2014</u> Reclassified
Current assets				
Cash and cash equivalents	4	163,797	69,061	146,782
Accounts receivable, net	5	477,281	393,536	368,622
Inventories		35,662	35,166	29,824
Taxes and contributions recoverable	6	28,829	22,791	18,587
Restricted deposits		9,166	13,725	15,152
Other assets	7	23,648	24,301	22,155
Total current assets		<u>738,383</u>	<u>558,580</u>	<u>601,122</u>
Non-current assets				
Accounts receivable, net	5	9,736	8,009	8,100
Taxes and contributions recoverable	6	684	786	1,086
Restricted deposits	26	34,559	30,705	30,278
Contractual financial assets	10	77,420	54,586	22,540
Judicial deposits	17.d	132,894	166,747	143,797
Deferred income taxes	18.c	334,775	379,075	340,994
Other assets	7	16,357	16,923	5,733
Investments	8	8,224	8,204	2,937
Property, plant and equipment, net	9.a	130,043	102,340	110,640
Intangible assets, net	9.b	6,761,600	6,225,784	5,480,800
Total non-current assets		<u>7,506,292</u>	<u>6,993,159</u>	<u>6,146,905</u>
TOTAL ASSETS		<u>8,244,675</u>	<u>7,551,739</u>	<u>6,748,027</u>

Companhia de Saneamento do Paraná - SANEPAR

BALANCE SHEETS

As of December 31, 2015 and 2014

(In thousands of Brazilian Reais)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>Note</u>	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>01/01/2014</u>
Current liabilities				
Loans, financing and debentures	11	230,660	244,334	112,310
Contractors and suppliers		125,404	141,079	132,427
Service concession arrangements	12	7,052	6,372	5,988
Taxes and contributions	13	50,124	44,680	45,568
Payroll and related charges		140,286	128,837	113,663
Dividends and interest on shareholders' equity	19/20	95,101	92,218	34,844
Accounts payable	14	3,087	7,200	6,681
Deferred revenue	15	3,250	3,250	3,250
Collateral and contractual retention		2,684	2,864	3,837
Pension and health care plans	27	46,896	56,324	52,063
Other liabilities	16	36,957	37,323	33,471
Total current liabilities		<u>741,501</u>	<u>764,481</u>	<u>544,102</u>
Non-current liabilities				
Loans, financing and debentures	11	2,105,348	1,628,159	1,353,510
Service concession arrangements	12	91,115	88,706	89,353
Taxes and contributions	13	1,468	1,262	-
Deferred payable	14	-	2,429	8,414
Deferred revenue	15	542	3,792	7,042
Provisions	17	463,423	467,772	437,866
Pension and health care plans	27	656,541	788,529	728,889
Other liabilities	16	4,430	5,524	12,009
Total non-current liabilities		<u>3,322,867</u>	<u>2,986,173</u>	<u>2,637,083</u>
Shareholders' equity				
	20			
Capital stock		2,597,360	2,597,360	2,597,360
Revaluation reserve		92,825	98,750	105,068
Deemed cost adjustment		12,147	14,073	16,899
Income reserves		1,398,472	1,156,122	921,030
Other comprehensive results		79,503	(65,220)	(73,515)
Total shareholders' equity		<u>4,180,307</u>	<u>3,801,085</u>	<u>3,566,842</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>8,244,675</u>	<u>7,551,739</u>	<u>6,748,027</u>

The explanatory notes are part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENTS OF INCOME

Years ended December 31, 2015 and 2014

(In thousands of Brazilian Reais, except earnings per share)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Net operating revenue	21	2,971,185	2,617,040
Costs of services	22	(1,345,162)	(1,115,124)
Gross profit		<u>1,626,023</u>	<u>1,501,916</u>
Operating expenses			
Selling expenses	23	(202,780)	(199,832)
Administrative expenses	23	(591,952)	(485,515)
Other operating expenses	23	(15,356)	(7,987)
Equity results	8	(1,688)	(186)
Profit sharing plan	24	(40,947)	(41,258)
		<u>(852,723)</u>	<u>(734,778)</u>
Finance income (expense)			
Finance income	25	51,999	28,387
Finance expense	25	(211,473)	(137,955)
		<u>(159,474)</u>	<u>(109,568)</u>
Provisions			
Civil, labor, tax and environmental proceedings	17.a	4,349	(29,906)
Pension and health care plans	27	(77,861)	(76,470)
		<u>(73,512)</u>	<u>(106,376)</u>
Profit Before Income Taxes		<u>540,314</u>	<u>551,194</u>
Income taxes	18.a	(101,870)	(129,608)
NET INCOME FOR THE YEAR		<u>438,444</u>	<u>421,586</u>
Net income attributable to common shareholders		202,969	208,043
Net income attributable to preferred shareholders		235,475	213,543
Basic and diluted earnings per share	20.e		
Common share		0.874989	0.843802
Preferred share		0.962488	0.928183
Amount of shares at end of the year			
Common shares		231,967,956	231,967,956
Preferred shares		244,652,250	244,652,250

The explanatory notes are part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2015 and 2014

(In thousands of Brazilian Reais)

	<u>2015</u>	<u>2014</u>
Net income for the year	438,444	421,586
Other comprehensive income to be reclassified to profit or loss in subsequent periods	144,723	8,295
Actuarial gains and losses	219,277	12,569
Tax effects	(74,554)	(4,274)
Total comprehensive income for the year	<u>583,167</u>	<u>429,881</u>

The explanatory notes are part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2015 and 2014

(In thousands of Brazilian Reals)

	Capital stock	Revaluation Reserve	Deemed cost adjustment	Investments reserve	Legal reserve	Fiscal incentives reserve	Income reserves	Additional proposed dividends	Accumulated profit	Comprehensive results	Other Comprehensive results	Total
Balances on December 31, 2013	2,597,360	105,068	16,899	687,956	129,680	7,749	95,645	-	-	-	(73,515)	3,566,842
Realization of revaluation reserve	-	(9,574)	-	-	-	-	-	9,574	-	-	-	-
Tax effects on realization of revaluation reserve	-	3,256	-	-	-	-	-	(3,256)	-	-	-	-
Realization of deemed cost adjustment	-	-	(4,281)	-	-	-	-	4,281	-	-	-	-
Tax effects on realization of deemed cost adjustment	-	-	1,455	-	-	-	-	(1,455)	-	-	-	-
Actuarial gains and losses	-	-	-	-	-	-	-	-	-	12,569	-	12,569
Tax effects on actuarial gains and losses	-	-	-	-	-	-	-	-	-	(4,274)	-	(4,274)
Additional dividends of 2013	-	-	-	-	-	-	(95,645)	-	-	-	-	(95,645)
Net income for the year	-	-	-	-	-	-	-	421,586	-	-	-	421,586
Proposed destination:												
Legal reserve	-	-	-	-	21,079	-	-	(21,079)	-	-	-	-
Fiscal incentives reserve	-	-	-	-	-	534	-	(534)	-	-	-	-
Interest on shareholders' equity	-	-	-	-	-	-	-	(167,545)	-	-	-	(167,545)
Additional proposed dividends	-	-	-	-	-	-	99,993	(32,441)	-	-	-	67,552
Profit retention	-	-	-	209,131	-	-	-	(209,131)	-	-	-	-
Balances on 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	-	-	-	-
Tax effects on realization of revaluation reserve	-	3,052	-	-	-	-	-	(3,052)	-	-	-	-
Realization of deemed cost adjustment	-	-	(2,919)	-	-	-	-	2,919	-	-	-	-
Tax effect on realization of deemed cost adjustment	-	-	993	-	-	-	-	(993)	-	-	-	-
Actuarial gains and losses	-	-	-	-	-	-	-	-	-	219,277	-	219,277
Tax effects on actuarial gains and losses	-	-	-	-	-	-	-	-	-	(74,554)	-	(74,554)
Additional dividends of 2014	-	-	-	-	-	-	(99,993)	-	-	-	-	(99,993)
Net income for the year	-	-	-	-	-	-	-	438,444	-	-	-	438,444
Proposed destination:												
Legal reserve	-	-	-	-	21,922	-	-	(21,922)	-	-	-	-
Fiscal incentives reserve	-	-	-	-	-	715	-	(715)	-	-	-	-
Interest on shareholders' equity	-	-	-	-	-	-	-	(204,396)	-	-	-	(204,396)
Additional proposed dividends	-	-	-	-	-	-	103,951	(3,507)	-	-	-	100,444
Profit retention	-	-	-	215,755	-	-	-	(215,755)	-	-	-	-
Balances on December 31, 2015	2,597,360	92,825	12,147	1,112,842	172,681	8,998	103,951	-	-	79,503	4,180,307	

The explanatory notes are part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENTS OF CASH FLOWS Years ended December 31, 2015 and 2014 (In thousands of Brazilian Reais)

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Net income for the year	438,444	421,586
Adjustments to reconcile the net income to net cash from operating activities		
Depreciation and amortization	194,194	175,017
Write-off of property, plant and equipment and intangible assets	11,965	10,301
Adjustment to recoverable value of assets	7,145	-
Write-off of investments	(65)	65
Net present value adjustment of financial assets	(4,568)	-
Provision for losses on accounts receivable	(4,799)	9,524
Deferred income taxes	(30,254)	(42,355)
Provisions	(4,349)	29,906
Pension and health care plans	77,861	76,470
Interest on financing	203,015	141,648
Monetary indexation on financing	50,423	29,066
Equity result	1,688	186
Borrowing costs	270	64
Decrease (increase) of assets		
Accounts receivable	(80,673)	(34,347)
Taxes and contributions recoverable	(5,936)	(3,904)
Judicial deposits	33,853	(22,950)
Inventories	(496)	(5,342)
Other assets	1,219	(13,336)
Increase (decrease) of liabilities		
Contractors and Suppliers	(15,675)	8,652
Service concession arrangements	3,089	(263)
Taxes and contributions	(4,118)	(7,911)
Salaries and related charges	11,449	15,174
Collateral and contractual retention	(180)	(973)
Deferred revenue	(3,250)	(3,250)
Accounts payable	(6,542)	(5,466)
Other liabilities	(1,460)	(2,633)
Net cash flows from operating activities	872,250	774,929
INVESTING ACTIVITIES		
Property, plant and equipment and intangible assets	(795,089)	(954,048)
Investments	(1,643)	(5,518)
Net cash flows used in investing activities	(796,732)	(959,566)
FINANCING ACTIVITIES		
Issuance of financing	652,815	484,512
Financing repayment	(243,208)	(111,810)
Interest payments	(199,565)	(135,929)
Borrowing costs	(235)	(878)
Restricted deposits	705	1,000
Payment of dividends and interest on shareholders' equity	(191,294)	(129,979)
Net cash flows from financing activities	19,218	106,916
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	94,736	(77,721)
At the beginning of the year	69,061	146,782
At end of the year	163,797	69,061

The explanatory notes are part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

STATEMENTS OF VALUE ADDED Years ended December 31, 2015 and 2014 (In thousands of Brazilian Reais)

	<u>2015</u>	<u>%</u>	<u>2014</u>	<u>%</u>
Revenue				
Products and services	3,183,352		2,814,685	
Other revenue	(8,211)		(7,987)	
Losses in the realization and recovery of assets	(2,346)		(9,524)	
	<u>3,172,795</u>		<u>2,797,174</u>	
Inputs Acquired from Third Parties				
Consumed chemical products	(68,117)		(61,457)	
Consumed materials	(61,024)		(67,918)	
Electricity	(390,862)		(206,115)	
Other costs of products and services	(314,391)		(296,272)	
Contracted third party services	(150,748)		(166,345)	
Other operating expenses	(53,669)		(56,362)	
	<u>(1,038,811)</u>		<u>(854,469)</u>	
Gross value added	<u>2,133,984</u>		<u>1,942,705</u>	
Depreciation and amortization	(194,194)		(175,017)	
Net value added	<u>1,939,790</u>		<u>1,767,688</u>	
Value added received in transfer				
Equity result	(1,688)		(186)	
Finance income	51,999		28,387	
Total value added to distribute	<u>1,990,101</u>		<u>1,795,889</u>	
Distribution of value added				
Employees and management				
Salaries and related charges	710,739	35.7	615,193	34.3
Fees of Board and Councils	8,346	0.4	6,858	0.4
Profit sharing plan	40,947	2.1	41,258	2.3
Pension and health care plans	75,477	3.8	68,379	3.8
	<u>835,509</u>	<u>42.0</u>	<u>731,688</u>	<u>40.8</u>
Governments				
Federal taxes	463,487	23.3	467,799	26.1
State taxes	498	0.0	784	0.0
Municipal taxes	1,852	0.1	1,875	0.1
	<u>465,837</u>	<u>23.4</u>	<u>470,458</u>	<u>26.2</u>
Lenders				
Leases	38,838	1.9	34,202	1.9
Interest and monetary variations	211,473	10.6	137,955	7.7
	<u>250,311</u>	<u>12.5</u>	<u>172,157</u>	<u>9.6</u>
Shareholders				
Interest on shareholders' equity	204,396	10.3	167,545	9.3
Dividends	3,507	0.2	32,441	1.8
Undistributed net income of the year	<u>230,541</u>	<u>11.6</u>	<u>221,600</u>	<u>12.3</u>
Total	<u>1,990,101</u>	<u>100.0</u>	<u>1,795,889</u>	<u>100.0</u>

The explanatory notes are part of the financial statements.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

1. OPERATIONAL CONTEXT

Companhia de Saneamento do Paraná - SANEPAR (also identified as “Company” or “Sanepar”), has its headquarter at Rua Engenheiros Rebouças in Curitiba - Paraná, is a mixed capital company, whose corporate objective, by the State of Paraná delegation and its municipalities, is the operation of sanitation services, mainly the distribution of water, collection and treatment of sewage, as well as collection and treatment of solid waste, studies, projects and execution of works relating to new facilities, extensions of water distribution networks and the collection and treatment of sewage and providing advisory services and technical assistance in these areas. The Company also collaborates with agencies and federal, state and municipal entities in matters pertaining to the development of its basic objectives.

The Company, by concessions from the municipalities, provides water treatment and distribution and sewage collection and treatment services. Renewals of contracts have, on average, its period of validity set between 20 and 30 years. Of a total of 346 concessions, approximately 6.0% of the contracts are in the process of renewal for being overdue, 3.5% maturing from 2016 to 2020 and 90,5% were renewed with their maturities after 2020. In the case of concessions that were not renewed at the expiration date, the municipality must reimburse the Company for the residual accounting amounts of the concession assets. The assets related to the Program Contracts, in accordance with Law 11,445/2007 - Regulatory Framework, which established national guidelines for basic sanitation, are recorded in intangible assets. For the assets with an economic useful life that exceeds the contractual term, a financial asset is recorded based on the residual amount.

Only the concession of the municipality of Curitiba has rules that determine a cost for the concession to be paid by the Company as described in Note 12.

The Company participates with 40% of the share capital of a Specific Purpose Entity, named “CS Bioenergia S.A.”, the objective of this entity is the exploitation and adequate disposal of solid organic waste and sludge produced at the sewage treatment plants, biogas production, and power generation as indicated in Note 8.

