

SANEPAR
ANNUAL REPORT
AND FINANCIAL
STATEMENTS

TABLE OF CONTENTS

- 3 Presentation
- 4 1. Message from Management
- 4 Management and efficiency
- 5 2. Sanepar
- 5 River to river
- 7 Business model
- 8 Corporate governance
- 14 3. Sustainability
- 15 Economic and financial performance
- 25 Strategy and management
- 26 4. Customers
- 26 Government
- 27 End consumer
- 30 5. Processes
- 30 Water process
- 35 Sewer process
- 39 Environmental management
- 44 6. People
- 44 Sanepar employees
- 48 Social & environmental responsibility
- 51 7. Social balance Ibase
- 53 8. Financial Statements

PRESENTATION

This 2018 Annual Report of Sanepar is integral part of the Company's process of disclosure of profit&loss, committed to the best governance and transparency practices to the to the concerned parties.

This is an important tool in the management process, the report details the results in the year considering an overview of the Company, its challenges and achievements. The themes addressed consider the best reporting practices such as the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), Level 2 governance standards requirement, of B3, where Sanepar has shares listed, and the State-Controlled Company Act (13.303/2016), among other directives of Regulatory Agencies. The financial statements are prepared in accordance with the accounting practices adopted in Brazil and in accordance with the International Financial Reporting Standards (IFRS).

Sanepar's financial statements reporting process is the reaffirmation of its commitment to transparency of information provided to all its stakeholders. The Sustainability Report is integral part of this process, detailing the socio-environmental and governance performance, to be disclosed int he first half of 2019.

1. MESSAGE FROM MANAGEMENT

MANAGEMENT AND EFFICIENCY

We have closed another year with excellent economic-financial and other relevant results such as the expansion of the water distribution and sewage collection network, efficiency gains, among other initiatives. Year 2018, like the previous year, was marked by a slow resumption of the economy's pace, and our performance reinforces the resilience and consistency of our strategic planning.

As a provider of environmental services, our first guideline is that water cannot have any shortage and quality is a condition for supply. Moreover, we have the commitment to continuously advance in basic sanitation in the 346 municipalities we serve. Concession contracts with Municipalities are the cornerstone of our business.

We seek to expand the value created through research and innovation for themes such as energy efficiency and the best alternatives for effluent and waste destination. Important projects came to be in that manner, since they gained scale in the Company and have yield a double benefit: contribute to environmental conservation and increase the value created to our shareholders.

EFFICIENCY

Since 2017, Sanepar operates under a new regulatory regime, which provides a reduced tariff through the sharing of productivity gains (X Factor). Based on that, we have reinforced the efficiency indicator controls routine all across the Company. Regulation, in addition to allowing for the practice of efficient cost, provides legal security to the shareholders, assuring that tariffs will adequately remunerate the invested capital and the economic and financial balance of the Company. This model is aligned with what was set by Agepar (Delegated Infrastructure Utility Services Regulatory Agency of Paraná) and by the Sanitation Act 11.445/2017).

PARANÁ IS A REFERENCE

Sanepar is the third largest sanitation company in the Country and a national reference in efficiency. Moreover, Curitiba is the best capital in the Country in basic sanitation since 2011, according to Instituto Trata Brasil, a public interest civil organization operating in sanitation and environmental protection. The entire volume collected undergoes treatment prior to disposal in bodies of water.

High customer satisfaction rate, at a 79% rate, also proves the quality of the services provided. We work to better serve and evolve in the convenience provided to our customers on a continuous manned, therefore, we have expanded the number of the Company's own totems and those shared under agreement with other State agencies, making more than one service channel available. We have also developed a proposal for expanding the connection with customers through social networks, in order to facilitate contact and availability of services.

For keeping providing services with excellence, we need a functional team, qualified and up to date with the trends of the corporate universe and technological advances, for which reason we invest in training and in the careers of our employees.

We were also one of the first companies to conclude the process of adjustment to the parameters of State Legislation, Law 13.303/2016, which deserved a highlight from Fundação Getulio Vargas (FGV) as one of the three who met the best the legal requirements, among state-controlled entities of several levels of government, reinforcing our history of governance and transparency.

The high customer satisfaction rate, 79%, proves the quality of the services and the success of our strategic planning.

2. SANEPAR

RIVER TO RIVER

Given the extension of its operations, Sanepar is one of the largest companies in operation in Paraná and, among the sanitation companies in the Country, it is considered the gold standard, the benchmark in several fronts.

With 3.1 million water connections and 2.1 sewer connections, the Company presents performance levels higher than the national average: 100% for water supply in urban areas and 72.5% for sewage collection. The entire volume of sewage collected is treated. In the rest of the Country, collected urban sewage represents, on average, 59.7% of the total, provided that 74.9% of that volume undergoes treatment, pursuant to the National Sanitation Information System (SNIS) of 2016.

Even with indices above the national level, Sanepar invests in the expansion of the sewer service and the goal is reaching the universalization of environmental sanitation, completing the "river to river" cycle.

History

Created by State Law 4.684/1963 and initially called Companhia de Água e Esgotos do Paraná (Agepar), Sanepar (Sanitation Company of Paraná) is a joint-stock, publicly traded, quasi-public entity. Controlled by the Government of the State of Paraná, holding 60.1% of the voting shares, the company provides basic sanitation services through the supply of water, sewage collection and treatment and management of solid waste.

The Company operates in 345 municipalities in the State of Paraná and in 297 smaller size locations, in addition to also serving the city of Porto União, in the State of Santa Catarina.

For meeting these numbers, Sanepar operates a 54 thousand kilometer water supply network and another 35 thousand kilometer sewage collection network. In seven municipalities of the State of Paraná, Sanepar also carries out the management of solid waste.

With this vision, Sanepar defines itself as an environmental company, working toward the conservation of nature, since that is its essential input for the maintenance of its activities, i.e., prioritizing sustainability.

For operating practically in the entire State, in the various fronts, the Company counts on a workforce of over 7 thousand employees and makes continuous investments for expanding and improving its services. In the last 8 years, for example, over R\$ 6 billion were contributed. In 2018 alone, were invested R\$ 1.030 billion, which meant a 17% increase compared to the last year.

OPERATING CONTEXT

With a water demand of 51,366 liters per second, Paraná has a situation that can be considered comfortable, when seeing the water availability, which, according to the Wa-

SANEPAR IN DATA

- > 346 municipalities served
- > 100% coverage in the water network
- > 72.5% coverage of the sewage collection network
- > **3.1 million** water connections
- > 2.1 million sewage connections
- > 54 thousand Km in water network
- > 35 thousand Km of the sewage collection network
- Over R\$ 6 billion in investments in the last eight years

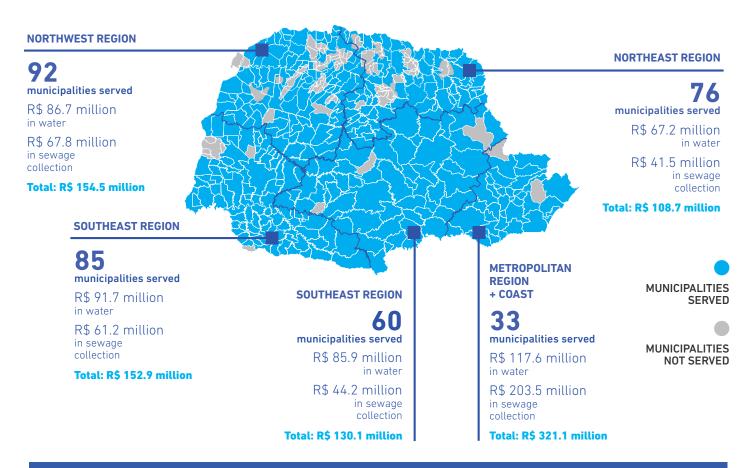
ter Resources State Plan, is of 1,153,170 l/s. The most important point of attention is in Curitiba and its Metropolitan Region, which concentrates the highest population of the State, where operated an Integrated Water Supply System (SAIC), which operates with four dams (Piraquara I, Piraquara II, Iraí and Passaúna) and a supply capacity much higher than the demand.

Even in this water availability scenario, Sanepar has the commitment to make rational use of the resources. The Company invests in long-term planning seeking to assure supply. An example of this vision is the new dam of Miringuava River, under construction in the municipality of São José dos Pinhais, neighboring Curitiba, to reinforce the region's integrated system.

Sanepar continued its efforts to expand services in collection and treatment of sewage toward universalization.

When talking about sewers, Sanepar is continuing is efforts to expand the services in sewage collection and treatment, in the pursuit for universalization. The great highlight in 2018 was the Paraná Shoreline, where investments in the last three years allowed an important advance of sanitation services, causing some municipalities to go from 25.9% to 72% in collection. That improved the seawater quality of the beaches and eliminated improper bathing locations.

INVESTMENTS BY REGION



INVESTMENTS (R\$ MILLION)									
	2011	2012	2013	2014	2015	2016	2017	2018	FROM 2011 TO 2018
Water	123.7	208.6	348.4	408.6	300.4	261.9	351.6	449.1	2,452.3
Sewage	207.1	240.6	361.5	468.0	446.8	431.3	432.0	418.2	3,005.5
Others	23.4	27.1	77.1	77.4	47.8	49.2	96.9	162.7	561.6
Total	354.2	476.3	787.0	954.0	795.0	742.4	880.5	1,030.0	6,019.4

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BUSINESS MODEL

A CYCLICAL PROCESS

commitment to create results to its shareholders, cus- lection and treatment of sewage. It also manages three ety in general and to the environment.

tomers and society as a whole. From a "river-to-river"

standpoint, throughout its entire chain, Sanepar ensures landfills. This value-generation process creates consis-Sanepar is a quasi-public, publicly traded entity with the catchment and supply of quality water, in addition to col-

ALLOCATION OF RESOURCES AND CAPITAL		COMPETITIVE ADVANTAGES	BUSINESS	ASSETS (MANUFACTURED CAPITAL)		CONSUMERS	GENERATION OF VALUE (OUTCOMES)
FINANCIAL CAPITAL	 Equity of R\$ 5,717.2 million and generation of cash of R\$ 1,362.0 million Investments of R\$ 1,030.0 million Borrowing Levels: 1.5 times the Ebitda (bank debt versus Ebitda) 	Wealth in water resources	Water supply FOCUS: There may not be water shortage and quality is a condition for supply	 168 ETAs (Water Treatment Stations) 1,103 wells 4 dams 3,137,760 water connections 54,103 km in distribution network 	• 3,923,428 active economies* Quality • 99.8% conformity of distributed water Stations) • 72.5% in sewer network coverage • 100% treatment of collected		Quality and health High rate of quality in water service (99.8% conformity) and rate of service with collection of sewage above Country average, with beneficial impacts to health and quality of life of the population in the supplied municipalities. Financial Return Payment of dividends and generation of cash. Contribution to the environment Management of impacts and conservation of bodies of water
NATURAL CAPITAL	 Water availability of approximately 1.2 million l/s Estimated energy resources of 2.6 million GJ 	 Predictable and resilient business, with a diversified customer base and market credibility 	Sewage Collection	 246 ETEs (Sewer Treatment Stations) 2,141,050 sewage connections 			
HUMAN CAPITAL	• 7,022 direct employees	Financial performance above the peers in the	FOCUS: Universalization, monitoring of quality and services and reduction of the environmental impact	• 35,982 in collection network			
INTELLECTUAL CAPITAL	 548,000 Training hours R\$ 10.7 million invested in research and development 	 Industry Operating excellence, with actions for increasing 					
SOCIAL CAPITAL	 79% consumer approval rate of Sanepar services 83% wish Sanepar to continue to operate in their municipalities Consumer relations Relations with the Concession Granting Authority 	efficiency • Excellence in management	Solid Urban waste FOCUS: Growth and diversification	• 3 landfills			
MOST RELEVANT THEMES	Operating efficiency and quality in the provision of the company's own and third party services.	Governance, transparency and ethics	Sustainability and economic- financial balance		gement of resources	Environmental Sustainability	Organization of work and quality of life
SDO SUSTAINABLE DEVELOPMENT OBJECTIVES	 3 - Health and Well Being 6 - Drinking water and sanitation 9 - Industry, innovation and Infrastructure 11 - Sustainable Cities and communities 12 - Responsible production and consumption 	16 - Peace, justice and effective institutions 17 - Partnerships and means of implementation	8 - Decent work and economic growth	sanitation sa	inking water and nitation esponsible roduction and onsumption	4 - Quality education 7 - Clean and accessible energy	4 - Quality Education 5 - Gender equality 8 - Decent work and economic growth

^{*} The term active household is used for referring to the entire property or a subdivision of a property with a private installation or for common use of services of water supply and/or sewage collection, registered and invoiced by Sanepar.

AWARDS AND HIGHLIGHTS

2018 TRANSPARENCY TROPHY

Sanepar was named the highlight in Best Financial Reporting, in the category that encompasses entities with net income up to R\$ 5 billion. The award has been given for 22 years by the National Association of Executives of Finance, Business Administration and Accounting (Anefac) and the choice is made by students of Masters' and Doctorate courses in Controllership and Accounting of USP, based on the balance sheets published in the press, relative to the previous year. Were evaluated approximately 2 thousand companies and the trophy given to Sanepar certifies the quality of the information provided in the financial statements and notes, the clarity and consistency of the data of the Management Report, adherence to accounting standards and presentation confirming with the opinion of the independent auditors with no emphasis or stipulations/reservations.

NATIONAL QUALITY AND SANITATION AWARD (PNQS)

Promoted by the Brazilian Association of Sanitation and Environmental Engineering (ABES), the PNQS annually awards the Quíron trophy. In 2018, Sanepar was contemplated for three times in the category "Best in Environmental Sanitation Management", in level II Silver, with awards to the Regional Management of Cornélio Procópio, Regional Southeast Management and the Industrial Management of Londrina. As for the National Northwest Management, was awarded in the category "On Track to Excellence".

In the categories "Innovation in Sanitation", Sanepar received three finalist plates, and, in the "Operating Efficiency in Sanitation" category, one *case* was also a finalist.

The PNQS is considered the most important in the sanitation industry in the Country and its goal is encouraging good practices, using as reference the Excellence Model in Environmental Sanitation Management (MEGSA). With the Quíron awards received in 2018, the Company completed 45 ABES trophies.

CORPORATE GOVERNANCE

As a quasi-public publicly-traded entity, with shares traded in the stock exchange, and operating in the sanitation industry, Sanepar is subject to several regulations. Law 6.404/1976 (the Joint Stock Company Act) and, more recently, Law 13.303/2016 (State Entity Act), in addition to Law 11.445/2007 (Sanitation Act) are part of the legal set to which the Company is subject for carrying out its activities.

Moreover, as a publicly traded entity, under Level 2 Governance of Brazil, Stock Exchange, Counter - B3, Sanepar

is subject to inspection standards of the authorities that govern the stock market. In a state-wide scope, the Company must meet the guidelines of the Paraná Infrastructure Delegated Services Regulatory Agency (AGEPAR).

For operating in this extremely regulated environment, Sanepar has a corporate governance policy operating in all levels, and seeks to reach an excellence standard in its management, focused on results, but never losing sight of its social role.

CONSOLIDATION

Implemented as of 2016, corporate governance gained its own area in the company's flow chart, joined to risks and Compliance (Governance, Risks and *Compliance*), and took, in 2018, important steps toward its consolidation. These were measures that reinforce the processes of Sanepar's adjustment to State Laws and to Level 2 of B3, namely:

- Review of the internal Bylaws, in line with the principles of Law 13.303/2016, including determinations such as the increase from 25% to 30% the percentage of independent shareholders' representatives in the Executive Board; the inclusion of agents of minority shareholders in the Technical and in the Statutory Audit Committees; setting two years for the office term of members of the Audit Committee, with the possibility of two consecutive reelections:
- Implementation of the Intercompany Transactions Policy;
- Review of the Donations and Sponsorship Policy;
- Implementation of the Investment Policy;
- Training of professionals of the decision-making areas of the company (directors and managers) for operating in a regulated environment, with emphasis on risk management;
- Creation and development of systematics for internal control and risk management, with the use of the COSO ERM methodology, created in the United States and in-

ternationally used for detecting gaps in the processes of companies and rendering management more effective. At Sanepar, monitoring reaches all six risks named as priority for mitigation and improvement in the functioning of the organization.

X FACTOR

In 2017, in accordance with the Sanitation Law (11.445/07) that regulates the provision of sanitation services, Agepar established a new regulatory regime to Sanepar, for the purpose of stimulating the economic and financial balance of the Company, and promotion of **moderate tariffs**, based on the sharing of productivity gains (X Factor).

In that year, the Regulatory Agency authorized the repositioning of the tariff in 25.63% to be applied throughout eight years. The first installment (8.53%) was applied on tariffs as of 2017 and, as of May 2018, the second tariff cycle, the 5.12% adjustment passed to be in effect.

The X Factor, set at 0.77% for the 2017-2020 Cycle, works as a reduced of portion B in the tariff adjustments up to the next Periodical Tariff Review (RTP), when the new cap price and the X Factor will be determined.

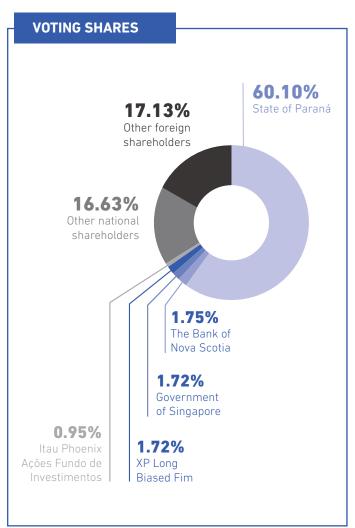
Given the relevance of the X Factor in the production cost, tariff and results, the Company monitors the evolution of the variables that comprise the index, defining strategies and implementing action plans to ensure productivity gains are at least equal to those defined in the RTP.

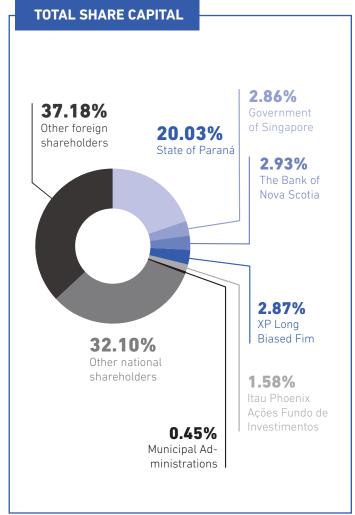
Sanepar concluded in 2018 the process of adjustment to the Sate Company Act and was pointed out in a study of Fundação Getulio Vargas (FGV) among the top three companies complying with legal requirements. FGV's analysis considered how the legal determinations were incorporated to state-controlled/owned entities across several levels of government.

SHAREHOLDING STRUCTURE

The State Administration of Paraná holds 20.03% of the total share capital of Sanepar, and holds 60.10% of the total voting shares. The remainder of the shares is divided

among foreign shareholders (20.60%) and national shareholders (19.30%). The *free float* (shares freely traded in the stock market) is of 79.97%.





DECISION-MAKING STRUCTURE

Sanepar's flowchart names as the sovereign body the Shareholders' Meeting, and next, the Executive Board, responsible for strategically conducing the business. The support bodies consist of three committees - Technical Committee, Statutory Audit Committee, and the Indication and Evaluation Committee -, composed randing from three to six members that support the Executive Board in making decisions, except for the Indication and Evaluation Committee, who provides support to the shareholders. There is also an audit committee, with the duty to inspect

the actions of managers, assuring the management of the business meets the objectives set forth in the Bylaws, as well as the legislation in force.

For executing the business strategies and implementing the guidelines set by the Executive Board, there is a Board of Directors, comprised by eight members, all with untarnished reputation, specific qualifications for the tasks to which they were assigned.

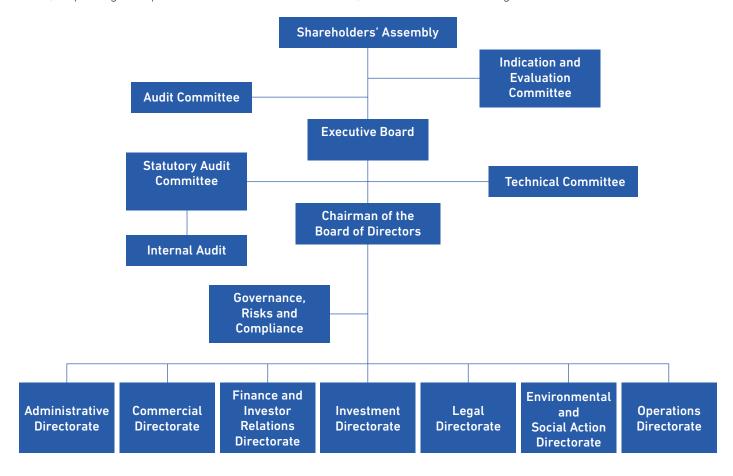
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PERIODICAL MEETINGS

The Shareholders' Meeting is convened, ordinarily, as provided by the Joint-Stock Company Act, once a year, or, extraordinarily, whenever necessary. As for the Executive Board, formed by nine members (including, among them, a representative of employees and three independent members), holds ordinary monthly meetings or, if necessary it is convened on an extraordinary basis. Are part of the attributions of the Executive Board: defining the general orientation of the business, performing risk management, inspecting the operations of the Board of Directors,

select independent auditors, ratify bidding procedures and public procurement (tenders).

As for the Audit Committee, it consists of five official members and the same number of alternates, elected by the Shareholders' Meeting, one of whom appointed by the minority shareholder and another by the holder of preferred shares. The office term is unified in two years and two consecutive reelections are allowed. The Committee has monthly meetings and has the duty of assessing accounting practices, and, at the end of each fiscal year, evaluate the rendering of annual accounts.



INVESTOR RELATIONS

Actions developed by Sanepar to keep close to investors:

- Implementation of remote vote-casting in Shareholders' Meetings;
- "Sanepar Day" promotion, event to which are invited investors, who spend the day in Curitiba, getting to know the Company, in visits to the administrative and operat-

ing areas (water catchment and sewage treatment stations). In 2018, the meeting was held for the second time, with the participation of national and foreign investors;

- Application of investor satisfaction research, performed by an external provider, which evaluated the perception of this public relative to the running of the company's business and pointed several opportunities for improvement share performance, relationship and communication;
- The second annual meeting with investors, at APIMEC

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(Association of Analysts and Stock Market Investment Professionals):

Creation of a website, under the Sanepar Portal, with information directed to investors and shareholders, in two versions - Portuguese and English. The website http://ir.sanepar.com.br went online in November and was the answer to a claim of this segment of the public to facilitate access to the Company's information.

Learn more

Go to http://ir.sanepar.com.br

COMPLIANCE, ETHICS AND TRANSPARENCY

In 2018, Sanepar took important steps toward consolidating its control structure, seeking to ensure ethical and transparency standards in conducting the Company's business. For implementing the adjustments to the guidelines of the Joint-Stock Company Act in the organizational restructuring of the Company, there was a separation of the departments of internal control and risk management, previously under Internal Audit, which passed to be under Governance, Risks and Compliance – GGRC, as well as implementation of the Compliance area.

Under the coordination of Compliance, the Company organized the Ethics Committee, comprised by employees, for the purposes of divulging and consolidating the principles of professional ethical conduct, promoting the review of the Code of Conduct and Integrity and look into reports of practices that violate said code.

INTERNAL AUDIT

Audit passed to be attached directly to the Executive Board, thereby gaining more independence and agility. As for the Statutory Audit Committee, formed by three members (independent), operating as a body of support to the Executive Board.

The work of Audit, as currently structured, is aligned to the strategic planning and to the Company's risk matrix. In 2018, in addition to routine attributions, eight audits were conducted, assessing processes for adapting to the Joint-Stock Company Act: a) financial statements; b) work of independent auditors; c) intercompany transactions; d) specific purpose entities (SPE), as in the case of CS Bioen-

ergia S.A; e) employee pension plan; f) human resources; g) rendering travel accounts; and h) sponsorship grants.

INTEGRITY PROGRAM

Regarding corruption, Sanepar has in place the Integrity Program, which follows the parameters set in the Federal Government's Comptroller's Office manual and of the Brazilian Corporate Governance Institute (IBGC) and incorporates determinations set forth in the Anticorruption Act (12.846/2013).

In the so-called investigative audits, for detecting nonconformity in processes, or to investigate reports of fraud, corruption and crimes against the public administration, 63 processes were concluded during 2018. No evidence was found of any of the reports investigated.

The Ombudsman's Office, created in the 1990s, is an important channel for communication with customers and also for supporting the operations of Audit. The office receives reports, through the website of the company (http://ir.sanepar.com.br) or through the Transparency Portal of the State Administration, assuring source confidentiality. All information received is checked and submitted to the relevant bodies for taking action. In 2018, were received 10,442 reports through the channel, two of which reports of corruption and 136 general reports filed with the Ombudsman's Office.

RISK MANAGEMENT AND INTERNAL CONTROLS

In line with its strategic goals, since 2017, its risk management on a corporate level, implemented based on the Committee of Sponsoring Organizations of the Treadway Commission - Enterprise Risk Management (COSO-ERM).

Sanepar's Strategic Risk Portfolio is comprised of 25 Riska and 113 Risk Factors. Among these, six risks had their treatments and monitoring set to a priority by management and are considered business inherent risks:

- Income Reduction
- Non-Renewal or Loss of Contracts with Municipalities
- Lack of Economic/Financial Balance of the Company
- Non-Compliance of Environmental Liability Laws

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- Fails in the Conception and Nonperformance of the Multi-Annual Investment Plan
- Fail in the Positioning of Sanepar's Purpose in the Positioning Before Society

In 2018, was implemented the Permanent Risk Commission, with the duty of acting, on a consulting manner in the evaluation, monitoring and recommendation for the adequate treatment of six prioritized strategic risks. The commission assisting the Board of Directors, the Statutory Audit Committee and the Executive Board, in order to ensure efficiency in the management of resources and protection of assets based on strategic guidelines and the Company's risk profile.

Risk management is conducted through the governance process and the systematics is run through mechanisms that incorporate this management in all decision-making levels of the Company: councils, committees, directorates and management, considering, moreover, the qualification of internal agents and the alignment of control routines and internal audit.

For each strategic risk prioritized, was assigned an owner (director) and a facilitator, responsible for implementing the treatment actions, through the monitoring of risk indicators and for presenting its results, as well as for the construction and submission of the data necessary for comprising the monthly report to the governance agents.

Treatment plan - mitigating actions

For facing the treatment of the six strategic risks prioritized, 16 indicators (KRIs) already implemented are being monitored. The results are presented on a monthly basis for checking compliance with the tolerance limits in place. Plans for path correction of the KRIs consider 129 mitigating actions, 75 of which are already inserted into the processes impacted and executed on a routine basis. The other 54 are being managed within their action plans.

The management report is presented on a monthly basis to the Permanent Risk Commission and, on a quarterly basis, to the Board of Directors, Statutory Audit Committee and to the Executive Board, with information referring to the variation of risk indicators (KRI's), the update of the status of mitigating actions, the level of risk exposure (financial impact dashboard), among other matters considered relevant.

Also in 2018, was started the mapping of Internal Controls associated to Prioritized Strategic Risks, with the goal of integrating and strengthening risk mitigation, while good governance practice is used for reaching the company's goals.

For year 2019, Management plans include a review of prioritized risks, as well as the evaluation of other risks identified.

3. SUSTAINABILITY

Sustainability is more than a concept, it is embedded in the day-to-day of Sanepar's activities and considers the economic-financial, social and environmental aspects, provided that is the joining of these variables that assure the survival and continuity of the Company. To that extent, it is one of the perspectives of the Company' Strategic Map and directs its efforts to creating value to all stakeholders, becoming inherent to the business.

Therefore, Sustainability, Customers, Processes and People that are part of the Company's strategic planning with an expanded look at the effects of Sanepar in society.

Allied to the economic-financial context of the entire company depends on water resources and recognizes that the preservation and conservation of the environment and interaction with people is imperative to its sustainable growth and contribute to the quality of life of the population. Today, Sanepar defines itself as a "green/environmental company" because it understands if must not only operate in a sustainable manner, but also contribute with other actions, such as conservation of wellsprings, since future water supply depends on them.

In 2016, Sanepar denied nine material themes that guide sustainable management practices and directs is efforts to generating value shared with its stakeholders (Governance Bodies, customers, concession granting authority, society, researchers, suppliers, employees, among others). In 2018, in a new consultation with the public with which the Company interfaces, the materiality matrix was updated to top seven relevant themes, which must guide management priorities in the next years.

For defining these themes, Company executives were interviewed, who helped outlining the corporate vision of sustainability, and representatives of market analysts, customers and entities. For expanding the range, was applied an online questionnaire to employees, customers, investors, suppliers, among others, which had almost 1.4 thousand participants. These two visions, internal and external, were crossed for defining the most relevant themes, i.e., those with the highest level of relevance to the company and to the publics with which it operates (see the table below).

MATERIALITY RESEARCH - PRIORITIZED THEMES	CORRELATION WITH SUSTAINABLE DEVELOPMENT GOALS (SDG)				
Operating efficiency and quality in the provision of the company's own and third party services.	3 - Good health and well-being 6 - Clean water and sanitation 9 - Industry, Innovation and infrastructure 11 - Sustainable cities and communities 12 - Responsible consuption and production				
Governance, transparency and ethics	16 - Peace, justice and strong institutions 17 - Partnerships for the goals				
Sustainability and economic-financial balance	8 - Decent work and economic growth				
Universalization of access to water and sewer	6 - Clean water and sanitation				
Management of water resources	6 - Clean water and sanitation 12 - Responsible consuption and production				
Environmental sustainability	4 - Quality education 7 - Affordable and clean energy				
Organization of work and quality of life	4 - Quality education5 - Gender equality8 - Decent work and economic growth				

ECONOMIC AND FINANCIAL PERFORMANCE

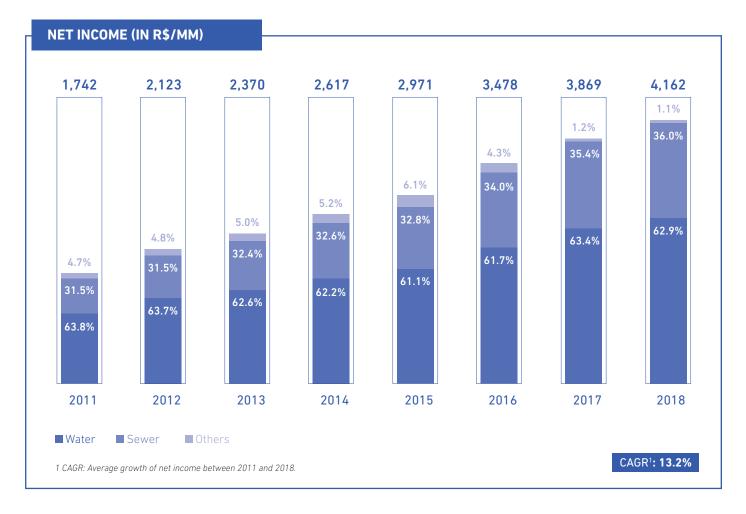
Sanepar achieved important results and reached a balanced and sustainable performance, even in an year marked in Brazil by the slow resumption of the economy's pace, after a period of recession. Net operating income increased 7.6% compared to 2017, whereas net profit grew 30.1% with a highlight to the EBITDA margin, that reached 39.5%.