The Company is registered at the CVM as a publicly-held company under category A (issuers authorized to negotiate any securities) and the Company’s shares are negotiated in the São Paulo Stock Exchange (BM&FBOVESPA).

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

2. PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Declaration of Conformity

The financial statements are presented in accordance with Law 6404/76, 11638/07 and 11941/09. They were prepared in accordance with accounting practices adopted in Brazil, which are based on the Brazilian Corporate Law, the pronouncements, guidelines, and interpretations issued by the Accounting Pronouncements Committee (Comitê de Pronunciamentos Contábeis – CPC) and the accounting standards and rules established by the Brazilian Securities Commission - CVM.

The financial statements were authorized for issuance by the Company's Management on February 22, 2016.

2.2 Change of Accounting Practice

a) Assets linked to concession agreements

Until 2014 the accounting practice of the company was to record assets linked to contracts governed by the Law of Concessions - Law 8,987/95 (Concession Contracts) in property, plant and equipment, and assets linked to contracts signed under the new sanitation regulatory framework - Law 11,445/07 (Program Contracts) according to the bifurcated model (financial assets and intangible assets) defined by the ICPC 01 and OCPC 05. After this year, the Company changed the way contracts governed by Law 8,987/95 are recorded, and now also records these contracts in intangible assets.

b) Contractual Financial Assets

As from 2015, the Company adjust the contract financial assets to present value. This value is relative to the expected residual value receivable at the end of Program contracts as a result of assets related to the concession that have an useful life that exceeds the contractual term.

As required by CPC Technical Pronouncement 23 – Accounting Policies, Changes in Accounting Estimates and Errors, which aims to preserve the comparability of financial statements between the years, the Company reclassified the balances of property, plant and equipment as of December 31, 2013 and 2014 to intangible assets and the contractual financial assets, considering the present value adjustment, as follows:

	<u>01/01/2014</u>		<u>01/01/2014</u>
	As		
Assets	previously	Adjustment	As reclassified
	reported		
Non-current assets			
Contractual financial assets	107,599	(85,059)	22,540
Property, plant and equipment, net	5,094,158	(4,983,518)	110,640
Intangible assets, net	412,223	5,068,577	5,480,800

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

2. PRESENTATION OF THE FINANCIAL STATEMENTS -- continued

2.2 Change of Accounting Practice -- continued

	<u>2014</u>		<u>2014</u>
	<u>As</u>		<u>As</u>
Assets	<u>previously</u>	<u>Adjustment</u>	<u>reclassified</u>
	<u>reported</u>		
Non-current assets			
Contractual financial assets	194,078	(139,492)	54,586
Property, plant and equipment, net	5,527,281	(5,424,941)	102,340
Intangible assets, net	661,351	5,564,433	6,225,784

2.3 Measurement Basis

The financial statements were prepared based on the historical cost.

2.4 Functional currency and presentation currency

All amounts presented in the financial statements, including the values included in the notes, are expressed in thousands of Reais, which is the Company's functional currency, unless otherwise indicated.

3. SIGNIFICANT ACCOUNTING PRACTICES

The Company applied the accounting practices described below consistently to all the years presented in these financial statements, except for the changes mentioned in Note 2.2.

The significant accounting practices, the details of which are available in the relevant respective notes, adopted in the preparation of the financial statements were as follows:

- a) Cash and cash equivalents – Note 4
- b) Accounts receivable - Note 5
- c) Provision for losses – Note 5
- d) Investments – Note 8
- e) Property, plant and equipment – Note 9
- f) Intangible assets – Note 9
- g) Capitalization of interest and financial charges - Note 9
- h) Contractual financial assets – Note 10

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

3. SIGNIFICANT ACCOUNTING PRACTICES -- continued

- i) Loans, financing and debentures – Note 11
- j) Provisions and contingent liabilities – Note 17
- k) Income taxes – Note 18
- l) Related parties – Note 19
- m) Interest on shareholders' equity – Note 20.d
- n) Revenue – Note 21
- o) Financial instruments – Note 26
- p) Post-employment benefit granted to employees – Note 27
- q) Inventories: consisted mainly of maintenance and repair supplies, recorded by their average purchase cost, in current assets. The book values do not exceed their replacement cost or realization cost.
- r) Current and non-current liabilities: All liabilities are recorded by the known or estimated amount and, when applicable, adjusted *pro rata*, until the closing date of the financial statements, based on the indicators and charges agreed upon, without the need to adjust the present value.
- s) Concessions: The Company records the infrastructure it uses to operate the public basic sanitation services, as follows:

Concession Contracts: the assets arising from “Concession Contracts” signed prior to Law 11,445/07 (still governed by the Law of Concessions - Law 8,987/95), are amortized by the economic useful life based on a technical study conducted by the Company.

Program Contracts: the assets arising from “Program Contracts”, in accordance with Law 11,445/07 – Regulatory Framework, which defines the national guidelines for basic sanitation, in which the grantor (municipality) must prepare the Municipal Basic Sanitation Plan, are recorded according to the bifurcated model (intangible asset and financial asset) defined by ICPC 01 (R1) and OCPC 05. In this model, on the date of signing the program contract, the Company records a part in intangible assets, to the extent that it receives the right (a license) to charge the user of the public service, and part of the value in financial assets to the extent that the maturity of the recorded assets in the intangible assets do not surpass the effective period of the Program Contract. The financial asset represents the remaining value of the intangible asset to be reimbursed to the Company by the granting authority by the end of the contract effective period. The Company's assets are amortized according to the terms of the contract or by their useful life, whichever is shorter.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

3. SIGNIFICANT ACCOUNTING PRACTICES -- continued

- t) Statements of Cash Flows and Value Added: The statements of cash flows were prepared and are presented in accordance with Technical Pronouncement CPC 03 (R2) – Statements of Cash Flows. The statements of value added were prepared and are presented in accordance with Technical Pronouncement CPC 09 – Statements of Value Added.
- u) Use of Estimates and Judgments: The preparation of financial statements in accordance with the accounting practices adopted in Brazil requires the Company's management to use estimates and assumptions that affect the amounts disclosed in the financial statements. The actual results can differ from these estimates.

Estimates and assumptions are reviewed continuously. Reviews of accounting estimates are recognized in the year in which the estimates are reviewed and in any of the affected future years. The main estimates are summarized below:

Impairment of financial assets

The Company evaluates in the reporting dates if there are any evidence that determines whether the financial asset, or financial assets group, is not recoverable.

A financial asset, or group of financial assets, is considered not recoverable if, and only if, there is objective evidence of the absence of recoverability as a result of one or more events that may have occurred after the initial recognition of the asset (an incurred "loss event"), and this loss event has affected future estimated cash flows of the financial asset, or group of financial assets, that be reasonably estimated.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generation unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs to disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and no not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model, as well as, the expected future cash-inflows and the growth rate used for extrapolation purposes.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

3. SIGNIFICANT ACCOUNTING PRACTICES -- continued

u) Use of Estimates and Judgments -- continued

Provisions for tax, civil, labor and environmental proceedings

The Company recognizes provisions for tax, civil, labor and environmental proceedings. The assessment of the probability of loss includes the assessment of the available evidences, the hierarchy of laws, available jurisprudences, recent court decisions and its relevance in the legal system, as well as the assessment of the legal counsels.

The Company's management believes that provisions for tax, civil, environmental and labor proceedings are necessary and appropriate based on current legislation.

Provision for losses on accounts receivable

The provision for losses on accounts receivable is recorded in amounts considered sufficient by Management to cover losses in the realization of the accounts receivable, taking into consideration the history of losses and an individual assessment of the accounts receivables under realization risks.

Taxes

There are uncertainties regarding the interpretation of complex tax regulations and the values and period of future tax results. Given the long-term nature and complexity of the existing contractual instruments, differences between actual income and the assumption adopted, or future changes to these assumptions, can demand future adjustments to the amounts recorded as tax income and expense. The Company establishes provisions, based on reasonable estimates, for the possible consequences of the audits by tax authorities of the respective jurisdictions in which it operates. The value of these provisions are based in several factors, such as previous tax audits history and divergent interpretations of the tax regulation by the taxable entity and by the relevant tax authority. These differences of interpretation can arise from a broad range of issues, depending on the current conditions of the respective location of the Company.

Significant judgment by Management is required to determine the deferred income tax asset that can be recognized, based on a reasonable term, as well as at the level of the expected taxable profit for the upcoming years, together with future tax planning strategies.

Pension and health care plans

The cost of the defined benefit pension plan and other post-employment health care benefits, and the present value of the pension obligation are defined using actuarial valuations. An actuarial valuation involves making various assumptions that include the discount rate, expected return on assets, future salary increases, mortality rates and future pension increases. The obligation of the defined benefit is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

3. SIGNIFICANT ACCOUNTING PRACTICES -- continued

v) New pronouncements not effective on December 31, 2015

The issued standards and interpretations that may have significant effects applicable to the company, but that have not been adopted by the issue date of the financial statements of the company, are the following:

IFRS 9 Financial Instruments: In July 2014, the IASB issued the final version of IFRS 9 - *Financial Instruments*, which replaces IAS 39 - *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of accounting for financial instruments: classification and measurement, loss by decrease in recoverable value and hedge accounting. The IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with few exceptions.

Amendments to IAS 19 - Defined Benefits Plans – Employee Contributions: IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefits plans. Where the contributions are linked to services, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent on the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service costs in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This is effective for annual periods beginning on or after January 1, 2016. The Company is assessing the impact of the amendments and does not expect them to be significant.

IFRS 15 Revenue from Contracts with Customers: IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. According to IFRS 15, revenues are recognized in an amount that reflects the consideration to which an entity expects to have the right to exchange the transfer of goods or services to a customer. The new standard for revenues will replace all the current requirements for revenue recognition according to IFRS. Full retrospective adoption or modified retrospective adoption is required for annual periods beginning January 1, 2018, although earlier adoption is permitted. The Company is assessing the impacts on its financial statements and disclosures and has not defined yet the transition method nor has determined its impacts on its current financial reports.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

4. CASH AND CASH EQUIVALENTS

Accounting Practice:

Include cash, bank deposits and short-term investments that are shown at cost, plus income earned in accordance with the rates agreed with the Financial Institutions, calculated pro rata and collected monthly. A financial investment qualifies as a cash equivalent when it has immediate convertibility characteristics with the actual issuer in a known amount of cash and not subject to risk of significant change of value.

Cash and cash equivalents are composed as follows:

<u>Description</u>	<u>2015</u>	<u>2014</u>
Cash	1	1
Unrestricted bank deposits	4,568	2,541
Linked bank deposits	11,823	16,324
	<u>16,392</u>	<u>18,866</u>
Short term investments (1)		
Caixa FI Sanepar I Renda Fixa (2)	74,071	28,366
Itaú Corp Plus Referenciado (3)	1	1,852
Corporate CDB Flex (4)	73,333	19,977
	<u>147,405</u>	<u>50,195</u>
Total Cash and Cash Equivalents	<u>163,797</u>	<u>69,061</u>

(1) The financial investments are short-term, highly liquid and low risk of change in value. They comprise fixed income funds applied in Investment Funds, with an average remuneration of 99.43% of the CDI (100.29% in 2014) and a Bank Deposit Certificate of the CAIXA.

(2) The CAIXA FI SANEPAR I RENDA FIXA Fund is exclusive for the Company's investments, whereas on 12/31/2015, it allocated 75.29% of the resources in NTN-B Financial Commitment Transactions, which have immediate sale-back option to the bank; 1.98% in Federal Public Securities (LFT and LTN) and 22.73% in first class Financial Institution CDB (83.48%, 3.18% e 13.34%, respectively, in 2014).

(3) The ITAÚ CORP PLUS REF DI FICFI Fund aims at follow up the CDI variation by means of investments which allocate, at least, 95% of its resources in securities or transactions referenced to this indicator. The portfolio is composed by public securities and up to 50% of private low risk securities, whereas on 12/31/2015, it allocated 50.54% to the resources in fixed income, 49.11% in Financial Committed Transactions and 0.35% in other investments (50.54%, 49.36% and 0.10% respectively, in 2014).

(4) The Bank Deposit Certificate (CDB) is issued by the Caixa Econômica Federal (CEF), remunerated at a CDI index of 100.9%, with high liquidity.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

5. ACCOUNTS RECEIVABLE

Accounting Practice:

Accounts Receivable. Include services measured and billed, but not received, and revenue from water supply and sewage collection that has not been billed, accounted by estimate according to the competence regime and estimated consumption between the reading date and end of each month, based on the average consumption of each client. The balance of accounts receivable for instalments was adjusted to the current value.

Provision for Loss on Realization of Credits: In order to estimate the amounts of the provision for losses in the realization of credits, to be recognized in the period, the Company's Management analyses its accounts receivable, especially the overdue amounts, considering the composition of the balance of accounts receivable by maturity and the recovery expectation in each class of customer.

The provision is based on the values receivables from residential, commercial and industrial clients, as well as Federal Government, past due for more than 180 days; and based on values past due for more than two years from Municipal Governments, except for municipalities which have not paid the past due amounts. For these, the provision is based on the total amount of credits overdue.

a) The balances of accounts receivable are comprised as follows:

<u>Description</u>	<u>2015</u>	<u>2014</u>
Accounts receivable not due	182,698	150,729
Accounts receivable in installments	33,057	22,034
Net present value adjustment	(2,840)	(1,661)
Unbilled balances	<u>134,104</u>	<u>112,908</u>
	347,019	284,010
Accounts receivable overdue		
From 1 to 30 days	89,053	70,903
From 31 to 60 days	26,106	22,382
From 61 to 90 days	8,727	10,511
From 91 to 180 days	12,347	12,558
Over 180 days	129,160	133,686
Provision for losses	<u>(125,395)</u>	<u>(132,505)</u>
	139,998	117,535
Total accounts receivable, net	<u>487,017</u>	<u>401,545</u>
Current assets	477,281	393,536
Non-current assets	9,736	8,009

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

5. ACCOUNTS RECEIVABLE -- continued

Of the total overdue receivables, net of losses, the amount of R\$ 3,922 (R\$ 6,008 in 2014) refers to Municipalities; R\$ 118,403 (R\$ 89,603 in 2014) to private customers; and R\$ 17,673 (R\$ 21,924 in 2014) to the State and Federal sectors.

b) The changes in provision for losses was as follows:

Description	2015	2014
Balances at beginning of the year	(132,505)	(123,926)
Amounts recorded in profit or loss	4,799	(9,524)
Write-off, net of recoveries	2,311	945
Balances at end of the year	(125,395)	(132,505)

Reversal of provision for losses in the year was a result of payment of overdue accounts by Municipalities and private customers.

c) The balance of provision for losses is composed as follows:

Description	2015	2014
Private customers	64,355	60,424
Federal Government	11	12
Municipalities	61,029	72,069
Total	125,395	132,505

6. TAXES AND CONTRIBUTIONS RECOVERABLE

Composed as follows:

Description	2015	2014
Recoverable Income tax	20,998	17,250
Recoverable Social Contribution	7,207	4,838
Withheld Tax and Contributions – public bodies	1,026	1,207
Other recoverable taxes	282	282
Total	29,513	23,577
Current assets	28,829	22,791
Non-current assets	684	786

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

7. OTHER ASSETS

Other assets consists of the following amounts:

Description	2015	2014
Advances to employees	3,529	3,428
Reimbursable payments	5,646	4,724
Pledge deposit	2,235	2,416
Prepaid expenses	27,938	29,567
Other	657	1,089
Total	40,005	41,224
Current assets	23,648	24,301
Non-current assets	16,357	16,923

8. INVESTMENTS

Accounting Practice:

Joint Venture: The Company's investment in the joint venture is accounted by the equity method, it was initially recognized at cost and is adjusted for the purpose of recognizing the variations of the Company's shares in the net equity of the joint venture as from the acquisition date.

The statement of income reflects the Company's participation in the operating results of the joint venture. Any variations to other comprehensive income of this investment are presented as part of the Company's other comprehensive income.

The financial statements of the joint venture are compiled for the same reporting period and the accounting policies are aligned with those of the Company.

Other Investments: These investments were evaluated by their acquisition cost, deducted by provision of losses, when applicable.

Description	2015	2014
Joint Controlled Investment – CS Bioenergia S.A.	206	1,894
AFAC – CS Bioenergia S.A.	5,081	3,438
Other Investments recognized by the Cost Method	2,937	2,872
Total	8,224	8,204

Investments in joint venture

In 2014, the Company contributed funds amounting to R\$ 5,518 in CS Bioenergia S.A., which R\$ 2,080 as capital contribution, equivalent to 40% of the investee's capital stock and R\$ 3,438 as an advance for future capital increase. In 2015, the Company made a new advance for future capital increase in the amount of R\$ 1,643.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

8. INVESTMENTS -- continued

Below, the main information of the balance sheet and results of the investment:

Balance Sheet - CS Bioenergia S.A.	2015	2014
Current assets	719	171
Non-current assets	42,830	13,207
• Rights receivable – advances for construction of R\$ 42,774		
• Others R\$56		
Current liabilities	(30,294)	(40)
Non-current liabilities	(37)	(9)
Shareholders' equity	(13,218)	(13,329)
Shareholders' equity - without AFAC (advances for future capital increase)	(515)	(4,734)
Statement of operations - CS Bioenergia S.A.	2015	2014
Revenue	-	-
(-) Operating expenses	(4,652)	(477)
Finance results	636	11
Loss before income taxes	(4,016)	(466)
Income tax and social contribution	(203)	-
Loss for the year	(4,219)	(466)

The changes in the investments was as follows:

Description	2015	2014
Balances at beginning of the year	1,894	2,080
Equity pick-up (40% interest)	(1,688)	(186)
Balances at the end of the year	206	1,894

Guarantee

On June 16, 2015, as deliberated by the 7th/2015 Extraordinary Meeting of the Board of Directors, the Executive Board was authorized to provide a guarantee for the obligations assumed by CS Bioenergia S.A., on the 1st issue, by the Issuer, of up to six Commercial Promissory Notes with real guarantee and additional unsecured guarantee, in a single series, in the nominal amount of R\$ 5,000, up the total amount of R\$ 30,000, in the proportion of 40% of the Issue volume (“Restricted Offer” and “Promissory Notes”, respectively), under the terms of CVM Instruction n° 134, of November 1, 1990, as amended, and of CVM Instruction n° 155, of August 7, 1991, which will be the object of a public offer for distribution with restricted distribution efforts, under the terms of CVM Instruction n° 476, of January 16, 2009, as amended, with Issuance approved by the Issuer in the Board of Directors meeting held on June 16, 2015.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

8. INVESTMENTS -- continued

Other investments

The Company maintain several investments over which it does not have any significant influence, recorded by the cost method which totaled R\$ 2,937 (R\$ 2,872 in 2014).

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Accounting Practice:

Property, plant and equipment: Demonstrated by the cost of acquisition or construction, including reassessments in previous years and deemed cost adjustments, deducted by depreciation calculated by the straight line method, according to the rates indicated in this Note. Every year, an impairment assessment is performed or when there is any indicator that the property, plant and equipment asset may not be recoverable.

Intangible assets: The intangible linked to the concession contracts is recorded by the cost of acquisition, construction or contracting and includes the Right of Use and Concession Contracts. The intangible asset linked to Program Contracts is initially recognized by the difference between the amount invested in assets linked to the concessions and the present value of the Contractual Financial Asset calculated according to Note 10. This is an intangible asset with a defined useful life and its amount will be amortized within the contract terms.

The amortization of intangible assets linked to Concession Contracts is calculated according to the economic useful life, and amortization of the assets links to the Program Contracts is calculated using the terms of the contracts or economic useful life of the assets that compose the infrastructure to provide public services, whichever is lower. For assets with a useful life that exceeds the contract, a financial asset is constituted, as mentioned in the Note 3(s). Every year, an impairment assessment of the intangible asset is conducted whenever there is any indicator that the intangible asset may not be recoverable.

Interest Capitalization 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 costs, until the conclusion of the construction and/or installation of the asset. After this period, the related charges are appropriated to profit or loss.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

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

a) Property, plant and equipment

Composed as follows:

By Account			2015	2014
Description	Cost	Accumulated Depreciation		(Reclassified Note 2.2) Net Value
Administrative	223,916	(94,331)	129,585	102,340
Other assets	3,063	(2,605)	458	-
Total	226,979	(96,936)	130,043	102,340

By Nature			2015	2014
Description	Rate Yearly Depreciation	Cost	Accumulated Depreciation	Net Value (Reclassified Note 2.2)
Land	-	2,323	-	2,318
Civil constructions	*1.84%	64,609	(12,316)	27,117
Improvements	2%	1,721	(587)	1,130
Installations	*5.83%	3,676	(1,825)	1,304
Equipment	*6.23%	40,962	(16,535)	16,554
Furniture and utensils	7.14%	34,113	(15,402)	16,532
Computer equipment	*19.82%	27,822	(19,166)	10,512
Vehicles	*13.05%	32,804	(21,622)	13,284
Machinery, tractors and similar	*19.35%	18,487	(9,185)	13,462
Tools	6.67%	462	(298)	127
Total		226,979	(96,936)	130,043

* Weighted average rate

b) Intangible Assets

Composed as follows:

By Account			2015	2014
Description	Cost	Accumulated Amortization		(Reclassified Note 2.2) Net Value
Water systems	3,655,140	(1,207,768)	2,447,372	2,167,551
Sewage systems	3,687,281	(769,567)	2,917,714	2,573,870
Solid waste	2,533	(2,533)	-	3,615
Rights of use and operation of Systems	125,081	(58,761)	66,320	70,532
Other intangible assets	82,797	(48,486)	34,311	30,627
Projects and construction in progress	1,243,864	-	1,243,864	1,337,041
Inventories for construction in progress	52,019	-	52,019	42,548
Total	8,848,715	(2,087,115)	6,761,600	6,225,784

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

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

b) Intangible Assets -- continued

By Nature				2015	2014
Description	Rate Annual Amortization	Cost	Amortization Accumulated		(Reclassified Note 2.2) Net Value
Land	-	82,684	-	82,684	79,635
Wells	*3.10%	118,080	(33,399)	84,681	80,798
Dams	*2.67%	141,590	(47,001)	94,589	95,985
Civil constructions	*2.59%	1,561,972	(374,764)	1,187,208	1,064,958
Improvements	*2.67%	13,348	(1,596)	11,752	9,872
Piping	*2.64%	4,087,871	(932,019)	3,155,852	2,752,668
Building connections	3.33%	545,054	(175,049)	370,005	325,139
Installations	*5.83%	96,518	(30,623)	65,895	41,228
Hydrometers	10%	152,398	(63,081)	89,317	84,027
Macrometers	10%	4,573	(2,805)	1,768	1,650
Equipment	*6.23%	432,888	(211,825)	221,063	198,896
Furniture and utensils	7.14%	4,761	(3,011)	1,750	1,722
Computer equipment	*19.82%	85,804	(79,030)	6,774	7,419
Computer programs	20%	39,228	(29,216)	10,012	13,733
Vehicles	*13.05%	22,973	(18,249)	4,724	5,320
Machinery, tractors and similar items	*19.35%	19,735	(15,491)	4,244	5,012
Tools	6.67%	274	(160)	114	118
Rights of use of transmission lines	6.25%	156	(119)	37	41
Environmental protection and conservation	20%	17,844	(10,916)	6,928	7,442
Concession of the Municipality of Curitiba (1)	3.33%	125,000	(58,680)	66,320	70,486
Concession of the Municipality of Cianorte (2)	5%	81	(81)	-	46
Projects and construction in progress	-	1,243,864	-	1,243,864	1,337,041
Inventories for construction in progress	-	52,019	-	52,019	42,548
Total		8,848,715	(2,087,115)	6,761,600	6,225,784

* Weighted average rate

- (1) Cost of costly concession contract, with a term of 30 years, whose repayment rate is an integral part of the costs related to the provision of sanitation services for the Municipality of Curitiba, as mentioned in Note 12.
- (2) Cost of the Concession Agreement with the Municipality of Cianorte for the operation of public services of collection, treatment and disposal of solid waste for a period of 20 years.

The balance of the account "Projects and construction in progress" at December 31, 2015, refers to 175 (253 in 2014) expansion and implementation works of the water supply system in 123 (158 in 2014) localities, in the amount of R\$449,158 (R\$538,651 in 2014); 236 (278 in 2014) works for the Sewage Collection and Treatment Systems in 123 (123 in 2014) localities, in the amount of R\$669,484 (R\$664,062 in 2014), and R\$125,222 (R\$134,328 in 2014) for investments in several operating projects and works of the company-operated systems.

During 2015, capitalized interest and other financial charges incurred on the funding and loans that financed the projects and construction in progress of the Company totaled R\$ 46,064 (R\$ 25,888 in 2014). The average rate used to determine the amount of borrowing costs subject to capitalization was 18.8%.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

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

c) Charges in property, plant and equipment and intangible assets in 2015:

Description	2014	Additions	Depreciation and Amortization	Write-off and Losses	Transfers	2015
	(Reclassified Note 2.2)					
Property, plant and equipment						
Land	2,318	-	-	-	5	2,323
Civil constructions	27,117	-	(939)	(5)	26,120	52,293
Improvements	1,130	-	(34)	-	38	1,134
Installations	1,304	-	(152)	(7)	706	1,851
Equipment	16,554	3,267	(1,746)	(1,073)	7,425	24,427
Furniture and utensils	16,532	2,170	(1,605)	(125)	1,739	18,711
Computer equipment	10,512	644	(2,442)	(120)	62	8,656
Vehicles	13,284	61	(1,962)	(15)	(186)	11,182
Machinery, tractors and similar items	13,462	186	(3,438)	(139)	(769)	9,302
Tools	127	54	(15)	-	(2)	164
Total property, plant and equipment	102,340	6,382	(12,333)	(1,484)	35,138	130,043
Intangible assets						
Land	79,635	1,637	-	(101)	1,513	82,684
Wells	80,798	93	(1,661)	(1,074)	6,525	84,681
Dams	95,985	-	(2,473)	-	1,077	94,589
Civil constructions	1,064,958	3,501	(29,202)	(7,672)	155,623	1,187,208
Improvements	9,872	4	(267)	(250)	2,393	11,752
Piping	2,752,668	46,499	(82,879)	(489)	440,053	3,155,852
Building connections	325,139	239	(15,286)	(316)	60,229	370,005
Installations	41,228	575	(4,244)	(1,512)	29,848	65,895
Hydrometers	84,027	4	(13,640)	(2,578)	21,504	89,317
Macrometers	1,650	-	(285)	-	403	1,768
Equipment	198,896	10,484	(18,141)	(2,869)	32,693	221,063
Furniture and utensils	1,722	205	(152)	(115)	90	1,750
Computer equipment	7,419	11	(635)	(37)	16	6,774
Computer programs	13,733	1,241	(4,962)	-	-	10,012
Vehicles	5,320	17	(724)	(75)	186	4,724
Machinery, tractors and similar items	5,012	14	(1,177)	(374)	769	4,244
Tools	118	7	(11)	-	-	114
Rights of use of transmission lines	41	-	(4)	-	-	37
Environmental protection and Concession of the Municipality of Curitiba	7,442	1,485	(1,946)	(124)	71	6,928
Concession of the Municipality of Cianorte	70,486	-	(4,166)	-	-	66,320
	46	-	(6)	(40)	-	-
Subtotal intangible assets	4,846,195	66,016	(181,861)	(17,626)	752,993	5,465,717
Projects and construction in progress	1,337,041	713,220	-	-	(806,397)	1,243,864
Inventories for construction in progress	42,548	9,471	-	-	-	52,019
Total intangible assets	6,225,784	788,707	(181,861)	(17,626)	(53,404)	6,761,600
Total	6,328,124	795,089	(194,194)	(19,110)	(a) (18,266)	6,891,643

(a) Amount transferred to the account Contractual Financial Assets referent to the expected residual amount receivable by the end of the program contracts, net of present value adjustment.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

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

d) Analysis of the Recoverable Value of Assets

According to the Technical Pronouncement CPC 01 (R1), approved by CVM Deliberation 639/10, the Company conducted a technical study to determine the recoverable value of its assets, where the CGUs were identified as the business segments of water and sewage, using the following assumptions in the calculations:

d.1) Cash-Generating Unit – Water and Sewage Segments

- To determine the recoverable amount of the asset or cash-generating units, the method adopted was the value in use, i.e. the cash flow generated by the use of these assets;
- The cash flow estimates were projected over five years as suggested by the CPC 01 (R1) - item 33 b;
- Comparison to obtain possible values of non-recoverable assets, were carried out on the basis of constant currency, i.e., was not considered the effects of inflation;
- The projections of revenue, in the cash flows, were based on the following indicators: average increase of the number of connections (vegetative growth), average consumption in m³ per connection and the average tariff charged by m³;
- The carrying amount of the asset (or cash-generating units), the final date of estimated cash flows were also considered in the recoverable amount. This procedure is based on concession contracts and program contracts, given that they provide compensation for municipalities in the case of non-renewal or breaches of contract;
- The cash flow projections of expenses were made by group analysis and estimated based on the average of the past five years of each analysis in relation to gross revenue;
- The discount rate used to calculate the present value of the cash flows was 13.6% (real rate). That percentage was based on the Weighted Average Cost of Capital (WACC) of the Company before taxes, as suggested by the CPC 01 (R1) in items 55 and 56.

The technical study concluded that the property, plant and equipment and intangible assets that are in operation, generating cash flows, are fully recoverable, it is not necessary to record a provision for impairment.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

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

d) Analysis of Asset Recovery Value -- continued

d.2) Cash-Generating Unit - Solid Waste

In the sewage system, there is a cash-generating unit for the Solid Waste operation with the following characteristics:

- The contracts of the solid waste segment were treated separately;
- The financial results of all the cash-generating units of this operation show a history of losses;
- There is no relevant fact that reveals a changing trend in the economic results of these contracts.