A significant achievement in 2018 was the renewal of the contract with the municipality of Curitiba, for the term of 30 years. This is a relevant achievement because the municipality alone, represents 24.4% of Sanepar's income. Curitiba and its Metropolitan Region form the largest population center of the State and therefore, concentrate a large part of the demand for environmental sanitation services.

Other three municipalities of the region renewed their contracts for the same 30-year term: Campo Largo, Piraquara and Colombo. Those three plus Curitiba represent 28.2% of Sanepar's income and are within an integrated supply and sewage services system.

During 2018, the Company kept its efforts to control cost and expenses, positively impacting the economic results reached, adopting as metrics the X Factor, a parameter that measures the company's efficiency. The period was important to consolidate the control methodology and enrich Sanepar's experience in the regulated environment.

Continuity of the Company's expansion was marked by the growth of investments that reached R\$ 1,030.0 million, a 17.0% growth relative to 2017, when R\$ 880.5 million were invested.



Debentures

For complementing its investment program, Sanepar raised, in 2018, resources through the 8th issuance of debentures, in two series, in a total amount of R\$ 250 million. Destined to professional investors, the debentures, not convertible into shares, expire in three years (for the first series) and five years (for the second series).

The operation was rated for credit risk by one of the top risk rating agencies worldwide, Moody's Investors Services, with a Aa2.br credit grade (national scale).

Rating

Fitch maintained the credit risk rating AA(bra), but changed the prospects from stable to positive. According to the agency, "Sanepar's credit profile benefits from more resilience and predictability of its demand and results, tested in various economic scenarios, compared to other sectors of the economy. In operational terms, Sanepar also represents better indicators that its top peers int he sector".

As for Moody's, it rated Ba2, on a global scale, and Aa2. br, in the Brazilian scale with a stable perspective. The Agency's report states the Company "showed continued

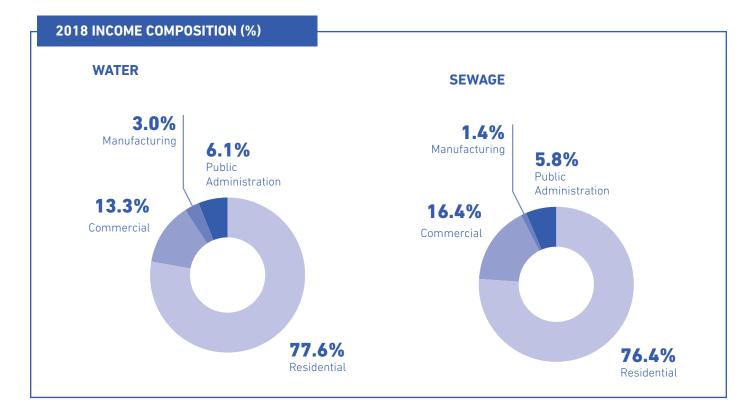
growth in the last quarters, driven, mostly, by the tariff adjustment and by the increase of water and sewer services. Moody's considers Sanepar's liquidity as adequate".

REVENUES

Net operating income grew 7.6% compared to 2017 influenced, mostly, by the tariff adjustment of 5.12% applied as of May 2018 and by the expansion of the water and sewer services.

The adjustment authorized by the Regulatory Agency – AGEPAR – the second year of the Company's first Tariff Cycle. The adjustment includes the second 2.11% installment of the deferment fractioned in eight years plus the difference between required and verified income, adjusted by the Selic Rate, as determined by the regulatory agency.

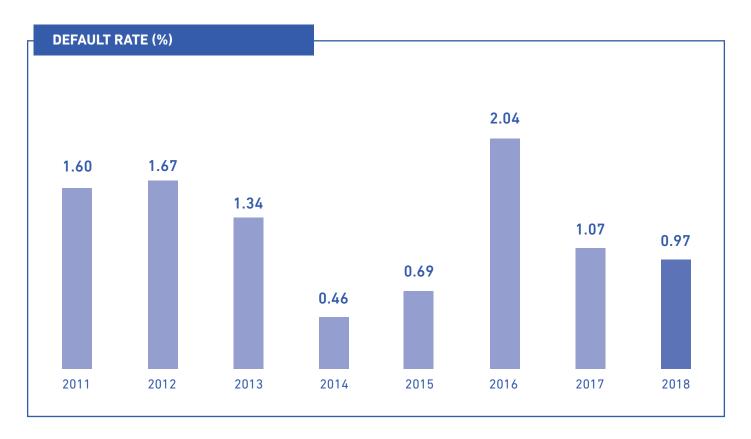
The expansion of the water services was marked by a 2.3% addition to the extension of the supply network and a 1.6% increase in the number of connections. Sewer services presented a 2% growth in the extension of the collection network and a 4.9% increase in the number of connections.



DEFAULT

With the intensification of commercial actions and relationship with customers, default has been reduced for the second consecutive year, reaching, in 2018, the rate of

0.97%. Were also reached positive results with the Credit Recovery Program, that Sanepar implemented for negotiating debts of the public administration.



EBITDA

The EBITDA was R\$ 1,642.0 million in 2018, above the results of 2017 when it was at R\$ 1,383.5 million, reflecting the continued improvement of operating efficiency of the Company, which reached an increase in net operating income of 7.6%, above the growth of operating cost, which was 1.4%.

With implementation as of 2016 of the Encouraged Retirement and Voluntary Layoff Programs (PAI and PDVTC, respectively) and the adhesion of 585 employees, 50 in 2018, the Company managed to reduce its operating cost (overhead), the cost with personnel, in 2.9% compared to 2017. In addition to this reduction, the 3.8% drop of the cost with materials and comparison with 2017 positively influenced EBITDA.

Labor claim reserves have also contributed to the better EBITDA performance, due to the review by the legal advisors of the estimates and probabilities of loss in litigation.

The favorable results were partially mitigated, especially by the increase of electric power, the main input and the second highest operating cost of the Company, which grew 12.1% relative to 2017, caused by the tariff adjustment of the electric power.

Thereupon, the EBITDA margin increased 3.7 p.p., passing from 35.8% in 2017 to 39.5% in 2018.

SANEPAR – 2018 ANNUAL REPORT 3. SUSTAINABILITY



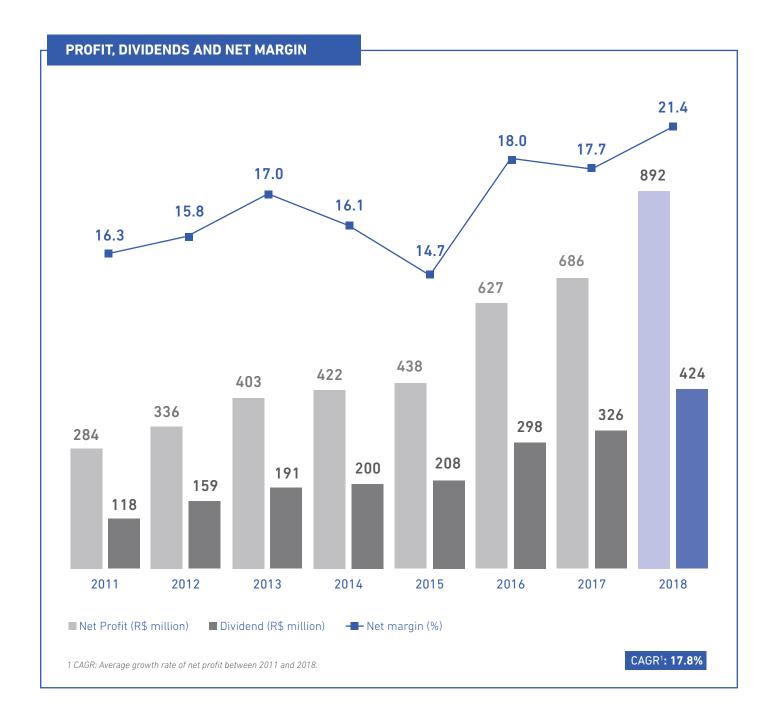
EBITDA¹ (R\$ thousands)							
DESCRIPTION	2015	2016	2017	2018	VAR. %		
Net Profit	438,444	626,847	686,172	892,487	30.01		
(+) Taxes on profit	101,870	162,738	227,901	272,515	19.6		
(+) Financial Income	159,474	164,281	222,167	205,639	-7.4		
(+) Depreciation and amortizations	194,194	217,111	247,282	271,387	9.7		
(=) EBITDA	893,982	1,170,977	1,383,522	1,642,028	18.7		
EBITDA Margin	30.1%	33.7%	35.8%	39.5%	3.7 p.p.		

^{1.} The Company calculates the EBITDA pursuant to Directive 527 of the Brazilian Securities and Exchange Commission (CVM).

NET PROFIT AND REMUNERATION TO SHAREHOLDERS

The net profit recorded by Sanepar was R\$ 892.5 million, i.e., 30.1% above the amount reached in the previous year, R\$ 686.2 million. As for the net margin between one year and another, moved from 17.7% to 21.4%, with an addition of 3.7 p.p. in 2018.

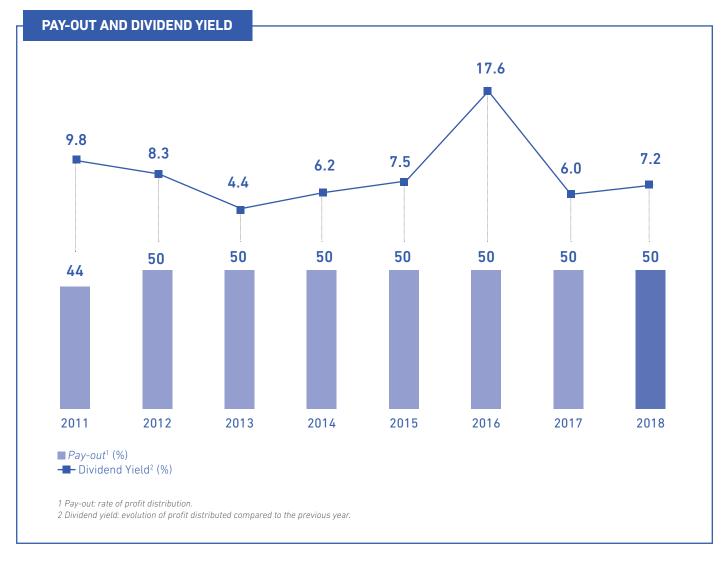
Had a positive contribution for improving profitability, the increase of net income, efficiency in the management of cost and expenses and tax savings arising of credit to shareholders of interests on equity replacing dividends.



The legal determination grants shareholders the right to the minimum mandatory dividend of 25% of the adjusted net profit. However, the Company's dividend policy projects that management may, in addition to the mandatory annual dividend, observing the financial health and the public interests that motivated the organization of the Company, approve the distribution as additional dividend and/or interest on equity of up to another 25% of the net

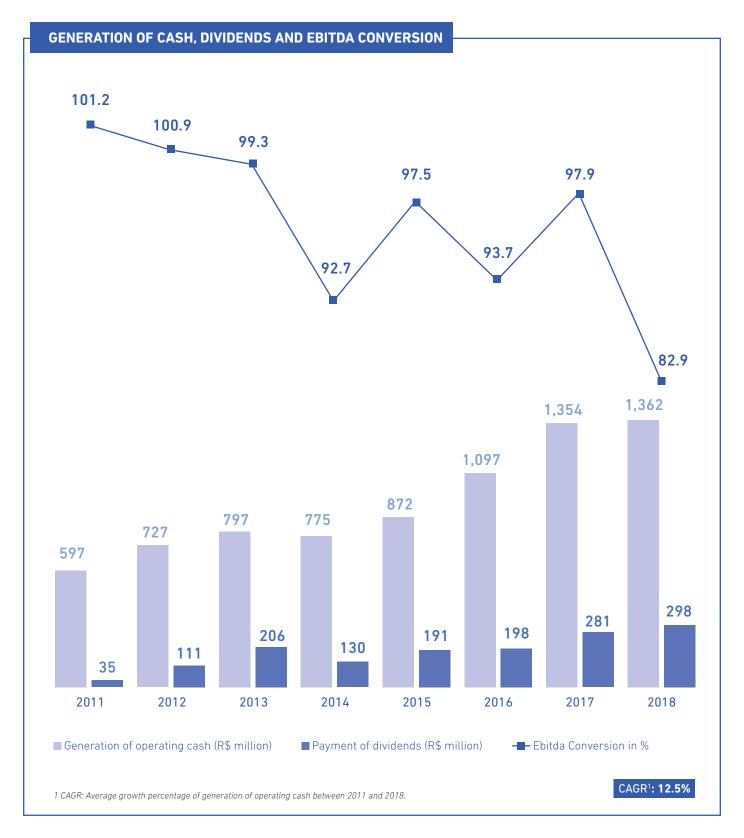
profit. The management of the Company is proposing the distribution of 50% of the adjusted net profit in interests on equity and dividends in the amount of R\$ 423.8 million, referring to 2018 profits. Payment will be made within 60 days after holding the Annual Shareholders' Meeting that will approve the accounts for fiscal year 2018. The yield of shareholders' shares (Dividend Yield) was 7.2% in 2018.

On 07/31/2018, was disclosed by Guialnvest, the "Ranking of TOP10" dividends, placing Sanepar in the 6th position in the Best Dividend Stocks, among entities listed in B3.



MANAGEMENT OF OPERATING CASH

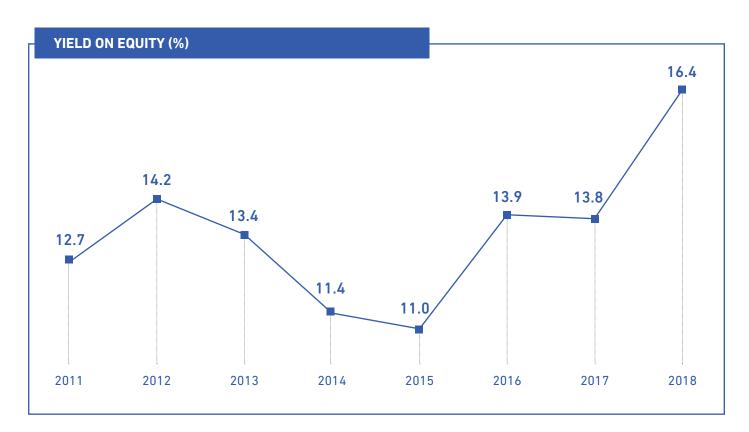
The Company's operation generated cash of R\$ 1,362.0 of R\$ 298.4 million in dividends and interests on equity, million in 2018. In the same period, was paid the amount an amount 6.1% higher than in the preceding fiscal year.



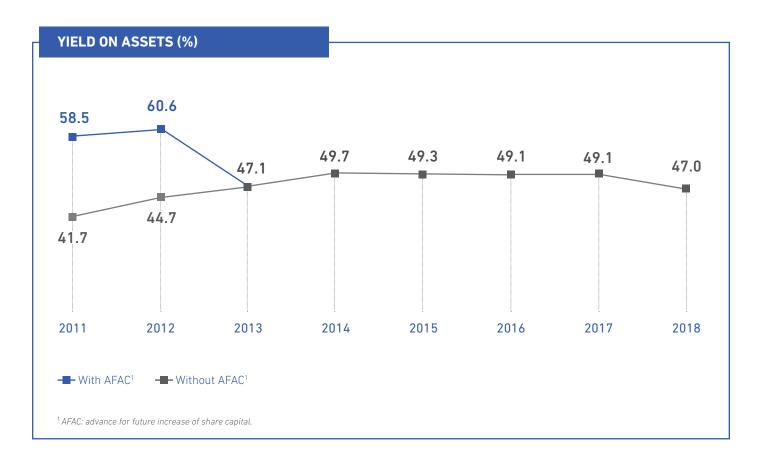
BORROWING AND YIELD

With the favorable economic performance reached by the Company, the yield relative to equity reached 16.4% in 2018, growing in comparison to the previous year, when that rate was 13.8%. The return on invested capital also presented good performance, moving from 11.6% in 2017 to 12.6% in 2018.

The Company closed the fiscal year with R\$ 10.8 billion in assets and a total debt of R\$ 5.1 billion. The Borrowing Rate on the Assets was 47.0%, whereas Equity matched R\$ 5.7 billion.



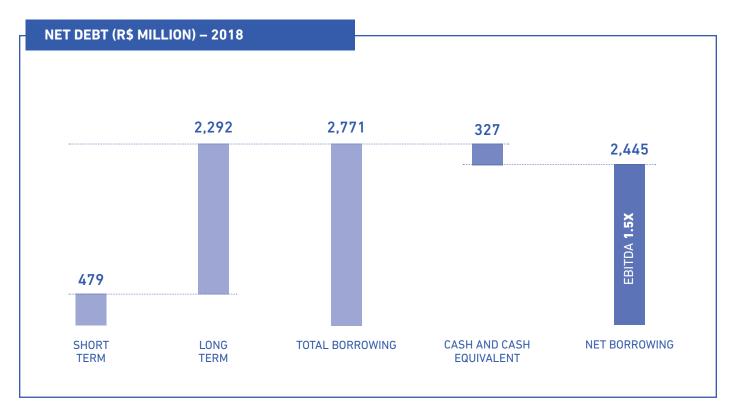


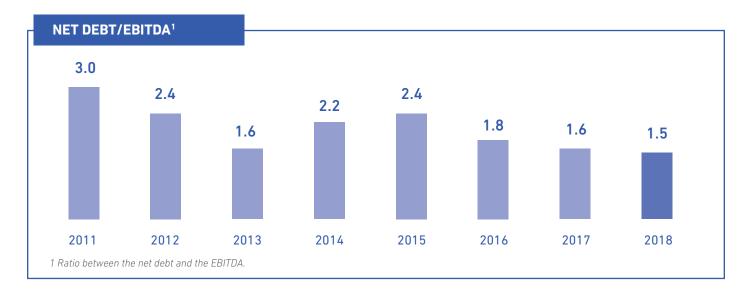


NET DEBT

2,444.7 million, whereas the Net Debt x EBITDA ratio, that 2017, passing from 1.6 to 1.5.

The Company's net debt reached, in the end of 2018, R\$ measures the leverage level, decreased in comparison to





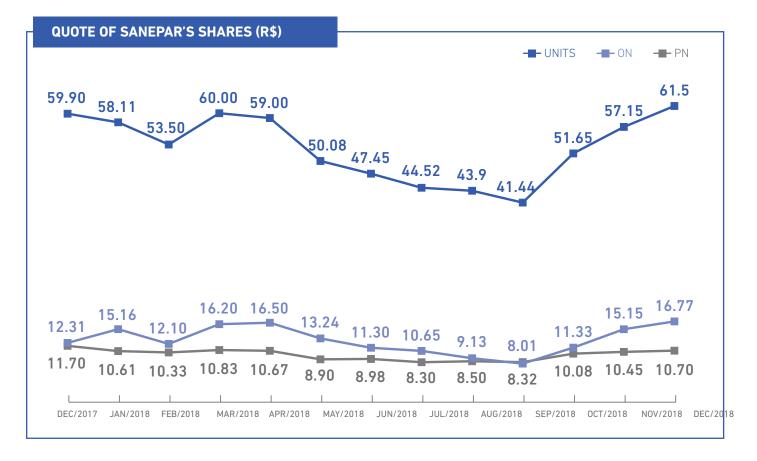
STOCK MARKET

Common shares (SAPR3) closed 2018 with a quote of R\$ 16.77, presenting a 36.2% positive variation relative to the closing in December 2017, when the quote of each share was R\$ 12.31.

Preferred shares (SAPR4) closed the fiscal year at R\$ 10.70, compared to R\$ 11.70, in December of the preceding year, which means a 8.5% negative variation.

The UNITS (SAPR11), launched in 2017 and formed by one common share and four preferred shares, reached the end of 2018 quoted at R\$ 61.50, compared to R\$ 59.90 in December 2017 – a 2.7% positive variation.

As for the equity value of each share in December 2018 it was R\$ 11.35, with an addition of 11.0% compared to the preceding year, when it recorded R\$ 10.23. The financial volume of business with Sanepar's shares totaled (R\$ 6,809.5 million) in 2018, 34.7% under the volume recorded in the previous year (R\$ 10,434.7 million).



SERVICES PROVIDED BY INDEPENDENT AUDITORS

Sanepar respects the independence of the external auditor, understanding the importance of the capacity the auditing entity must have in judging and acting with integrity and objectivity for allowing opinions or reports to be impartial.

BDO RCS Auditores Independentes S.S. Has a contract with the Company for carrying out independent audit services relative to the financial statements of fiscal year 2018, and the issuance of special review opinions on quarterly financial statements (ITRs) of Q3 2018, and of Q1 and Q2 2019. The contract with the audit has a 12-year term, starting October 4, 2018. Were not performed by the independent auditors any services other than those stated herein.

STRATEGY AND MANAGEMENT

Sanepar's strategic planning is aligned to law 13.303/2016, with the institutional principles and values of the Company (Responsibility, Innovation, Competence, Respect, Commitment, Professionalism, Transparency and Ethics) and the Company organizes itself based on the perspectives and strategic objectives defined int he strategic map. It guides the projects and actions of all fields of the Company, and within a vision of future, seeks to face the challenges, prepare the path for secure growth and generate results. The strategic objectives relative to each perspective are:

Sustainability – seek economic, financial and socio-environmental sustainability.

Customers – keep and expand the operating market; promote the universalization of sanitation; increase customer satisfaction and strengthen the company's image.
 Processes – invest in institutional development; improve process efficiency; seek excellence of products and services; assure environmental management.

People – enhance knowledge management; promote the satisfaction of people; work with socio-environmental responsibility.

Sanepar's strategic guideline is the implementation of the Environmental Sanitation Management Excellence Standard (MEGSA), that had been adopted by the Director of

Operations since 1997, and, in 2017 was incorporated by the other directorates. The model is proposed by the Environmental and Sanitation Engineering Brazilian Association (ABES) and is comprised of fundamentals and criteria that assess and grade the management's maturity level. In 2018, the directorates continued the management diagnosis, identifying good practices in the managerial processes and opportunities for improvement, providing substantiation to the teams for innovating in planning their future actions. The result of that work is reflected in the reaching of a new level of corporate management and the consolidation of MEGSA in the Company.

INVESTMENT PLAN

The Multi-Annual Investment Plan (PPI) is developed considering a five-year horizon, based on technical studies. In its preparation, are taken into account the master plans of sanitation, operating and environmental diagnosis, demands of the supply systems of the locations, goals of concession/program contracts, adjustment to the requirements of environmental legislation, among other variables.

The PPI contemplates short, medium and long term investments, and encompasses both projects that already have a defined source of resources as those that still require financing/funding sourcing.

MISSION

Provide environmental sanitation services in a sustainable manner, contributing to the improvement in the quality of life.

VISION

Being a company of excellence, committed to the universalization of environmental sanitation.

VALUES

Responsibility, innovation, competence, respect, commitment, professionalism, transparency and ethics.

4. CLIENTS

There may not be water shortage and quality is a condition for supply This is one of the most important guidelines of Sanepar, one that, aligned to the customer's perspective of the Strategic Map, prioritizes quality service and excellence service, seeking technical and environmental solutions for each region, developing a tariff policy that is at the same time fair for those who pay and adequate, to assure return to investors.

The Company serves two groups of customers: The Concession Granting Authority, who authorizes the provision of services through contracts, and Clients, who benefit from the water and sewer networks or of the waste management service.

One of the fundamental objectives is promoting the universalization of environmental sanitation. Aware of its responsibility, Sanepar works toward universalizing its services.

GOVERNMENT

Since 2007, the relationship between Sanepar and the municipalities is governed by Federal Law 11.445/2007, known as the Sanitation Regulatory Milestone. As of March of this year, the relationship between Sanepar and the Concession Granting Authority happens through the Program Contract. These contracts have a 30-year term and present goals, set forth in the Basic Sanitation Municipal Plans, which vary in accordance with the characteristics and water supply and sewage collection and treatment conditions of each municipality, focusing on the improvement of the quality of life of the population. In addition to the Program Contracts, the Company still has Concession Contracts in force, signed before the Regulatory Milestone.

CONTRACT PROFILES

346 municipal concessions
338 currently in force
8 contracts under
negotiation
174 program contracts
164 concession contracts

Renewal

Of the 346 municipalities served by Sanepar (345 in Paraná and one in Santa Catarina), 338 have contracts in force and eight contracts are expired and in stages of negotiation for signing the Program Contract. Among those in force, 174 are Program, i.e., dating after the Regulatory Milestone and 164 precede the Regulatory Milestone, and are, therefore, Concession Contracts. Of the total Program Contracts, 15 were signed in 2018. The Company's objective is transforming all of its Contracts into Program Contracts.

Relationship with municipalities

Monitoring of concession and program contracts with the municipalities, is a routine at Sanepar. The Company's technicians visit Municipal Administrations and hold meetings with communities to assess the quality of the services, meeting goals and identifying demands.

BASIC SANITATION MUNICIPAL PLAN

One of the requirements of Federal Law 11.445/2007 is that each municipality must have its Basic Sanitation Municipal Plan (PMSB), on penalty of preventing its access to Federal resources. The PMSB is also a mandatory requirement for signing program contracts.

SANEPAR – 2018 ANNUAL REPORT

4. CLIENTS

The Plan, according to law, must be prepared with the participation of the population, through consultations, public hearings and approval by local legislatures. It must also be reviewed every four years, for adjusting goals, projects and actions. Among the services that are part of the plans and can be provided are the supply of water, collection and treatment of sewage, urban cleaning, collection and destination of urban garbage, draining and destination of rainwater.

Sanepar offers the municipalities support in the preparation of the PMSB for water and sewer services. The participation of the Company's technicians includes presence in public hearings and monitoring of the municipality's approval process.

END CONSUMER

When Sanepar speaks of customer, it is referring to a universe encompassing 3.9 million households (or residences/real estate units) served by the supply of water or 2.8 million households also served by the sewer collection network. With such a broad clientele, the challenge is assuring service with excellence.

In the last years, the Company has been investing more and more in technology, to come closer to the consumer and also to facilitate, to the consumer, even remotely, access to the services. That, without leaving aside the modernization of in-person service centers, which count on modern equipment and employees trained to offer agile response, reducing the customer's permanence time at the office.

SANEPAR MOBILE

For the customer, it is possible to access Sanepar with a simple touch in the tablet or smartphone. An app that works in the Android and IOS platform will be available free of charge in virtual stores. Since it was launched, two years ago, the app had over 100 thousand downloads in Google Play and App Store, making it possible to have online services made such as registry information, water shortage check, request for changing in the billing date, obtaining bar code and information on payment, debits, reading and consumption.

SELF-SERVICE TOTEMS

To facilitate access to Sanepar's services without the need for going to a service office, the Company started, two years ago, the installation of self-service totems, in places there is a flow of people. In Curitiba, for example, they are at Ruas da Cidadania, a City Hall structure that concentrates the offer for services of the municipal, state and federal governments.

There are 100 totems operating in the State and, for 2019, the forecast is extending self-service to places such as supermarkets, shopping malls and bus terminals. In the totems, services can be accessed as debit check, consumption, payments and supply disconnections; issuance of a copy of the bill; registration update, repair orders and payment with debit card.

In addition to its own equipment, Sanepar also shares Detran totems in another 282 points, but, in this case, the service offer is reduced - checking debits and issuing copies of the bill payment slip.

QR CODE

The QR Code, a bi-dimensional bar code that can be easily scanned using a mobile phone camera, is being printed in the back of monthly bill slips and also in cardboard boxes and glasses of bottled water distributed in events supported or sponsored by the Company.

This tool supports communication with customers and directs them to the website with information on actions that Sanepar carries out in meeting the Sustainable Development Goals (SDG).

TARIFF SIMULATOR

The tariff simulator is an important tool for the customer to understand the bill. Available in Sanepar's website in the link "Customers – Our Tariffs" and with a visual similar to the bill the customer receives at home, it allows simulating the values of water and sewage, after entering data such as consumption, category, quantity of households and location, in addition to the reference month. The tool identifies municipalities with seasonal consumption, such as the shore of the State, where the tariff is differentiated during summer months.

OMBUDSMAN'S OFFICE:

Easy-to-access communication channel, available in the Company's website (http://ouvidoria.sanepar.com.br) for receiving criticism, reports, complaints, suggestions, compliments and thanks. The response time is ten business days, and the concerned party may follow up on the status of the request.

In 2018, another alternative for communicating with Sanepar was created with the functioning of Digital Government (www.governodigital.pr.gov.br), a portal developed by Celepar (Information Technology and Communication Company of the State of Paraná) that gathers online services of agencies of the direct and indirect administration of the State.

TELEPHONE SUPPORT

Sanepar also keeps in place a telephone support center operating 24 hours a day for receiving demands from its customers. The service takes calls in number 0800 200 0115 with approximately 180 operators from an external contractor. They take turns in shifts for taking calls and recording requests, complaints and suggestions. At the end of the call, a quick survey is taken on the response to the demand presented by the customer. In 2018, over 2 million phone calls were taken and the support center's service satisfaction level was 82%.

The center also has a separate structure, with Sanepar's team, that works during business hours and is responsible for active support - i.e., short term return response on some services.

For emergency matters, such as disconnection of the supply of water, Sanepar uses the SMS system for informing customers of the affected areas. For receiving messages, the customer must update his information and provide a

mobile number in the website or in the app of the Company. In 2018, 2.9 million SMS were sent with information regarding water shortage and institutional messages.