The technical study concluded that the assets in operation are not recoverable, so the amount allocated in the solid waste operation was recorded a provision for impairment in the amount of R\$ 7,145.

e) Study on the economic useful life of Company's assets

In 2015, the Company constituted an internal commission to review the technical study, which concluded that in this time interval, since the review of the previous year, no new facts, evidence, technologies, paradigms and significant renovations of the assets had occurred to justify changes in the adopted useful lives. Consequently, the commission recommended the maintenance of the useful lives and depreciation/amortization rates currently used for 2016. The useful lives will be reviewed again during 2016.

f) Asset Inventory

In 2015, the Company started the inventory of assets for regulatory purposes. The estimated conclusion of the inventory will be during 2016.

10. CONTRACTUAL FINANCIAL ASSETS

Accounting Practice:

Contractual financial assets are initially recognized at expected value of compensation for the non-amortized assets considering the present value by the IPCA projected for the year (index published by the Central Bank of Brazil - BACEN) during the concession period, and by the rate of weighted average cost of capital -WACC) as the discount rate, resulting in the application of an equivalent rate that represents the spread between the IPCA and the WACC rate. The variations in the present value can represent a revenue or expense to be recorded in profit or loss of the year in which it occurs.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

10. CONTRACTUAL FINANCIAL ASSETS -- continued

The changes in the contractual financial assets are as follows:

	2014	Additions	NPV Revenue	NPV Expense	2015
Investment not amortized	194,078	61,960	-	-	256,038
Present value adjustment (NPV)	(139,492)	(43,694)	5,007	(439)	(178,618)
Contractual financial assets	54,586	18,266	5,007	(439)	77,420

11. LOANS, FINANCING AND DEBENTURES

Accounting Practice:

Loans, financing and debentures are initially recognized at fair value, at the receipt of the resources, deducted by transaction costs. They are subsequently measured at amortized cost. In addition, loans, financing and debentures are classified as current liabilities, unless the Company has an unconditional right to defer the settlement of the liabilities for, at least, 12 months from the balance sheet date.

Debentures issued by the Company are not convertible into shares and are accounted as loans.

a) The composition of loans, financing and debentures is the following:

Description	Rate Effective Annual Interest	Index	2015			2014		
			Current Liabilities	Non-Current Liabilities	Total	Current Liabilities	Non-Current Liabilities	Total
Promissory Notes – 3rd Issuance	1.06%	DI	-	-	-	102,175	-	102,175
Debentures 5th Issuance - 1st series	1.37%	DI	662	111,142	111,804	-	-	-
Debentures 5th Issuance - 2nd series	1.48%	DI	1,159	188,770	189,929	-	-	-
Debentures 3rd Issuance - 1st Series	1.53%	DI	70,307	133,113	203,420	2,953	199,670	202,623
Debentures 3rd Issuance - 2nd Series	6.99%	IPCA	1,028	119,371	120,399	900	107,771	108,671
BNDES	1.82% and 2.50%	TJLP	33,375	122,831	156,206	33,294	155,097	188,391
Banco do Brasil – PSI	3.00% to 6.00%	-	3,411	22,498	25,909	2,847	26,201	29,048
Debentures 2nd Issuance - 1st series	1.92%	TJLP	12,150	91,443	103,593	12,098	102,871	114,969
Debentures 2nd Issuance - 2nd series	9.19%	IPCA	19,709	127,613	147,322	18,274	129,614	147,888
Debentures 2nd Issuance - 3rd series	1.92%	TJLP	10,570	79,556	90,126	1,762	48,250	50,012
Banco Itaú – PSI	3.00% to 6.00%	-	3,602	25,753	29,355	2,300	21,061	23,361
Debentures 4th Issuance - 1st series	1.67%	TJLP	2,499	158,975	161,474	1,059	79,249	80,308
Debentures 4th Issuance - 2nd series	7.44%	IPCA	990	65,626	66,616	-	-	-
BNDES – PAC2	1.76% and 2.05%	TJLP	9,063	116,130	125,193	4,405	50,455	54,860
Caixa Econômica Federal	6.62% to 12.68%	TR	62,135	742,527	804,662	62,267	707,920	770,187
Balances at end of the year			230,660	2,105,348	2,336,008	244,334	1,628,159	1,872,493

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

11. LOANS, FINANCING AND DEBENTURES -- continued

b) Description of loans, financing and debentures:

Description	Issuance Period	Final Maturity	Contracted Amount	Quantity of Debentures	Payments	
					Amortization	Interests
Debentures 5th Issuance - 1st series (1)	2015	2017	111,160	11,116	2017	Every Semester
Debentures 5th Issuance - 2nd series (1)	2015	2018	188,840	18,884	2018	Semi-annual
Debentures 3rd Issuance - 1st Series (2)	2013	2018	199,670	19,967	2016/2017/2018	Semi-annual
Debentures 3rd Issuance - 2nd Series (2)	2013	2020	100,330	10,033	2019/2020	Semi-annual
BNDES – 3 Contratos (3)	2007	2023	295,967	-	Monthly	Quarterly during grace period and monthly during amortization
Banco do Brasil - PSI - 11 Contracts (4)	2013 to 2014	2024	38,848	-	Monthly	Quarterly during grace period and monthly during amortization
Debentures 2nd Issuance - 1st and 3rd series	2011	2024	276,609	7,000	Monthly	Quarterly during grace period and monthly during amortization
Debentures 2nd Issuance - 2nd series	2011	2024	118,547	3,000	Annual	Annual
Banco Itaú – PSI – 11 Contracts (5)	2013 to 2014	2025	37,799	-	Monthly	Quarterly during grace period and monthly during amortization
Debentures 4th Issuance - 1st series	2014	2027	230,012	7,000	Monthly	Quarterly during grace period and monthly during amortization
Debentures 4th Issuance - 2nd series	2014	2027	98,576	3,000	Monthly	Quarterly during grace period and monthly during amortization
BNDES – PAC2 – 4 Contracts (6)	2011 to 2012	2028	395,902	-	Monthly	Quarterly during grace period and monthly during amortization
Caixa Econômica Federal – 229 Contracts (7)	1991 to 2014	2038	1,514,634	-	Monthly	Monthly

(1) Debentures 5th Issuance – issued on 06/15/2015 and with placement on 06/25/2015 of 30,000 debentures in the amount of R\$ 300,000. These debentures are simple, non-convertible into shares, in two series, for public distribution, to complement the investment plan and working capital.

(2) Debentures 3rd Issuance – issued on 11/15/2013 and with placement on 11/27/2013 of 30,000 debentures in the amount of R\$ 300,000. These debentures are simple, non-convertible into shares, in two series, for public distribution, to repay debt and working capital.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

11. LOANS, FINANCING AND DEBENTURES -- continued

b) Description of loans, financing and debentures -- continued

- (3) BNDES loans, used to drill wells in the Guarani aquifer and the operation, expansion, and optimization of water supply and sanitation systems in several municipalities in the State of Parana. These loans are guaranteed by the Company's own revenue and the escrow accounts, maintained at Caixa Econômica Federal, with balance not less than 3 maturing instalments, recorded in restricted deposits in non-current assets.
- (4) BNDES loans, used to drill wells in the Guarani aquifer and the operation, expansion, and optimization of water supply and sanitation systems in several municipalities in the State of Parana. These loans are secured by a pledge of duplicates of service, falling due within 180 days and since it does not exceed the final maturity of the contract, covering 100% of the outstanding balance of the debt.
- (5) Banco Itaú loans - PSI, with resources of BNDES - Finame, intended for the acquisition of machinery and equipment for various municipalities in the State of Parana. This financing is guaranteed by the Company's own revenues.
- (6) BNDES loans - PAC 2, with resources of the *Fundo de Amparo ao Trabalhador* to expand the water supply system, and the implementation and expansion of the sanitary sewage system in several municipalities in the State of Parana. These loans are guaranteed by the Company's own revenue and escrow accounts, maintained at Caixa Econômica Federal, with balance not less than 3 maturing instalments.
- (7) Caixa Econômica Federal loans, with resources from the FGTS, intended to increase and improve the coverage of water supply and sanitation systems for several municipalities in the State of Parana, as well as institutional development with operational improvement programs and reduction of losses. These loans, have an interest rate of 1.00% to 2.00% a year and spreads of 0.30% to 1.70% a year, and they are partly guaranteed by the water supply system of Curitiba, in the form of industrial pledge and the Company's revenues. An escrow account is maintained at Caixa throughout the term of the financing contracts, equivalent to a monthly charge.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

11. LOANS, FINANCING AND DEBENTURES -- continued

c) The changes in loans, financing and debentures are as follows:

Description	2015		2014	
	Current Liabilities	Non-Current Liabilities	Current Liabilities	Non-Current Liabilities
Balances at beginning of the year	244,334	1,628,159	112,310	1,353,510
Issuance	-	652,815	100,000	384,512
Interest	203,015	-	141,648	-
Monetary indexation	-	50,423	-	29,066
Transfers	226,012	(226,012)	138,332	(138,332)
Repayment	(442,773)	-	(247,739)	-
Borrowing costs	72	(37)	(217)	(597)
Balances at end of the year	230,660	2,105,348	244,334	1,628,159

d) The amortization timeline is as follows:

	2016	2017	2018	2019	2020	2021	2022 to 2038	Total
Debentures 2nd Issuance	42,428	38,016	38,016	38,016	38,016	38,016	108,533	341,041
Debentures 3rd Issuance	71,335	66,557	66,557	59,685	59,685	-	-	323,819
Debentures 4th Issuance	3,489	9,331	22,464	22,464	22,464	22,464	125,414	228,090
Debentures 5th Issuance	1,822	111,092	188,819	-	-	-	-	301,733
Subtotal Debentures	<u>119,074</u>	<u>224,996</u>	<u>315,856</u>	<u>120,165</u>	<u>120,165</u>	<u>60,480</u>	<u>233,947</u>	<u>1,194,683</u>
BNDES	33,375	32,825	32,825	32,372	8,046	8,046	8,717	156,206
BNDES – PAC2	9,063	11,709	11,709	11,709	11,709	11,709	57,585	125,193
Banco do Brasil - PSI	3,412	3,369	3,369	3,369	3,369	3,369	5,652	25,909
Banco Itaú - PSI	3,602	3,542	3,542	3,542	3,542	3,542	8,043	29,355
Caixa Econômica Federal	62,134	56,233	60,910	65,042	66,125	56,435	437,783	804,662
Subtotal Loans and Financing	<u>111,586</u>	<u>107,678</u>	<u>112,355</u>	<u>116,034</u>	<u>92,791</u>	<u>83,101</u>	<u>517,780</u>	<u>1,141,325</u>
Total	<u>230,660</u>	<u>332,674</u>	<u>428,211</u>	<u>236,199</u>	<u>212,956</u>	<u>143,581</u>	<u>751,727</u>	<u>2,336,008</u>

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

Debentures 2nd Issuance – Through exclusive subscription by BNDES, on 02/09/2015, it was the placement of 1,305 debentures of the 3rd series, corresponding to R\$ 49,437.

Debentures 4th Issuance – Through exclusive subscription by BNDES, on 06/17/2015, with placement of 904 debentures of the 1st series, corresponding to R\$ 29,704 and placement by BNDESPAR of 770 debentures of the 2nd series, corresponding to R\$25,301.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

11. LOANS, FINANCING AND DEBENTURES -- continued

The placement of 1,500 debentures of the 1st series, corresponding to R\$ 49,288 and the placement of 1,000 debentures by BNDESPAR of the 2nd series, corresponding to R\$32,858 through exclusive subscription by BNDES on 12/18/2015.

Caixa Econômica Federal - Between January and December 2015, there was the release of R\$ 82,784.

On 10/15/2015 there was the liquidation of the 3rd Issuance of Promissory Notes, issued on 10/20/2014, with a nominal value of R\$ 100,000, intended to reinforce the working capital of the Company.

Debentures 5th Issue – placement of 30,000 debentures, issued on 06/15/2015 and placed on 06/25/2015 in 2 series with a par value of R\$ 10, and the 1st series with 11,116 debentures and the 2nd series with 18,840 debentures totaling R\$ 300,000.

f) Restrictive Contractual Clauses– Covenants

The covenants and the restrictive clauses linked to the loans, financing and debentures are shown below:

(i) Covenants of BNDES contracts and the 2nd and 4th Issuance of Debentures

<u>Index</u>	<u>Threshold</u>	<u>Range</u>
Adjusted EBITDA/Debt Service	Not less than 1.5	Less than 1,5 and equal to or higher than 1,2
Adjusted Net Debt/Adjusted EBITDA	Equal or under 3.0	Equal or under 3.8 and higher than 3.0
Other Onerous Debt/Adjusted EBITDA	Equal or under 1.0	Equal or under 1.3 and higher than 1.0

(ii) Covenants of contracts and the 3rd and 5th Issuance of Debentures

<u>Index</u>	<u>Threshold</u>
Net debt / EBITDA	Equal or under 3.0
EBITDA / Net Financial Expense	Not less than 1.5

For the BNDES contracts and the 2nd and 4th Issuance of Debentures, the Company shall maintain throughout the term of the financing agreements the limit ratios, calculated on a quarterly basis and related to cumulative values for the past 12 months.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

11. LOANS, FINANCING AND DEBENTURES -- continued

In case one or more of the Company covenants should present for a minimum of two quarters, consecutive or not, within 12 months, the ratios within the range mentioned above, the monthly amount for the instalment of the transferred rights granted in escrow in the terms of the clause “Fiduciary Assignment of Rights” for each of the contracts will be automatically increased by 20%.

Regarding the contracts of item (ii), of the 3rd and 5th issuance of simple debentures, not convertible into shares, the type species, considering that it does not confer any special or general privilege to the holders, the Company must maintain the ratios mentioned above throughout the period and until the final maturity.

On December 31, 2015, the Company fully complied the restrictive clauses under the issuance of debentures and BNDES financing.

12. SERVICE CONCESSION ARRANGEMENTS

The Company has onerous concession contract for the operation of public services of water supply and collection, removal and treatment of sewage with the Municipality of Curitiba, for a period of 30 years, signed on December 6, 2001. Based on this contract it was fixed the amount to be paid for the concession, totaling R\$ 125,000, due in separate installments during the contract period, adjusted based on the IPCA by IBGE. The balance at December 31, 2015 was R\$ 98,167 (R\$ 95,078 in 2014), of which R\$ 7,052 (R\$ 6,372 in 2014) was recorded in current liabilities and R\$ 91,115 (R\$ 88,706 in 2014) in non-current liabilities.

The maturities are distributed as follows:

<u>Years of maturity</u>	<u>Balance payable</u>
2016	7,052
2017	7,052
2018	7,052
2019	7,052
2020	7,052
2021 to 2031	62,907
Total	98,167

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

13. TAXES AND CONTRIBUTIONS

The composition consists of the following amounts:

Description	2015	2014
COFINS Payable	14,884	12,657
PASEP Payable	3,220	2,748
COFINS – Installments (1)	4,361	4,361
IPTU - Installments(2)	1,751	1,463
Taxes and contributions withheld	27,376	24,687
Other taxes payable	-	26
Total taxes and contributions	51,592	45,942
Current liabilities	50,124	44,680
Non-current liabilities	1,468	1,262

- (1) Refers to installments of COFINS fine for the period September/1994 to September/1996 in accordance with Law 11,941/2009. The debt was divided into 60 monthly installments, restated by SELIC interest rate by the Attorney General of the National Treasury, being settled on October 31, 2014. The Company filed a writ of mandamus before the second Curitiba Justice Court on 06/28/2011, challenging the consolidated amount of debt by the Attorney General of the National Treasury, obtaining an injunction on 06/29/2011 to reduce the debt amount. The process was judged on 12/06/2011 favorable to the Company. The Attorney General of the National Treasury filed an appeal on 02/07/2012, which was judged and had the provision denied. On August 27, 2014, the Federal Prosecutor's Office expressed the Union's special appeal dismissal. On October 13, 2014, the special feature was the conclusion of Minister Marga Tesler the first Supreme Court Panel, which in view of the completion of the call, the case was returned without order for new distribution to the successor of the Minister. On 06/08/2015 the case was redistributed to the Minister Olindo Herculano de Menezes and is concluded for a decision since then.
- (2) This value refers to IPTU (Tax on Urban Building and Land) by the City of Curitiba, relevant to the legal expropriation of property subject to an area occupied by ETE CIC/Shale, for the period 2002-2013, encompassing interest, and monetary indexed and legal fees of 10% on the total amount of debt. The total debt is R\$ 1,664, and was divided by the Company into 90 monthly installments updated with the IPCA variation, with an interest of 1% a month, and, by 12/31/2015, 16 installments have been paid totaling R\$ 330.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

14. ACCOUNTS PAYABLE

The Company has financial transactions with Sanepar Foundation of Social Security - FUSAN, which are supported by contracts signed between the parties for debt payment for the special allocation, actuarially determined and indicated in the pension plan cost of FUSANPREV. This debt was split in 180 monthly installments from May 2001, calculated annually by the "Price Table" in the real interest rate equal to 6% per year, updated the balance due by the INPC, and until 12/31/2015, 175 installments were paid. The total composition of the balance at December 31, 2015, recorded as "accounts payable" in current liabilities, was R\$ 3,087 (R\$ 9,629 in 2014, of which R\$ 7,200 in current liabilities and R\$ 2,429 in non-current liabilities).

15. DEFERRED REVENUE

On March 8, 2012, the Company entered into an assignment agreement for the operation of financial services with the Federal Savings Bank for a term of 60 months, in the amount of R\$ 16,250. The revenue corresponding to this contract is recognized monthly by the contract period according to the accrual basis. The balance at December 31, 2015 was R\$ 3,792 (R\$ 7,042 in 2014), in which R\$ 3,250 (R\$ 3,250 in 2014) recorded in current liabilities and R\$ 542 (R\$ 3,792 in 2014) in non-current liabilities.

16. OTHER LIABILITIES

The composition consists of the following amounts:

Description	2015	2014
Programs linked to Agência Nacional de Águas - ANA	6,646	7,707
Contracts and agreements with third parties	12,442	15,585
Agreements with Municipalities	9,011	8,172
Surety and values to reimburse	8,238	11,383
Agreement with Public Prosecution of Parana (1)	5,050	-
Total	41,387	42,847
Current liabilities	36,957	37,323
Non-current liabilities	4,430	5,524

- (1) Refers to the installment of the agreement with the Public Prosecution of Parana, concerning the administrative procedure MPPR-0046.13.006304-6, relative to the difference of the fine for late payment of invoices, which was charged in between August 1996 and April 1998 at the percentage of 10%, while the legally established the percentage of 2%. Agreement in the amount of R\$ 11,363 divided into 18 instalments of R\$ 631 updated monthly according to the average of the INPC/IGPDI of the previous month, of which 10 instalments were paid in 2015 amounting to R\$ 6,313.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

17. PROVISIONS, CONTINGENT LIABILITIES AND JUDICIAL DEPOSITS

Accounting Practice:

The Company records provisions when Management, supported by the opinion of its legal advisors, believes that there is a likelihood of probable losses in certain legal proceedings that arise in the normal course of business. For labor proceedings, considering the history of sentencing, a provision for the total of these proceedings is recorded.

The provisions are reviewed and adjusted taking into account the change in the circumstances, such as applicable limitation periods, fiscal inspections conclusions or additional expositions identified based on new subjects or courts decisions.

The Company's operations are subject to environmental risk, which are mitigated by operational procedures and investments on equipment and pollution control systems. The expenses with continuous environmental matters are recognized in profit or loss when incurred and the investments in new equipment and systems are capitalized.

a) Provisions

The Company believes that the provisions recorded for labor, civil, environmental and tax proceedings are sufficient to cover probable losses, as follows:

<u>Nature</u>	<u>2014</u>	<u>Additions</u>	<u>Reversals</u>	<u>2015</u>
Labor proceedings	188,461	80,929	(95,666)	173,724
Civil proceedings	202,375	44,843	(34,379)	212,839
Environmental proceedings	76,032	664	(581)	76,115
Tax proceedings	904	1,591	(1,750)	745
Total	467,772	128,027	(132,376)	463,423

The net cash outflow of proceedings completed and terminated in 2015 was R\$ 62,169.

b) Contingent Liabilities

The Company, supported by the opinion of its legal advisors, discloses its contingent liabilities that are classified as possible losses. For these proceedings, no provisions were recorded for possible losses, as established by CPC 25.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

17. PROVISIONS, CONTINGENT LIABILITIES AND JUDICIAL DEPOSITS -- continued

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

Nature	Contingent Liabilities	
	2015	2014
Civil proceedings	365,153	252,921
Environmental proceedings	213,577	115,868
Tax proceedings	30,133	29,017
Total	608,863	397,806

c) Nature of main proceedings

c.1) Labor proceedings

Labor proceedings are mostly related to claims filed by former employees of the Company and providers (joint responsibility), who vindicate salary differences and labor benefits. The main proceedings that the Company is involved are related to: i) incidence of hazard pay when calculating overtime; ii) payment to 40% fine of retirees on all deposits made by FGTS; iii) risk premium in the 30% level.

c.2) Civil proceedings

Civil proceedings are related to requests for compensation of customers and suppliers, and third-party damages. The main proceedings in which the Company is involved are related to: i) compensation for contract due to financial and economic imbalance; II) indemnity for the suspension of the contract.

c.3) Environmental proceedings

Environmental proceedings are related to infringement notices issued by different environmental bodies mainly resulting from damages to the environment and leaks/extra leakage of sewage collection systems, and effluents of sewage treatment plants that do not comply with standards. The main actions are related to: i) environmental damage, moral and material; ii) installation and operation of sewage treatment plants and; iii) installation and operation of water treatment plants, no operating license.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

17. PROVISIONS, CONTINGENT LIABILITIES AND JUDICIAL DEPOSITS -- continued

C.4) Tax proceedings

Tax proceedings are mostly related to queries connected to tax collection due to divergent interpretations of the law. The main tax proceedings which the Company is involved include: I) fiscal execution for ISSQN collection (Tax over Services of Any Nature) and; ii) fiscal execution for IPTU collection (Tax on Building and Urban Territorial)

d) Judicial Deposits

The Company has made judicial deposits that will only be recovered in case of a favorable sentence for the Company.

The composition is the following:

Nature	Judicial Deposits	
	2015	2014
Labor proceedings	84,137	108,174
Civil proceedings	42,799	52,899
Environmental proceedings	1,238	923
Tax proceedings	4,720	4,751
Total	132,894	166,747

18. INCOME TAXES

Accounting Practice:

They are recorded based on the taxable profit and the enacted rate of 15% for IRPJ (corporate income tax) plus 10% applicable over excess profit established by law, and 9% for Social Security.

The deferred income taxes were calculated based on the current rates of these taxes and registered according to the legal determination as CPC 26 (R1) and 32, which deals with the temporary base of these taxes. The Company conducts routine analyses to show these are the recoverable based on its future operations.

Deferred assets and liabilities taxes are presented net since there is a legal or contract right to compensate a fiscal asset against the fiscal liability.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

18. INCOME TAXES -- continued

a) Reconciliation of Income Tax and Social Contribution Expenses Recorded in the Statement of Income

Description	2015		2014	
	Income Tax	Social Contribution	Income Tax	Social Contribution
Profit before income taxes	540,314	540,314	551,194	551,194
Income Tax and Social Contribution at statutory rates	(135,079)	(48,628)	(137,799)	(49,608)
Benefit of the deductibility of interest on shareholders' equity	51,099	18,396	41,886	15,079
Grants and donations received Public Bodies (1)	179	64	133	48
Present value adjustment on Accounts receivable (1)	(295)	(106)	(45)	(16)
Worker Food Program- PAT (2)	3,875	-	603	-
Incentive Corporate Citizen (3)	295	-	217	-
Equity results	(422)	(152)	-	-
Other	6,596	2,308	(49)	(57)
Total income taxes expenses	(73,752)	(28,118)	(95,054)	(34,554)
Total income taxes	(101,870)		(129,608)	
Effective rate	18.9%		23.5%	

(1) According to Law nº 11,941, of 05/27/2009;

(2) According to Law nº 6,321, of 04/14/1976;

(3) According to Decree 7052 of December 23, 2009, which regulated Law No. 11,770, of 09/09/2008.

The Company legally removed any limits on the calculation of PAT (worker's food program) the tax benefit imposed by Decree 3,000/99 and Normative Instruction SRF nº 267/2002, and only observes the provisions of Law nº 6,321/76. The tax benefit for the last 5 years totaled R\$ 26,405, used entirely in 2015.

b) Current and Deferred Income Tax and Social Contribution

The statements of income contain the following values:

Description	2015	2014
Income Tax	(96,410)	(126,620)
Social Contribution	(35,714)	(45,344)
Deferred Income Tax	22,658	31,566
Deferred Social Contribution	7,596	10,790
Total	(101,870)	(129,608)

Possible tax impacts for the recognition of actuarial gains and losses in equity are disclosed in the Statement of Comprehensive Income.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

18. INCOME TAXES -- continued

c) Deferred Income Taxes

The deferred income taxes are composed as follows:

Description	Term	Estimated Realization	Calculation Base	Income Tax	Social Contribution	2015	2014
						Total	Total
ASSETS							
NPV over contractual financial assets	30 years		178,618	44,655	16,076	60,731	-
Pension and health care plans	15 years		703,437	175,859	63,309	239,168	287,250
Reduction to recoverable value of assets	10 years		11,112	2,777	1,000	3,777	1,415
Provision for civil, labor, tax and environmental proceedings	5 years		463,423	115,856	41,708	157,564	159,043
Provision for losses	3 years		41,411	10,353	3,727	14,080	18,057
Provision for PPR	1 year		25,988	6,497	2,339	8,836	8,499
Total				355,997	128,159	484,156	474,264
LIABILITIES							
NPV over contractual financial assets	30 years		175,868	43,967	15,828	59,795	-
Constructions and improvements	28 years		142,040	35,510	-	35,510	37,068
Revaluation reserve	16 years		140,643	35,161	12,658	47,819	50,871
Deemed cost adjustment	5 years		18,404	4,601	1,656	6,257	7,250
Total				119,239	30,142	149,381	95,189
Total Net				236,758	98,017	334,775	379,075

d) Estimated future realization of deferred income taxes

The estimated future realization of deferred tax assets and deferred tax liabilities as of December 31, 2015, is as follows:

Execution Periods	Deferred Tax Assets			Deferred Tax Liabilities		
	Income Tax	Social Contribution	Total	Income Tax	Social Contribution	Total
2016	20,975	7,530	28,505	6,326	1,804	8,130
2017	23,790	8,544	32,334	6,326	1,804	8,130
2018 to 2020	156,168	56,158	212,326	17,826	4,997	22,823
2021 to 2023	40,312	14,450	54,762	15,526	4,169	19,695
2024 to 2026	40,139	14,617	54,756	15,526	4,169	19,695
2027 to 2029	51,515	18,545	70,060	15,526	4,169	19,695
2030 to 2032	4,620	1,663	6,283	10,838	2,481	13,319
2033 to 2035	4,620	1,663	6,283	8,494	1,638	10,132
2036 to 2038	4,620	1,663	6,283	8,494	1,637	10,131
2039 to 2041	4,619	1,663	6,282	8,494	1,637	10,131
2042 to 2044	4,619	1,663	6,282	5,863	1,637	7,500
Total	355,997	128,159	484,156	119,239	30,142	149,381

Companhia de Saneamento do Paraná – SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

19. RELATED PARTIES

Accounting Practice:

The Company enters into commercial transactions with several related parties, especially the State of Parana, Companhia Paranaense de Energia Elétrica – Copel and some municipalities, as shown in this Note.

The Company allocated to the State Government interest on shareholders' equity for 2015, of R\$ 102,796 (R\$ 90,694 in 2014) and additional proposed dividends of R\$ 1,764 (R\$ 16,316 in 2014) totaling R\$ 104,560 (R\$ 107,010 in 2014). This amount depends on the approval of the Annual Shareholders General Meeting.

In addition, transactions with related parties are related to water supply and sewage services provided to the State Government, whose revenue was R\$ 130,357 and R\$ 119,462 in 2015 and 2014, respectively.

The Company also has transactions with Dominó Holdings S.A. for interest on shareholders' equity for 2015 of R\$ 21,869 (R\$ 16,495 in 2014) and additional proposed dividends of R\$ 406 (R\$ 3,758 in 2014) totaling R\$ 22,275 (R\$ 20,253 in 2014), and this value depends on the approval of the Annual Shareholders General Meeting.

Companhia Paranaense de Energia – COPEL (Company's direct shareholder, one of the shareholders of Dominó Holdings S.A. and controlled by the State of Paraná) has on December 31, 2015 credits for interest on shareholders' equity 2015, of R\$ 15,063 (R\$11,362 in 2014) and additional proposed dividends of R\$ 280 (R\$ 2,588 in 2014) totaling R\$ 15,343 (R\$ 13,950 in 2014), and this value depends on the approval of the Annual Shareholders General Meeting.

Additionally, COPEL provided electricity to the Company in the amount of R\$ 378,576 in 2015 (R\$ 199,092 in 2014).

The Company also transacts with several municipalities in the State of Paraná for water supply and collection and treatment of sewage, with which they have contracts of concessions and municipal programs of contracts for water distribution and collection and treatment sewer, whose revenue with these municipal bodies in 2015 was R\$ 76,043 (R\$67,425 in 2014).

Companhia de Saneamento do Paraná – SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

19. RELATED PARTIES – continued

These transactions are considered by the Management of Sanepar, as normal market, except for some municipalities that have discounts on invoices of water supply and sewage, depending on the set maximum consumption in each special contract with the government to obtain the benefit. As to the form of payment of these claims and paying in the authorized banking network, it can happen through settlement of accounts with the debtor municipalities that have receivables from the Company.