CUSTOMER SATISFACTION SURVEY

Permanently listening to customers is an important instrument to assess the perception and expectations of consumers, in addition to identifying opportunities for improvement in products and services offered. Satisfaction surveys are made on an annual basis, through a specialized company, with residential and nonresidential customers, via structured questionnaires and in-person interviews. These evaluations help continuous improvement for reaching excellence.

Experience shows the Company has consistent indices. Among the results, 79% of customers are satisfied with the services provided, 82% approve the support received in the several relationship channels, 82% are satisfied with the quality of the water and 83% want Sanepar to remain the sanitation Company of their municipality.

A specific survey on the collection and/or destination of solid urban waste revealed a 82% approval rate of the services.

A qualitative evaluation was also made with large customers. The positive points were: water quality, provision of services, cost and demand (quantity). Large customers see the Company as reliable and effective.

SATISFACTION RATE

79% of customers are satisfied with the services provided

82% are satisfied with the quality of the water

83% prefer Sanepar to continue to operate in their municipality

82% of customers are satisfied with the services in collection and/ or destination of solid waste

WATER QUALITY

The quality of the water that leaves the faucets is one of the factors that decisively impacts consumers' positive evaluation. To ensure water reaches a high drinkable level, Sanepar seeps a structure of its own laboratories, decentralized, performing periodical analysis, not only of the water, but also of the collected and treated sewage.

There are 172 water laboratories across the State and another 20 for testing sewage, in addition to the central laboratories, located in pole cities – Maringá, Londrina, Cascavel and Curitiba. They are equipped with cutting-edge technology and have an infrastructure considered the benchmark in Latin America.

In 2018, this network of laboratories produced over 1.9 million water analysis (difference of 0.24% compared to the previous year) and another 85 thousand sewage analysis (a number 10.5% higher than 2017). The conformity rate of the water distributed by Sanepar is 99.85%.

SOCIAL TARIFF

The social tariff benefited 184 thousand families in 2018. This total is equivalent to 5% of the number of residential economies of Sanepar and means a R\$ 102.9 million yearly subsidy – an amount borne by other categories that use the services, pursuant to the Company's tariff structure. The program beneficiaries pay R\$ 13.88, a month, R\$ 9.25 relative to the water bill and another R\$ 4.63 corresponding to sewage.

Are included in this class of consumers residences with a monthly consumption of up to 10 m³ of water (or 2.5 m³ per person for families with more than four members).

For granting the benefit, socio-economic classification criteria are also used. The families must live in properties of up to 70 m², for exclusively residential use, and have an income of half a minimum wage per person, or, moreover, two minimum wages (federal) if more than four people occupy the same household.

Micro and small-sized companies, individual micro-entrepreneurs classified under the ICMS Exemption Program of the State Government and philanthropic entities registered with public agencies also have differentiated tariffs.

GARBAGE FEE COLLECTION

Sanepar carries out, by contract, the collection of the garbage fee in 112 municipalities, 111 in Paraná and 1 in the State of Santa Catarina. This is a service provided to municipalities, adding the garbage fee in water and sewage bills Sanepar issues and distributed on a monthly basis.

For the municipalities, the system brings advantages, because it reduces default in payment of this fee and ensures a monthly flow of resources. For the taxpayer, the advantage is the payment of this expense in installments throughout the year. Sanepar charges a fee, corresponding in 2018 to R\$ 1.54 by charged household, and transfers the amounts collected to municipal administrations up to the tenth business day of the subsequent month.

Municipalities that use this system of collection remain responsible for urban cleaning and sign with Sanepar an Addendum to the concession or program contract. All of the process must pass, before, by popular examination, holding public hearings and approval through City Council.

Of the 112 municipalities using this service, 12 signed the Addendum in 2018. Other administrations located in the encompassing area of the 23 regional managements of Sanepar stated their interest and therefore, the Company is providing training to qualify employees for that task. In the New Business Management of the Sales Directorate, which addresses contracts for collecting the garbage fee, this alternative is being seen as an opportunity for generating extra income.

5. PROCESSES

Created 55 years ago for providing environmental sanitation services, Sanepar is constantly seeking excellence in everything it does and presents one of the best sanitation indices in Brazil.

A great driver to the improvement of this indices was given as of 2011, when investments in the sanitation area were increased. The evolution was due, mainly, to sewage

collection, which in that year reached approximately 60% of the population.

Sanepar, in addition to water supply and sewage collection services, also provides services in collection, treatment and final destination of solid urban waste to some municipalities.

Highlight in rankings

The Sanitation Universalization ranking, prepared by the Brazilian Environmental and Sanitation Engineering Association (ABES), pointed out two cities served by Sanepar: Curitiba and Maringá. They were inserted into the category "on the path toward universalization" – the highest of the *ranking* – in a study launched in 2018 that evaluated the performance of 231 municipalities with a population over 100 thousand, based on data of the Ministries of the Cities and of Health.

Only 6% of the Brazilian municipalities evaluated in the study were included in the category "on the path toward universalization".

Another study published in 2018, this time by Instituto Trata Brasil, a public interest civil organization operating in sanitation and environmental protection, set as stand outs the cities of Cascavel, Curitiba, Maringá, Londrina and Ponta Grossa.

The institution's basic sanitation ranking, made based on the data of the National Sanitation Information System (SNIS), evaluated the largest 100 municipalities in the Country and placed Cascavel as the second best city. Curitiba is the best among the capitals. Maringá held the fifth position, Londrina the 13th and Ponta Grossa ranked 14th.

WATER PROCESS

As an environmental company, Sanepar is committed to the preservation and conservation of wellsprings. The Company operates in network with the stakeholders to promote management of the water basins, in a constant and preventive manner, seeking to ensure abundant water and the quality necessary to society.

The quality of the water distributed for consumption is controlled in an interrupted and certified manner, through

a network of the company's own laboratories, with 192 units (172 for water testing and 20 for sewage), three central laboratories and cities in the inner side of the State and a laboratory in Curitiba, considered a reference in the sanitation industry in Latin America. The State's Health Surveillance Agency also makes analysis to verify Sanepar's measurements.

Water for 2030

The Dam in construction in Miringuava river will reinforce the integrated system of the Metropolitan Region of Curitiba. Located in São José dos Pinhais, it will have a storage capacity for 38 billion liters of water and was sized to keep up to the growth of the demand for water up to year 2030, benefiting approximately 650 thousand people.

Miringuava will be the sixth dam of the RMC system, and, when in operation, Sanepar will pass to treat 2,000 liters of water per second. Its reservation capacity corresponds to a volume of 15.2 Olympic-standard swimming pools. The height of the dam, 24 meters, is equivalent to an eight-story building. The embankment, 309 meters long, is formed by 256,000 m³ of dirt.

LOSS MANAGEMENT

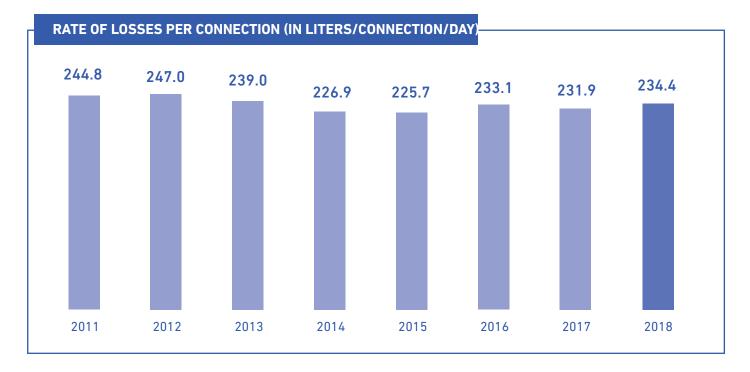
The water loss rate is one of the indicators of the water distribution system efficiency. The Company adopts continuous measures for fighting fraud, leaks, under-metering and clandestine connections. There are two ways of measuring losses: the rate of losses per connection/day, the IPL that in 2018 was at 234.4, and losses in distribution on the average of the last 12 months (PSD12), the metrics most used in Brazil, was set in 35.3%.

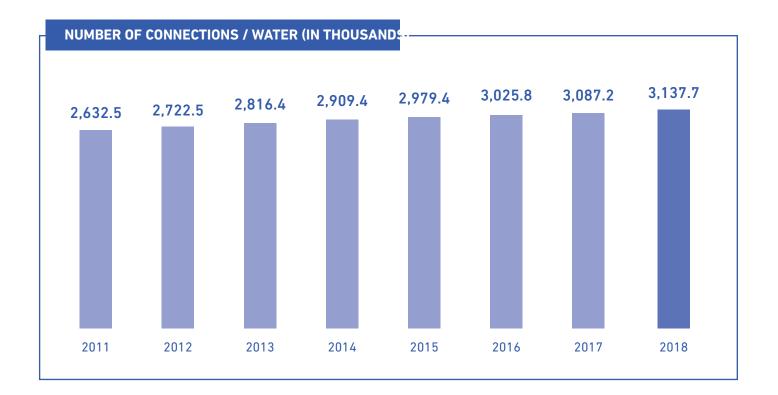
Even with rates below the national average, Sanepar is seeking to reduce these losses. Network inspection is part of the routine. Part of that work is performed at night, with the use of a device called geophone, that identifies characteristic noise of pipe leaks. During the day, the water meters and connections are inspected.

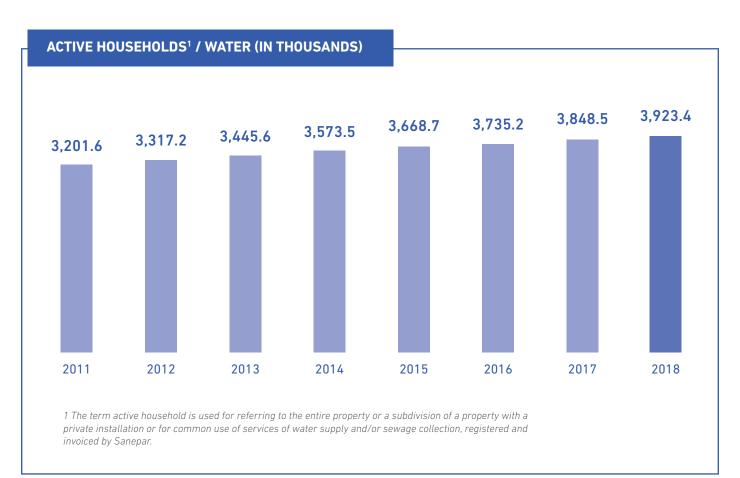
The application of the Problem Solution and Analysis Methodology (MASP) is also use in processes that may cause loss of water: production, distribution and maintenance of networks, with a systematic approach structured for managing and controlling processes. This is a methodology, for the purposes of promoting enhancement and improvement of results, based on quality tools and the PDCA cycle (plan, make, check and adjust, in the English acronym).

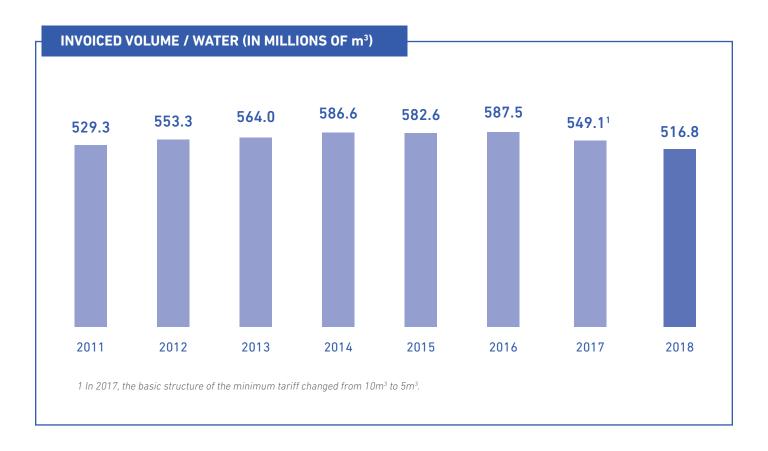
Another practice is management of the water meter park, whereby they are correctly sized and technologically up to date, according to the consumption profile of each customer. The equipment is also preventively and correctively replaced, preventing metering fails due to the wearing of internal parts. Each year, approximately 400 thousand water meters are changed.

Among other experiences that also reduce losses is the use of high tech water meters (which allow remote reading and have longer lifespans) and the use of high-density polyethylene plastic (a more leak-proof material) in new piping.









WELLSPRINGS CONSERVATION

Sanepar launched in 2018 the Environmental Services Program (PSA), an improvement of the Full Jar Program, a stage of its wellspring conservation program. It is directed to owners of the areas crossed by water courses, which receive incentives for taking the measures of preservation of the natural conditions of the terrain, especially water and soil.

The basis on which the program was implemented is State Law 17.134/2012, that provides for payment for environmental services. The goal is to encourage preservation, through a material reward, assuring the quantity and quality of water, in addition to conservation of the soil.

The pilot project is being developed in Piraquara, in the Metropolitan Region of Curitiba, in a partnership with the Environmental Department of the State of Paraná (SEMA) and the local City Hall. The municipality is greatly important for the water supply of the region and houses the remaining well-conserved forests. The chosen area is in the scope of the basin of Piraquara river, where identified, in the first stage of the program, 180 rural properties in conditions to adhere to the program.

Owner adhesion, which happens in the subsequent stage (ongoing at the end of the year), is voluntary. Participants are subject to continued monitoring of the environmental conditions of the property and to monitoring of the measures taken in favor of the preservation.

In other points of the State, there are two projects still in early stages, in Castro and in São José dos Pinhais, and there are ongoing negotiations in other municipalities. In addition to the negotiations in other municipalities where Sanepar will has wellsprings.

REVITALIZATION OF URBAN RIVERS

Monitoring of the water quality of urban rivers is the main objective of the Urban Rivers Revitalization Program (PRRU). Measurement of the content of dissolved oxygen – an indicator of water health – in different stretches of the rivers, streams and galleries allows detecting critical points and adoption of corrective measures, as well as

SANEPAR – 2018 ANNUAL REPORT 5. PROCESSES

fixes to the sewage collection network and elimination of improper launch of sewage in pluvial galleries.

Measurements are made with specialized personnel from the water resources field, mainly in the Metropolitan Region of Curitiba, with the acquisition of the so-called Mobile Operating Units - vehicles equipped to operate as mobile laboratories. This activity is being implemented all across the State for speeding up analysis of river conditions, providing an immediate result of its quality. The community surrounding the rivers is following up on these measurements and is instructed to observe the appearance of the water and report any changes to Sanepar. Therefore, the community becomes a part of the process and becomes aware of the importance of preserving the rivers.

PRRU EXPANSION

In Curitiba and in the Metropolitan Region, where the program is more structured, in 2018, was performed the monitoring of 95 rivers, among 101 that are cataloged. The main rivers and wellsprings, as well as the basins that comprise the Iraí and Passaúna dams have a systematic monitoring of the program.

Monitoring of urban rivers will remain a priority of Sanepar in 2019. The expansion of this program will be assured in the 25 regional managements, which were equipped with a Mobile Operating Unit to make, on a routine basis, collections of samples for analyzing treated water. The vehicles that will be used as mobile units were acquired by Sanepar in 2018.

Participative monitoring, part of the program, has the goal of motivating society to collaborate in the maintenance of the quality of urban rivers. Once river revitalization is reached, continued monitoring is required, since changes in the characteristics of water quality of the river are evidence of possible problems relative to the sewage collection network, such as incorrect connections, breaking of the network and clandestine dumping.

Sanepar also participates in Basin Committees, Federal and State Water Resources Councils, Wellspring Management Council, Technical Chambers and also in the Iguaçú River Management Group.

With 1,300 kilometers long, Iguaçu starts at Serra do Mar, crosses the entire state and outflows into the three-way border (Brazil, Argentina and Paraguay). That is the most emblematic river of Paraná. One of the options projected for its revitalization is the planting, in the next two years, of 1 mil-

lion seedlings of trees, for restoring the riparian forest.

DAM SAFETY MANAGEMENT

The four dams that are pat of the Integrated Curitiba Supply System (SAIC) – Iraí, Piraquara I and II and Passaúna – are monitored as a safety and accident prevention measure. Monitoring also seeks to improve the operating conditions and use of the water potential, in addition to assuring water quality.

Monitoring work follows the guidelines of the National Dam Safety Plan, implemented by Federal Law 12.334/2010, and ordinances 14 and 15, issued in 2015 by the Institute of Water, responsible for inspection in Paraná.

In 2018, Sanepar became the first sanitation company in the country to issue the report of its Dam Safety Plan and file it with the empowered agencies. The Company also hired the formatting of an Emergency Action Plan (PAE), for minimizing risks and reducing impacts with the surrounding populations.

When the new SAIC dam, of Miringuava river, starts up, it will be included in the monitoring plan.

DISASTER PREVENTION

Sanepar participates in a technical cooperation and scientific exchange program destined to reducing disaster risks in Paraná. Coordinated by the University Center of Studies and Research on Disasters (Ceped), the program started in 2016 and encompasses water resources (floods), meteorological (intensive raining), climate-related (droughts and minimum flow), use of hazardous products (water contamination) and construction work (breaking or collapse of dams).

Between the 16 projects under study is the training of public managers and members of the communities of the 399 municipalities of the State, via remote education (EaD), for facing natural disasters.

Upon adhering to the program, Sanepar passed to be part of Redesastre – a network of institutions, a pioneer in the Country, destined to reducing risks and disasters.

SEWER PROCESS

The sanitation universalization target directs Sanepar to concentrate its efforts in the expansion of the networks and sewage collection, which currently reach 72.5% of the urban population, keeping a 100% rate in treatment of collected sewage. Some municipalities in the State are very close to meeting their universal goal, with levels above 90%, such as Curitiba, Londrina, Maringá and Cascavel.

In 2018, the collection network grew 2.04%, reaching almost 36 thousand kilometers in extension. The increase int he number of households connected to the network had a similar growth (4.9%), reaching 2.89 million (including residences, factories, commercial establishments and public institutions).

SEWER SYSTEM PROFILE

35.982 km network

2.896.583 households

246 treatment stations

72.5% coverage

87.967 tons of DBO load removed at the ETE's

100% treatment of collected sewage

ENVIRONMENTAL COMPLIANCE

A relevant fact to Sanepar, in 2018, was the settlement executed in court between the Company and the Brazilian Institute of the Environment and Renewable Natural Resources (IBAMA), having also counted on the participation of the Prosecutor General's Office and Paraná Environmental Institute (IAP), ending litigation in 17 public civil actions. Through this settlement and through an environmental governance management process, in addition to having been weighted the investments already included in its Multi-Annual Investment Planning (2019-2023), the Company will implement projects in more than 197 Sewage Treatment Stages (ETE's), for modernizing them and making them a national and international reference in environmental compliance and adjustment, causing Sanepar to remain at the top of the Brazilian basic sanitation industry.

SHORE SANITATION

The most significant growth was in the Shore of the State, where an investment program developed throughout three years significantly evolved the sanitation profile of the municipalities.

That is the case, for example of Pontal do Paraná, which in 2015 had a rate of only 25.9% in sewage collection and moved up to 72%. Guaratuba and Matinhos, two of the main shore cities of the State, also recorded rates of 83% and 90.2%, respectively.

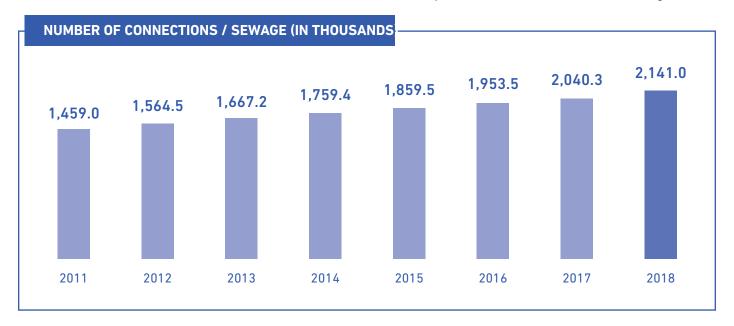
All across the region, 500 kilometers of the sewage collection network and 25 thousand connections were executed. The implemented system included the construction of 29 distribution stations and expansion of the treatment stations. The Shore sanitation program also brought improvements to the water supply network and extension of the supply network in over 40 kilometers. The installed capacity considered projections of the so-called floating population, summer residents and tourists who, in holidays and vacation months, cause the demand for treated water to considerably multiply.

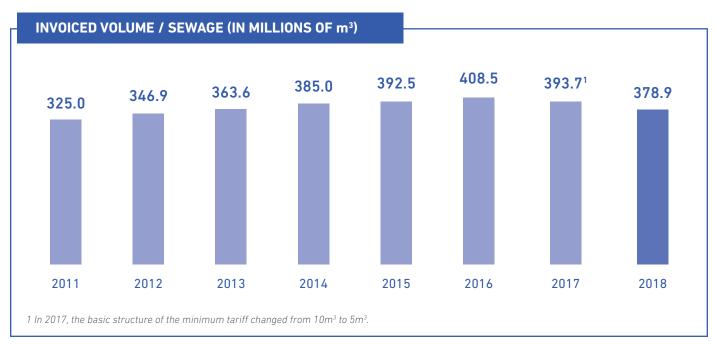
EFFLUENT DISCHARGE

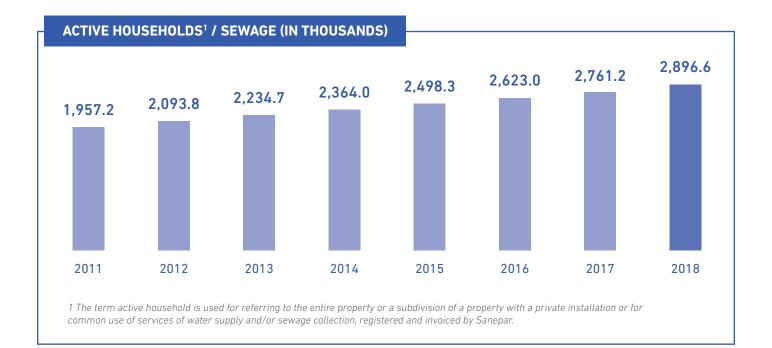
In addition to the expansion of the sewage sanitation service, Sanepar also concerns itself with the efficiency of the treatment processes, with internal control in the stations and laboratory analysis. Different systems (aerobic, anaerobic and physical-chemical) are used for removing the polluting load of the sewage and meet the parameters determined by environmental legislation.

Measurements performed for control take into account the quality of the sewage treated and its compliance relative to the analytical parameters defined in environmental legislation, licenses and concessions of right to use for launching effluents in bodies of water. Among the various laboratory tests performed for controlling sewage quality is the Biochemical Oxygen Demand (DBO), which represents the quantity of oxygen necessary for degrading organic matter, a standardized laboratory test that simulates the real conditions of sewage purge in the environment.

For decreasing the odors emitted during the entire treatment process, Sanepar adopts measures such as the installation of "green curtains", planting trees around the stations, forming a barrier and facilitating the dispersion of odors by action of the wind and treatment of gases.







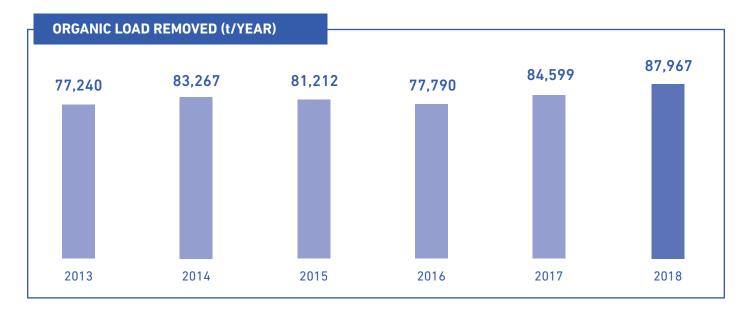
SLUDGE IN AGRICULTURE

Alternative introduced at Sanepar in the late 1980s, destining the sludge from sewage treatment for correcting agriculture soil was already considered by the United Nations Environmental Program (Pnuma) an example of an environmentally correct practice. The experience started in Curitiba and reached other three regions of the State. In the Maringá Regional Office, where agriculture plays an important role, 100% of the sludge is directed to that purpose.

Waste generated in the treatment process, the sewage sludge is usually deposited in landfills. For use in agri-

culture – the most sustainable solution from an environmental standpoint – the sludge undergoes a process for outflowing the liquid part. The resulting material is rich in nutrients and serves to correct soil PH.

Since 2007, approximately 300 thousand tons of sludge were destined to agriculture and there are projects for expanding this practice to all regions of the State. This experience, already consolidated, influenced the preparation of standards by Conama (Resolution 375/2006) and by the State Department of Environment of Paraná (Resolution SEMA 021/2009), governing agricultural use.



SANEPAR – 2018 ANNUAL REPORT 5. PROCESSES

SOLID WASTE

Sanepar manages three landfills that serve seven municipalities in the Northern part of the State. Through contracts with the Municipalities of Cianorte, Apucarana and Cornélio Procópio, the Company manages three systems, which, in 2018, handled 64 thousand tons of waste, serving a population of 290 thousand people.

The first landfill to be operated by Sanepar was Cianorte, in 2002. It serves the municipalities of São Tomé, Terra Boa, Guaporema and Indianópolis and was the first in the country to received certification NBR ISO 14.001, in environmental management. In 2010, the Company started carrying out the management in Apucarana and, two years later, it passed to serve the municipality of Cornélio Procópio.

In the Apucarana landfill, Sanepar is only responsible for one of the stages, namely: treatment. In the other two, Cianorte and Cornélio Procópio, the Company also performs collection and transshipment.

RESEARCH, DEVELOPMENT AND INNOVATION

Sanepar is experienced in research, development and innovation (R&D+i) and is constantly seeking to improve its processes. The innovation perspectives for sustainability is inserted into the strategic planning and seeks to secure competitive advantages and agility in overcoming the current and future challenges inherent to the business.

A management connected to the Environmental and Social Action Directorate operates as the focal point of the innovation ecosystem and coordinates the Sustainable Technology Center of Sanepar (CETS). The CETS also keeps specialized laboratories for prototypes, water and sewage analysis and for development of water treatment technologies. Focusing on collaborative innovation, the Company has room to take in partners and cooperates with research centers, universities and companies in Brazil and abroad (Germany, Portugal, Holland, England, United States, Paraguay, Japan and South Korea). In 2018, was launched the Creativity Laboratory, a co-working space used to encourage intra-entrepreneurship and open innovation. Pilot plants and equipment in the productive units complement the Company's infrastructure destined to innovation.

Over 100 initiatives are in progress, contemplating themes such as raw water and wellsprings, water and sewage

treatment, valuation of waste (sludge, foam, bio-gas and organic materials), energy, automation and sustainable management.

In 2018, the following activities stood out: beginning of operation of new modular technologies in sewage treatment stations (ETE's) in the municipalities of Toledo and Pinhão and works in Santa Helena; implementation of housed burners for bio-gas and ETE's in Curitiba and in the Metropolitan region; consolidation of the technical and environmental requirements for installing the sewage sludge thermal drying system at ETE Atuba Sul; studies on well-spring conservation, techniques in phito-remediation for revitalization of urban rivers, energy efficiency and bio-energy, Internet of Things (IoT, in the English acronym), desalination, industrial reuse of water and treatment of industrial effluents.

In addition to its own resources in conducting projects, Sanepar seeks to expand the impact of its operations based on the raising of external resources and innovation incentive mechanisms. Among those, tax benefits under Law 11.196/2005 (Goodwill Law) and resources of the Brazilian Industrial Research and Innovation Company (Embrapii) and of the United States Trade and Development Agency (USTDA). Sanepar has also entered into a commitment with Fundação Araucária, a development body favoring research and extension of the State of Paraná, adding efforts and expanding the resources destined to the Environmental Sanitation Research Program of the Sate of Paraná to R\$ 3 million, to be invested up to 2021 in research projects destined to the demands of the Company.

For propelling the culture of innovation in the organizational environment, was created the Innovation Treatment Station (ETI), a corporate program for identification, systematization and dissemination of innovative practices. The initiative is encompasses, moreover, the Sanepar Sustainable Technology Award, open to researchers all across Brazil, and Sanepar Innovate Award, destined to employees. The Bank of Ideas and Practices, also directed at employees, was restructured.

For the purposes of sharing its advances in innovation, Sanepar published, in 2018 over 50 technical-scientific papers and played the lead role in important forums, such as the 8th World Water Forum, the XIV Italian-Brazilian Symposium on Environmental and Sanitation Engineering, the Smart City Expo Curitiba and Rio Water Week. The Company still organized relevant events to the environmental sanitation industry, such as the 1st National Seminar on Sustainable Sewage Treatment Stations.

ENVIRONMENTAL MANAGEMENT

As an environmental company, Sanepar is committed to the balance use of natural resources, adopting sustainable practices and compliance with legal determinations. This commitment is stated in the mission, values and strategic map of the company and therefore, there is a permanent effort across all levels, from top management to the operating staff, to enhance more and more the attention to correct environmental practices, imperative to assure business continuity.

The Corporate Environmental Management (SGAC), implemented in 2014, takes into account the requirements and legal rules, the setting of objectives, goals and monitoring indicators, professional training and improvement of internal controls. It was conceived based on the parameters of NBR ISO 31000, which uses the risk management principles for improving planning and support decision-making.

One of the ways of monitoring risks relative to environmental preservation is inserted in the water supply processes, sewage treatment and solid waste, which undergo routine analysis and include diagnosis of environmental indicators, which must be in line with legal requirements.

For assuring the integrity of the processes, Sanepar destines resources in a continuous manner to programs relative to environmental education, river revitalization, well-spring protection, research and development, control of greenhouse gas emissions (GEE), management of dams and certifications.

CERTIFICATIONS

In 1997, Sanepar became the first sanitation company in Latin America to obtain NBR ISO 9001 certification for the water producing system of Treatment Station Itaqui, in Campo Largo, in the Metropolitan Region of Curitiba (RMC). Later, the certification was expanded to the entire production system and the control center of RMC distribution.

Londrina, the second most populated city in the state, also counts on NBR ISO 9001 certification for the full water and sewage cycle, encompassing all processes of production and treatment, in addition to operation of networks, maintenance, commercial and administrative activities. In Londrina's certification, is also included project and work management.

In 2018 Sanepar was externally certified in NBR ISO 9001:2015 with the following scope:

- Operation of the dam, catchment, distribution, treatment and reservation of water by the Water Production Management of the Curitiba Integrated Supply System.
- Catchment, distribution, treatment, reservation of water and treatment and final disposal of sewage by the Industrial Management of Londrina.
- Distribution of water, collection and transportation of sewage and relationship with the customer by Londrina Regional Management.
- Project Management by Special Project Managements and Project and Work Management Northeast.
- Management of Work for Water Supply and Sewage Collection Systems by the Project and Work Management of the Northeast.

In 1999, Sanepar was the first in the Americas to be certified in NBR ISO 14001 for the Foz do Iguaçu system. In 2012, the same certification was granted for the operation of the Cianorte sanitation landfill.

The conquering of these certifications brought changes to the culture and the procedures of the company, upon the adoption of stricter control standards, strict compliance with legislation, procedure standardization, investment in personnel training, search for efficiency in processes and efficacy in management, in addition to the reduction in consumption of input.

CERTIFICATIONS:

NBR ISO 9001

Treatment Station of Itaqui, Campo Largo
Producing system and
control center of distribution,
Metropolitan Region of Curitiba
All processes, Londrina
NBR ISO 14001

All processes, Foz do Iguaçu Cianorte Landfill

PRESENCE IN FORUMS

Sanepar has formal representation and actively participates in deliberative or consulting multi-member forums relative to the environment and water resources on a municipal, state and federal levels. In these forums are debated and evaluated themes and published resolutions with force of law, within the specific attributions, that may impact the planning and management of Sanepar's processes.

In this context, Sanepar works effectively in the 11 Committees of the Water Basin of the State of Paraná and in the Committee of the Federal Basin of Paranapanema River. The Basin Committees have an heterogeneous composition, including representatives from various sectors of society, with important attributions to establishing the classification of use of rivers and the guidelines and procedures for charging the use of water, in addition to the debate and guidance of effective management of water resources and contributions for the implementation of policies relative to the preservation and rational use of water.

In addition to the Basin Committees, Sanepar has formal representation in the State Council of Water Resources in the State of Paraná, in the Municipal Environmental Coun-

cils of the main municipalities where the company works, in the Paraná State Forum on Climate Change, in the Managerial Committee of the Metropolitan Region of Curitiba, and through AESBE (Brazilian Association of State Sanitation Companies) in the National Water Resources Council and in the Technical Chambers.

In 2018, Sanepar created an internal normative procedure setting the guidelines to systematize the Company's work in representation in Deliberative Environmental and Water Resources Forums, and for internalizing the deliberations issued that may impact the company's operation.

ENERGY EFFICIENCY

The energy theme is broadly discussed at Sanepar due to the high power demand of its activities and the constant expansion of the coverage of services provided to the Company. In 2018, the Company consumed 705.6 GWh in electric power, representing approximately 16% of the overhead (operating expenses), provided this is the second highest operating cost of Sanepar. Electric Power consumption in the over 3,500 units, especially sanitation infrastructure, makes Sanepar the highest corporate consumption of electric power in the State of Paraná.

SANEPAR – 2018 ANNUAL REPORT 5. PROCESSES

In this scenario, associated to the global climate change agenda, it is essential to implement energy efficiency actions to minimize the environmental impact and reduce Greenhouse Gas Emissions (GEE). To that effect, Sanepar has incentivized innovation, research and development of good practices that allow at the same time reducing cost, process efficiency and, consequently, its environmental sanitation services.

Measures such as management of electric power bills, based on the selection of the most appropriate tariff modality, have been successfully implemented at the Company.

Technical committees or internal commissions promote efficiency actions in productive units and, in regional units, such as Foz do Iguaçu and Maringá, and there are permanent forums dedicated to this theme. In the Integrated Water Supply System of Curitiba, the first experiences in

the adoption of standard NBR ISO 50.001, in energy management are in progress.

In 2018, 93 consumer units passed to count on monitoring of the consumption of electric power remotely and in real time.

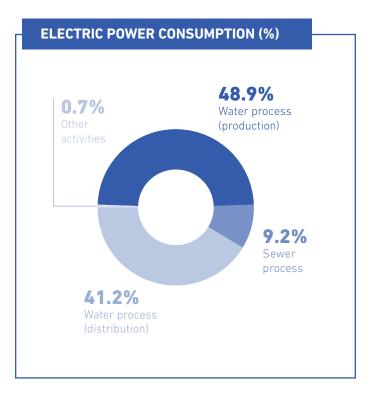
Furthermore, the Company structured projects in the area of the Internet of Things (IoT in the English acronym), such as real time monitoring and operation in a water distribution and reservation system in the municipality of Lapa, with remote access to the data. In 2019, this solution must be expanded.

WATER BASIN COMMITTEES WITH SANEPAR'S PARTICIPATION:

- COALIAR Alto Iguaçu and effluents of Alto Ribeira (with charge for the use of water implemented since 2013);
- Tibagi
- Jordão
- Paraná III
- Piraponema (Pirapó, Paranapanema 3 and Paranapanema 4)
- Norte Pioneiro (Cinzas, Itararé, Paranapanema 1 and 2)
- Baixo Ivaí and Paraná I
- Litorânea
- Paranapanema (Federal Committee in conjunction with the Committees of the State of São Paulo)
- Baixo Iguaçu (implemented with activities to be started)
- Piquiri (implemented with activities to be started)
- Alto Ivaí (implemented with activities to be started)

In a cooperation with German agency GIZ and the Ministry of the Cities, Sanepar has carried out activities in the scope of the Water Supply Systems Energy Efficiency Project (ProEESA). The partnership resulted in the training of 50 employees who made the water-energy pre-diagnosis of 97 water lifting systems distributed across different regional units.

After research on the measurement and energetic use of bio-gas from anaerobic reactors treating domestic sewage, such as the pioneer micro-generation system of ETE Ouro Verde – Foz do Iguaçu, Sanepar has also started in 2018 its activities in the program Paraná Bem Tratado. The initiative counts on a 50-million Euro financing contracted with German Bank KfW, which will be invested in projects of the ETE's in Curitiba, Londrina, Maringá, Umuarama, Araucária, Toledo, Arapongas and Guarapuava. The Company is also taking its first steps in the use of solar power.



CS BIOENERGIA

Sanepar's most complete experience in the production of sustainable power from sludge and from the treatment of waste is in the late stages of the project and pre-operation. This is CS Bioenergia, created through a joint-venture with the company Cattalini Bioenergia, in which Sanepar holds a 40% share interest.

Located beside ETE Belém, in São José dos Pinhais, CS Bioenergia has an installed power capacity of 2.8 MW (megawatts) – sufficient power to supply approximately 2,100 homes, or 8,400 people. The project started receiving sludge from the sewer in June 2017 and organic waste in March 2018. These materials are processed in bio-digesters, creating biogas as a byproduct. The biogas, comprised mostly by methane, is previously treated and sent to motor-generator groups that convert it into electric power. The electric power produced in this early stage, is being used in the plant itself.

Emission reduction

Monitoring of Greenhouse Gas Emissions (GEE), carried out by Sanepar since 2009, passed through a methodological review in 2017 and was submitted in 2018 to a verification carried out by an Inmetro accredited party, awarded the Golden Reliability Seal, of Brazilian Program GHG Protocol, coordinated by Fundação Getulio Vargas (FGV). The monitored emissions constitute the Greenhouse Gas Emissions Inventory, annually disclosed by Sanepar – the first sanitation company int he Country to perform that work.

The disclosure of the inventory is made on an annual basis in the GHG (Greenhouse Gases Protocol) platform and is available for consultation on the website www.registropublicodeemissoes.com.br, where may also be found Sanepar's history. The publishing of annual reports is available for access as of the second half of the year following the verification.

With the monitoring work is possible to identify processes of greenhouse gas emission and adopt measures for either reducing or neutralizing the emissions, preventing or minimizing environmental risks and damages, in addition to improving performance.

More accurate data

92.11%

Effluents

TOTAL:

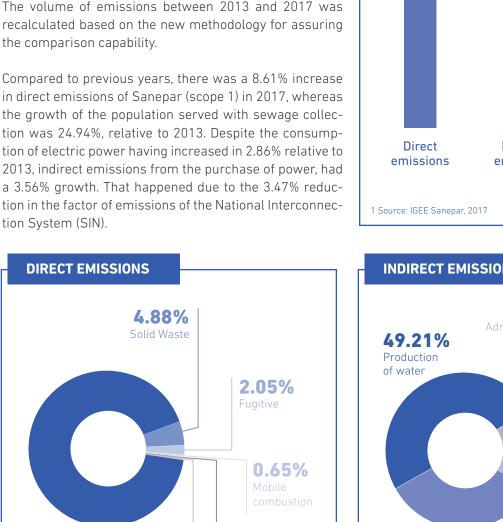
990,456.15 tCO₂e

Sanepar's 2017 emissions inventory, the most recent one available, has more accurate data, such as the decentralized calculation of GEE per operating unit and the maintenance of the values of Global Warming Potential (GWP) of the IPCC report, Fourth Assessment Report.

Moreover, there was a change in the methane emissions calculation methodology for sewage treatment stations, having been used flow monitoring data, affluent DBO and the efficiency of each ETE, instead of literature data, as previously done.

The volume of emissions between 2013 and 2017 was recalculated based on the new methodology for assuring the comparison capability.

Compared to previous years, there was a 8.61% increase in direct emissions of Sanepar (scope 1) in 2017, whereas the growth of the population served with sewage collection was 24.94%, relative to 2013. Despite the consumption of electric power having increased in 2.86% relative to 2013, indirect emissions from the purchase of power, had a 3.56% growth. That happened due to the 3.47% reduction in the factor of emissions of the National Interconnec-

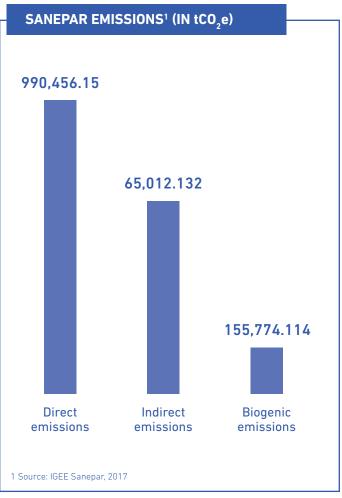


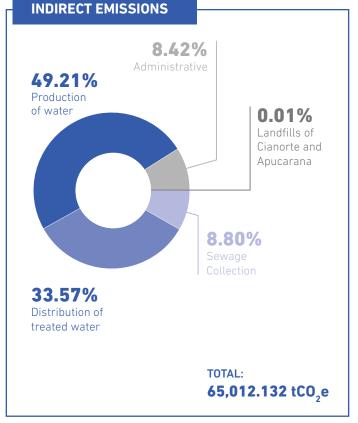
0.02%

Stationary

combustion

0.31%





6. PEOPLE

SANEPAR EMPLOYEES

With 7,022 employees, Sanepar continuously invests in personal and professional development programs, because it understands that keeping services and support with excellence requires qualified staff, up to date with the corporate universe and with technological advances.

In 2018, the company underwent an organizational restructuring process, with the assistance of an external consulting firm, for the purposes of modernizing and rationalizing the management befitting a quasi-public, publicly-traded entity, in a continuous pursuit for efficiency at the same time guaranteeing the excellence of the services and return to shareholders, as well as meeting the requirements set forth by State Law (Laws 13.303/2016).

This reorganization movement reflects, moreover, the effects of the employee layoff programs, that have been in force for three years at the Company: the PAI (Retirement Incentive Program) and PDVTC (Voluntary Layoff Program with Transfer of Knowledge) for positions being canceled. Since 2016, approximately 10% of employees left the Company, most within the aforementioned incentive programs.

Sanepar's personnel policy has the purpose of offering a safe and healthy work environment, valuing knowledge, equality of opportunity, respect for plurality, diversity and gender equality. That last guideline is part of the Sustainable Development Goals (SDG), of which Sanepar is a signatory.

TOTAL WORKFORCE BY EMPLOYEE CATEGORY						
		2016	2017		201	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
Board	32	1	38	2	24	3
Executive Board	9	0	8	0	6	1
Middle Management	419	152	340	132	335	144
Professional	482	267	488	257	471	245
Technical	740	198	756	202	741	197
Operational	4,129	948	4,046	936	3,976	907
Interns	104	118	90	89	82	88
Total by gender ¹	5,915	1,684	5,766	1,618	5,635	1,585
Total	7,59	79	7,384		7,220	
TOTAL WORKFORCE BY REG	ION¹					
Northeast	1,028	137	1,010	136	1,032	155
Northeast	786	134	812	141	849	150
Metropolitan and Coast	2,543	1,044	2,329	967	2,120	890
Southeast	665	101	693	123	707	127
Southwest	757	149	794	160	820	172
Total	7,34	7,344 7,165		7,	022	

¹ No incluing interns and board members..

EQUALITY AND PLURALITY

Women represent 21.26% of the staff at Sanepar and hold 30.13% of managerial positions. In governance bodies – Board of Directors and Executive Board – they have a 14.3% and 11.1% participation, respectively.

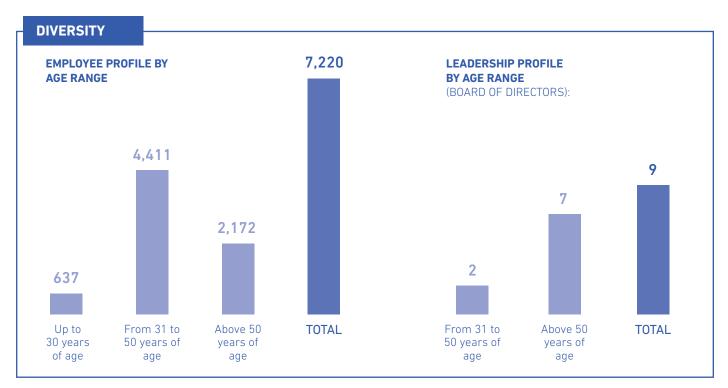
The gender equality program adopted in 2016, is in line with the Women Empowerment Principles (Weps, in the English acronym), of the UN. Sanepar was the first sanitation company in the country to implement it.

In 2018, the program had actions in all regional units, stressing the importance of equality in social and work relations. Matters such as violence against women were also addressed in speeches given in Curitiba and showed

to the entire state in video conference rooms.

In 2019, the equity theme will be part of the remote courses platform (EAD) that Sanepar makes available to all employees.

Another policy adopted since 2016 is stimulating plurality in segments represented in the employment structure. Ever since, the Company has been tracking the participation of African descendants and persons with disability in the employee ranks. According to the latest research data, 1.12% of overall employees (in managerial, professional and technical levels) are of African descent and 13.98% are persons with disabilities.



KNOWLEDGE MANAGEMENT

Knowledge management is a practice that has been adopted by Sanepar for approximately ten years and was intensified after the adoption of the retirement and voluntary layoff plans. The legacy of the oldest employees was duly recorded and with that, many processes, practices and experiences were systematized for being preserved. They comprise a collection and will be part of a project seeking to improve procedures and align best practices to the company's strategic goals.

Valuation of knowledge is one of the cornerstones of Sanepar's personnel policy and therefore, there are continuous investments in strengthening the company's intellectual capital. One of the initiatives in the year was the offer of a Environmental Sanitation Specialization Course, on a semi-in-person modality, in a partnership with the State University of Northern Paraná, using the technological network of the Virtual State university. Five hundred employees participated in the class, from all areas of the Company, of the Capital and of the Countryside.

Remote Education (EaD) is a broadly used alternative for disseminating knowledge within the company, because it allows the employees, irrespective of the assignment or shift, access to training. To that effect, was created an online platform, with differentiated contents, offering an opportunity for enhancement in the most varied areas. There are over 300 courses in modules in the general EaD catalog and another 20 courses called customized, i.e., they are more compact and with a theme relative to Sanepar's Activities. All courses entitle a certificate. The platform also allows accessing technical publications and videos.

In 2018, 186,343 opportunities were offered, contemplating approximately 548 thousand training hours. From that total, Sanepar's EaD courses were provided to 2,155 Sanepar employees, with the issuance of 4,672 concluded course certificates, totaling 50,166 training hours.

IMPROVEMENT AND FORMATION OF LEADERS

The Managerial Improvement and Qualification program (Cage), in a partnership with Pontifícia Universidade Católica do Paraná (PUC-PR), was created in 2015 for the purpose of offering training to managers and coordinators. In 2018, in its third stage, it expanded its reach and passed to also include professionals with potential to take on leadership positions, benefiting 226 employees. There as an internal selection to define occupation of the spots.

One of the differentials of this training is that participants, throughout the course, develop a project with practical application in the Company's routines, seeking to use new technologies and improving processes.

PERFORMANCE REVIEW AND CAREER PLAN

In 2018, the Board of Directors appointed a Mixed Commission with the participation of representatives from the company, from employees, through union entities and the State-Owned Companies Control Council (CCEE) for studies and propositions on the Career, Job and Compensation Plan (PCCR).

Based on the perspectives, strategic goals, northing guides set by the Board of Directors, analysis of the current Plan and consultation with employees, the Commission prepared a proposal for updating and reviewing the PCCR. The work resulted in propositions to the New PCCR that provides improvements and development of the evaluation systems; restructuring of the wage table; budget

appropriation rules; redistribution of relative weights to the institutional, sector and individual dimensions; restructuring of the individual performance review; a new ruler for the final evaluation concepts; training for evaluation and *feedback* between reviewers and reviewees; and the creation of the Ethics Commission of the Plan itself.

In late 2018, the Mixed Commission submitted a report with the requirements necessary for deliberation by the Company's governance levels. If approved and proposed, must be developed intermediary stages in 2019 and full implementation is set to take place in 2020.

EMPLOYEE INTEGRATION, MOTIVATION AND SATISFACTION

The Life Quality program meets multiple purposes: promote employee integration; creating social living opportunities; offering activities in leisure, recreation and culture; make people from different levels of hierarchy to come close and encourage team spirit.

One of the achievements that encompasses practically all of these requirements are the Sanepar Olympics, held between June and September with local, regional and state stages. In 2018, approximately 4,000 employees participate din the games.

The Workers' Party is also a traditional fraternization event. Alluding to the International Workers' Day, it is promoted simultaneously in all Regional units of the company, with the participation of families. Another activity that engages family happens during annual leave, when children and teenagers, children of employees, spend a day with their parents at work.

The level of satisfaction and well-being of employees is periodically assessed since 2001, through an organizational climate survey, called Speak Frankly, accessed via the Intranet. The results of questionnaires are analyzed and published, and serve to define action plans inserted into sector and strategic planning. In the last survey, published in 2017, the participation rate was 82% of employees, with an overall grade of 7.27.

HEALTH AND SAFETY

Providing improvement to the life quality of its employees and family is a constant concern of Sanepar. The Company understands safety as both a duty and a right of all, considering physical integrity, psycho-emotional and social health of employees, and commits to preventing and minimizing the risks existing in the activities, in the provision of sanitation environmental services with quality, efficiency and limitless dedication.

The work is based on the Safety Policy, in the Regulatory Standards and in the "Contractors' Occupational Safety and Health Management", for assuring enforcement of the legislation in force, establishing improvements in the safe performance of work and services.

Working in prevention, Sanepar adopts a series of initiatives, resulting of significant investments directed at safety and health:

- Safety technicians and engineers work directly in the operational fields, close to the work areas to identify points of improvement and implementation of the Safety Policy.
- The CIPAs (Internal Accident Prevention Committee) define the procedures and actions for preventing accidents, occupational illnesses and interpersonal relations referring to the day-to-day routine, rendering the activity compatible with the preservation of life and promotion of workers' health.
- The SIPATs are made for sensitizing employees of the importance of mental health and safety in the performance of their activities.
- If makes available several possibilities for personal development for improving the performance of each employee, providing training governed by regulations in force, which require specific and periodic courses, provided by qualified employees, legally licensed, such as: services with electricity, work in confined spaces and in heights, correct use of chlorine gas and chemical products in the outflowing of ditches, signaling of public streets, defensive driving, correct use of PPE and CPE and use of uniforms. Drivers who transport hazardous cargo take periodical and specific tests relative to their activities: course in Handling of Hazardous Products (MOPP).

• In 2018, 13,310 (thirteen thousand, three hundred and ten) training opportunities were offered, concerning employee health and safety, totaling approximately 89 thousand training hours. In addition to courses, speeches and in-person activities, Sanepar makes training available in Remote Education, also focused on prevention of diseases and other problems that may arise in the work environment.

The health area operates in annual flue vaccination campaigns, performs analysis of ergonomics conditions of the functional teams, stimulates employee engagement in blood donations, and an exclusive website, provides the guidance and tools for organizing the donation routines and social campaigns throughout the years.

Employees periodically undergo specific medical tests according to the occupational risks identified in the Environmental Risk Prevention Program (PPRA), prepared by occupational safety and defined in the Occupational Health Medical Control Program prepared by occupational medicine.

Sanepar also makes available to all employees the Health Care and Assistance Plan – *SaneSaúde*, as well as the Private Pension Plan – Fusanprev, benefits managed by Sanepar Pension and Social Assistance Foundations, corporate-nonprofit entities.

COLLECTIVE BARGAINING

The over 7 thousand Sanepar employees are represented by 22 unions, that operate on behalf of many professional categories by workforce of the Company. These entities are present in the collective bargaining that defines the concession of adjustment of wages and benefits. For strengthening bonds with unions, Sanepar created a Union Relations Commission, operating on a permanent basis.

NEW BUILDING

Sanepar concluded, in late 2018, the construction of a new building besides its top administrative complex, in the borough of Rebouças, in Curitiba. With 9.7 square meters, it will house over 1 thousand employees who currently work in rented properties, in several points across

the city. With that, the Company is gaining another unit and reducing cost with rental and transportation.

The new building is what is called a smart construction, incorporating new technologies and innovation, that will render its use more sustainable.

EXPANDED SPACE

Four-story 9.7 thousand m² building;

Capacity for 989 work stations;

Leed Gold Certification for sustainable construction;

Lower operating cost;

Special glass, with higher thermal performance and automated blinds;

Taking advantage of rainwater, efficient faucets and fixtures;

Taking advantage of natural lighting and LED lighting fixtures;

Control of outlets, lighting and automated blinds;

VRF system air conditioner, with automated temperature control;

Renewable energy, with the installation of photovoltaic panels.

SOCIAL & ENVIRONMENTAL RESPONSIBILITY

A Company with a strong environmental commitment, Sanepar is not limited to assuring conformity of its processes and developing actions for protect nature, but it also involves itself in awareness programs in favor of the environment and incentive of the rational use of natural resources. The Company keeps several environmental education projects in place, with several segments of the public - riverside communities, population neighboring its equipment, schools, employees and their families and the population in general.

SE LIGUE NA REDE

This program seeks to fight incorrect connection between the property and the sewage collection network. Due to lack of knowledge of the residents, who are responsible for this task, sewer ends up directed to the waterway gallery, and consequently, polluting the rivers.

Sanepar provides assistance and monitors the work of domicile connection. In the implementation of new net-

works, the Company's team get in contact with the communities in advance and, with the support of leaderships and local public agents, take information and guidance on the correct manner of making the connection to the collection network.

Another initiative of the Company is promoting the training of plumbers, offering them not only knowledge to carry out their work in accordance with environmental rules, but also an opportunity to increase their income.

CONQUEST

The arrival of the sewer network to the communities is often seen as a conquest, and therefore, upon concluding the implementation, Sanepar holds social-educational events, transforming residents into multipliers of environmental conservation concepts. In 2018, the program was present in 40 regions of the State and allowed the connection of 22 thousand properties.

ENVIRONMENTAL EDUCATION TO THE COMMUNITY

Two spaces of Sanepar receive visitors and are important multipliers of environmental education. One of them is the Environmental Education Center Mananciais da Serra (Ceam), which is next to Reservoirs Piraquara I and II, in the Metropolitan Region of Curitiba. Inside an Environmental Preservation Area (APA), besides the sources of rivers, Ceam housed the first public supply system of Paraná, Reservoir do Carvalho, of 1908. The location can be visited by the public in general, but is especially sought by students, who go through the remaining trails of the Rain Forest and Serra do Mar. In 2018, was recorded the visit of 7,138 people to the Center.

The other space, the Sanitation Museum is also historic. It is installed in a 1945 construction, where used to operate the old Tarumã Water Treatment Station, the first in Curitiba. It gathers the memory, the history and the culture of sanitation in the State, with a collection of 10 thousand pieces, among plants, documents and photographies. In 2018, it received 1,246 visitors.

SUMMER OPERATION

Every summer, Sanepar promotes a concentrated effort to serve the population who, on vacation, goes to the Shore of the State, overloading the supply system and putting to the test the bathing quality of the beaches. To ensure no water shortage will happen - especially on the dates considered critical such as New Year's and Carnaval - Sanepar counts on 18 generators (renter or loaned) which are ready to startup if the lack of electric power impacts the functioning of the reservoirs.

The other operating front is the 48 kilometers of beaches, between Pontal do Paraná and Guaratuba. The Company installs ecologically sustainable showers to bathers. They are supplied with water extracted from the underground of sea sand, treated with chlorine and filtered with activated carbon, which removes 95% of the salt, 99% of bacteria and coliforms, and reduces pH in 10%. Showers allow for continuous showering with up to two liters per activation. For people with disabilities or reduced mobility, amphibious chairs are made available, allowing access to the sea in a safe manner.

CLEAR SAND

A work that is renewed day-to-day during the entire season is the cleaning and sanitization of the sand. During the day, teams go through the beaches, from 09 AM to 05 PM, collecting trash with karts (dumpers). At night, seven sanitizing machines operate, removing waste from the surface and turning the sand. In the morning, the sun, with its ultraviolet rays, completes the sanitization.

The work performed during the Summer Operation in the Paraná beaches is considered a role model in the Country. Next, the numbers of the 2017/2018 season:

CLEAR SAND

48 Km of beaches sanitized;

760 tons of waste collected;

118 jobs created;

90,000 garbage bags used;

370 200-liter drums distributed throughout the shore;

2,627 kilometers operated by the sanitizers.

SANEPAR – 2018 ANNUAL REPORT 6. PEOPLE

ECOEXPRESSO

Five adapted buses, called Ecoexpress, go through Paraná visiting schools, companies and other institutions, taking environmental education to the communities and providing instructions on good water conservation practices.

Inside the bus, visitors learn the path of the water, from the wellspring to the faucets, and the treatment and quality control processes. They are also informed on the sewage collection process and how the water, after treated, is in conditions to return to the river. Other themes such as disposition and treatment of urban waste; climate change; deforestation; waste management and health are included in the exhibits.

In 2018, Ecoexpress was in 155 municipalities and was visited by 180,446 people.

SUSTAINABILITY: FROM SCHOOL TO THE RIVER

Awareness for importance of river preservation in the urban environment is the top objective of project "Sustainability: from the school to the river", that works with students and professors, especially those connected to Environmental technical courses. Focus is defined according to the aggressions the rivers suffer in the cities, such as channeling, course diversion, volume reductions and water pollution.

The project carries out, throughout the school year, actions such as recognition of the water basin, water quality analysis, native tree planting, adequate collection and destination of waste and mobilization of riverside communities.

Since 2013, when created, the project executed over 600 actions, in 30 rivers that were monitored, engaging approximately 12,000 people in the activities.

ENVIRONMENTAL EDUCATION TO EMPLOYEES

USE COMMON SENSE PROGRAM

Work with social-environmental responsibility is part of Sanepar's strategic objectives and, for internalizing this theme, the company implemented, since 2000, a program called Use Common Sense, which counts on the involvement of all employees.

After 17 years of existence, the program underwent an update of the concepts and methodology to adjust to the current organizational principles, focused on sustainability, quality management and initiatives on a global scope such as Sustainable Development Goals (SDG). Action that promote improvement of the work environment; fighting waste; responsible use of resources and input; reduction and integrated management of waste that is part of the program's guidelines, that seek to adopt sustainable and citizenship practices, from a social & environmental standpoint.

This is a corporate rule, with the goal of certifying all managements.

ECOPROSA

Chat circles between employees, or coffee and chat, as the program is also known. The goal is promoting meetings, in an informal climate, for discussions related to the environmental theme. Among the subjects discussed in 2018 are agri-ecology; payment for environmental services; wellspring conservation; environmental risk prevention and control; solid waste; urban mobility.

CONNECT TO THIS IDEA: NO OIL IN THE NETWORK

The improper disposal of cooking oil into the network causes clogging and damage to the sewer system and Sanepar starts at home awareness on the risks of this conduct. The program Connect to this idea: no oil in the network is directed at employees, who become multipliers of good practices in their communities.

In addition to warning of the danger of irregular disposal, the program also collects used oil for sending it for proper disposal. Created three years ago, the program has 213 collection posts and partners that receive the material in 20 municipalities. In 2018, 4,000 thousand liters of oil were collected.