Management Compensation

The overall annual management compensation for the year ended December 31, 2015 was approved by 51th/2015 Annual General Meeting (AGO) of April 25, 2015, amounting to R\$11,695. For 2014, approval was given by the 50th/2014 Ordinary General Meeting (AGO) held on April 25, 2014, in the amount of R\$ 10,861, being paid as compensation the amount of R\$ 6,858 and R\$ 2,106 related to taxes and benefits, totaling R\$ 8,964. Of the amount for duties and benefits, R\$ 1,925 are social charges, R\$ 45 are related to profit sharing, R\$ 44 are related to health care (SANESAÚDE), and R\$ 92 are related to benefits with Fundação Sanepar (FUSAN).

During 2015, were paid the amount of R\$ 10,107, R\$ 8,346 as compensation and R\$ 1,761 related to taxes and benefits. Of the amount for duties and benefits, R\$1,658 are social charges, R\$ 16 are related to profit sharing, R\$ 34 are related to health care (SANESAÚDE) and R\$ 53 are related to benefits with Fundação Sanepar (FUSAN).

20. SHAREHOLDERS' EQUITY

a) Capital stock

The capital stock is comprised of 476,620,206 shares (231,967,956 common shares and 244,652,250 preferred shares) without par value, fully paid by individuals and legal entities resident and domiciled in the country and abroad. Preferred shares do not have right of vote, but they are entitled to: (i) equally participate with ordinary shares in the distribution of shares or any other bonds or benefits, including incorporation of reserves to capital stock; and (ii) priority treatment in the reimbursement of capital in case of the Company's liquidation.

The value per share on December 31, 2015 was R\$8.77 (R\$ 7.98 on December 31, 2014).

Companhia de Saneamento do Paraná – SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

20. SHAREHOLDERS' EQUITY – continued

The subscribed capital and fully paid on December 31, 2015 is R\$ 2,597,360, and its ownership structure is as follows:

Shareholders					Number of Shares	
	Common	%	Preferred	%	Total	%
State of Paraná	173,902,122	75.0	71,006,327	29.0	244,908,449	51.4
Dominó Holdings S.A.	57,237,359	24.7	730,015	0.3	57,967,374	12.2
Companhia Paranaense de Energia – Copel	-	-	36,343,267	14.9	36,343,267	7.6
Andrade Gutierrez Concessões	-	-	10,004,423	4.1	10,004,423	2.1
Fundo Garantidor das Parcerias Público-Privadas do Paraná	-	-	35,000,000	14.3	35,000,000	7.3
Municipalities	-	-	2,339,005	1.0	2,339,005	0.5
Foreign investors	-	-	36,579,281	15.0	36,579,281	7.7
Other investors	828,475	0.3	52,649,932	21.4	53,478,407	11.2
Total	231,967,956	100.0	244,652,250	100.0	476,620,206	100.0

b) Revaluation Reserve

In 2015, the amount of R\$ 5,925 (R\$ 6,318 in 2014), net of tax effects, was transferred to accumulated profit. The realization of this reserve occurs in the same proportion of write-offs and depreciation of assets recorded in property, plant and equipment and intangible assets, subject to revaluations.

The realization of the Revaluation Reserve was the following:

Description	2015	2014
Balances at beginning of the year	98,750	105,068
Realization of revaluation reserve	(8,977)	(9,574)
Tax effects on realization of revaluation reserve	3,052	3,256
Balances at end of the year	92,825	98,750

c) Investment Plan Reserve

The investment plan reserve corresponds to remaining profit, after constituting the legal reserve, the fiscal incentives reserve, and the distribution of interest on shareholders' equity and dividends. The limit for constituting this reserve is the value of the paid-in capital stock.

Management proposes, subject to the subsequent approval of the Shareholders' Meeting, the allocation of the amount of R\$ 215,755 of retained earnings to the Investment plan reserve. These funds will be invested in construction projects and expansion of water supply systems, collection and sewage treatment, as set forth in the Company's investment plans.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

20. SHAREHOLDERS' EQUITY -- continued

d) Shareholders Remuneration

Accounting Practice:

Interest on shareholders' equity is calculated according to the current legislation, based on the limit of variation in long-term interest rate - TJLP, applied to the adjusted net equity. Interest on shareholders' equity are recorded as financial expenses and reclassified to shareholders' equity for presentation and publication of the financial statements.

The Company's By-laws provide for the distribution of mandatory dividends of 25% of the adjusted net income in accordance with the Brazilian Corporate Law. To the holders of preferred shares was assigned interest on shareholders' equity (dividend) per share 10% higher than the holders of common shares.

The tax laws allow companies to proceed with payments of interest on shareholders' equity, within certain limits, to shareholders and to treat these payments as deductible expenses to calculate the taxable income. This distribution, imputed to mandatory dividends payable by the Company, is treated for accounting purposes as a deduction of the shareholders' equity, similar to dividends. On these values is withheld income tax at the rate of 15%, and paid by the Company upon the payment of interest.

Interest on shareholders' equity payable were calculated within the variation range of the Long Term Interest Rate - TJLP under Law No. 9,249/95, supplemented by subsequent legislation. Total interest was recorded as finance expenses, generating tax benefit of R\$ 69,495, according to tax legislation. For purposes of these financial statements, this interest is recorded in shareholders' equity.

The Company's management is proposing for the approval of the Shareholders General Meeting the following distribution of profits:

	<u>2015</u>	<u>2014</u>
Net income for the year	438,444	421,586
Constitution of legal reserve	(21,922)	(21,079)
Donations and government grants	(715)	(534)
Basis for calculation of mandatory dividends	<u>415,807</u>	<u>399,973</u>
Mandatory dividends (25%)	103,952	99,993
Additional dividends proposed	103,951	99,993
Proposed dividends and interest on shareholders' equity	<u>207,903</u>	<u>199,986</u>

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

20. SHAREHOLDERS' EQUITY -- continued

The amount of interest on shareholders' equity in 2015 was R\$ 204,396 (R\$ 167,545 in 2014), and retained the amount of R\$ 9,806 of Income Tax Withheld which resulted in an effective rate of 4.80% (4.96% in 2014). As the interest on shareholders' equity did not reach 50% of net income, as established in the shareholders' agreement, the Company is proposing the payment of additional dividends of R\$ 3,507, for a total gross remuneration of R\$ 207,903.

The amount of interest on shareholders equity and dividends exceeded the minimum mandatory dividend of R\$103,951, will be kept in the Company's Shareholders' Equity until the approval by the Annual General Meeting, and once approved, it will be transferred to liabilities.

Interest on shareholders' equity and additional proposed dividends, per share, were the following:

	<u>2015</u>	<u>2014</u>
Preferred shares	0.45640	0.43902
Common shares	0.41491	0.39911

The total amount of R\$ 95,101 (R\$ 92,2014 in 2014) recorded in current liabilities as interest on shareholders' equity and dividends in 2015 includes R\$ 52,280 (R\$ 52,220 in 2014) of the shareholders State of Paraná, R\$ 10,235 (R\$ 9,498 in 2014) of the shareholder Dominó Holdings S.A., R\$ 7,049 the shareholder Companhia Paranaense de Energia - COPEL, (R\$ 6,542 in 2014), R\$ 24,621 (R\$ 23,425 in 2014) from other shareholders and R\$ 916 (R\$ 533 in 2014) related to prior year amounts unpaid effectively to shareholders.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

20. SHAREHOLDERS' EQUITY -- continued

e) Earnings per Share

The following table shows the calculation of earnings per share (in thousands, except values per share):

Basic and diluted earnings per share	2015	2014
Numerator		
Net income for the year attributed to		
Common shares	202,969	208,043
Preferred shares	235,475	213,543
Denominator (in thousands of shares)		
Weighted average of number of common shares	231,968	246,554
Weighted average of number of preferred shares	244,652	230,066
Basic and diluted earnings		
By common share	0.874989	0.843802
By preferred share	0.962488	0.928183

f) Legal Reserve

The amount of R\$ 21,992 was recorded in 2015 (R\$ 21,079 in 2014) in accordance with the Brazilian Corporate Law and the Company's By-laws, based on 5% of net income for each year, up to the limit of 20% of capital stock paid-in. The legal reserve may only be used to increase capital or absorb accumulated losses. Also in accordance with the Brazilian Corporate Law, Management respects the limits of the capital stock for the constitution of profit reserves.

g) Fiscal Incentives Reserve

The amount of R\$ 715 was recorded in 2015 (R\$ 534 in 2014), referring to the portion of net income from donations and government grants, pursuant to Article 195-A of the Brazilian Corporate Law. This amount was excluded from the calculation base of dividends.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

20. SHAREHOLDERS' EQUITY -- continued

h) Deemed cost adjustment

In compliance with Article 182 of the Brazilian Corporate Law, regarding the valuation adjustments, while not computed in profit or loss in compliance with the accrual basis, the compensatory increases or decreases values assigned to assets and liabilities, as a result of its assessment at fair value.

The amount of R\$ 1,926 (R\$ 2,826 in 2014) was realized in 2015 and transferred to retained earnings, net of tax effects. The realization of this account occurs in the same proportion as the write-off and depreciation of assets recorded in property, plant and equipment and intangible assets, which were subject to deemed value.

The realization of the deemed cost adjustment was as follows:

<u>Description</u>	<u>2015</u>	<u>2014</u>
Balances at beginning of the year	14,073	16,899
Realization of deemed cost adjustment	(2,919)	(4,281)
Tax effects on realization of deemed cost adjustment	993	1,455
Balances at end of the year	12,147	14,073

21. OPERATING REVENUE

Accounting Practice:

Revenue from Services: The revenues are recognized according to the accrual basis. Revenues from water supply and sewage collection include cyclically (monthly) billed amounts to customers and recognized non-billed revenue at fair value of the received or receivable compensation and are presented net of tax or incidental reductions or discounts. Revenues that have not yet been billed are recognized according to estimated consumption, from date of last reading to the end of the accounting period.

Construction Revenue: According to CPC 17 (R1) - Construction Contracts, the construction revenue of assets associated with public utilities services must be recognized by using the percentage-of-completion method, since all applicable conditions are concluded. According to this method, contractual revenue must be proportional to the contractual costs incurred at the statement date in relation to the total estimated cost. The Company adopted the zero margin to measure construction revenues and costs.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

21. OPERATING REVENUE -- continued

The composition of operating revenue, by nature, is the following:

Description	2015	2014
Revenue		
Water revenue	1,944,616	1,752,115
Sewage revenue	1,044,242	917,527
Services revenue	100,477	89,148
Solid waste revenue	8,060	7,630
Services provided to Municipalities	6,190	5,586
Other revenue	79,767	42,679
Total gross operating revenue	3,183,352	2,814,685
Deductions from operating revenues		
COFINS	(174,372)	(162,390)
PASEP	(37,795)	(35,255)
Total deductions	(212,167)	(197,645)
Total net operating revenue	2,971,185	2,617,040

The Company recorded construction revenue and costs from contracts linked to program contracts of R\$ 66,016 in 2015 (R\$ 19,407 in 2014), with zero margin.

22. COST OF SERVICES

The composition of costs, by nature, is the following:

Description	2015			2014		
	Water	Sewage	Total	Water	Sewage	Total
Personnel	229,134	72,937	302,071	206,090	65,489	271,579
Materials	72,684	24,483	97,167	69,619	23,980	93,599
Electricity	344,155	35,122	379,277	183,525	17,905	201,430
Third-party services	176,392	116,571	292,963	174,062	117,125	291,187
Depreciation and amortization	91,970	80,808	172,778	85,617	70,142	155,759
Other costs	78,412	22,494	100,906	79,518	22,052	101,570
Total	992,747	352,415	1,345,162	798,431	316,693	1,115,124

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

23. OPERATING EXPENSES

The composition of these expenses, by nature, is the following:

Description	2015	2014
Selling expenses		
Personnel	92,508	84,799
Materials	3,125	3,496
Third-party services	58,193	54,948
Depreciation and amortization	5,405	5,323
Losses in realization of credits	(5,862)	9,524
Other expenses	49,411	41,742
Total selling expenses	202,780	199,832
Administrative expenses		
Personnel	544,900	465,283
Materials	28,849	32,280
Third-party services	134,215	123,157
Depreciation and amortization	16,011	13,935
Losses in realization of credits	1,063	-
Other expenses	64,231	42,570
Transfers to cost of services and selling expenses (a)	(107,853)	(99,539)
Capitalized expenses (b)	(89,464)	(92,171)
Total administrative expenses	591,952	485,515
Other operating expenses, net		
Expenses		
Asset retirement	(19,150)	(10,344)
Income		
Sale of assets	3,794	2,357
Total of other operating expenses, net	(15,356)	(7,987)

(a) These values are firstly recorded as administrative expenses and later transferred to cost of services and selling expenses.

(b) These values refer to capitalized administrative expenses, as they relate to projects and works in progress, allocated directly by the Service Units.

24. PROFIT SHARING PLAN

The Company accrued the amount of R\$ 25,988 (R\$ 24,998 in 2014), in respect of participation in the 2015 results, which is recorded under the Salaries and related charges, in current liabilities. In August 2015, the Company recorded an additional provision of the Profit Sharing Plan related to 2014, totaling R\$14,959, totaling the amount of R\$ 40,947 in 2015.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

25. FINANCIAL RESULTS

Description	2015	2014
Finance income		
Monetary indexation	19,239	10,982
Short term investments	23,698	13,645
Other finance income	9,062	3,760
Total finance income	51,999	28,387
Finance expenses		
Interest on loans, financing and debentures	(157,189)	(111,675)
Monetary indexation	(42,011)	(18,246)
Other finance expenses	(12,273)	(8,034)
Total finance expenses	(211,473)	(137,955)
Finance results, net	(159,474)	(109,568)

26. FINANCIAL INSTRUMENTS AND RISKS

Accounting Practice:

Financial Assets

Classification: The Company classifies its financial assets into the following categories: financial assets measured at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management establishes the classifications of the Company's financial assets in the initial recognition. On December 31, 2015 and 2014, the Company had no financial assets classified in the categories held-to-maturity investments and available for sale financial assets.

Financial assets measured at fair value through profit or loss: This category is used to record the financial instruments held for trading, with the purpose of selling in the short term. These instruments are measured at fair value and have their gains and losses recognized directly in profit or loss. Cash and cash equivalents are classified in this category.

Loans and receivables: This category includes receivables that are financial assets not derived from fixed or determinable payments, not quoted in an active market. They are presented as current assets, except for those with maturity longer than 12 months after the balance date (these are classified as non-current assets). Loans and receivables comprise accounts receivable, balances with related parties, judicial deposits, and other assets. The loans and receivables are recognized at fair value in the initial recognition and then accounted by the amortized cost, using the effective interest rate method.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

26. FINANCIAL INSTRUMENTS AND RISKS -- continued

Financial Liabilities

The measurement of financial liabilities depends on their classification, as follows:

Loans and borrowings: After initial recognition, loans and borrowings subject to interest are subsequently measured according to the amortized cost using the effective interest method. Gains and losses are recognized in the income statement, in the write-off of liabilities, as well as throughout the amortization process by the effective interest method.

Loans and borrowings comprise loans, financing, debentures, contractors and suppliers, and service concessions arrangements.