7. IBASE SOCIAL BALANCE SHEET

ANNUAL SOCIAL BALANCE SHEET -	2018					
		2018			2017	
1) Calculation Basis	Valu	e (Thousands of Rea	nis)	Value (Thousands of Reais)		
Net Operating Revenue (NOR)		4,162,205		3,869,401		
Operating Income (OI)		1,165,002			914,073	
Gross Payroll (GP)		893,281			926,708	
2) Internal Social Indicators	Value (Thousands of R\$)	% On GP	% On NOR	Value (Thousands of R\$)	% On GP	% On NOR
Meals	93,059	10.42	2.23	94,491	10.20	2.44
Compulsory social charges	207,561	23.23	4.99	206,464	22.28	5.34
Pension plan	31,682	3.55	0.76	30,566	3.30	0.79
Health insurance	64,961	7.27	1.56	60,241	6.50	1.56
Transportation tickets	1,267	0.14	0.03	1,488	0.16	0.04
Occupational Health and Safety	12,760	1.43	0.31	11,638	1.26	0.30
Education	693	0.08	0.02	12	-	-
Professional training and development	5,102	0.57	0.12	4,191	0.45	0.11
Daycare or daycare allowance	2,323	0.26	0.05	2,313	0.25	0.06
Profit sharing	134,246	15.03	3.23	69,681	7.52	1.80
Others	76,160	76,160 8.53 1.83		119,662	12.91	3.09
Total - Internal Social Indicators	629,814	70.51	15.13	600,747	64.83	15.53
3) External Social Indicators	Value (Thousands of R\$)			Value (Thousands of R\$)	% On GP	% On NOR
Cultural, Artistic, Audiovisual and Sports	6,480	0.56	0.16	5,000	0.55	0.13
Children and Elderly Fund	2,600	0.22	0.06	2,000	0.22	0.05
Health and Oncology Care Programs	1,914	0.17	0.05	1,735	0.19	0.04
Leisure and entertainment	1,619	0.14	0.04	1,539	0.17	0.04
Others	6,329	0.54	0.15	6,723	0.74	0.17
Total Contributions to society	18,942	1.63	0.46	16,997	1.87	0.43
Taxes (except for social charges)	621,036	53.31	14.92	550,414	60.22	14.22
Total – External Social Indicators	639,978	54.94	15.38	567,411	62.09	14.65
4) Environmental Indicators	Value (Thousands of R\$)	% On GP	% On NOR	Value (Thousands of R\$)	% On GP	% On NOR
Relative to the operation of the company	1,000,300	85.86	24.03	961,734	105.21	24.85
In programs and/or external projects	60,681	5.21	1.46	43,070	4.71	1.11
Total Environmental Investment	1,060,981	91.07	25.49	1,004,804	109.93	25.96
5) Functional Staff Indicators		2018			2017	
Number of employees at the end of the period		7,022			7,165	
Number of hirings during the period		17			212	
Number of interns		170			179	
Number of employees over the age of 45		3,060			2,992	
Number of women working at the company		1,494			1,527	
% of leadership positions held by women		30.13%			24.87%	

		2018			2017	_
Number of African Descendants working at the company ¹		335			338	
Number of people with disabilities or special needs ²		93			98	
6) Material Information regarding Corporate Citize	enship					
Ratio of lowest to highest earners at the company		23.77			23.04	
Total number of occupational injuries		310			364	
The social and environmental programs implemented by the company have been developed by:	() directors	(X) directors and managers	() all employ- ees	() directors	(X) directors and managers	() all employ- ees
Occupational health and safety standards have been defined by:	() directors and managers	() all employ- ees	(X) all + Cipa	() directors and managers	() all employees	(X) all + Cipa
The private pension plan covers:	() directors	() directors and managers	(X) all employ- ees	() directors	() directors and managers	(X) all employ- ees
Profit sharing is extended to:	() directors	() directors and managers	(X) all employ- ees	() directors	() directors and managers	(X) all employ- ees
When selecting suppliers the ethical, social responsibility and environmental standards adopted by the company:	() not consid- ered	() suggested	(X) required	() not consid- ered	() suggested	(X) required
In respect of employee participation in voluntary programs, the company:	() does not get involved	() supports	(X) organizes and encourages	() does not get involved	() supports	(X) organizes and encourages
Added value to be distributed (in R\$ thousand)		n 2018: 2,976,12	8		n 2017: 2,720,15	1
Distribution of Added Value (DVA)	25.5% government		.9% oyees	25.5% 35.9% government employees		. , .
DISTITUTION OF AUDEU VALUE (DVA)	14.2% shareholders	10.6% third parties	15.8 % retained	12.0% shareholders	13.3% third parties	13.3 % retained

¹ Quota of African Descendants in Public Hiring Contest as of calendar year 2005. ² Quota of Physically Disabled in Public Hiring Contest as of calendar year 2000.

TAX-DEDUCTED FUNDING (R\$ THOUSAND)	
Cultural and artistic	5,180
Sports	1,300
Children and Adolescent's Fund	1,300
Elderly Fund	1,300
Pronon (National Oncology Attention Support Program)	1,300
Pronas (National Program of Support to Attention to Health of Persons with Disabilities)	614
PAT (Worker's Food Program).	5,864
Citizen Company Incentive	911
Goodwill Law	2,465
Total	20,234

8. FINANCIAL STATEMENTS

ACCOUNTING STATEMENTS

As of December 31, 2018, and 2017

CONTENTS

Independent auditors' report	55
Accounting Statements	
Balance sheets	62
♦ Statement of income	64
♦ Statement of comprehensive income	65
♦ Statement of changes in shareholders' equity	66
♦ Statement of cash flow	67
♦ Statement of value added	68
Notes to the accounting statements	69
Executive Committee, Board of Directors, Fiscal Council and Accountan	120
Statement of the Officers	122
Summary of the Annual Report of the Statutory Audit Committee	124
Fiscal Council Opinion	127
Investment Program	129

INDENPENDENT AUDITORS' REPORT



Tel.: +55 41 3244 0301 Fax: + 55 41 3244 0302 www.bdobrazil.com.br Avenida Silva Jardim, 2042, 8° andar Batel - Curitiba, PR - Brasil 80240-200

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders and Management of Companhia de Saneamento do Paraná - Sanepar Curitiba-PR

Opinion on the financial statements

We have audited the financial statements of Companhia de Saneamento do Paraná - Sanepar (the Company), which comprise the statement of financial position as at December 31, 2018 and the respective statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the corresponding 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 Company as at December 31, 2018, its financial performance and its cash flows for the year then ended in accordance with Brazilian accounting practices and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

Basis for opinion on the financial statements

We conducted our audit in accordance with Brazilian and International Standards on Auditing (ISAs). 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 Company in accordance with the relevant ethical principles established in the Code of Ethics for Professional Accountants and in the professional standards issued by the Brazilian Federal Association of Accountants (CFC), and we have fulfilled our other ethical responsibilities in accordance with these standards. 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 year. 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.



Pension plan and health insurance

As described in Note 19, the Company is the sponsor of a supplementary defined benefit pension plan and of a health insurance plan aimed to active and retired employees. The calculation of actuarial liabilities is determined from reports issued by the Company's actuary. The information on the plan's assets and liabilities, as well as the criteria for measurement of the obligations are described in the note referred to above.

The matter was considered relevant for our audit because of the amount involved and the high level of complexity required to determine the assumptions and judgment associated to the calculation of the actuarial liabilities. Variations in the assumptions used, such as mortality, turnover, discount rates and inflation may significantly affect the liabilities recognized by the Company.

Recognition of unbilled revenue

As presented in Note 23, the Company recognizes monthly as operating revenues amounts referring to services rendered but not billed to final consumers ("unbilled revenues"). As billing is performed cyclically, and often not coinciding with monthly closing, the Company makes estimates which include information such as average consumption from last reading of hydrometers to be attributed to each consumer for the period between the date of metering and accounting closing, and to each operation segment of the Company.

Considering the amount involved and the level of judgment required from management in making such estimates, we understand that there are significant risks related to the recognition of revenue in incorrect periods and/or risk of material misstatement of the financial statements.

Audit response to the matter

Our auditing procedures included, among others, the involvement of our actuarial specialists to assist us in evaluating the assumptions used in the calculation of actuarial liabilities, and we compared the assumptions with the market data. In addition, we have reviewed the adequacy of the disclosures made by the Company in relation to the matter.

Based on the audit procedures performed, we consider that the estimates used in the recognition of actuarial liabilities of the Company are appropriate to support the judgments and information included in the financial statements as a whole.

Audit response to the matter

Our procedures included, among others, understanding the internal controls established by the Company over the process of revenue recognition, mainly understanding the methodology used in the calculation of the estimate of unbilled revenue. Additionally, we recalculated the estimated billings that resulted in the balances recognized in the financial statements.

Based on the audit procedures followed, we consider that the estimates on the recognition of unbilled revenues of the Company are appropriate to support the judgments made and information included in the financial statements as a whole.



Administrative proceedings and court claims

As described in Note 18, the Company is a passive party in several labor, civil, environmental and tax proceedings, whose provision for contingencies amounts to R\$461,797 thousand as of December 31, 2018, as a result of its operating activities.

Monitoring of this matter was considered significant for our audit due to the relevance of the amounts involved, to the level of judgment involved in determining the need for recognizing a provision, and to the complexity of the tax environment in Brazil.

Concession/Program agreements

As disclosed in Notes 10 and 12 to the financial statements, the Company maintains the amount of R\$ 375,871 recorded as Contractual Financial Assets and R\$ 8,329,542 thousand recorded in Intangible Assets as of December 31, 2018, related to investments made in accordance with its services program/concession sanitation agreements. The values of Intangible Assets are expected to recover over the respective program/concession agreements, based on the receipt of tariffs for services provided to users, while the values of the Contractual Financial Assets represent the portion indemnified by the grantor at the time of termination of the agreement.

As these investments are amortized over the term of the respective program/concession agreements, the Company's Management evaluates, at least annually, the existence of indications of impairment of these assets, and additionally elects to disclose its analysis of the based on a discounted cash flow model, which requires Management to adopt some assumptions based on information generated by its internal reports, which involve judgments about the future results of the business.

Audit response to the matter

Our procedures included, among other things, obtaining and analyzing confirmation letters with the Company's legal counselors, in order to compare their assessments of the open proceedings with the positions held by Management, as well as conducting interviews with Company's Management and with the legal department, to discuss the assumptions used for the accounting and development of the main legal proceedings in course. Additionally, we evaluate the Company's history of losses and if the disclosure of the matter included in Note 18 is adequate.

Based on the audit procedures followed, we consider that the Company's policies on the recognition of provisions for contingencies are appropriate to support the balances accounted for and information included in the financial statements as a whole.

Audit response to the matter

Our procedures included, among others: interviews with the Company's legal and operational department, in addition to its financial-accounting area, to understand situations of pending renewals of past-due contracts; (ii) obtaining the opinion of the Company's legal department regarding the situation and likelihood of gain of possible contracts in dispute between the Company and the respective granting authority; and (iii) review of minutes of board meetings and Company councils in order to identify problems related to the continuity of its program/concession agreements. These procedures were intended to support our conclusion regarding the Company's analysis that no indications of possible impairment of assets related to the Company's program/concession agreements were identified. Additionally, due to the fact that the Company optionally performs an analysis of the value in use of its Intangible Assets and discloses this information according to Note 12, even though it is not required according to technical pronouncement CPC 01 (R1) Impairment of Assets because they are Assets with a defined useful life, our procedures included the reading of the report prepared by the Company including the future cash flow forecasts considered and the main assumptions used and analysis of the adequate disclosure of these assumptions in the notes to the financial statements.

Based on our auditing procedures, we consider that the Company's finding that it has not identified impairment evidence for the assets related to the program/concession agreements are appropriate to support the accounting balances and the information included in the financial statements, including information disclosures disclosed optionally referring to the impairment of assets.



Other matters

Statements of value added

The statements of value added, prepared under the responsibility of the Company's Management for the year ended December 31, 2018, and presented as supplemental information for IFRS purposes, were submitted to the same audit procedures followed for the audit of the Company's financial statements. In order to form an opinion, we have checked whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether its form and contents meet the criteria established in Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, the statements of value added were properly prepared, in all material respects, in accordance with the criteria established in that Technical Pronouncement and are consistent with the financial statements taken as a whole.

Other information accompanying the financial statements and auditor's report

The Company's Management is responsible for this other information that comprises the Management Report.

Our opinion on the financial statements does not cover the Management Report and we do not express any form of audit conclusion thereon.

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

Responsibilities of Management and those charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Brazilian accounting practices and the IFRSs, issued by IASB, 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 Brazilian and International Standards on Auditing (ISAs) 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 Brazilian standards and ISAs, 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 controls.
- 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;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 year 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.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Curitiba, January 28, 2019.

BDO

BDO RCS Auditores Independentes SS CRC 2 PR-006853/F-9

Paulo Sérgio Tufani

Contador CRC 1 SP 124504/0-9 - S - PR

STATEMENTS OF FINANCIAL POSITION

As at December 31, 2018 and 2017 (In thousands of Brazilian Reais)

ASSETS

	Notes	2018	2017
Current			
Cash and cash equivalents	5	326,624	533,888
Trade accounts receivable	6	639,054	606,250
Inventories		39,120	36,892
Recoverable taxes and contributions	7	15,396	24,098
Restricted deposits	8	6,720	5,838
Other accounts receivable	9	37,616	32,248
Total current	_ _	1,064,530	1,239,214
Noncurrent			
Trade accounts receivable	6	22,070	11,087
Recoverable taxes and contributions	7	-	823
Restricted deposits	8	52,948	49,499
Contractual financial assets	10	375,871	201,077
Court deposits	18.c	203,452	185,365
Deferred Income and Social Contribution taxes	16.c	490,938	453,133
Other accounts receivable	9	50,615	42,904
Investments	11	22,585	19,466
Fixed assets	12.a	168,771	129,945
Intangible assets	12.b	8,329,542	7,790,158
Total noncurrent	- -	9,716,792	8,883,457
TOTAL ASSETS	- -	10,781,322	10,122,671

STATEMENTS OF FINANCIAL POSITION

As at December 31, 2018 and 2017 (In thousands of Brazilian Reais)

LIABILITIES

	Notes	2018	2017
Current			
Loans, financing, debentures and finance lease	13	478,770	562,548
Contractors and Suppliers		190,742	182,655
Concession agreements	14	60,456	7,716
Taxes and contributions	15	68,133	66,941
Salaries and social charges		239,343	176,720
Dividends and interest on equity capital	20/22	183,678	136,265
Unearned Revenue	17	4,200	4,200
Collaterals and contractual retentions		2,545	2,674
Pension plan and health insurance	19	62,786	62,443
Other accounts payable	21	68,179	54,481
Total Current	_	1,358,832	1,256,643
Noncurrent			
Loans, financing, debentures and finance lease	13	2,292,548	2,154,290
Concession agreements	14	-	84,273
Taxes and contributions	15	991	1,268
Unearned Revenue	17	9,100	13,300
Provisions	18.a	461,797	505,634
Pension plan and health insurance	19	879,002	874,199
Other accounts payable	21	61,864	80,410
Total Noncurrent	_	3,705,302	3,713,374
Total Liabilities	_	5,064,134	4,970,017
Equity	22		
Capital Stock		2,851,089	2,851,089
Revaluation surplus		75,111	81,204
Asset and liability valuation adjustments		5,722	8,007
Income reserves		2,689,041	2,162,899
Other comprehensive income		96,225	49,455
Total Equity	_	5,717,188	5,152,654
TOTAL LIABILITIES AND EQUITY	_	10,781,322	10,122,671

Statements of income

For the years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais, except earnings per share)

	Notes	2018	2017
Net Operating Revenue	23	4,162,205	3,869,401
Costs of Services Rendered	24	(1,680,042)	(1,556,135)
Gross Profit	_ _	2,482,163	2,313,266
Operating Expenses			
Selling	25	(308,232)	(315,204)
Administrative	25	(600,315)	(632,769)
Other Operating Revenues (Expenses)	25	(32,726)	(69,335)
Equity in Earnings (Losses) of Controlled Companies	11	(3,829)	(1,791)
Civil, Labor, Tax and Environmental Provisions	18.a	43,837	942
Provision for Pension Plan and Health Insurance	19	(76,011)	(89,188)
Profit Sharing Program	26	(134,246)	(69,681)
		(1,111,522)	(1,177,026)
Financial Income (Expenses)			
Financial Revenues	27	59,353	91,882
Financial Expenses	27	(264,992)	(314,049)
	_	(205,639)	(222,167)
Income before Income and Social Contribution Taxes	-	1,165,002	914,073
Income and Social Contribution Taxes	16.a	(272,515)	(227,901)
NET INCOME FOR THE YEAR	<u>-</u>	892,487	686,172
Net income attributable to common shares		278,902	214,429
Net income attributable to preferred shares		613,585	471,743
Basic and diluted earnings per share	22.i		
Common		1.66100	1.27703
Preferential		1.82711	1.40474

STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

	2018	2017
Net Income for the Year	892,487	686,172
Itens that will not be reclassified to income	46,770	(34,007)
Actuarial gains and losses Effect of Income and Social Contribution Taxes	70,865 (24,095)	(51,526) 17,519
Total Comprehensive Income for the Year	939,257	652,165

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

	_			1	Profit Reserves			
	Capital Stock	Investment plan	Legal	Tax incentives	Additional proposed dividend	Retained earnings	Other Comprehensive Income	Total
Balancete as at January 1, 2017	2,847,664	1,417,788	204,024	9,333	148,792	-	181,072	4,808,673
Net income for the year		-	-	-	-	686,172	-	686,172
Realization of revaluation surplus	-	-	-	-	-	9,085	(9,085)	-
Realization of taxes on revaluation surplus	-	-	-	-	-	(3,089)	3,089	-
Realization of adjustment to attributed cost	-	-	-	-	-	3,640	(3,640)	-
Realization of taxes on adjustment to attributed cost	-	-	-	-	-	(1,237)	1,237	-
Actuarial gains and losses	-	-	-	-	-	-	(51,526)	(51,526)
Provision for taxes on actuarial gains and losses		-	-				17,519	17,519
Total Comprehensive income for the year	-	-	-	-	-	694,571	(42,406)	652,165
Expenses on issue of shares	3,425	-	-	-	-	-	-	3,425
Additional dividends from 2016	-	-	-	-	(148,792)	-	-	(148,792)
Proposed destination for A.G.O.:								
Recognition of legal reserve	-	-	34,277	-	-	(34,277)	-	-
Tax incentives	-	-	-	629	-	(629)	-	-
Interest on equity capital	-	-	-	-	-	(319,105)	-	(319,105)
Additional dividends proposed	-	-	-	-	162,816	(6,528)	-	156,288
Retained earnings		334,032				(334,032)		
Balance as at December 31, 2017	2,851,089	1,751,820	238,301	9,962	162,816		138,666	5,152,654
Net income for the year	-	-	-	-	-	892,487	-	892,487
Realization of revaluation surplus	-	-	-	-	-	9,231	(9,231)	-
Realization of taxes on revaluation surplus	-	-	-	-	-	(3,138)	3,138	-
Realization of adjustment to attributed cost	-	-	-	-	-	3,463	(3,463)	-
Realization of taxes on adjustment to attributed cost	-	-	-	-	-	(1,178)	1,178	-
Actuarial gains and losses	-	-	-	-	-	-	70,865	70,865
Provision for taxes on actuarial gains and losses				<u> </u>		-	(24,095)	(24,095)
Total Comprehensive income for the year	-	-	-	-	-	900,865	38,392	939,257
Additional dividends from 2017	-	-	-	-	(162,816)	-	-	(162,816)
Proposed destination for A.G.O.:								
Recognition of legal reserve	-	-	44,612	-	-	(44,612)	-	-
Tax incentives	-	-	-	247	-	(247)	-	-
Interest on equity capital	-	-	-	-	-	(326,114)	-	(326,114)
Additional dividends proposed	-	-	-	-	211,907	(97,700)	-	114,207
Retained earnings		432,192				(432,192)		
Balance as at December 31, 2018	2,851,089	2,184,012	282,913	10,209	211,907	<u> </u>	177,058	5,717,188

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	892,487	686,172
Adjustments to reconcile income to cash from operating activities		
Depreciation and amortization	271,387	247,282
Cost of fixed and intangible assets write-offs	10,647	10,286
Impairment	843	826
Cost of investments write-offs	-	214
Discount to present value of financial assets	(5,870)	4,007
Allowance for losses on doubtful accounts	7,747	28,800
Deferred Income and Social Contribution taxes, net	(61,900)	(61,617)
Provisions	(43,837)	(942)
Pension plan and health insurance	76,011	89,188
Interest on financing	220,724	234,116
Monetary variations on financing	64,029	58,878
Equity in earnings (losses) of controlled companies	3,829	1,791
Appropriation of costs of funds raised from third parties	781	825
Adjustment to Fair Value – Investments	(1,472)	2,089
	542,919	615,743
Changes in assets and liabilities		
Trade accounts receivable	(51,534)	(75,634)
Recoverable taxes and contributions	9,525	14,860
Inventories	(2,228)	(170)
Court deposits	(18,087)	(28,923)
Other Accounts Receivable	(13,079)	(7,931)
Contractors and Suppliers	8,087	49,150
Concession agreements	(31,533)	(4,937)
Taxes and contributions	(27,997)	(24,556)
Salaries and social charges	62,623	19,341
Collaterals and contractual retentions	(129)	336
Unearned Revenue	(4,200)	16,958
Other Accounts Payable	(4,848)	93,439
	(73,400)	51,933
Cash Generated by Activities Operational	1,362,006	1,353,848
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in fixed and intangible assets	(974,554)	(777,807)
Investments	(5,476)	(11,157)
Cash Used in Investing Activities	(980,030)	(788,964)
<u> </u>	(200,020)	(700,204)
CASH FLOWS FROM FINANCING ACTIVITIES	100.012	212.224
Financing Obtained	490,910	213,321
Amortization of Financing	(550,790)	(361,409)
Payments of Interest on Financing	(224,797)	(243,699)
Costs of Funds Raised from Third Parties	(1,834)	-
Restricted Deposits	(4,331)	341
Payments of Dividends and Interest on Equity Capital Expenses on issue of shares	(298,398)	(281,305) 3,425
Cash Generated by Financing Activities	(589,240)	(669,326)
VARIATION IN CASH AND CASH EQUIVALENTS	207,264	104,442
Beginning balance of cash and cash equivalents	533,888	638,330
Ending balance of cash and cash equivalents	326,624	533,888

STATEMENTS OF VALUE ADDED

For the years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

	2018	2017
Revenues		
Sales of services rendered	4,479,581	4,166,955
Other income (loss)	(32,726)	(69,335)
Losses in the realization and recovery of assets	(7,747)	(28,800)
T - 4 10-16 411-1 41	4,439,108	4,068,820
Inputs acquired from third parties	(70.719)	(92 100)
Consumed chemical products Consumables	(79,718) (72,278)	(83,190)
Electricity	(425,536)	(74,777) (379,440)
Other costs from products and services	(425,530)	(377,557)
Third-party services	(209,281)	(188,169)
Other operating expenses	(25,631)	(88,345)
Other operating expenses	$\frac{(23,031)}{(1,247,117)}$	(1,191,478)
Gross value added	3,191,991	2,877,342
Depreciation and amortization	(271,387)	(247,282)
Value added, net	2,920,604	2,630,060
Value added received in transfer		
Equity in earnings (losses) of controlled companies	(3,829)	(1,791)
Financial revenues	59,353	91,882
Total value added to be distributed	2,976,128	2,720,151
Value added distribution		
Employees and managers		
Payroll and charges	768,835	806,668
Remuneration of Directors and Managers	9,836	9,936
Profit sharing program	134,246	69,681
Pension plan and health insurance	96,643	90,807
	1,009,560	977,092
Government		
Federal taxes	756,449	692,523
State taxes	510	373
Municipal taxes	2,342	2,063
	759,301	694,959
Financing agents	40.700	47.970
Rents	49,788 264,992	47,879
Interest and monetary adjustments	314,780	314,049 361,928
Shareholders	314,700	301,920
Interest on equity capital	326,114	319,105
Dividends	97,700	6,528
Net income of the year not distributed	468,673	360,539
Total	2,976,128	2,720,151
A VIIII	2,770,120	2,120,131

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 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 municipal concessions operated, about 8 (2.3%) of the contracts are currently being renewed for being expired, 54 (15.6%) expire from 2019 to 2027, and 284 (82.1%) were renewed and expire after 2028. 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. In addition, the Company is discussing in court the validity of the additive term that renewed the concession with the municipality of Maringá. According to the determination of the Court of Justice of the State of Paraná, the contractual breach with the municipality can only occur after indemnification to the Company of the investments made.

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 11.

2. PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Statement of Compliance

The 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 financial statements were authorized for disclosure by the Company's Management on January 28, 2019.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

2. PRESENTATION OF THE FINANCIAL STATEMENTS -- continuation

2.2. Operational Continuity

The Company's Management has carried out all its planning and actions aiming at the continuity of its business, so it evaluates that it has the conditions to make available all the resources to continue its operations. Management is not aware of any material uncertainties that may raise doubts about the Company's operating continuity, and therefore, the financial statements have been prepared taking into account this assumption.

2.3. Measurement Basis

The financial statements were prepared considering historical cost as base value and financial assets measured at fair value.

2.4. Functional and Reporting Currency

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 Company has consistently applied the accounting policies described below to all years reported in these financial statements.

The main accounting practices, whose details are available in the respective notes, adopted in the preparation of the financial statements were:

- a) Risk Management and Financial Instruments Note 4
- b) Cash and cash equivalents Note 5
- c) Trade accounts receivable Note 6
- d) Allowance for losses on doubtful accounts Note 6
- e) Contractual financial assets Note 10
- f) Investments Note 11
- g) Fixed and Intangible assets Note 12
- h) Finance lease: The classification of the lease as operational or finance is established based on an analysis of the terms and conditions of the contracts. The contracts that show the significant transfer of the risks and benefits related to the property of the assets leased are classified as finance lease. Leased assets are stated in Note 12 and the corresponding debt in Note 13.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

3. MAIN ACCOUNTING PRACTICES -- continuation

- i) Evaluation of the recoverable value of assets (Impairment test) Note 12
- j) Capitalization of interest and finance charges Note 12
- k) Loans, Financing and Debentures Note 13
- 1) Income and social contribution taxes Note 16
- m) Provisions and Contingent Liabilities Note 18
- n) Post-employment benefits offered to employees Note 19
- o) Related-party transactions Note 20
- p) Shareholders' remuneration Note 22.h
- q) Revenues Note 23
- r) Inventories: Inventories are mainly composed by maintenance and repair materials, recorded at their average acquisition cost, in Curret Assets. The amounts accounted for do not exceed its replacement or realization costs.
- s) Current and noncurrent liabilities: All liabilities are recorded at known or estimated amounts and, when applicable, adjusted on a pro rata die basis, until the closing of the financial statements, based on the indexes and agreed-upon charges, with no need of adjustment to present value.
- t) Licenses: The Company records the infrastructure used for the operation of public services of basic sanitation as follows:

<u>Concession contracts:</u> The assets from "concession contracts" signed before the enactment of Law 11.445/07 (still ruled by Concessions Law - Law 8.987/95), are recorded as intangible assets and amortized by the economic useful life, based on a technical study made by the Company.

<u>Program contracts:</u> Assets from "Program contracts", in compliance with Law 11.445/07 – Regulatory Framework, which establishes the national guidelines for basic sanitation, in which the granting power (Municipality) shall mandatorily prepare the Municipal Plan of Basic Sanitation, 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 signature of the Program Contract, the Company records a portion of the assets as intangible assets, as it receives a right (license) to charge the use of the public service to the user, and a portion as financial assets, as the economic useful life of the assets recorded as intangible assets exceeds the term of the Program Contract. The financial asset represents the remaining amount of intangible asset to be reimbursed to the Company by the granting power by the end of the contract. The assets are amortized according to the terms of the contracts or their useful life, whichever is lower.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

3. MAIN ACCOUNTING PRACTICES -- continuation

- u) Statements of cash flows and added value: These 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 being presented according to technical pronouncement CPC 09 Statement of Value Added.
- v) Use of estimates and judgment: The preparation of the financial statements in compliance with Brazilian accounting practices, requires the Company's Management to use estimates and assumptions that affect the amounts disclosed in these statements and notes. Actual results could differ from those estimates.

Estimates and assumptions are continuously reviewed. Reviews of accounting estimates are recognized in the year in which the estimates are reviewed and in any future years affected. The main estimate processes are summarized as follows:

Impairment of financial assets

The Company analyzes at the balance sheet dates if there is objective evidence that the financial asset or group of financial assets is not recoverable.

A financial asset or a group of financial assets is considered not to be recoverable if, and only if, there is objective evidence of impairment as a result of one or more events that happened after the initial recognition of the asset (an incurred 'impairment event'), with such event impacting estimated future cash flow of the financial asset or group of financial assets that can be reasonably estimated.

<u>Impairment loss of non-financial assets</u>

An impairment loss occurs when the book value of an asset or cash-generating unit exceeds its recoverable value, which is the higher between fair value less sale cost and value in use. The calculation of the fair value less sale costs is based on available information on sales of similar assets or market price less additional costs to discard the asset. The calculation of value in use is based on the discounted cash flow model. Cash flows derive from budget for the next five years and do not include reorganization activities to which the Company has not yet committed itself or future significant investments which will improve the assets basis of cash-generating unit object of test. The recoverable value is sensitive to the discount rate used in the discounted cash flow method, as well as to expected future cash receipts and to the growth rate used for extrapolation purposes.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

3. MAIN ACCOUNTING PRACTICES – continuation

v) Use of estimates and judgment – continuation

The Company's Management believes that the provisions for tax, civil, labor and environmental risks are necessary and appropriate based on the effective legislation.

Allowance for losses on doubtful accounts

The allowance for doubtful accounts is set up in an amount deemed sufficient by management to cover possible losses on the realization of accounts receivable, considering historical losses and an individual evaluation of accounts receivable with realization risks.

Taxes

There are uncertainties in relation to the interpretation of complex tax regulations, and to the amounts and the time of future taxable income. Given the long-term nature and complexity of the existing contractual instruments, differences between the actual results and assumptions adopted, or future changes in such assumptions, may require future adjustments to tax revenue and expenses already recorded. The Company recognized provisions, based on the applied estimates, for the possible effects of audits conducted by tax authorities of the related jurisdictions in which it operates. The amount of these provisions is based on several factors, such as experience in previous tax audits and different interpretations of tax regulations by the taxable entity and responsible tax authority. These differences in interpretation may appear in several subjects, depending on the conditions in effect in the respective domicile of the Company.

A significant judgment from Management is required to determine the amount of deferred tax assets that can be recognized, according to a term considered reasonable, as well as the level of future taxable income expected for future years, along with future strategies of tax planning.

Pension plan and medical insurance

The cost of the pension plan with defined benefits and other post-employment benefits of medical assistance, as well as the present value of the retirement obligation are established using methods of actuarial evaluation. The actuarial evaluation involves the use of assumptions on discount rates, expected return rates of assets, future increase in salaries, mortality rates and future increase of pension and retirement benefits. The obligation of the defined benefit is highly sensitive to changes in these assumptions. All assumptions are reviewed at each base date.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

3. MAIN ACCOUNTING PRACTICES – continuation

w) New pronouncements not yet in effect as at December 31, 2018

The standards and interpretations, not yet adopted until the issue date of the Company's financial statements, which may have significant effects after the issue of the respective corresponding CPC pronouncements are as follows:

<u>CPC 6 - Lease transactions</u>: CPC 6 R2 (IFRS 16) was approved in October 2017 by the Committee of Accounting Pronouncements and it will be effective for annual periods started on January 1, 2019 or after, with early adoption allowed. The standard establishes that all leases are accounted for according to a single model in the statement of financial position, similarly to the accounting of finance leases (recognition, measurement, presentation and evidencing), however it requires lessees and lessors to make further disclosures in relation to the current procedure. This new review included two exemptions of recognition for lessees – lease of assets of "low value" and short-term leases (that is, lease term of 12 months or less).

The Company analyzed the operating lease agreements existing as of December 31, 2018 and is in the stage of the definition of premises, mainly in relation to the discount rate to be applied in the calculation of the Present Value Adjustment, of the contractual balances. The amount to be recognized will impact on the increase in Assets and Liabilities, will reflect the Economic Result and will result in a change in the Company's EBITDA.

CPC 06 (R2), in relation to operating leases, will reflect the following asset classes:

Quantity of contracts	Asset classes	Contratual balance (R\$ mil)
6	Car Rental ¹	46.909
11	Rental Movable Goods ²	24.055
117	Rental of Real Estate ³	17.814
Total		88.778

¹ Car Rental: vehicles in the light, executive, utility and heavy vehicles, in the monthly mode, with free mileage, except those contracted in the daily mode (without control of the Company);

The following is the flow of contract payments by asset class:

Period	Car	Movable Goods	Real estate	Total
12 months	22.170	11.977	10.113	44.260
24 months	19.791	7.233	3.997	31.021
36 months	4.948	4.442	2.324	11.714
48 months	-	403	1.168	1.571
60 months	-	-	212	212
Total	46.909	24.055	17.814	88.778

² Rental Movable Goods: refer to data collectors (reading), microcomputers, Tablets, Self-Service Totens and Electric Power Generators Group.

³ Rental Real Estate: refer to regional offices, public service offices, properties for storage of materials and land for drilling

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company is exposed to financial risks, however, they are all managed or mitigated to not significantly affect the results of its operations and are described in this Note.

4.1 Financial risk management

Business risk: The Company's business relates primarily to capture, treat and distribute water, collect and treat sewage for 345 municipal concessions operated in the State of Paraná and 1 in the State of Santa Catarina. 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 meeting targets for the expansion and maintenance of water and sewage systems, related to the rate of service of the water supply and sewage collection networks. In some situations, the municipality may terminate the contract before its final term or not authorize its renewal upon compensation at the fair value of the balances of investments not yet depreciated/amortized. The wealth in water resources and efficient systems reduce the risk of water shortage. The process of readjustment and review of the tariff is approved by the Regulatory Agency.

Credit risk: The Company is exposed to credit risk of the counterpart in its financial transactions (cash and cash equivalents, bank deposits and financial institutions) and accounts receivable (credit to customers and balances with related parties). The maximum exposure is equivalent to the accounting value as at December 31, 2018, and stated in Notes 6, 9 and 20. The risks related to trade accounts receivable are reduced because their composition includes a dispersed base which covers practically the entire population of the State of Paraná. 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 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, in case there is no agreement, the company files for judicial recovery.

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.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS -- continuation

4.1 Financial risk management -- continuation

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 Brazilian Reais varied from 25% to 50% upward or downward, with all other variables held constant, the effect on income before taxes would have been R\$25,620 and R\$51,244 upward or downward, in particular due to revenues from financial investments and interest expenses lower or higher in the financial investments and floating rate loans, as described below:

Description	Index	+25%	-25%	+50%	-50%
Caixa FI Sanepar I Renda Fixa	DI	6,327	(6,327)	12,654	(12,654)
Assets		6,327	(6,327)	12,654	(12,654)
BNDES	TJLP	(1,068)	1,068	(2,136)	2,136
BNDES-PAC2	TJLP	(2,553)	2,553	(5,106)	5,106
Debentures 2nd Issuance - 1st to 3rd series	TJLP	(2,412)	2,412	(4,824)	4,824
Debentures 2nd Issuance - 2nd series	IPCA	(1,112)	1,112	(2,224)	2,224
Debentures – 3rd Issuance - 1st series	DI	(1,029)	1,029	(2,058)	2,058
Debentures – 3rd Issuance - 2nd series	IPCA	(1,239)	1,239	(2,478)	2,478
Debentures – 4th Issuance - 1st series	TJLP	(2,897)	2,897	(5,794)	5,794
Debentures – 4th Issuance - 2nd series	IPCA	(816)	816	(1,632)	1,632
Debentures – 5th Issuance - 2nd series	DI	(1,522)	1,522	(3,044)	3,044
Debentures – 6th Issuance - 1st series	DI	(949)	949	(1,898)	1,898
Debentures – 6th Issuance - 2nd series	DI	(3,135)	3,135	(6,270)	6,270
Debentures - 7th Issuance - 1st to 4th series	IPCA	_	-	(4)	4
Debêntures - 8th Issuance - 1st series	DI	(843)	843	(1,686)	1,686
Debêntures - 8th Issuance - 2nd series	DI	(1,389)	1,389	(2,778)	2,778
Finance lease	IPC	(10,983)	10,983	(21,966)	21,966
Liabilities	_	(31,947)	31,947	(63,898)	63,898
Effects on Income before Taxation		(25,620)	25,620	(51,244)	51,244

The TR (Reference Rate) considered in the 12-month period was 0.00% and the TJLP (Long-Term Interest Rate) 6.72%, obtained from BACEN (Central Bank of Brazil), the IPCA (National Amplified Consumer Price Index) was 3.75%, obtained from IBGE (Brazilian Institute of Geography and Statistics), the DI (Interbank Deposit) was 6.40% obtained from CETIP SA, and the IPC – FIPE (Consumer Price Index) 3.02%, obtained from FIPE (Foundation Institute of Economic Research).

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 contracts, as shown in Note 13, 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 has the dividends and treasury and Market risks policy.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS -- continuation

4.1 Financial risk management -- continuation

Derivatives: the Company has no swap 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.

4.2 Capital risk management

The purpose of the capital management of the Company is to guarantee an optimal capital ratio and a strong credit rating to financial institutions 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. For the year ended December 31, 2018, there was no change in the purposes, policies or processes of capital structure.

In order to preserve its liquidity and payment capability, the Company uses as leverage metrics on net debt / equity and net debt / EBITDA. For net debt effect loans, financing and debentures are considered, minus cash and cash equivalents:

Description	2018	2017
Loans, financing, debentures and finance lease	2,771,318	2,716,838
Cash and cash equivalents	(326,624)	(533,888)
Net debt	2,444,694	2,182,950
EBITDA	1,642,028	1,383,522
Equity	5,717,188	5,152,654
Ratio Net Debt/Net Equity	0.43	0.42
Ration Net Debt/EBITDA	1.49	1.58

4.3. Financial instruments

The financial instruments are recognized in the Company's Financial Statements, as follows:

	2018	2017
Assets		
Fair value meansured through income		
Financial investments	291.621	510.089
Restricted deposits	59.668	533.888
Amortized cost		
Cash and banks	35.003	23.799
Trade accounts receivables	661.124	617.337
Contractual financial assets	375.871	201.077
Total	1.423.287	1.886.190
Liabilities		
Amortized cost		
Loans, financing, debentures and finance lease	2.771.318	2.716.838
Contractors and Suppliers	190.742	182.655
Concession agreements	60.456	91.989
Total	3.022.516	2.991.482

The level of the fair value hierarchy through the results of the Company's assets is framed at level 2.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

5. CASH AND CASH EQUIVALENTS

Accounting practice:

These include cash, bank deposits and financial investments that are stated at cost, plus income earned according to the rates agreed with the financial institutions, calculated on a pro rata die basis and monthly recognized. A financial investment qualifies as cash equivalent when it can be immediately converted into a known cash amount with the issuer and it is not subject to a significant change in value.

These have the following composition:

Description	2018	2017
Unrestricted bank deposits	9,324	3,618
Restricted bank deposits	25,679	20,181
	35,003	23,799
Financial investments	291,621	510,089
Total cash and cash equivalents	326,624	533,888

The financial investments approximate fair value and are of short-term type, with high liquidity and low risk of change in value. They comprise investments in fixed income funds, whose portfolio mostly consists of securities issued by the Federal Government and Bank Certificates of Deposit at floating rate of 100.50% to 102.00% of CDI according to the investment period contracted and elapsed, with an average remuneration of 99.00% of the CDI (99.68% in 2017).

6. TRADE ACCOUNTS RECEIVABLE

Accounting practice:

<u>Trade accounts receivable:</u> Include measured and billed services, not yet received, and the revenues from the supply of water and sewage collection, not yet billed, accounted for on the accrual basis according to the consumption estimated for the period between the date of the last metering and the end of the month and to each client's average consumption.

Adjustment to Present Value: The balances of trade accounts receivable referring to installment payments were discounted to present value. The installment payments of accounts receivable from private customers are adjusted at SELIC, plus risk and management fees and the ones from public agencies at the interest on savings of 6% per year. The Company adopts for the calculation of the discount to present value the SELIC rate for private accounts receivable and interest on savings for accounts receivable from public agencies.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

6. TRADE ACCOUNTS RECEIVABLE -- continuation

Allowance for doubtful accounts: In order to estimate the amounts of the allowance for doubtful accounts to be recognized in the period, the Company's management analyzes its accounts receivable, particularly overdue amounts, considering the breakdown of the balances of trade accounts receivable according to their maturity and expected recovery.

In accordance with CPC 48 - Financial Instruments and considering the credit recovery policy currently adopted by the Company, which contemplates the interruption of services rendered to delinquent customers, the provision (incurred and expected) is set up based on the amounts receivable from residential, commercial, and industrial consumers and from the Federal Public Agencies overdue for more than 180 days, and based on the amounts overdue for over 2 years for the Municipal Public Agencies, except for municipal administrations in default, for which a provision for the totality of receivables is recognized. The Company does not recognize an allowance for doubtful accounts from the State sector, because it is the controlling party and due to its history of debts settlement. The application of CPC 48 did not have a significant impact on the Company in relation to the previous year.

a) The balances of trade receivables break down per maturity as follows:

Description	2018	2017
Falling due accounts receivable	241,474	222,911
Accounts receivable from installment payments	56,272	48,943
Adjustment to Present Value	(4,723)	(2,453)
Accounts to be billed (Unbilled consumption)	186,170	174,987
	479,193	444,388
Overdue accounts receivable		
From 1 to 30 days	120,087	109,098
From 31 to 60 days	30,689	29,817
From 61 to 90 days	13,320	12,484
From 91 to 180 days	21,157	20,636
Over 180 days	172,634	172,064
Allowance for losses on doubtful accounts	(175,956)	(171,150)
	181,931	172,949
Total accounts receivable, net	661,124	617,337
Current	639,054	606,250
Noncurrent	22,070	11,087

We present below the breakdown of total trade accounts receivables due, net of the allowance for doubtful:

Description	Trade accounts receivable	Allowance for doubtful/Adjustment to present value	2018	2017
Municipal administration	258,383	(52,605)	205,778	193,081
Private	572,070	(128,074)	443,996	410,821
Federal Entity	1,230	-	1,230	1,081
Government State	10,120	<u> </u>	10,120	12,354
Total	841,803	(180,679)	661,124	617,337

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

6. TRADE ACCOUNTS RECEIVABLE -- continuation

b) Changes in the allowance for doubtful accounts were as follows:

Description	2018	2017
Balances at beginning of year	(171.150)	(146.336)
Amounts recorded as expenses	(7.747)	(28.800)
Write-offs, net of recoveries	2.941	3.986
Balances at end of year	(175.956)	(171.150)

c) The balance of the allowance for doubtful accounts breaks down as follows:

Description	2018	2017
Private customers	126.754	103.896
Federal government agencies	-	1
Municipal Administrations	49.202	67.253
Total	175.956	171.150

d) 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	2018	2017
Balances at beginning of year	(2,453)	(3,408)
Adjustment to Present Value	(2,270)	955
Balances at end of year	(4,723)	(2,453)

7. RECOVERABLE TAXES AND CONTRIBUTIONS

These have the following composition:

Description	2018	2017
Income tax to offset	12.517	19.903
Social contribution tax to offset	2.553	3.783
Withheld taxes and contributions – public agencies	326	1.235
Total	15.396	24.921
Current	15.396	24.098
Noncurrent	-	823

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

8. RESTRICTED DEPOSITS

Restricted deposits breakdown as follows:

Description	2018	2017
National Water Agency - ANA	1,773	6,777
Health National Foundation - FUNASA	4,947	3,579
Reserves kept in CAIXA (1)	52,948	44,981
Total	59,668	55,337
Current	6,720	5,838
Noncurrent	52,948	49,499

⁽¹⁾ Reserve accounts linked to financing contracts in amounts sufficient to meet contractual clauses.

9. OTHER ACCOUNTS RECEIVABLE

The composition is as follows:

Description	2018	2017
Advances to employees	13,481	3,898
Reimbursable payments	16,054	13,930
Guarantee deposits	2,095	2,224
Municipal Fund for the Environment (1)	50,675	43,195
Prepaid expenses	4,988	4,315
Assignment for operation of financial services	-	6,800
Bonds and other receivables	938	790
Total	88,231	75,152
Current	37,616	32,248
Noncurrent	50,615	42,904

⁽¹⁾ Anticipation of transfer to the Municipal Funds of the Environment, as provided in a program contract.

10. CONTRACTUAL FINANCIAL ASSETS

Accounting practice:

Contractual financial assets represent the portion of the total amount of constructed operating assets with useful life higher than the contractual term and which, consequently, shall be paid by the Granting Power by the end of the contract. These amounts are initially recognized upon the signature of each Program Contract and then upon the addition of the portion referring to the investment in new assets that exceed the contractual term.

Adjustment to Present Value: The financial assets are discounted to present value using the IPCA projected for the year (index published by BACEN), and the Weighted Average Cost of Capital (WACC) as discount rate, resulting in the application of an equivalent rate which represents the spread between IPCA and WACC rate. The adjustments to present value may represent a revenue or an expense to be recorded in the statement of income in the year they occur.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

10. CONTRACTUAL FINANCIAL ASSETS – continuation

Changes in financial assets are as follows:

Description	2017	Additions	NPV Revenue	NPV Expense	2018
Investment Not Amortized	570,128	540,186	-	-	1,110,314
Adjustment to Present Value	(369,051)	(371,262)	11,452	(5,582)	(734,443)
Total	201,077	168,924	11,452	(5,582)	375,871

The equivalent discount rate applied to calculate the present value adjustment was 4.1% (spread between the IPCA projected for the year and the WACC rate) and took into account Program Contracts with terms of 22 to 30 years.

11. INVESTMENTS

Accounting practice:

<u>Joint Venture:</u> The Company's investment in the joint venture is accounted for based on the equity method, being initially recognized at cost and adjusted for the recognition of changes in the Company's interest in the joint venture's equity as from the acquisition date.

The statement of income reflects the Company's interest in the operating results of the joint venture.

The financial statements of the joint venture are prepared for the same period of disclosure and with the accounting practices aligned with those of the Company.

The Company has the following investments:

Description	2018	2017
Investment in joint venture - CS Bioenergia S.A.	20.479	18.832
Other investment	2.106	634
Total	22.585	19.466

<u>Investment in joint venture – CS Bionergia S.A.</u>

The Company holds 40% interest of CS Bioenergia S.A. a company located next to the ETE - Belém Sewage Treatment Plant, whose objective is the exploration and adequate final disposal of solid, organic and sludge produced in said ETE, in addition to production of biogas and energy generation through the biodigestion process. CS Bioenergia S.A. partially started its operation in June 2017 and is still in the pre-operational phase, and in 2018, contributions were made to meet the working capital requirement set forth in the business plan, as well as investments required the operation of the company. The financial contribution made by the Company comprises the amount of R\$27,314 recorded in its Capital Stock and R\$4,020 as Advance for Future Capital Increase - AFAC. The Company's interest is accounted for using the equity method in the Financial Statements of the investee, which are summarized below:

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

11. INVESTMENTS -- continuation

Statement of financial position – CS Bioenergia S.A.	2018	2017
Current assets	6,873	897
Noncurrent assets	67,377	60,291
• Fixed assets	43,279	40,770
• Finance lease	17,856	19,519
• Other	6,242	2
Total Assets	74,250	61,188
Current liabilities	7,154	1,286
• Loans, financing and finance lease	3,475	910
• Other	3,679	376
Noncurrent liabilities	15,899	12,822
Loans, financing and finance lease	15,899	12,822
Equity	51,197	47,080
Total Liabilities and Equity	74,250	61,188

Statement of income (loss) – CS Bioenergia S.A.	2018	2017
Revenues	5,452	2,633
(-) Operational expenses	(11,727)	(5,786)
Financial income (loss)	(3,298)	(1,324)
Income (loss) before taxes	(9,573)	(4,477)
IRPJ (Corporate Income Tax) and CSLL (Social Contribution Tax)	-	-
Loss for the year	(9,573)	(4,477)

Changes in the investment in the year are as follows:

Description	2018	2017
Balance at beginning of year	18,832	9,466
Financial contribution	5,476	11,157
Equity in earnings (losses) of controlled company (percentage of interest 40%)	(3,829)	(1,791)
Balance at end of year	20,479	18,832

Other investments

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, and several investments over which it does not exercise significant influence in the amount of R\$522, which brought the fair value considering the price for 12/31/2018 equivalent to R\$2,106.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

12. FIXED AND INTANGIBLE ASSETS

Accounting practice:

<u>Fixed assets:</u> These are stated at acquisition or construction cost, plus revaluations made in previous years and asset and liability valuation adjustments to the new attributed cost, less the depreciation calculated using the straight-line method, according to the rates mentioned in this Note. Impairment test of fixed assets balances is conducted annually, whenever there is an indication that the fixed asset may not be recoverable.

Intangible assets: Intangible assets linked to concession contracts are recorded at their acquisition. construction or contractual cost and include Right of Use and Concession Contracts. Intangible assets linked to Program Contracts are initially recognized by the difference of the amounts invested in assets related to the concessions and the present value of the Contractual Financial Asset calculated according to Note 10. It is an intangible asset with finite useful life and its value will be amortized within the term of the contract.

Amortization of intangible assets linked to Concession Contracts is calculated based on the economic useful life and the amortization of the assets linked to Program Contracts is calculated according to the effective terms of the contracts or to the economic useful life of the assets forming the infrastructure necessary for the rendering of public services, whichever is lower. For the assets whose useful life exceeds the contract term, a financial asset is recognized, as mentioned in Note 3 (u). An impairment test of intangible assets balances is conducted annually, whenever there is an indication that the intangible asset may not be recoverable.

<u>Finance lease:</u> The accounting record is made upon the asset's actual availability for use, considering its fair value or, if lower, the present value of minimum payments of the lease. The debt amount is stated in Note 13. After initial recognition, the asset is accounted for according to the applicable policy.

<u>Capitalization of interest and financial charges:</u> The interest and other finance charges related to financing of ongoing intangible and fixed asset items are recognized at their cost, until the conclusion of the construction and/or installation of the asset. After this period, the mentioned charges are recognized as financial expense.

a) Fixed assets

These have the following composition:

By account				2017
Description	Cost	Accumulated depreciation	Net ar	noumt
Administration Other fixed assets	287,957 1.367	(119,837) (716)	168,120 651	129,564 381
Total	289,324	(120,553)	168,771	129,945

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

12. FIXED AND INTANGIBLE ASSETS -- continuation

By nature			2018	2017	
Description	Annual depreciation rate	Cost	Accumulated depreciation	Net ar	nount
Plots of land	-	2,372	-	2,372	2,309
Civil construction	*1.84%	69,651	(16,117)	53,534	53,371
Leasehold	2%	2,025	(696)	1,329	1,276
Facilities	*5.83%	3,935	(2,345)	1,590	1,617
Equipment	*6.23%	68,687	(23,490)	45,197	30,822
Furniture and fixtures	7.14%	41,556	(17,811)	23,745	19,365
IT equipment	*19.82%	35,776	(24,453)	11,323	9,558
Vehicles	*13.05%	39,126	(20,022)	19,104	9,241
Machinery, tractors and similar	*19.35%	24,367	(15,243)	9,124	2,153
Tools	6.67%	1,400	(376)	1,024	233
Patrimonial assets to incorporate	-	429	=	429	-
Totais		289,324	(120,553)	168,771	129,945

^{*} Weighted average rate

b) Intangible assets

These have the following composition:

By lines				2017
Description	Cost	Accumulated amortization	Net an	nount
Water mains	4,381,170	(1,491,251)	2,889,919	2,819,606
Sewage mains	5,008,190	(1,081,858)	3,926,332	3,841,755
Solid waste	2,522	(2,522)	-	-
System Use and Operation Rights	125,098	(69,942)	55,156	57,986
Other intangible assets	121,755	(56,808)	64,947	45,341
Projects and Work in Progress	1,319,120	-	1,319,120	972,060
Inventory for Construction Work	74,068	-	74,068	53,410
Total	11,031,923	(2,702,381)	8,329,542	7,790,158

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

12. FIXED AND INTANGIBLE ASSETS -- continuation

By nature				2018	2017
Descripion	Annual amortization rate	Cost	Accumulated amortization	Net a	mount
Plots of land	-	164,454	-	164,454	137,940
Wells	*3.10%	140,968	(36,800)	104,168	94,548
Dams	*2.67%	141,212	(54,815)	86,397	92,656
Civil construction	*2.59%	2,108,438	(492,240)	1,616,198	1,623,409
Leasehold	*2.67%	23,840	(3,036)	20,804	18,405
Piping	*2.64%	5,067,542	(1,237,183)	3,830,359	3,748,692
Building connections	3.33%	705,649	(223,150)	482,499	455,311
Facilities	*5.83%	159,671	(55,957)	103,714	101,965
Hydrometers	10%	186,965	(77,551)	109,414	108,433
Macro-meters	10%	5,832	(3,916)	1,916	2,036
Equipments	*6.23%	587,600	(270,754)	316,846	284,448
Furniture and fixtures	7.14%	6,248	(3,318)	2,930	1,742
IT equipment	*19.82%	86,864	(81,586)	5,278	5,297
Computer programs	20%	56,291	(38,022)	18,269	13,192
Vehicles	*13.05%	24,315	(16,616)	7,699	10,594
Machinery, tractors and similar	*19.35%	23,589	(18,644)	4,945	1,556
Tools	6.67%	272	(185)	87	101
Rights of Use of Transmission Lines	6.25%	155	(130)	25	29
Environmental protection and preservation	20%	22,864	(18,535)	4,329	6,348
Concession of the Mun. of Curitiba (1)	1.50%	125,000	(69,844)	55,156	57,986
Concession of the Mun. of Cianorte (2)	5%	99	(99)	-	-
Patrimonial assets to incorporate	-	867	-	867	-
Projects and Work in Progress	-	1,319,120	-	1,319,120	972,060
Inventory for Construction Work	-	74,068	-	74,068	53,410
Total		11,031,923	(2,702,381)	8,329,542	7,790,158

^{*} Weighted average rate

- (1) Right to grant the onerous concession contract signed on December 6, 2001 and whose concession was previously renewed on June 5, 2018 upon signature of the program agreement in accordance with Law No. 11.445, of January 5, 2007, and other relevant legal acts.
- (2) High of grant an onerous 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 Company renewed the concession agreement entered into with the Municipality of Curitiba, resulting in the early maturity of the existing onerous concession contract, through the signature, on June 5, 2018, of the Program Contract for a 30-year term, as from the date of signature, for the operation of the public utility services of water supply and collection, removal and treatment of sewage. As compensation for the early maturity of the former contract, the Company shall transfer to the municipality of Curitiba the amount of R\$88,771 to the Municipal Sanitation and Environmental Management Fund. The main characteristics of the new program contract with the Municipality of Curitiba are as follows:

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

12. FIXED AND INTANGIBLE ASSETS -- continuation

Type: Program Contract in conformity with Law 11.445/2017, exempt from the performance of public tender, resulting from the Cooperation Agreement entered into between the State of Paraná and the Municipality of Curitiba, authorizing the associated management, and determining Sanepar as the service provider and AGEPAR as the Regulatory agency;

Term: 30 years;

Main Obligations: i) In compensation for the early maturity of Concession Contract No. 13.543/2001, transfer to the municipality of Curitiba the amount of R\$88.771 to the Municipal Basic Sanitation Fund; and ii) monthly transfer to the Municipal Basic Sanitation Fund, net of the amount of taxes levied on revenue and losses on the realization of receivables, the amount corresponding to 2% of operating revenues from the municipality of Curitiba;

Main Targets: i) Maintain the rate of service of the water supply network at 100% of the population of the municipality, during the whole term of the contract; ii) Meet the target established for the rate of service of sewage collection network, as provided for in the Municipal Plan for Basic Sanitation, of 94% up to 2020, 96% up to 2028 and 98% up to 2036.

The balance of the line "Projects and Work in progress" as at December 31, 2018, refers to 137 (133 in 2017) works of expansion and implementation of Water Supply Systems in 110 (93 in 2017) localities, for the amount of R\$625,046 (R\$426,079 in 2017); 138 (130 in 2017) works in connection with Sewage Collection and Treatment Systems in 106 (91 in 2017) localities, for the amount of R\$483,561 (R\$372,357 in 2017), as well as R\$210,513 (R\$173,624 in 2017) from investments in different operational projects and works in the systems operated by the Company.

During 2018 interest and other finance charges incurred on resources and loans funding the Company's projects and works were capitalized, for the amount of R\$30,176 (R\$47,358 in 2017). The average rate applied to determine cost amounts of loans subject to capitalization in relation to total cost was 10.7%.

<u>Finance lease:</u> the Company has Asset Lease contracts evaluated at R\$199.3 million arising from the 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 obligations stemming from this contract will be shown in Note 13.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

12. FIXED AND INTANGIBLE ASSETS -- continuation

As at December 31, 2018, the book value for each class of asset under the Finance Lease commitment is entered in the Intangible Asset line and shown below:

By lines	2018	2017		
Description	Cost	Accumulated amortization	Net ar	nount
Buildings	37,434	(946)	36,488	37,114
Piping	147,315	(3,240)	144,075	93,100
Building connections	8,226	(333)	7,893	5,967
Facilities	309	(31)	278	298
Equipment	6,013	(533)	5,480	5,856
Total	199,297	(5,083)	194,214	142,335

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

12. FIXED AND INTANGIBLE ASSETS -- continuation

c) Changes in fixed and intangible assets for 2018:

			Depreciation and	Write-offs		
Description	2017	Additions	amortization	and losses	Transfers	2018
Fixed assets						-
Plots and land	2,309	67	-	(2)	(2)	2,372
Civil contruction	53,371	332	(1,377)	(24)	1,232	53,534
leasehold	1,276	-	(39)	-	92	1,329
Facilities	1,617	219	(215)	(2)	(29)	1,590
Equipment	30,822	18,505	(3,536)	(166)	(428)	45,197
Furniture and fixtures	19,365	7,632	(2,591)	(145)	(516)	23,745
IT Equipment	9,558	5,009	(2,949)	(242)	(53)	11,323
Vehicles	9,241	716	(2,619)	(13)	11,779	19,104
Machinery, tractors and similar	2,153	222	(1,821)	-	8,570	9,124
Tools	233	864	(73)	-	-	1,024
Patrimonial assets to incorporate	-	429	-	-	-	429
Total Fixed Assets	129,945	33,995	(15,220)	(594)	20,645	168,771
Intangible Asset						
Plots of land	137,940	11,722	-	-	14,792	164,454
Wells	94,548	304	(1,720)	3	11,033	104,168
Dams	92,656	609	(2,775)	-	(4,093)	86,397
Civil construction	1,623,409	7,717	(46,163)	179	31,056	1,616,198
Leasehold	18,405	439	(578)	12	2,526	20,804
Piping	3,748,692	67,826	(116,147)	(2,633)	132,621	3,830,359
Building connections	455,311	2,354	(21,180)	(782)	46,796	482,499
Facilities	101,965	2,169	(9,684)	188	9,076	103,714
Hydrometers	108,433	16	(16,833)	(1,855)	19,653	109,414
Macro-meters	2,036	5	(404)	-	279	1,916
Equipment	284,448	49,625	(26,777)	(4,361)	13,911	316,846
Furniture and fixtures	1,742	879	(291)	(84)	684	2,930
IT Equipment	5,297	21	(1,184)	(59)	1,203	5,278
Computer programs	13,192	10,376	(5,113)	(186)	-	18,269
Vehicles	10,594	9,827	(966)	22	(11,778)	7,699
Machinery, tractors and similar	1,556	12,870	(911)	-	(8,570)	4,945
Tools	101	-	(12)	(2)	-	87
Rights of Use of Transmission Lines	29	-	(4)	-	-	25
Environmental protection and preservation	6,348	327	(2,589)	33	210	4,329
Concession of the Mun. of Curitiba	57,986	-	(2,830)	-	-	55,156
Concession of the Mun. of Cianorte	-	-	(6)	6	-	-
Patrimonial assets to incorporate	-	867	-	-	-	867
Subtotal intangible assets	6,764,688	177,953	(256,167)	(9,519)	259,399	6,936,354
Projects and Works in Progress	972,060	797,405	-	(1,377)	(448,968)	1,319,120
Inventories for Construction Work	53,410	20,658	-	-	-	74,068
Total intangible assets	7,790,158	996,016	(256,167)	(10,896)	(189,569)	8,329,542
Grand Total	7,920,103	1,030,011	(271,387)	(11,490)	(a) (168.924)	8,498,313

⁽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.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

12. FIXED AND INTANGIBLE ASSETS -- continuation

d) Impairment analysis

As at December 31, 2018, even with no indication of impairment on fixed and intangible assets with finite useful life, the Company opted to conduct a technical study to determine the impairment of its assets, identifying as cash generating units, the business segments of water, sewage and solid wastes, using the following assumptions in the calculation:

d.1) Cash generating unit (CGU) – Water and Sewage segments

- For the calculation of the recoverable value of assets, or cash generating units of the Company, the method of value in use was adopted, that is, the cash generated by the use of these assets;
- The useful life based on the expected use of the group of assets that form the CGU, considering the Company's maintenance policy;
- The estimates of cash flows were projected for five years, as defined by CPC 01 (R1) in item 33b, in local currency, that is, considering the effects of inflation and then deflated;
- Discount rate before taxes (13.05%) from the calculation methodology of Weighted Average Cost of Capital (WACC), as defined by CPC 01 (R1) in items 55 and 56;
- Assumptions of business growth, tariff adjustment and OPEX evolution, projected as established in the Company's strategic planning;
- The residual value of the assets (or cash generating units), on the final date of the estimates of cash flows, was considered recoverable value. Such procedure was adopted because the concession contracts and program contracts establish reimbursement to the Company of the residual assets in case of breach of contract or no renewal;
- The evolution of expenses was calculated according to the increase in the demand and inflation rates levied on each expense.