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires. When an existing financial liability is replaced by another of the same lenders on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

The comparison by class of the carrying amount and the fair value of the Company's financial instruments presented in the financial statements is as follows:

Description	Book Value		Fair Value	
	2015	2014	2015	2014
Financial Assets				
Cash and cash equivalents	163,797	69,061	163,797	69,061
Accounts receivable, net	487,017	401,545	487,017	401,545
Restricted deposits	43,725	44,430	43,725	44,430
Contractual financial assets	77,420	54,586	77,420	54,586
Total	771,959	569,622	771,959	569,622
Financial Liabilities				
Loans, financing and debentures	2,336,008	1,872,493	2,336,008	1,872,493
Contractors and suppliers	125,404	141,079	125,404	141,079
Accounts payable	3,087	9,629	3,087	9,629
Service concession arrangements	98,167	95,078	98,167	95,078
Total	2,562,666	2,118,279	2,562,666	2,118,279

The Company used the following methods and assumptions to calculate the fair value:

Cash and Cash Equivalents: the amounts presented in the balance sheet are close to fair value. The balance refers basically to investments with short-term characteristics of high liquidity maintained at Caixa Econômica Federal, in fixed income funds, whose portfolio consists mostly of securities issued by the Federal Government.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

26. FINANCIAL INSTRUMENTS AND RISKS -- continued

Restricted Deposits: Long-term restricted deposits refer to the National Water Agency programs - ANA in the amount of R\$ 3,747 (R\$ 4,238 in 2014); as well as the escrow deposits held by Caixa Econômica Federal of R\$ 13,437 (R\$ 12,163 in 2014), R\$ 4,771 (R\$ 2,896 in 2014) and R\$ 12,603 (R\$ 11,408 in 2014).

Accounts Receivable: the amounts in the balance sheet for accounts receivable are close to the fair value, considering the provisions recorded and absence of monetary indexation on the overdue installment of the accounts receivable.

The balance of accounts receivable in the short and long term due to installment payments was adjusted to present value. The installments of private accounts are restated by SELIC, plus administration fee and risk and of public bodies accounts based on savings interest of 6% per annum. To calculate the present value adjustment, the Company adopted the SELIC rate for private accounts and interest on savings accounts for public bodies.

The changes in present value adjustment was as follows:

Description	2015	2014
Balances at beginning of the year	(1,661)	(1,481)
Present value adjustment	(1,179)	(180)
Balances at end of the year	(2,840)	(1,661)

Contractual Financial Assets: represent the expectation of receivable residual value at the end of the program contracts, based on the terms of the concessions.

Contractors and suppliers: payables to contractors and suppliers have a maturity of a maximum of 30 days, and, as a result, recognized as fair value. The average payment period is 28 days.

Loans, Financing and Debentures: are recorded at fair value at the initial recognition, net of incurred transaction costs and subsequently measured by the amortized cost. Any difference between the proceeds (net of transaction costs) and the settlement value is recognized in profit or loss during the period in which the loans and financing are outstanding, using the method of effective interest rate, and do not include future charges in their balances. The details and interest rates are described in Note 11, and do not represent additional risks to the Company at this time. All loans and financing, on 12/31/2015, are related to investments in property, plant and equipment and intangible assets.

Accounts payable: represent notes payable to Sanepar Foundation of Social Security - FUSAN, represented by 180 monthly installments from May 2001, calculated monthly by the "Price Table" in the interest rate equivalent to 6% per annum, update of the balance due by the INPC (see Note 14).

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

26. FINANCIAL INSTRUMENTS AND RISKS -- continued

Service Concession Arrangements: is the balance to pay for the costly concession contract for public service operation with the Municipality of Curitiba, for a period of 30 years, signed on December 6, 2001 (see note 12).

Business risk: the Company's business relates primarily to capture, treat and distribute water, collect and treat sewage for 345 municipal centers operated in the State of Paraná and 1 municipality in the State of Santa Catarina, for which the Company holds its municipal concessions serving approximately 11.2 million people with safe water and 7.5 million with the collection service and sewage treatment.

There are several risks associated that are common in the business sector of Sanepar, but they are all managed or minimized to cause the least impact to the results of the Company's operations. These risks are basically associated with the following:

Interest Rate Risk: interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The exposure of the Company to the risk of changes in market interest rates relates primarily to long-term liabilities subject to variable interest rates.

This risk arises from the possibility of the Company incurring losses due to fluctuations in interest rates that increase finance expense related to loans, financing and debentures.

The composition of loans and financing of the Company denominated in R\$ subject to variable and fixed interest rates are presented below:

Indexer	2015	2014
TR	804,662	770,187
TJLP	636,592	488,540
IPCA	334,337	256,559
DI	505,153	304,798
Without monetary indexation	55,264	52,409
	2,336,008	1,872,493

Interest Rate Sensibility Analysis: the following is the calculation sensitivity to a possible change in the rate of return on financial investments and interest on the principal of loans and financing subject to variable interest rates, which can have significant impact to the Company. If the rates of return of investments and interest on the loans held in real varied around 25% and 50% more or less, with all other variables held constant, the effect on profits before taxes would have been R\$ 24,875 and R\$ 49,750 more or less mainly due to lower or higher financial investments and interest expenses in the financial investments and in loans subject to variable interest rate, as described below:

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

26. FINANCIAL INSTRUMENTS AND RISKS -- continued

Analysis					
Description	Indexer	+ 25%	-25%	+50%	-50%
Caixa FI Sanepar Renda Fixa	CDI	4,519	(4,519)	9,038	(9,038)
Itaú Corp Plus Referenciado	CDI	4	(4)	8	(8)
Assets		4,523	(4,523)	9,046	(9,046)
Caixa Econômica Federal	TR	(2,969)	2,969	(5,938)	5,938
BNDES	TJLP	(2,053)	2,053	(4,106)	4,106
BNDES-PAC2	TJLP	(266)	266	(532)	532
Debentures – 2nd Issue – 1st and 3rd Series	TJLP	(1,564)	1,564	(3,128)	3,128
Debentures – 2nd Issuance – 2nd Series	IPCA	(3,277)	3,277	(6,554)	6,554
Debentures – 3rd Issuance – 1st Series	DI	(7,105)	7,105	(14,210)	14,210
Debentures – 3rd Issuance – 2nd Series	IPCA	(2,595)	2,595	(5,190)	5,190
Debentures – 4th Issuance – 1st Series	TJLP	(342)	342	(684)	684
Debentures – 4th Issuance – 2nd Series	IPCA	(346)	346	(692)	692
Debentures – 5th Issuance – 1st Series	DI	(2,156)	2,156	(4,312)	4,312
Debentures – 5th Issuance – 2nd Series	DI	(3,686)	3,686	(7,372)	7,372
Liabilities		(26,359)	26,359	(52,718)	52,718
Effects of Profit before Tax		(21,836)	21,836	(43,672)	43,672

The TR considered was 1.80% and the TJLP of 6.25%, obtained from the Central Bank of Brazil, and the IPCA at the rate of 10.67%, obtained from IBGE - Brazilian Institute of Geography and Statistics.

Credit Risk: practically the entire population of Paraná is a customer of the Company. Considering our type of business, we do not perform a credit history analyses, and adopt the practice of cutting the supply in case of default. The level of losses on accounts receivable is considered normal for the sanitation sector.

The practice of cutting the supply is not applicable to the public bodies, however, Management is intensifying efforts to reduce default levels within negotiations with the municipalities under default and attempting to offset accounts with those who have credits with the Company. In case there is no agreement, the Company files for judicial recovery.

Concession Risk: the Company's results depend on the maintenance of concessions in the municipalities where it operates, usually the concession contracts and program contracts have a term of 30 years. These contracts foresee goals to expand and maintain water and sewage systems, related to the rate of service with water supply and the rate of service with sewage collection. In some situations, the grantor has the right to terminate the contract before its termination or not to authorize its renewal, upon reimbursement for investments balances not depreciated / amortized.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

26. FINANCIAL INSTRUMENTS AND RISKS -- continued

Derivatives: the Company has no swap contracts or transactions that may be characterized as derivative financial instruments, and does not have speculative investments or other assets risk, and its market transactions and loans and financing are not exposed to fluctuations in foreign currencies, not requiring entering into hedge instruments.

Liquidity Risk: Liquidity risk is the possibility that the Company might not have sufficient funds to meet its commitments due to the different currencies and lead times / settlement of their rights and obligations. The Company structure the maturities of non-derivative financial agreements, as shown in Note 11, so as not to affect its liquidity. The management of liquidity and cash flow is performed daily by the Company's management, to ensure that the operating cash generation and upfront funding raise, when necessary, are sufficient to maintain its schedule of commitments, not generating liquidity risks.

Capital Management: The Company's capital management objective is to ensure that it maintains a strong credit *rating* with the institutions and a great capital ratio in order to support the business and maximize shareholder value. The Company manages its capital structure and performs the necessary adjustments and adaptations according to the current economic conditions. With this objective, the Company can make payments of dividends, enter into new loans, issue promissory notes and contract operations with derivatives. For the year ended December 31, 2015, there was no change in the objectives, policies or capital structure processes. The Company includes in net debt structure balances of loans, financing and debentures (Note 11), less cash and cash equivalents (Note 4).

In order to maintain liquidity and its ability to pay the Company uses as leverage metric the net debt / equity. For net debt effect is considered loans, financing and debentures, less cash and cash equivalents:

	<u>2015</u>	<u>2014</u>
Loans, financing and debentures	2,336,008	1,872,493
Cash and cash equivalents	(163,797)	(69,061)
Net debt	2,172,211	1,803,432
Shareholders' equity	4,180,307	3,801,085
Net Debt/Net Equity Ratio	0.52	0.47

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

27. PENSION AND HEALTH CARE PLANS

Accounting Practice:

The Company maintains a mixed retirement plan (defined contribution throughout the labor period and defined benefit for retirees, pensioner and for risk benefits), and in the health care, it sponsors a dental and medical care benefits plan for its employees and their dependents, as well as retirees, which effects are recognized by the accrual basis and in accordance with the criteria established by Resolution 695 of CVM, as demonstrated in this Note.

Sanepar is a sponsor of Sanepar Foundation of Social Security - FUSAN, with the main purpose of manage the pension plan that aims to supplement the social security benefits to the Company's employees.

The pension plan managed by FUSAN, has the following main characteristics: defined contribution during the working phase and defined benefit with lifetime income for retirees, pensioners and risk benefits (disability retirement, death pension, sickness and accident). In 2015, the sponsor transferred the amount of R\$ 26,949 (R\$ 24,531 in 2014) as a contribution to FUSAN.

The Company sponsors the Fundação Sanepar de Assistência Social, a non-profit social welfare association that manages health care for active and retired Sanepar employees, called SaneSaúde.

The SaneSaúde is a collective plan of medical and dental care, self-management, financed by pre-payment, and the contributions made on average 63.5% for the sponsor and 36.5% for active and retired beneficiaries through defined monthly contributions for the regulation of the plan, which are determined annually based on actuarial calculations, which take into account the age of the beneficiary, and the existence of limiting factors for use of the services offered.

The contribution to the Foundation, the Company transferred in 2015 the amount of R\$48,527 (R\$ 43,847 in 2014).

The technical reserves for the purpose of meeting the standards set by Previc - Superintendência Nacional de Previdência Complementar shall be determined by the actuary responsible for the pension plan, highlighting the need to establish a plan to solve the technical deficit, according to the legislation, considering that the entity presented result in deficit for the third consecutive year. Additionally, for the purposes of compliance with the determinations contained in CPC 33 (R1), approved by CVM Deliberation 695, the company Rodarte Nogueira - statistical and actuarial consultancy, was hired and issued detailed reports that support the information included in this Note.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

27. PENSION AND HEALTH CARE PLANS -- continued

The information below shows the actuarial position of liabilities related to pension and health care plans. The unit credit method Projected (PUC) was used to calculate the actuarial liability.

Statement of actuarial liability:

Description	Pension Plan	Health Care Plan	2015	2014
Present value of actuarial liabilities	719,452	463,621	1,183,073	1,286,478
Fair value of plan assets	(478,255)	(1,381)	(479,636)	(441,625)
Total	241,197	462,240	703,437	844,853
Current liabilities	16,080	30,816	46,896	56,324
Non-current liabilities	225,117	431,424	656,541	788,529

Calculation of actuarial liability:

Description	Pension Plan	Health Care Plan	2015	2014
Present value of the obligation at beginning of the year	733,675	552,802	1,286,477	1,210,036
Interest cost over the obligation	72,137	71,198	143,335	126,260
Cost of current service	-	5,449	5,449	15,762
Benefits paid in the year	(54,034)	(14,180)	(68,214)	(65,163)
Actuarial gains and (losses) of the year	(27,061)	(151,648)	(178,709)	(417)
Assisted Extraordinary Contribution - TAC Adjustment	(5,265)	-	(5,265)	-
Total obligation of the year	719,452	463,621	1,183,073	1,286,478
Fair value of plan assets at beginning of the year	(437,057)	(4,568)	(441,625)	(429,084)
Interest over plan assets	(53,848)	(586)	(54,434)	(50,201)
Contribution of participants	(1,668)	-	(1,668)	(1,515)
Contribution of sponsor	(640)	(14,180)	(14,820)	(13,836)
Benefits paid in the year	54,034	14,180	68,214	65,163
Gain (loss) over plan assets in the year	(10,857)	3,773	(7,084)	(12,152)
Rollback Account Balance - TAC	(28,219)	-	(28,219)	-
Fair value of assets in the year	(478,255)	(1,381)	(479,636)	(441,625)
Recognized liability at end of year	241,197	462,240	703,437	844,853

Below, a description of the assumptions used in the actuarial evaluation:

Economic Hypotheses

Discount rate	14.20% per year
Rate of Expected Return of Assets	14.20% per year
Future Salary Growth	3.48% per year
Inflation	6.40% per year
Real Growth of Medical Costs	3.00% per year

Demographic Assumptions

Mortality table	AT-2000 Basic
Disability life table	Winklevoss D10
Disability entry table	Light Média D30
Retirement age	55 years

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

27. PENSION AND HEALTH CARE PLANS -- continued

Below, a summary of the data collected for the actuarial evaluation of the benefit plans offered by the company to its employees:

Description	Pension Plan	Health Care Plan
Database used		
Effective date	31 Oct 2015	31 Oct 2015
Active participants (main liability)	7,312	2,471
Covered/beneficiaries on benefit	2,336	2,401
a. Retirees	1,713	1,906
b. Pensioner	623	495
Total participants	9,648	4,872

Mass Distribution of Beneficiaries and the Total Monthly Premiums of health care at December 31, 2015:

Age Group	Total Number of Beneficiaries ¹	Value in R\$
0 to 18 years old	1,432	122.89
19 to 23 years old	971	176.43
24 to 28 years old	151	185.60
29 to 33 years old	71	210.89
34 to 38 years old	200	221.90
39 to 43 years old	329	288.02
44 to 48 years old	936	302.98
49 to 53 years old	1,440	395.59
54 to 58 years old	1,510	416.16
59 years old or more	3,664	451.30

¹ Whose holder was admitted until 03/01/2002.