The technical study concluded that the Fixed and Intangible Assets that are operating and generating cash flows, are fully recoverable, and it not necessary to recognize provision for impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

12. FIXED AND INTANGIBLE ASSETS -- continuation

d.2) Cash generating unit – Solid waste segment

The cash generating unit for the operation of Solid Waste has the following characteristics:

- The contracts of the solid waste segment were treated separately, that is, each as one CGU;
- The economic results of all cash generating units of this operation show a history of loss:
- There is no relevant fact suggesting a change in the trend of negative economic results of these contracts.

Considering that the CGUs of solid waste presented negative results, and that there is no prospect of improvement for the segment, the technical study concluded that the fixed and intangible assets that are in operation in the amount of R\$11,881 are not recoverable, therefore, a supplement to the allowance for depreciation, in the amount of R\$1,429, was recorded in other operating expenses. As of December 31, 2018, net revenue and net loss on the solid waste segment were R\$9,793 and R\$2,566, respectively.

13. LOANS, FINANCING, DEBENTURES AND FINANCE LEASE

Accounting practice:

Loans, financing and debentures are initially recognized at fair value upon the receipt of the funds, net of transaction costs. Then, they are presented at amortized cost. Additionally, loans, financing and debentures are classified as current liabilities, unless the Company has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

The obligations related to finance leases, net of finance charges, are classified in current and noncurrent liabilities according to the contract term. Payments of finance lease are allocated considering finance charges and reduction in the corresponding liabilities to obtain constant interest rate on the remaining balance of liabilities. The finance charges are recognized in the statement of income in each period during the lease.

The debentures issued by the Company are not convertible into shares and are accounted for as loans.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

13. LOANS, FINANCING, DEBENTURES AND FINANCE LEASE – continuation

a) Composition of loans, financing, debentures and finance lease is as follows:

					2018			2017
Descrição	Effective Annual Interest Rate	Index	Current	Noncurrent	Total	Current	Noncurrent	Total
Debentures 6th Issuance – 1st series	0.81%	DI	-	-	-	82,394	-	82,394
Debentures 6th Issuance – 2nd series	0.83%	DI	174,179	-	174,179	5,113	169,726	174,839
Debentures 5th Issuance – 2nd series	0.67%	DI	-	-	-	189,372	-	189,372
Debentures 3rd Issuance – 1st series	0.69%	DI	-	-	-	67,319	-	67,319
Debentures 3rd Issuance – 2nd series	6.99%	IPCA	68,972	67,876	136,848	1,092	130,795	131,887
Debentures 8th Issuance – 1st series	0.42%	DI	58	94,900	94,958	-	-	-
Debentures 8th Issuance – 2nd series	0.51%	DI	141	154,771	154,912	-	-	-
BNDES	1.82% e 2.50%	TJLP	31,243	23,550	54,793	32,069	54,252	86,321
Banco do Brasil - PSI	3.00% a 6.00%	-	3,391	12,391	15,782	3,400	15,760	19,160
Debentures 2nd Issuance – 1st series	1.92%	TJLP	12,390	57,862	70,252	12,374	69,563	81,937
Debentures 2nd Issuance – 2nd series	9.19%	IPCA	20,872	90,704	111,576	20,592	104,870	125,462
Debentures 2nd Issuance – 3rd series	1.92%	TJLP	16,519	77,150	93,669	16,500	92,750	109,250
Banco Itau - PSI	3.00% a 6.00%	-	3,576	15,127	18,703	3,588	18,669	22,257
Debentures 4th Issuance – 1st series	1.67%	TJLP	22,814	168,820	191,634	21,026	174,937	195,963
Debentures 4th Issuance – 2nd series	7.44%	IPCA	12,107	89,825	101,932	10,797	90,201	100,998
BNDES - PAC2	1.67% e 2.05%	TJLP	33,239	228,310	261,549	26,263	210,332	236,595
Finance lease	11.14%	IPC-FIPE	8,481	265,066	273,547	3,981	172,692	176,673
Debentures 7th Issuance – 1st series *	5.20%	IPCA	1	12,123	12,124	-	-	-
Debentures 7th Issuance – 2nd series *	4.79%	IPCA	2	15,153	15,155	-	-	-
Debentures 7th Issuance – 3rd series	6.97%	IPCA	36	5,186	5,222	-	-	-
Debentures 7th Issuance – 4th series	6.57%	IPCA	42	6,484	6,526	-	-	-
Caixa Econômica Federal	6.62% a 12.00%	TR	70,707	907,250	977,957	66,668	849,743	916,411
Balances at end of the year			478,770	2,292,548	2,771,318	562,548	2,154,290	2,716,838
Loans and financing			142,156	1,186,628	1,328,784	131,988	1,148,756	1,280,744
Debentures			328,133	840,854	1,168,987	426,579	832,842	1,259,421
Finance lease			8,481	265,066	273,547	3,981	172,692	176,673

^{*} IPCA as a variable component of the TLP

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	2018	2017
TR (Reference Rate)	977,957	916,411
TJLP (Long-Term Interest Rate)	671,897	710,066
TLP (Long-Term Rate)	27,279	-
IPCA (National Amplified Consumer Price Index)	362,104	358,347
DI	424,049	513,924
IPC-FIPE	273,547	176,673
No Monetary Adjustment	34,485	41,417
	2,771,318	2,716,838

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

13. LOANS, FINANCING, DEBENTURES AND FINANCE LEASE – continuation

b) Description of loans, financing, debentures and finance lease:

	Period of	Final	Amount	Number of	Payments	
Description	Issuance	Maturity	Contracted	Debentures	Amortization	Interest
Debentures 6th Issuance – 2nd series	2016	2019	170,000	17,000	2019	Six-monthly
Debentures 3rd Issuance – 1st series	2013	2018	199,670	19,967	2016/2017/2018	Six-monthly
Debentures 3rd Issuance – 2nd series	2013	2020	100,330	10,033	2019/2020	Six-monthly
Debentures 8th Issuance – 1st series	2018	2021	95,000	9,500	2021	Six-monthly
Debentures 8th Issuance – 2nd series	2018	2023	155,000	15,500	2023	Six-monthly
						Quarterly during grace
BNDES - 3 Contracts	2007	2023	295,967	-	Monthly	period and monthly at
						amortization
						Quarterly during grace
Banco do Brasil - PSI - 11 Contracts	2013 to 2014	2024	30,793	-	Monthly	period and monthly at
						amortization
Debegges 20 d Issues 1 to 1 2 d						Quarterly during grace
Debentures 2nd Issuance - 1st and 3rd	2011	2024	276,609	7,000	Monthly	period and monthly at
series						amortization
Debentures 3nd Issuance - 2nd series	2011	2024	118,547	3,000	Annual	Annual
						Quarterly during grace
Banco Itaú - PSI - 13 Contracts	2013 to 2014	2025	33,175	-	Monthly	period and monthly at
						amortization
						Quarterly during grace
Debentures 4th Issuance – 1st series	2014	2027	230,012	7,000	Monthly	period and monthly at
					•	amortization
						Quarterly during grace
Debentures 4th Issuance – 2nd series	2014	2027	98,576	3,000	Monthly	period and monthly at
					·	amortization
						Quarterly during grace
BNDES - PAC2 - 5 Contracts	2011 to 2014	2029	682,649	_	Monthly	period and monthly at
			,		, .	amortization
Finance lease	2013	2036	460,592	_	Monthly	Mensal
			,			Quarterly during grace
Debentures 7th Issuance – 1st series	2018	2038	47,279	19.733	Monthly	period and monthly at
			,	,		amortization
						Quarterly during grace
Debentures 7th Issuance – 2nd series	2018	2038	120,437	50,267	Monthly	period and monthly at
December 7 th Issuance 2nd series	2010	2000	120,107	20,207	1.10111111	amortization
						Quarterly during grace
Debentures 7th Issuance – 3rd series	2018	2038	20,263	8,457	Monthly	period and monthly at
Decentares / th Issuance Sta series	2010	2030	20,203	0,137	Wiening	amortization
						Quarterly during grace
Debentures 7th Issuance – 4th series	2018	2038	51,616	21,543	Monthly	period and monthly at
December / III Issuance – Till Selles	2010	2030	31,010	21,343	Wildhung	amortization
Caixa Econômica Federal - 325						amorazation
Contracts	1991 to 2017	2042	3,573,320	-	Monthly	Month
Contracts						

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

13. LOANS, FINANCING, DEBENTURES AND FINANCE LEASE -- continuation

c) The amortization timeline is as follows:

Descrição	2019	2020	2021	2022	2023	2024	2025 to 2042	Total
Debentures 2nd Issue	49,781	46,564	46,564	46,564	46,564	39,460	-	275,497
Debentures 3rd Issue	68,972	67,876	-	-	-	-	-	136,848
Debentures 4th Issue	34,921	34,109	34,109	34,109	34,109	34,109	88,100	293,566
Debentures 6th Issue	174,179	-	-	-	-	-	-	174,179
Debentures 7th Issue	81	-	40	2,299	2,299	2,299	32,009	39,027
Debentures 8th Issue	199	-	94,833	-	154,838	-		249,870
Subtotal Debentures	328,133	148,549	175,546	82,972	237,810	75,868	120,109	1,168,987
BNDES	31,243	7,638	7,638	7,638	636	-	-	54,793
BNDES - PAC2	33,239	32,471	32,471	28,449	27,140	27,140	80,639	261,549
Banco do Brasil - PSI	3,391	3,369	3,369	3,369	2,093	191	-	15,782
Banco Itau - PSI	3,576	3,542	3,542	3,542	3,056	1,420	25	18,703
Caixa Economica Federal	70,707	77,326	69,916	60,952	50,019	53,139	595,898	977,957
Subtotal loans and financing	142,156	124,346	116,936	103,950	82,944	81,890	676,562	1,328,784
Financing lease	8,481	6,748	7,418	8,164	8,995	9,922	223,819	273,547
Total	478,770	279,643	299,900	195,086	329,749	167,680	1,020,490	2,771,318

As at December 31, 2018, the present value of minimum future financial obligations in reference to Finance Lease is shown below:

			2018	2017
	Minimum		Present Value of	Present Value of
	Future	Finance	Minimum Future	Minimum Future
Description	Payments	charges	Payments	Payments
Less than one year	34,449	(25,967)	8,482	3,981
Later than one year and not later than 5 years	137,793	(106,717)	31,076	14,285
Over 5 years	426,826	(192,837)	233,989	158,407
Total	599,068	(325,521)	273,547	176,673

Discount rate applied was of 10.6%.

d) Changes in loans, financing, debentures and Finance Lease were:

		2018		2017
Description	Current	Noncurrent	Current	Noncurrent
Balances at beginning of year	562,548	2,154,290	379,163	2,332,911
Releases	-	490,910	-	213,321
Interest and fines	220,724	-	234,116	-
Monetary Variations	-	64,029	-	58,878
Transfers	470,910	(470,910)	554,231	(554,231)
Amortization	(775,587)	-	(605,108)	-
Costs of funds raised with third parties	175	(1,228)	146	679
Finance lease	-	55,457	-	102,732
Balances at end of year	478,770	2,292,548	562,548	2,154,290

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

13. LOANS, FINANCING, DEBENTURES AND FINANCE LEASE -- continuation

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

During 2018, the Company obtained and amortized funds from third parties, as stated below:

Index	Releases	Amortization
Debentures 2nd Issue	-	71,743
Debentures 3rd Issue	-	80,590
Debentures 4th Issue	20,673	52,368
Debentures 5th Issue	-	195,460
Debentures 6th Issue	-	99,389
Debentures 7th Issue	40,000	-
Debentures 8th Issue	250,000	8,532
BNDES	-	37,621
BNDES - PAC2	51,681	47,260
Banco do Brasil - PSI	-	4,035
Banco Itau - PSI	-	4,525
Caixa Economica Federal	128,555	144,851
Financing lease	55,457	29,213
Total	546,366	775,587

f) Restrictive Contractual Clauses – Covenants

Covenants and restrictive clauses linked to the loans, financing and debentures are shown below:

(i) Covenants in BNDES contracts and in 2nd, 4th and 7th Issuance of Debentures

Index	Limit	Range	Realized
EBITDA Debt Service	Equal to of higher than	Less man 1.5 and equal to of higher man	2.1
Net Bank Dent/ EBILIDA	Lquai to or mgner man	Equal to or under 3.8 and higher than 3.0	1.5
Other Onerous Debt/ EBITDA	2quai to oi inghei than 1 A	Equal to or under 1.3 and higher than 1.0	0.6

(ii) Covenants of contracts of the 3rd, 6th and 8th Issuance of Debentures

Index	Limit	Realized
Net Bank Debt / adjusted EBITDA	Equal to or higher than 1.5	8.1
Adjusted EBITDA /Net Financial Expenses	Equal to or higher than 3.0	1.5

(iii) Covenants of contracts of the Caixa Economica Federal

Index	Limit	Realized
Adjusted EBITDA /Net Financial Expenses	Equal to or higher than 1.5	8.1
Net Bank Debt / adjusted EBITDA	Equal to or under 3.0	1.5
Other Onerous Debt/Adjusted EBITDA	Equal to or under 1.0	0.6

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

13. LOANS, FINANCING, DEBENTURES AND FINANCE LEASE -- continuation

f) Restrictive Contractual Clauses - Covenants - continued

For BNDES contracts and the 2nd, 4th and 7th Issuance of Debentures, the Company shall maintain throughout the term of the financing contracts 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, 6th and 8th 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 December 31, 2018, the Company is fully compliant with the restrictive clauses stipulated for the issuance of debentures and BNDES financing operations.

14. CONCESSION AGREEMENT

The Company advanced the maturity the onerous concession contract entered into with the Municipality of Curitiba and signed on June 5, 2018, a Program Contract for a 30-year term for the operation of the public utility services of water supply and collection, removal and treatment of sewage. As compensation for the early maturity, the Company shall transfer to the municipality of Curitiba through the Municipal Basic Sanitation Fund, the amount of R\$88,771 in three (03) instalments, the first paid upon the signature of the contract, the second to be paid in March 2019 and the third in November 2019. The balance recorded in current liabilities on December 31, 2018 is R\$60,456, which will be monetarily adjusted by IPCA.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

15. TAXES AND CONTRIBUTIONS

The composition is as follows:

Description	2018	2017
COFINS (tax on sales) payable	24,292	21,616
PASEP (tax on sales) payable	5,265	4,683
COFINS - installment payment (1)	-	4,079
IPTU (Property tax) - installment payment (2)	1,443	1,667
Taxes and Contributions Withheld at Source	38,124	36,164
Total taxes and contributions	69,124	68,209
Current	68,133	66,941
Noncurrent	991	1,268

- (1) 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 National Treasury, being settled on October 31, 2014. The Company filed a writ of mandamus with the 2nd Curitiba Justice Court on 06/28/2011, challenging the consolidated amount of debt alleged by the National Treasury Attorney General, 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 National Treasury Attorney General filed an appeal on 02/07/2012, which was judged and denied. On August 27, 2014, the Federal Prosecutor's Office expressed the Union's special appeal dismissal. 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. In 03/02/2016 the case was reallocated to the Minister Gurgel de Faria and in 08/29/2018 a favorable decision was issued to the Company, which was final and unappealable on 10/25/2018.
- (2) The amount of 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 12/31/2018, 52 installments amounting to R\$1,449 had been paid.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

16. INCOME AND SOCIAL CONTRIBUTION TAXES

Accounting practice:

Income and social contribution taxes are recorded according to taxable income and prevailing rates: 15% for Corporate Income Tax, plus a surtax of 10% on the income exceeding (if applicable) the limit established by the law, and 9% for Social Contribution Tax.

Deferred income and social contribution taxes were calculated based on the effective rates of these taxes and recorded as established by law, according to CPC 26 (R1) and 32, addressing the temporary differences of these taxes. The Company prepares periodical analysis that show that these taxes are recoverable through future operations.

Deferred tax assets and liabilities are presented net given that there is a legal or contractual right to offset the tax assets against the tax liabilities.

a) Reconciliation of Income Tax and Social Contribution Expenses Recorded in the Statements of Income

		2018	2017		
		Social		Social	
		Contribution		Contribution	
Description	Income Tax	Tax	Income Tax	Tax	
Income before Income and Social Contribution Taxes	1,165,002	1,165,002	914,073	914,073	
Income and social contribution taxes - current rate	(291,250)	(104,850)	(228,518)	(82,267)	
Interest Deductibility Benefit on Interest on Equity Capital	81,528	29,350	79,776	28,719	
Adjustment to Present Value for Accounts Receivable	269	97	852	307	
Workers' Meal Program – PAT (1)	9,773	-	8,466	-	
Corporate Citizen Incentive (2)	683	-	673	-	
Equity in earnings (losses) of the controlled companies	(957)	(345)	(448)	(161)	
Finance lease	8,584	3,090	(8,566)	(3,084)	
IBAMA installment payment (3)	-	-	(13,978)	(5,032)	
Other	(6,174)	(2,313)	(3,347)	(1,293)	
Total expenses	(197,544)	(74,971)	(165,090)	(62,811)	
Total Income and Social Contribution taxes		(272,515)		(227,901)	
Effective rate	23	.4%	24	1.9%	

- (1) 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.
- (4) According to Law no. 13.494/2017.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

16. INCOME AND SOCIAL CONTRIBUTION TAXES -- continuation

b) Current and deferred income and social contribution taxes

The composition of these items for the year is as follows:

Description	2018	2017
Income tax	(243,412)	(210,740)
Social Contribution Tax	(91,003)	(78,778)
Realization of Deferred Income Tax	45,868	45,650
Realization of Deferred Social Contribution	16,032	15,967
Total	(272,515)	(227,901)

Possible tax impacts for the recognition of actuarial gains and losses in Net Equity are disclosed in the statement of Comprehensive Income.

The composition of the basis for deferred income tax and social contribution on assets and liabilities for future realization is as follows:

					2018	2017
Description	Estimated realization term	Calculation basis	Income tax	Social Contribution Tax	Total	Total
ASSETS	term					
NPV on Contractual Financial Assets	30 years	734,444	183,611	66,100	249,711	125,478
Financing lease	20 years	273,548	68,387	24,619	93,006	-
Pension and Health Plans	15 years	941,788	235,447	84,761	320,208	318,458
Impairment on assets	10 years	14,228	3,557	1,281	4,838	4,565
Civil, Labor, Tax and Environmental Provisions	5 years	461,797	115,449	41,562	157,011	171,916
Allowance for doubtful accounts	3 years	44,099	11,025	3,969	14,994	16,842
PAI – Encouraged Retirement Program	2 years	8,275	2,069	744	2,813	5,919
Provision for PPR	1 year	93,493	23,373	8,414	31,787	13,839
Fair Value – Investment FINAM	1 year	617	154	56	210	710
NPV of accounts receivable	1 year	4,723	1,181	425	1,606	834
TOTAL			644,253	231,931	876,184	658,561
LIABILITIES						
NPV on Contractual Financial Assets	30 anos	713,431	178,358	64,209	242,567	123,214
IRPJ Deferred on Construction and Improvements	25 anos	126,139	31,535	-	31,535	32,870
Finance lease	20 anos	194,214	48,554	17,478	66,032	-
Donations from Public Agencies	20 anos	10,209	2,552	919	3,471	3,387
Revaluation surplus	14 anos	113,805	28,451	10,243	38,694	41,832
Attribution of New Cost to Fixed Assets	4 anos	8,669	2,167	780	2,947	4,125
Total			291,617	93,629	385,246	205,428
Total Net			352,636	138,302	490,938	453,133

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

16. INCOME AND SOCIAL CONTRIBUTION TAXES -- continuation

c) Estimated Future Realization of Deferred Income and Social Contribution Tax

The estimated future realization of deferred tax assets and deferred tax liabilities as at December 31, 2018 is as follows:

	Deferred Tax Assets			Def	erred Tax Liabili	ties
Periods of Realization	Income Tax	Social Contirbution Tax	Total	Income Tax	Social Contirbution Tax	Total
2019	53,414	19,229	72,643	12,733	4,111	16,844
2020	36,620	13,183	49,803	12,733	4,111	16,844
2021 to 2023	192,236	69,205	261,441	36,755	11,813	48,568
2024 to 2026	76,427	27,514	103,941	36,033	11,553	47,586
2027 to 2029	75,709	27,255	102,964	36,033	11,553	47,586
2030 to 2032	75,709	27,255	102,964	33,844	10,764	44,608
2033 to 2035	44,316	15,954	60,270	29,467	9,189	38,656
2036 to 2038	28,619	10,303	38,922	29,309	9,132	38,441
2039 to 2041	18,361	6,610	24,971	21,778	6,421	28,199
2042 to 2044	18,361	6,610	24,971	19,150	6,421	25,571
2045 to 2047	18,361	6,610	24,971	17,837	6,421	24,258
2048 to 2050	6,120	2,203	8,323	5,945	2,140	8,085
Total	644,253	231,931	876,184	291,617	93,629	385,246

17. UNEARNED REVENUE

The Company has session contract for operation of financial services with Caixa Economica 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 during 2018 was R\$4,200 (R\$4,042 as at 12/31/2017). The balance as at December 31, 2018 was R\$13,300 (R\$17,500 as at 12/31/2017), with R\$4,200 (R\$4,200 as at 12/31/2017) recorded as current liabilities and R\$9,100 (R\$13,300 in 2017) as non-current liabilities.

18. PROVISIONS, CONTINGENT LIABILITIES AND COURT DEPOSITS

Accounting practice:

The Company records provisions when Management, supported by the opinion of its legal counselors, understands that there are chances of probable loss in certain legal proceedings arising in the normal course of its business.

The provisions are reviewed and adjusted to take into consideration changes in circumstances, such as applicable statutes of limitations, conclusions from tax inspections or additional exposures identified based on new matters or court decisions.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

18. PROVISIONS, CONTINGENT LIABILITIES AND COURT DEPOSITS – continuation

a) Provisions

The Company books provisions for civil, labor, tax and environmental claims classified as probable losses, with the following changes:

Nature	2017	Additions	Reversals	Payments	2018
Labor claims (i)	250,813	87,603	(88,740)	(20,167)	229,509
Civil claims (ii)	209,981	39,018	(5,612)	(35,258)	208,129
Environmental claims (iii)	27,440	8,886	(3,651)	(25,986)	6,689
Tax claims (iv)	17,400	71	(1)	-	17,470
Total	505,634	135,578	(98,004)	(81,411)	461,797

The Company, based on the opinion of its legal counsel, reviewed the labor lawsuits, aligning the estimate of the amounts, as well as the probability of loss according to experience, similar cases, labor doctrine and recent court decisions, resulting in a remeasurement in the amount of R\$66,762.

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:

	Contingent liabilities		
Nature	2018	2017	
Labor claims (i)	44,382	-	
Civil claims (ii)	375,364	209,613	
Environmental claims (iii)	339,737	268,120	
Tax claims (iv)	16,554	14,625	
Total	776,037	492,358	

(i) 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) plan for jobs and wages; ii) premium for unhealthy and nocturnal; (iii) functional reintegration; iv) wage equalization; v) reduction of the employer contribution to the health plan; vi) FGTS fines 40% and vii) work accident.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

18. PROVISIONS, CONTINGENT LIABILITIES AND COURT DEPOSITS – continuation

(ii) 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) Reimbursement of costs incurred for the replacement of material and 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.

(iii) 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.

(iv) 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, Pinhais and Porecatu.

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:

	Court deposits		
Nature	2018	2017	
Labor claims	137,502	117,447	
Civil claims	54,555	57,366	
Environmental claims	5,689	5,080	
Tax claims	5,706	5,472	
Total	203,452	185,365	

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

19. PENSION PLAN AND MEDICAL INSURANCE

Accounting practice:

The Company has a mixed pension plan (defined contribution during the working phase and defined benefit with lifetime income for retirees, pensioners and risk benefits) and in the health area, it sponsors a plan of medical and dental benefits for its employees, dependents and retirees, whose effects are recognized on the accrual basis and according to the criteria established by CVM Decision No. 695, as stated in this Note.

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). This year, the Sponsor passed on the amount of R\$31,682 (R\$30,566 in 2017) as contribution to FUSAN.

The technical reserves for purposes of meeting the standards established by Previc - National Superintendency of Complementary Pensions are determined by the actuary responsible for the pension plan.

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 63.7% for the sponsor and 36.3% 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, in this year, the Company transferred the amount of R\$64,962 (R\$ 60,241 in 2017).

Additionally, for the purposes of compliance with the determinations contained in CPC 33 (R1), approved by CVM Deliberation 695, Mirador Atuarial 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.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

19. PENSION PLAN AND MEDICAL INSURANCE -- continuation

Statement of actuarial liability:

		Medical		
Description	Pension Plan	Insurance	2018	2017
Present value of obligations at the beginning of the year	1.193.800	559.006	1.752.806	1.489.499
Cost of interest on obligation	107.913	52.801	160.714	158.888
Current service cost	7.015	9.301	16.316	21.829
Participants' contribution	9.917	-	9.917	-
Benefits paid in the year	(74.332)	(25.541)	(99.873)	(120.346)
Actuarial gains (losses) in the year	(99.581)	22.250	(77.331)	202.937
Total obligation in the year	1.144.732	617.817	1.762.549	1.752.807
Fair value of assets of the plan at the beginning of the year	(814.544)	(1.620)	(816.164)	(693.572)
Interest on assets of the plan	(70.678)	-	(70.678)	(70.538)
Participants' contribution	(9.917)	-	(9.917)	(1.896)
Contribution of the sponsor	(8.662)	(21.679)	(30.341)	(19.094)
Benefits paid in the year	74.332	25.541	99.873	120.346
Gain (loss) on the assets of the plan in the year	10.143	(3.677)	6.466	(151.411)
Fair value of assets in the year	(819.326)	(1.435)	(820.761)	(816.165)
Liabilities recognized at the end of the year	325.406	616.382	941.788	936.642
Current	21.694	41.092	62.786	62,443
Noncurrent	303.712	575.290	879.002	874.199

We describe the assumptions used in the actuarial evaluation, as follows:

Economic hypotheses	2018	2017
Discount rate for health	Annual rate of 9.39%	Annual rate of 10.03%
Discount rate for social security	Annual rate of 9.35%	Annual rate of 9.87%
Expected rate of return on assets for health	Annual rate of 9.39%	Annual rate of 10.03%
Expected rate of return on assets for social security	Annual rate of 9.35%	Annual rate of 9.87%
Future increase in salaries	Annual rate of 3.47%	Annual rate of 3.50%
Inflation	Annual rate of 4.50%	Annual rate of 4.50%
Real increase in medical costs	3.00% per year	3.00% per year
Demographic hypotheses	2018	2017
Mortality table	AT-2000 Basic	AT-2000 Basic
Mortality table for disabled participants	Winkloss D10	Winkloss D10
Disability table	Álvaro Vindas D20	Álvaro Vindas
Age of retirement	55 years	55 years

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

19. PENSION PLAN AND MEDICAL INSURANCE -- continuation

Analysis of sensitivity of changes in interest rate:

Description	Pension Plan	Medical Insurance
Interest rate		
With an increase of 1%	(9,74%)	(11,65%)
With a reduction of 1%	11,79%	15,68%
Increase of costs		
With an increase of 1%	-	16,98%
With a reduction of 1%	-	(12,82%)
Increase in salaries		
With an increase of 1%	0,46%	-
With a reduction of 1%	(0,38%)	-

Plan assets

The fair value of the plan assets approximates their book value and breaks down as follows:

Descrição	2018	%	2017	%
	1 176 611	77.1	1 110 604	70.0
Fixed income (a)	1.176.611	77,1	1.119.604	78,9
Floating income (b)	103.903	6,8	85.075	6,0
Properties (c)	39.770	2,6	40.564	2,9
Transactions with participants (d)	84.212	5,5	75.647	5,3
Structured (e)	121.882	8,0	97.542	6,9
Fair value of the plan's assets	1.526.378	100	1.418.432	100

- (a) Fixed income: These are Federal Government Bonds and private credit securities with remuneration established upon purchase;
- (b) Floating income: Assets negotiated at stock exchanges and regulated by authorities whose returns and investments cannot be measured at the time of the investment;
- (c) Properties: Real estate owned by the Foundation;
- (d) Transactions with participants: Loan transactions for participants of the plan;
- (e) Structured: Assets in investments of projects not traded in the stock exchanges and multimarket funds included in this segment;

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

19. PENSION PLAN AND MEDICAL INSURANCE -- continuation

Types of investments that are not allowed:

- *Day-Trade*: It is forbidden to conduct day-trade transactions in the exclusive funds invested by the plan;
- Real estate financing: It is forbidden to grant real estate financing, established in the Segment of Transactions with Participants, during the effective period of this Investment Policy;

The table below shows the projected expenses for 2019:

		Medical	
Description	Pension Plan	Insurance	2019
Current service cost	7,142	5,733	12,875
Interest cost	103,118	56,855	159,973
Expected return on the plan's assets	(73,464)	(41)	(73,505)
Contributions of the sponsor/participants	(16,622)	(22,915)	(39,537)
Total	20,174	39,632	59,806

20. RELATED-PARTY TRANSACTIONS

Accounting practice:

The Company has conducted business transactions with several related parties, especially with the state of Paraná and some municipalities, as stated in this note.

The Company assigned to the state of Paraná interest on equity capital of 2018 in the amount of R\$61,248 (R\$74,755 in 2017) and additional proposed dividends of R\$18,349 (R\$1,226 in 2017), totaling R\$79,597 (R\$75,981 in 2017). This amount depends on approval at the General Shareholders Meeting. The Company also provided water and sewage services to the state of Paraná, whose revenue was R\$117,486 and R\$102,624 for 2018 and 2017, respectively.

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, during 2018, R\$ 98,381 (R\$ 96,147 in 2017). The Company also provides services of urban solid waste management in some municipalities of the State of Paraná, with the revenue for this service of 2018 being R\$9,793 (R\$8,564 in 2017). In addition, the Company has accounts receivable from these prefectures in the amount of R\$258,383 in 2018 (R\$261,476 in 2017), as shown in Note 6.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

20. RELATED-PARTY TRANSACTIONS -- continuation

The Company transacted with CS Bioenergia S.A. During 2018, it obtained revenues from treatment of sewage effluents in the amount of R\$590, rental of property in the amount of R\$243 (R\$283 in 2017) and the supply of water and sewage services in the amount of R\$1,066, and expenses related to the removal of sludge from Sewage Treatment Plant - ETE Belem in the amount of R\$5,957 (R\$2,733 in 2017).

The Company also carries out operations with the Sanepar Foundations (Health Plan and Pension Plan), and during the year 2018 obtained revenues for the supply of water and sewage services in the amount of R\$17 (R\$16 in 2017), expenses of rent of property in the amount of R\$523 (R\$558 in 2017) and of employer contributions to the employee benefit plans in the amount of R\$96,644 (R\$90,807 in 2017), as described in note 19.

All transactions with related parties were practiced by Sanepar's Management under the same market conditions as practiced with its other customers, 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.

Management compensation

The annual global compensation of directors for the year ended December 31, 2018 was approved by the 54th/2018 Ordinary General Meeting (AGO) of April 26, 2018, in the total amount of R\$13,918. For 2017, approval was given by the 53rd/2017 Ordinary General Meeting (AGO) held on April 27, 2017, in the amount of R\$14,255.

During the year 2018, the amount of R\$12,720 (R\$12,771 in 2017) was paid, of which R\$9,836 (R\$10,001 in 2017) was paid as remuneration and R\$2,884 (R\$2,770 in 2017) related to charges and benefits. Of the amount related to charges and benefits, R\$2,592 (R\$2,538 in 2017) refers to social charges, R\$109 (R\$83 in 2017) refers to profit sharing, R\$72 (R\$55 in 2017) (SANESAÚDE), R\$108 (R\$88 in 2017) refers to benefits from the Sanepar Foundation (FUSAN) and R\$3 refers to Complementary Programs (R\$6 in 2017).

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

21. OTHER ACCOUNTS PAYABLE

The composition is as follows:

Description	2018	2017
Programs Linked to Agência Nacional de Águas - ANA	2,099	8,012
Contracts and Agreements with third parties	10,397	8,753
Agreements with municipal administrations	15,707	13,669
Collaterals and amounts reimbursable	10,643	7,804
Labor Indemnities – PAI/PDVTC	689	7,020
Agreement with Instituto Ambiental do Paraná - IAP (1)	-	1,620
Installment payment IBAMA – PRD Law No. 13.494/2017 (2)	81,316	85,462
Municipal Sanitation and Environmental Management Fund	8,942	2,551
Other account payables	250	-
Totais	130,043	134,891
Current	68,179	54,481
Noncurrent	61,864	80,410

- (1) 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 and in September 2018 it was paid in full.
- (2) Installment payment of debts referring to 31 environmental assessment notices from the Brazilian Institute of Environment and Renewable Natural Resources IBAMA, in accordance with the Non-Tax Debt Settlement Program PRD created by Law No. 13.494/2017. Until 12/31/2017, 20% of consolidated debt amounting to R\$29,083 (adhesion to installment payment) was settled and the remaining was paid in installment up to 60 monthly installments, adjusted at SELIC interest rate, and until 12/31/2018 12 installments in the amount of R \$18,005 were paid.

22. EQUITY

a) Capital stock

Capital stock, fully paid-in, is composed by 503,735,173 shares, with no par value, being 167,911,753 common shares and 335,823,420 preferred shares. In addition to the common and preferred shares, the Company started to negotiate Share Deposit Certificates ("Units"), being each "Unit" formed by one common share and four preferred shares.

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.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

22. EQUITY -- continuation

a) Capital stock -- continuation

The equity amount of each share as at December 31, 2018 is R\$11.35 (R\$10.23 as at December 31, 2017), considering a provision for additional dividends proposed by the Management.

Subscribed and paid-in capital stock as at December 31, 2018 is R\$2,854,952, which net of share issue cost amounts to R\$2,851,089, with shareholding structure as follows:

					Numbe	er of shares
Shareholders	Commom	%	Preferred	%	Total	%
State of Paraná	100,914,575	60.1	1	-	100,914,576	20.0
Municipal Administrations	-	-	2,285,969	0.7	2,285,969	0.5
Foreign Investors	34,591,324	20.6	181,861,596	54.2	216,452,920	43.0
Other Investors	32,405,854	19.3	151,675,854	45.1	184,081,708	36.5
Total	167,911,753	100.0	335,823,420	100.0	503,735,173	100.0

b) Revaluation surplus

The reevaluation surplus was realized in the year, transferring to Retained earnings the amount of R\$6,093 (R\$5,996 in 2017), 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	2018	2017
Balances at beginning of year	81,204	87,200
Realization of revaluation surplus	(9,231)	(9,085)
Realization of Taxes on the Revaluation surplus	3,138	3,089
Balances at end of year	75,111	81,204

c) Valuation Adjustments to Equity

Constituted in accordance with article 182 of the Brazilian Corporation Law, referring to the equity valuation adjustments, while not computed in the income for the year in accordance with the accrual basis, the counterparts of increases or decreases in amounts attributed to assets and liabilities, as a result of their valuation at fair value.

The amount of R\$2,285 (R\$2,403 in 2017), net of Income Tax and Social Contribution, was transferred to Retained Earnings in the year. The realization of this account occurs in the same proportion of the write-offs and depreciation of property, plant and equipment and intangible assets, to which new values have been assigned.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

22. **EQUITY** -- continuation

c) Valuation Adjustments to Equity -- continuation

The changes in the realization of the Valuation Adjustments were as follows:

Description	2018	2017
Balance at beginning of year	8,007	10,410
Realization of Adjustments to Assigned Cost.	(3,463)	(3,640)
Realization of Taxes on Adjustments to Assigned Cost	1,178	1,237
Balance at end of year	5,722	8,007

d) 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.

Management proposes to appropriate the amount of R\$432,192 from retained earnings for the recognition of a Reserve for investment plan, subject to later approval at the Shareholders' Meeting. These funds will be applied in projects of construction and expansion of the systems of water supply and sewage collection and treatment, as established in the investment plans of the Company.

e) Legal Reserve

Constituted in the amount of R\$44,612 in 2018 (R\$34,277 in 2017), pursuant to the Brazilian Corporation Law and the Bylaws, based on 5% of net income for each year, up to a limit of 20% social integration. The legal reserve may only be used to increase capital or absorb accumulated losses.

f) Tax incentive reserve

Constituted in the amount of R\$247 in 2018 (R\$629 in 2017), related to the portion of net income from donations and government subsidies, in accordance with article 195-A of the Brazilian Corporation Law. This amount was excluded from the calculation basis of Dividends.

g) Other Comprehensive Income

Pursuant to CPC 33 (R1), adjustments to the fair value of actuarial liabilities related to employee benefit plans (Note 19) arising from actuarial gains or losses are recorded directly in Shareholders' Equity.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

22. EQUITY -- continuation

g) Other Comprehensive Income -- continuation

The changes in actuarial gains and losses were as follows:

Description	2018	2017
Balance at the beginning of the year	49,455	83,462
Actuarial gains and losses	70,865	(51,526)
Taxes on actuarial gains and losses	(24,095)	17,519
Balance at the end of the year	96,225	49,455

h) Shareholders' compensation

Accounting practice:

Interest on equity capital was calculated in accordance with legislation in effect, observing the limit of variation of the Long-Term Interest Rate — TJLP, applied to adjusted equity. Interest on equity capital is recorded as financial expenses and reclassified to equity for purposes of presentation and disclosure of the financial statements. If the amount credited as interest on equity capital in the year results in a percentage of distribution lower than that proposed by Management, a supplementary value as additional dividends is recorded. Mandatory minimum dividend is recorded in current liabilities and possible values higher than the minimum limit are recorded in a reserve as Additional proposed dividends in Equity.

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.

Interest on equity capital payable was calculated within the limit of TJLP variation pursuant to Law No. 9.249/95, plus subsequent legal provisions. The total of interest was accounted for in financial expenses, generating a tax benefit of R\$110,879, according to tax law. This interest is being presented in equity, charged to retained earnings for the purpose of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

22. EQUITY -- continuation

h) Shareholders' compensation -- continuation

The Company's management observing the Dividends Policy and Business Plan in effect, and also considering the good current financial condition and public interest of the Company, is proposing the approval of profit distribution at the General Shareholders Meeting, as follows:

Description	2018	2017
Net income for the year	892,487	686,172
Government grants and donations	(247)	(629)
Recognition of legal reserve	(44,612)	(34,277)
Basis for calculation of mandatory dividends	847,628	651,266
Mandatory dividends (25%)	211,907	162,816
Supplementary dividends	211,907	162,817
Proposed dividends and interest on equity capital	423,814	325,633

The amount of interest on equity capital calculated in 2018 was R\$326,114 (R\$319,105 in 2017), being withheld the amount of R\$29,056 (R\$ 28,025 in 2017) as withholding income tax, which resulted in an effective rate of 8.9% (8.8% in 2017). Because interest on equity capital did not reach 50% of net income for the year, in view of what the dividend policy establishes, the Company's management is proposing the payment of additional dividends of R\$97,700 (R\$6,528 in 2017), totaling a gross compensation of R\$ 423,814 (R\$325,633 in 2017).

The balance of the remuneration to shareholders recorded in Current Liabilities is as follows:

	2018	2017
Previous balance	136,265	134,055
Additional Dividends Authorized	162,817	148,793
Payments made during the year	(298,255)	(281,374)
Interest on Equity Capital and Dividends	423,814	325,633
(-) Retention of IRRF on Interest on Equity Capital	(29,056)	(28,025)
(-) Additional Dividends Proposed	(211,907)	(162,817)
Dividends and Intetest on Equity Capital to payable (Current liabilities)	183,678	136,265

The portion of interest on equity capital/dividends in excess of the mandatory minimum dividends in the amount of R\$ 211,907 will be maintained in the Company's equity reserve, until decision of the General Shareholders Meeting, when, if approved, it will be then transferred to the caption of current liabilities.

The credit of the remuneration to Company's shareholders is attributed based on the shares composition as at June 30 and December 31 of each year and possible negotiations after the announcement of the credit are considered ex-dividends (interest on equity capital and dividends).

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

22. EQUITY -- continuation

e) Earnings per share

In view of the credit of remuneration to the shareholders occurred at 06/30/2017 and 12/31/2018, interest on equity capital and additional proposed dividends per share were the following:

Interest on equity capital - 06/30/2018	Quantity	Total Remuneration	Remuneration per share
Commom shares	167,911,724	49,779	0.29646
Preferred Shares	335,823,449	109,513	0.32610
Total	503,735,173	159,292	
Remuneration for 1 UNIT			1.60086
Interest on equity capital - 12/31/2018	Quantity	Total Remuneration	Remuneration per share
Commom Shares	167,911,753	52,132	0.31047
Preferred Shares	335,823,420	114,690	0.34152
Total	503,735,173	166,822	
Remuneration for 1 UNIT			1.67655
Additional dividends from - 12/31/2018	Oventity	Total Remuneration	Remuneration per Share
Commom Shares	Quantity		-
Commom Snares Preferred Shares	167,911,753	30,531	0.18183
Preferred Snares	335,823,420	67,169	0.20001
Total	503,735,173	97,700	
Remuneration for 1 UNIT			0.98187

The amount of remuneration to shareholders, per share, was as follows:

	2018	2017
Commom Shares	0.78876	0.60603
Preferred Shares	0.86763	0.66663
Value for 1 "Unit"	4.25930	1.66949

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

22. EQUITY -- continuation

e) Earnings 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	2018	2017
Numerator		
Net income for the year attributed to Company shareholders		
Commom Shares	278,902	214,429
Preferred Shares	613,585	471,743
Denominator		
Weighted average of number of common shares	167,911,753	167,911,753
Weighted average of number of preferred shares	335,823,420	335,823,420
Basic and diluted earnings		
Per ordinary share	1.66100	1.27703
Per preferred share	1.82711	1.40474

23. OPERATING REVENUES

Accounting practice:

Revenue from services Revenues are recognized on the accrual basis. According to CPC 47 - Revenue from Contract with Clients and considering the Company's Corporate Purpose, where it is possible to verify that there are no contractual stages in the execution of the services rendered to the clients related to the performance obligation, the recognition occurs by billing in a basis at the fair value of the consideration to be received. Revenue from supply of water and sewage collection includes amounts billed to clients on a monthly basis and unbilled revenues recognized at fair value of the consideration received or receivable and are stated net of taxes, rebates or discounts applicable to them, including additional amounts for late payment by the clients (fine). Revenues not yet billed are recognized based on estimated consumption from the date of the last metering until the end of the accounting period.

<u>Construction revenue:</u> The revenue from construction of assets linked to rendering of public service shall be recognized using percentage-of-completion method, as long as all applicable conditions are effective. Pursuant to this method, contractual revenue shall be proportional to contractual costs incurred on the balance sheet date in relation to total estimated cost. The Company adopted null margin to measure the revenues and costs of construction.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

23. **OPERATING REVENUES** – continuation

Operating Revenues composition, by nature, is the following:

Description	2018	2017
Revenue		
Revenues from Water	2,716,898	2,539,747
Revenues from Sewage	1,572,971	1,444,407
Revenues from services	141,402	131,699
Revenues from Solid Waste	9,793	8,564
Services Provided to Municipalities	16,515	14,133
Donations made by clients	16,978	21,898
Other Revenue	5,024	6,507
Total operating revenues	4,479,581	4,166,955
Deductions from Operating Revenues		
COFINS	(260,853)	(244,628)
PASEP	(56,523)	(52,926)
Total Deductions	(317,376)	(297,554)
Total operating revenues, net	4,162,205	3,869,401

The Company had revenues and incurred costs from construction contracts linked to the concessions of R\$177,953 during 2018 (R\$181,389 in 2017), i.e., with a null margin. These revenues are shown net of construction costs.

24. COST OF SERVICES RENDERED

The composition of costs, by nature, is the following:

			2018			2017
Description	Water	Sewage	Total	Water	Sewage	Total
Personnel	269,533	97,609	367,142	281,909	97,117	379,026
Materials	70,330	37,983	108,313	79,961	34,780	114,741
Electricity	375,950	42,315	418,265	334,698	36,493	371,191
Third-party services	215,446	153,955	369,401	194,390	144,191	338,581
Depreciation and amortization	125,080	123,255	248,335	117,836	106,075	223,911
Indemnities of third-party damages	17,071	13,939	31,010	3,449	2,646	6,095
Other costs	103,840	33,736	137,576	93,298	29,292	122,590
Total	1,177,250	502,792	1,680,042	1,105,541	450,594	1,556,135

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

25. SELLING, ADMINISTRATIVE AND OTHER EXPENSES

The composition of these expenses, by nature, is the following:

Description	2018	2017
Selling		
Personnel	117,274	115,479
Materials	3,615	3,932
Third-party services	96,386	79,160
Depreciation and amortization	4,928	6,277
Losses in Realization of Credits	7,747	26,401
Municipal Sanitation and Environmental Management Fund	43,551	28,517
Indemnities of third-party damages	6,145	15,856
Sanepar Rural program	2,410	9,479
Other expenses	26,176	30,103
Total selling expenses	308,232	315,204
Administrative		
Personnel	553,049	574,940
Materials	40,068	39,294
Third-party services	153,054	161,134
Depreciation and amortization	18,124	17,094
Regulatory fee	20,834	14,259
Travel expenses	8,921	9,224
Environmental and social programs	6,328	7,116
Exhibitions, congresses and events	10,478	6,706
Other expenses	28,417	22,927
Transfers to Selling expenses and cost (1)	(144,526)	(133,761)
Expenses Capitalized (2)	(94,432)	(86,164)
Total administrative expenses	600,315	632,769
Other operating revenues (expenses)		
Expenses		
Environmental fines	(26,029)	(55,911)
Write-off of assets	(8,169)	(11,335)
Adjustment to Fair Value – Investments	1,472	(2,089)
Total other operating revenues (expenses), net	(32,726)	(69,335)

⁽¹⁾ These amounts are first recorded as administrative expenses and later transferred to costs of selling expenses;

26. PROFIT SHARING PROGRAM

The Company set up a provision of R\$93,494 (R\$40,704 in 2017) as profit sharing for 2018, which is recorded in the account Salaries and social charges in current liabilities. In third quarter of 2018, the Company recorded in accounting a supplementary provision for the profit sharing program for 2017, in the amount of R\$40,752 (R\$28,977 referring to the year 2016). Beginning in 2018, the provision was made quarterly and the estimate was based on the PPR payment history of the last 5 (five) fiscal years.

⁽²⁾ These amounts refer to capitalized administrative expenses, as they relate to projects and works in progress, allocated directly by the Service Units;

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

27. FINANCIAL INCOME (LOSS)

Description	2018	2017
Financial revenues		
Financial investments	31,528	65,622
Monetary variation gains	12,276	13,766
Other financial revenues	15,549	12,494
Total financial revenues	59,353	91,882
Financial expenses		
Financing and Debenture Interest and Charges	(191,443)	(188,085)
Monetary variation losses	(60,850)	(53,711)
Other financial expenses	(12,699)	(72,253)
Total financial expenses	(264,992)	(314,049)
Financial income (loss), net	(205,639)	(222,167)

28. 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:

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

28. INFORMATION BY BUSINESS SEGMENT -- continuation

			2018			2017
Description	Water	Sewage	Total	Water	Sewage	Total
Direct operating revenue	2,816,694	1,624,370	4,441,064	2,640,111	1,484,306	4,124,417
Other operating revenues	22,169	16,348	38,517	24,776	17,762	42,538
Total gross operating Revenue	2,838,863	1,640,718	4,479,581	2,664,887	1,502,068	4,166,955
Revenue Deductions (PASEP and COFINS)	(182,660)	(134,716)	(317,376)	(173,216)	(124,338)	(297,554)
Net operating revenue	2,656,203	1,506,002	4,162,205	2,491,671	1,377,730	3,869,401
Cost	(1,177,249)	(502,793)	(1,680,042)	(1,105,541)	(450,594)	(1,556,135)
Gross profit	1,478,954	1,003,209	2,482,163	1,386,130	927,136	2,313,266
Selling expenses	(177,406)	(130,826)	(308,232)	(183,589)	(131,615)	(315,204)
Administrative expenses	(345,517)	(254,798)	(600,315)	(368,554)	(264,215)	(632,769)
Impairment	-	(1,429)	(1,429)	-	(2,022)	(2,022)
Other operating revenues (expenses)	(21,040)	(10,257)	(31,297)	(41,427)	(25,886)	(67,313)
Equity in earnings (losses) of controlled companies	-	(3,829)	(3,829)	-	(1,791)	(1,791)
Financial income (loss), net	(51,808)	(153,831)	(205,639)	(82,961)	(139,206)	(222,167)
Profit sharing program	(77,267)	(56,979)	(134,246)	(40,585)	(29,096)	(69,681)
Provisions	24,999	18,838	43,837	259	683	942
Pension plan and medical insurance	(43,768)	(32,243)	(76,011)	(51,984)	(37,204)	(89,188)
Income before taxes and contributions	787,147	377,855	1,165,002	617,289	296,784	914,073
Income and social contribution taxes	(184,128)	(88,387)	(272,515)	(154,484)	(73,417)	(227,901)
Net income for the year	603,019	289,468	892,487	462,805	223,367	686,172
Operating margin	27.7%	23.0%	26.0%	23.2%	19.8%	21.9%
Net margin	22.7%	19.2%	21.4%	18.6%	16.2%	17.7%
EBITDA	977,306	664,722	1,642,028	831,690	551,832	1,383,522
EBITDA margin	36.8%	44.1%	39.5%	33.4%	40.1%	35.8%
Investments in fixed /Intangible assets in the year (a)	532,504	497,507	1,030,011	395,065	485,474	880,539
Shareholding Interest – CS Bioenergia	-	20,479	20,479	-	18,832	18,832
Indebtedness – Loans, Financing, Debentures and Finance Lease	1,043,388	1,727,930	2,771,318	1,056,211	1,660,627	2,716,838
Fixed assets and intangible assets, net	3,769,314	4,728,999	8,498,313	3,445,960	4,474,143	7,920,103
Depreciation and amortization for the year	(138,351)	(133,036)	(271,387)	(131,440)	(115,842)	(247,282)
Accounts receivable (current and non-current) (b)	551,041	290,762	841,803	522,722	268,218	790,940
Total assets	4,781,912	5,999,410	10,781,322	4,404,276	5,718,395	10,122,671
Total current and noncurrent liabilities	2,168,087	2,896,047	5,064,134	2,102,761	2,867,256	4,970,017
Number of Users – Not Audited/Reviewed (c)	3,137,760	2,141,050	-	3,087,160	2,040,292	-
Volume Thousand m3 Invoiced - Not Audited/Reviewed (d)	513,817	378,909	-	549,127	393,667	-

⁽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.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

29. INSURANCE

The Company has insurance contract with MAPFRE Seguros Gerais S/A covering its main assets located in a number of localities throughout the State of Paraná, for the amount of R\$1,120,103, with coverage term from 03/10/2018 to 03/10/2019, basic cover for fire, wind and electrical damages to the equipment.

Assets	Amount insured
Buildings	497,418
Machinery, equipment and vehicles	465,919
Inventory	56,766
Total	1,020,103

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, 2018, the Company offered guarantees through Guarantee Insurance in 111 legal proceedings in the amount of R\$315,434 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 04/14/2019.

30. SUBSEQUENTS EVENTS

Election of the Executive Board

On January 11, 2019, the 1st / 2019 Ordinary Meeting of the Board of Directors was held, with the order of the day being the dismissal and election of new members to the executive board, to have the following composition:

- Cláudio Stabile Chief Executive Officer
- Joel de Jesus Macedo Director of Investments and Director of Finance and Investor Relations Interim.
- Paulo Alberto Dedavid Director of Operations and Commercial Director Interim.
- Priscila Marchini Brunetta Administrative Director.
- Andrei de Oliveira Rech Legal Director and Director of Environment and Social Action Interim.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

EXECUTIVE BOARD

In December 31, 2018

Sérgio Ricardo Veroneze (Chief Executive Officer (Interim) and Managing Director)

Paulo Alberto Dedavid (Director of Operations and Director of Finance and Investor Relations Interim)

João Martinho Cleto Reis Júnior (Investments Director)

Mario Celso Puglielli da Cunha (Business Director)

Eduardo Ramos Caron Tesserolli (Legal Director)

Fabiana Cristina de Campos (Director of Environment and Social Action)

As of January 2019

(Subsequent Events - Explanatory Note to Financial Statements Note 30)

Claúdio Stabile (Chief Executive Officer)

Joel de Jesus Macedo (Investments Director and Director of Finance and Investor Relations Interim)

Paulo Alberto Dedavid (Director of Operations and Business Director Interim)

Priscila Marchini Brunetta (Managing Director)

Andrei de Oliveira Rech (Legal Director and Director of Environment and Social Action Interim)

BOARD OF DIRECTORS

<u>In December 31, 2018:</u>

Marcia Carla Pereira Ribeiro (President)

Vilson Ribeiro de Andrade

José Roberto Ruiz

Clever Ubiratan Teixeira de Almeida

Francisco Feio Ribeiro Filho

Adriano Cives Seabra

Joel Musman

Sérgio Ricardo Veroneze

Luiz Fernando Borba

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017 (In thousands of Brazilian Reais)

BOARD OF DIRECTORS -- continuation

As of January 2019:

Marcia Carla Pereira Ribeiro (President)

Vilson Ribeiro de Andrade

José Roberto Ruiz

Clever Ubiratan Teixeira de Almeida

Francisco Feio Ribeiro Filho

Adriano Cives Seabra

Joel Musman

Cláudio Stabile

Luiz Fernando Borba

FISCAL COUNCIL

Marcos Venicio Alves Meyer (President)

Caio Marcio Nogueira Soares

Reginaldo Ferreira Alexandre

Paulo Roberto Franceschi

Loriane Leisli Azeredo

ACCOUNTANT

Ozires Kloster

Accounting Manager

Accountant

CRC-PR 030.386/O-8

STATEMENT OF THE OFFICERS

STATEMENT

Through this instrument, the Executive Board of Companhia de Saneamento do Paraná – Sanepar, mixed capital state administration corporation, listed in stock exchange, with headquarters at Rua Engenheiros Rebouças no. 1376, Curitiba – PR, registered in the CNPJ under no. 76.484.013/0001-45, for the purposes of the dispositions of insets V and VI of article 25 of CVM Instruction no. 480/2009, state that:

(I) they have reviewed, discussed and are in agreement with the opinions stated in the audit

report issued by BDO RCS Auditores Independentes with respect to the Sanepar accounting

statements for tax year ended on December 31, 2018; and

(II) they have reviewed, discussed and are in agreement with Sanepar accounting statements

for tax year ended on December 31, 2018.

Curitiba, January 28, 2019.

CLAUDIO STABILE

President

JOEL DE JESUS MACEDO

Investments Director and Director of Finance and Investor Relations Interim

PAULO ALBERTO DEDAVID

Director of Operations and Business Director Interim

PRISCILA MARCHINI BRUNETTA

Managing Director

ANDREI DE OLIVEIRA RECH

Legal Director and Director of Environment and Social Action Interim

SUMMARY OF THE ANNUAL REPORT OF THE STATUTORY AUDIT COMMITTEE

SUMMARY ANNUAL REPORT OF THE STATUTORY AUDIT COMMITTEE - 2018

To the Board of Directors of Companhia de Saneamento do Paraná - SANEPAR:

Introduction

The Statutory Audit Committee (Comitê de Auditoria Estatutário – "CAE") of Companhia de Saneamento do Paraná - SANEPAR was instated at the Extraordinary Meeting of the Board of Directors occurred on May 30, 2017. The composition, discipline and functioning of the CAE are contemplated in its own Internal Regulations, present on the Company's official website. As of August 2018, the CAE served with only 2 members, although its constitution contemplates 4 independent members, according to the statutory amendment made in September 2018, as well as one of them being a member of the Board of Directors. Its members are elected with a term of office of 2 years, allowed to be reappointed for 3 consecutive terms.

The CAE is a statutory advisory body for the Board of Directors, with a permanent and independent role, with the main attributions being the evaluation and follow-up of the processes of preparation and presentation of the Company's financial statements, risk management and internal controls processes, effectiveness of the performance of internal audit and independent auditors. Furthermore, it also gauges the reasonableness of the parameters underlying the calculations and actuarial results of the benefit plans maintained by the Foundations linked to SANEPAR and the monitoring, together with the Management, of the Related-Party Transactions of the Company.

The Management is responsible for the preparation and integrity of financial statements, risk management, maintenance and effectiveness of internal control systems and activities compliance with legal and regulatory standards.

The Internal Audit responds by periodically reviewing and evaluating the controls related to the main risk areas, acting independently in verifying their effectiveness and adequacy of the applicable governance standards.

BDO RCS Independent Auditors is responsible for auditing the Company's annual financial statements and for the special review of its quarterly statements. As an ordinary part of its attributions, it also evaluates the quality and adequacy of internal control systems and compliance with applicable legal and regulatory standards.

Main activities of the CAE in the Financial Year

The CAE held several formal meetings with the Company's Directors, with the Foundations Directors, with related company CS Bioenergia, with Fiscal Council members and with the Independent Auditors.

These meetings dealt in particular with issues related to the preparation and disclosure of financial statements and their corporate and tax-related developments, risk management and internal controls and transactions involving related parties.

In the dialogues of the CAE Members with the internal auditors, external auditors and risk managers, their work plans were evaluated and their results, conclusions and recommendations were known. In particular, the 2018 financial year was characterized by a broad reformulation in the scope, work methodology and team dimensioning in the areas of Internal Audit and Risk Management.

Conclusions

The opinions and judgments of the CAE rest on the data and information submitted to it by the Company's Management (especially in the Accounting, Legal, Risk Management and Internal Audit areas), its related company CS Bioenergia, the Foundations involved in meeting the benefits to its employees and the External Audit.

Regarding the External Audit, the CAE did not identify any situation that could affect its independence and objectivity in relation to SANEPAR, nor was it aware of any significant technical differences between Management, the Independent Auditors and the CAE itself.

Regarding the structure of internal controls and risk management, the CAE considers that there is satisfactory coverage considering the size and complexity of the Company's business, although improvements are required in critical issues inherent to the provision of services that are the object of its activity.

Regarding Internal Audit, the results of its performance in the course of 2018 did not reveal significant deviations or failures in the procedures related to the effectiveness of the internal controls adopted by the Company, as well as adherence to the policies and practices established by the Administration and in compliance of rules and regulations applicable to its activity.

The CAE considers that all relevant matters pertinent to its performance were appropriately covered in its diligences and discussions with the Company's Management, which allows it to conclude that they were adequately disclosed in the financial statements related to the fiscal year ended December 31, 2018, together with the independent auditors' unrestricted report. It therefore recommends to the Board of Directors the approval of these audited financial statements.

Curitiba, February 4, 2019.

Marcos Roberto Granado Chairman Artemio Bertholini Member

FISCAL COUNCIL OPINION

FISCAL COUNCIL OPINION

The Fiscal Council members of Companhia de Saneamento do Paraná - SANEPAR, within their legal duties and responsibilities, performed the examinations of the Management Report, the Financial Statements and Proposal for the allocation of the net Income referring to the fiscal year ended on December 31, 2018. Based on these examinations, considering also the unrestricted "Report" of the Independent Auditor, "BDO RCS Auditores Independentes SS", dated January 28, 2019, as well as the information and clarifications received during the year, opine that these documents are ready for being appraised by the General Shareholders' Meeting.

Curitiba, February 5, 2019.

MARCOS VENICIO ALVES MEYER Chairman

CAIO MARCIO NOGUEIRA SOARES Member

LORIANE LEISLI AZEREDO Member

REGINALDO FERREIRA ALEXANDRE Member

PAULO ROBERTO FRANCESCHI Member

INVESTMENT PROGRAM

INVESTMENT PROGRAM

In complying with CVM Instruction no. 480 of December 07, 2009, we hereby inform the Investment Program for the years of 2019 to 2023 of **Companhia de Saneamento do Paraná** – **Sanepar**, approved at the 20th Special Meeting of the Administration Council, held on December 11st, 2018.

The Investment Program for the years of 2019 to 2023, addresses a total amount of BRL 7,120.5 million (**2019** – BRL 1,212.3 million, **2020** – BRL 1,565.9 million, **2021** – BRL 1,498.4 million, **2022** – BRL 1,510.8 million and **2023** – BRL 1,333.1 million).

The additional investments, in relation to the investment program approved in the Periodic Tariff Rewiew, were forwarded to the Regulatory Agency whit the purpose of recognition in the Regulatory Assets Base.

The Investment Program encompasses company resources and resources obtained through financing.