Investment profitability

In 2015, FUSAN obtained profitability of 11.06% in its investment portfolio, below the actuarial target of 17.67% (INPC/IBGE + 5.75% interest per year). This result is partly due to the fixed income portfolio that is linked to the securities that follow CDI variation, difficulties in monetizing the real estate portfolio, and the low performance of the stock market.

The Deliberative Council of FUSAN approved the Investment Policy for 2015, in order to parameterize the investments for the next five years, as established in the legislation.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

27. PENSION AND HEALTH CARE PLANS --continued

The strategic allocation of the portfolio evaluates the appropriateness of each investment to the needs of the plan. The table below shows details of this strategic allocation:

Segment/ Term	Allocation%			Benchmark	Profitability Goal
	Objective	Minimum	Maximum		
Fixed Income	72.80	30.0	100.0	55% CDI + 45% IMA-B	INPC + 5.5% aa
Variable Income	11.45	0.0	35.0	65% Ibovespa + 35% SMLL	INPC + 10% aa
Structured Investments	5.20	0.0	10.0	INPC + 7.5% aa	INPC + 7.5% aa
Overseas Investment	0.50	0.0	10.0	MSCI World	INPC + 7.5% aa
Real Estate	4.25	0.0	8.0	Consumer Price Index (INPC)	Consumer Price Index (INPC)
Operations with Participants	5.80	0.0	15.0	INPC + 8.5% aa	INPC + 8.5% aa

Associated Risks to the retirement Plan - FusanPrev:

-Risk of survival;

-Salary Growth

-Investment Return (interest rate);

-Risk of the financing regime of the beneficiaries by death for the financial regime by distribution that was minimized with the risk contribution institution for the group of users followed by reversal of part of the optional contributions of the participant.

Regarding the biometric tables and wage growth, we believe that the Bank adequately defined the cases, adjusting them to the mass of participants through tack Study Hypotheses Actuarial and other approval procedures and science councils and Sponsoring.

As for the hypothesis of the interest rate, the entity requested the maintenance of interest rates of 5.75% to be applied in 2015, and created an actuarial and economic-financial project in accordance with Previc Instruction n° 01, of April 12, 2013, obtaining a favorable opinion of Previc. In view of the entire study, it was found that over time the actuarial interest rate converges with the profitability obtained in the financial market, showing periods of high returns and low returns. In the current national economic scenario, with the prospect of interest rate increase, the entity, through proactive management in order to optimize the investment portfolio, projects maintenance of the current interest rate of 5.75% as return of their portfolio.

The current form of financing death benefits for the financial system for distribution has prospect of rising costs over time, unless the mass of participants is renewed proportionally, so to maintain the average age and the same average level of benefits and especially wages, loan calculator base. It would be prudent for the entity to capitalize on pensions, mainly the death benefits of members.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

27. PENSION AND HEALTH CARE PLANS -- continued

Risks associated with Health Care Plan - SaneSaúde:

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

The incorporation of technology in the medical services has resulted in growing healthcare costs with universal behavior. Similarly, this assumption is verified regarding the incorporation of technology in the supplies used for testing, laboratories, clinics and hospitals. Historically observed that medical procedures tend to vary in percentage above inflation.

Beyond this point, the assumption of new coverage determined by the regulator make up an ongoing risk to the plan.

Another point to note is the effect arising from the aging of the group of beneficiaries, which in the future could worsen the accident rate.

FusanPrev Costing Plan: The Costing Benefit Plan FusanPrev established for 2014, effective from April/15 to March/16, is set to meet the provisions of Article 6 of Complementary Law No. 108/2001, with regard to parity regular contributions from participant and sponsor, noting that the funding percentages should be reviewed after a period of one year of assessment or occurrence of material fact.

To cover the Normal Cost Costing Plan corresponds to an individual contribution percentage for formation of the account balance, minimum 1.75% and maximum 5.56%, plus a percentage to cover risk benefits, 1,63% and 0.43% to cover administrative expenses, applied to the salary, for all categories of assets and Sponsoring participants except risk contribution option Deferred proportional benefit.

As a participant of the voluntary contribution was instituted a percentage of reversal of 21% and 0.86%, respectively, to cover risks and administrative expenses, which will be deducted from the total amount of this contribution.

Assisted sponsors and participants will contribute 1.72% applied to the benefit, and 1.29% for risk benefits coverage allocation scheme and 0.43% to cover administrative expenses.

The deployment of risk contribution for the holders and the rollback of the additional contributions of assets to cover the cost of risk helped to stabilize the cost of pensions. Additional contributions of assets are not compulsory, as there is no employer contribution, considering that they are essential for the cost of risk.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

27. PENSION AND HEALTH CARE PLANS -- continued

SaneSaude Costing Plan: The SaneSaude Costing Plan has the participation of the Company in the order of 70% of the costs and 30% of the employees. It has the co-participation of employees for consultations and several tests. It is separated by age group according to the law and structured under the financial regime of simple distribution.

The SaneSaúde is funded by Sanepar, as sponsor and beneficiaries enrolled in the plan, through monthly contributions, determined in Table of Contributions of SaneSaúde, which establishes the values of the monthly premiums by age group and based on calculations actuarial. It is also funded by values (revenue) resulting from Moderating Factors, when there is effective use of services by the respective beneficiaries.

The monthly amount of contributions is determined by multiplying the number of beneficiaries enrolled in the plan for a monthly premium defined in Table Annual Costing, according to the age of the beneficiary.

About the monthly amount established, the participation of Sanepar will be 70% to fund the Beneficiaries Holders, Special Beneficiaries, and their dependents, as defined in Regulation Plan. Regarding the dependent proportion of participation will be established in specific table.

Sanepar does not contribute to the cost of Beneficiaries Self-sponsored, designated children as well as in retirement Beneficiaries Holders with adherence to SaneSaúde after March 2002.

The values resulting from the participation of the beneficiaries, relating to their contributions and to Moderating Factors of Use, as defined in the plan regulation, will be discounted in the Sanepar payroll and transferred monthly to the Sanepar Foundation.

The SaneSaúde the Contributions table will be evaluated and updated by the actuary responsible for the plan with maximum annual basis, and this income is submitted to and approved by the Executive Board of Sanepar and its Board of Directors to adapt the necessary financial and actuarial stability Plan.

The validity of the SaneSaúde Contributions table will comprise the period from June 1 to May 31 of the following year.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

27. PENSION AND HEALTH CARE PLANS -- continued

Plan Assets

The fair value of plan assets approximates the carrying value and presents the following composition:

Description	2015	%	2014	%
Fixed Income (a)				
Quotas of Fixed Income Funds	859,345		749,805	
Quotas of Private Credit Investment Funds	65,163		49,734	
Quotas of Multimarket Investment Funds	14,895		10,439	
Total Fixed Income	939,403	81.3	809,978	78.0
Variable Income (b)				
Quotas of Open Investment Funds	28,943		45,401	
Quotas of Investment Funds in FI Quotas	40,199		49,205	
Share Portfolio	12,899		13,118	
Total Variable Income	82,041	7.1	107,724	10.4
Real Estate (c)	38,994	3.4	39,684	3.8
Operations with Participants (d)	63,637	5.5	57,845	5.6
Structured (e)				
FIP Quotas	18,920		16,986	
Quotas of Multimarket Investment Funds	12,562		6,144	
Total Structured	31,482	2.7	23,130	2.2
Fair Value of Plan Assets	1,155,557	100	1,038,361	100

(a) Fixed Income: Consists of Federal Public Bonds and private credit bonds with remuneration determined at purchase;

(b) Variable Income: Assets negotiated in the stock market and regulated by official bodies with returns and applications that cannot be calculated at time of application;

(c) Real Estate: Real estate owned by the Foundation;

(d) Operations with participants: Loan operations for plan participants;

(e) Structured: Project equity assets not exchange traded and MultiMarket funds included in this segment.

Types of investments that are not permitted:

- *Day-Trade*: is not permitted to conduct day-trade operations in exclusive funds invested by the plan;
- Real estate financing: it is forbidden to grant mortgage loans, provided in the Operations Segment with participants during the term of this investment policy.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

27. PENSION AND HEALTH CARE PLANS -- continued

Below, we present the sensitivity analysis on the hypothesis:

- Investment in Public-Private Partnerships (PPPs) will only be allowed when the operation makes economic and financial sense, in terms relative to other alternatives that are presented to FUSAN. Also, this operation must be approved by the advisory board;
- Operations with derivatives in exclusive funds can be made only if they are in accordance with the restrictions established by the existing legislation and investment policy.

Investments in papers or instruments classified as “Speculative Grade” will not be allowed, considering the classification described in the Investment Policy’s Credit Risk section.

Following is the forecast of expenses for 2016:

Description	Pension Plan	Health Care Plan	2016
Current service cost	8,900	9,617	18,517
Interest cost	97,881	65,830	163,711
Expected return of plan assets	(63,812)	(88)	(63,900)
Contributions of participants/employer	(2,604)	(15,279)	(17,883)
Total	40,365	60,080	100,445

Description	Pension Plan	Health Care Plan
Value of the obligation in the period	719,452	463,621
Interest Rate		
With a 1% Accrual	657,947	431,212
Variation %	(8.55%)	(7.00%)
With a 1% Reduction	791,986	535,193
Variation %	10.08%	15.4%
Cost Growth		
With a 1% Accrual	-	532,854
Variation %	-	14.9%
With a 1% Reduction	-	408,719
Variation %	-	(11.8%)
Effect of Actuarial Life Table		
AT – 1949	717,402	454,700
Variation %	(0.29%)	(1.9%)
AT – 1983	721,542	472,313
Variation %	0.29%	1.9%

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

28. SEGMENT INFORMATION

The Company has two clearly identifiable business segments: (i) water distribution and treatment and (ii) sewage collection and treatment. The process of collecting and treating solid waste was considered in the sewage segment. The operational profit by segment is represented by the revenue, with deductions of direct costs and direct operating expenses, and indirectly allocable to these segments. The identifiable assets and liabilities per segment are presented separately. The corporate assets and liabilities were not directly attributed to each business segment. The Company evaluates the performance targeting, based on information generated by the accounting records, and miscellaneous expenses are allocated by means of apportionment, in the following presentation:

Description	2015			2014		
	Water	Sewage	Total	Water	Sewage	Total
Direct operating revenue	2,023,923	1,073,472	3,097,395	1,823,755	942,665	2,766,420
Other operating revenues	51,359	34,598	85,957	29,138	19,127	48,265
Total gross operating revenue	2,075,282	1,108,070	3,183,352	1,852,893	961,792	2,814,685
Revenue deductions (PASEP and COFINS)	(126,722)	(85,445)	(212,167)	(119,323)	(78,322)	(197,645)
Net operating revenue	1,948,560	1,022,625	2,971,185	1,733,570	883,470	2,617,040
Cost of services	(992,747)	(352,415)	(1,345,162)	(798,431)	(316,693)	(1,115,124)
Gross profit	955,813	670,210	1,626,023	935,139	566,777	1,501,916
Selling expenses	(121,162)	(81,618)	(202,780)	(120,642)	(79,190)	(199,832)
Administrative expenses	(353,693)	(238,259)	(591,952)	(293,112)	(192,403)	(485,515)
Other operational expenses	(10,184)	(5,172)	(15,356)	(4,822)	(3,165)	(7,987)
Equity results	-	(1,688)	(1,688)	-	(186)	(186)
Finance expenses, net	(78,331)	(81,143)	(159,474)	(52,226)	(57,342)	(109,568)
Profit sharing plan	(24,466)	(16,481)	(40,947)	(24,908)	(16,350)	(41,258)
Provisions	2,502	1,847	4,349	(18,083)	(11,823)	(29,906)
Pension and health care plans	(46,564)	(31,297)	(77,861)	(46,177)	(30,293)	(76,470)
Profit before income taxes	323,915	216,399	540,314	375,169	176,025	551,194
Income taxes	(61,071)	(40,799)	(101,870)	(88,217)	(41,391)	(129,608)
Net income for the year	262,844	175,600	438,444	286,952	134,634	421,586
Investments in property, plant and equipment and intangible assets	318,247	476,842	795,089	443,608	510,440	954,048
Company Participation – CS Bioenergia	-	5,287	5,287	-	5,267	5,267
Loans, financing and debentures	981,340	1,354,668	2,336,008	825,326	1,047,167	1,872,493
Property, plant and equipment and intangible assets, net	3,077,904	3,813,739	6,891,643	2,811,465	3,377,167	6,188,632
Depreciation and amortization in the Period	(104,770)	(89,424)	(194,194)	(97,242)	(77,775)	(175,017)
Accounts receivable (current and non-current) (b)	412,011	203,241	615,252	363,713	171,998	535,711
Total Assets	3,682,187	4,562,488	8,244,675	3,430,717	4,121,022	7,551,739
Total Liabilities (Current and Non-Current)	1,707,441	2,356,927	4,064,368	1,653,288	2,097,366	3,750,654
Number of Users – Not Audited/Reviewed (c)	2,979,363	1,859,533	-	2,909,401	1,759,422	-
Volume Thousands of m ³ Billed - Not Audited/Reviewed (d)	582,594	392,453	-	586,594	385,047	-

(a) The amounts invested in administrative assets were allocated in proportion to the investments of each segment;

(b) Presented by the gross value;

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

(d) Billed volumes of the sewage sector are derived from the billed volumes of the water utility sector.

Companhia de Saneamento do Paraná - SANEPAR

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 and 2014

(Amounts in thousands of Brazilian Reais)

29. INSURANCE

The Company has insurance contract with Yasuda Marítima Seguros S.A. to cover its main assets located in various locations throughout the State of Paraná, in the amount of R\$ 894,994, effective for the period from 12/08/2015 to 12/08/2016, for basic coverage, fire, windstorm, and electrical damage to equipment.

<u>Asset</u>	<u>Amount Insured</u>
Buildings	444,871
Machinery and equipment and vehicles	394,570
Inventories	55,553
Total	<u>894,994</u>

Additionally, the Company has legal guarantee insurance policies to guarantee values that would be deposited and/or replace the values already deposited and/or seized property in legal proceedings of labor, civil, environmental, and tax proceedings. Until December 31, 2015, the Company offered guarantees through insurance in 28 lawsuits totaling R\$79,299 with the insurer Fairfax Brasil Seguros Corporativos S.A.

The Company also entered into an agreement with Zurich Minas Brasil Seguros S.A. for insurance coverage for directors and officers Sanepar (D&O - Directors and Officers) with national and international coverage, with a ceiling of indemnification R\$ 20,000, effective contract for 365 days and ending on 04/14/2016.

30. SUBSEQUENT EVENTS

Election of the Executive Director

On January 14, 2016, the 1st/2016 Extraordinary Meeting of the Board of Directors was held, with the main agenda having been the election of Mr. Glauco Machado Requião was elected for the position of Director of Environment and Social Action.

Tariff Adjustment

The Board of Directors in the 2nd/2016 General Meeting, held on February 16, 2016, approved the submission of the proposed rate increase to the regulatory authority that would define application or not of the adjusted sewage and water tariff, and its percentage, if applicable.

Companhia de Saneamento do Paraná – SANEPAR

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18,846,177 Units



Companhia de Saneamento do Paraná – SANEPAR

OFFERING MEMORANDUM

December 12, 2017
