COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP
Form 6-K
April 29, 2014

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 OF THE SECURITIES EXCHANGE ACT OF 1934

For April 14, 2014
(Commission File No. 1-31317)

Companhia de Saneamento Básico do Estado de São Paulo - SABESP
(Exact name of registrant as specified in its charter)

Basic Sanitation Company of the State of Sao Paulo - SABESP
(Translation of Registrant's name into English)

Rua Costa Carvalho, 300
São Paulo, S.P., 05429-900
Federative Republic of Brazil
(Address of Registrant's principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F ______
Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1)__.
Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7)__.
Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ______ No ___X___

If "Yes" is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b):

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Financial Statements as of and for the years ended

December 31, 2013 and 2012

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(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT

To the Shareholders, Board of Directors and Management of

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

São Paulo - SP

We have audited the financial statements of Companhia de Saneamento Básico do Estado de São Paulo - SABESP (the "Company") which comprise the balance sheet as of December 31, 2013, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board - IASB, and in accordance with accounting practices adopted in Brazil, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the financial statements

In our opinion, the financial statements present fairly, in all material respects, the financial position of Companhia de Saneamento Básico do Estado de São Paulo - SABESP as of December 31, 2013, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board - IASB and accounting practices adopted in Brazil.

Emphasis of matter

Restatement of corresponding amounts

As mentioned in Note 4.1, as a result of the change in the accounting practices as of January 1, 2013 relating to employee benefits, in compliance with CPC 33(R1) and IAS 19(R) - Employee Benefits, and the change in the accounting policy relating to the recording of jointly-owned businesses, in accordance with CPC 19 (R2) and IFRS 11 - Joint Arrangements, the corresponding amounts recorded in the statement of financial position as of January 1, 2012 and December 31, 2012 and the corresponding statements of income, comprehensive income, changes in equity, cash flows and value added (supplemental information) for the year ended December 31, 2012, presented for comparison purposes, were adjusted and are being restated as set forth in CPC 23 and IAS 8 - Accounting Policies, Changes in Estimates and Correction of Error and CPC 26 (R1) and IAS 1 - Presentation of Financial Statements. Our opinion is not modified with respect to this matter.

Other matters

Statements of value added

We have also audited the statements of value added (DVA) for the year ended December 31, 2013, prepared under the responsibility of the Company's management, the presentation of which is required by the Brazilian corporate law for public companies and considered as supplemental information for International Financial Reporting Standards - IFRS, which do not require the presentation of DVA. These statements were subject to the same audit procedures described above, and, in our opinion, present fairly, in all material respects, consistently with the financial statements taken as a whole.

Audit of corresponding amounts as of January 1, 2012

The corresponding amounts as of January 1, 2012, presented for comparison purposes, which were restated in connection with changes in accounting practices, were audited by other independent auditors, whose report, without qualification, was issued and dated May 9, 2013.

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

São Paulo, March 27, 2014

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Délio Rocha Leite
Engagement Partner

MEssage from the ceo

There can be no talk of health improvement, citizen well-being and urban development without access to quality water and sewage collection and treatment. In 2013, when the Company could look back on four decades of history, Sabesp also celebrated a track record of effort in the supply of water and sewage collection and treatment in 363 municipalities in São Paulo State.

An immediate result of our work is that many rivers have fish again and, in 2014, all seats of municipalities operated in inland will have universal access to water. Then, the coast and Greater São Paulo, by the end of the decade, will have 100% of treated water, at least, 95% of sewage collection and 100% of collected sewage treatment. We know that this is an ambitious, but absolutely necessary – not to say urgent – goal to be achieved and also know that lots of planning, structured programs, quality and efficient services, cutting-edge engineering resources, and transparent governance will be required.

With this target in mind, in 2013 we invested R$2.7 billion, a level similar to that of the past five years and expected to be repeated over the next years. Sewage collection and treatment in the State reached average levels of 84% and 78%, respectively. Besides the advances towards the universalization in inland, in the city capital, we made progress in stream cleanup activities and moved forward with the execution of Tietê River Depollution Project. In those cities encompassed by Santos coast region (“Baixada Santista”) and São Paulo State’s northern coast, we initiated the supplementary phase of the “Onda Limpa” (Clean Wave) Program, the major sanitation action underway in the Brazilian coast.

Regarding water supply – one of our biggest challenges, since we operate in the São Paulo Metropolitan Region (“RMSP”), where the availability of water resources is very low, the great news is that a public-private partnership (“PPP”) for São Lourenço Producing System was made. In addition, from 1995 to 2013, Sabesp invested R$9.3 billion to increase the São Paulo Metropolitan Region’s capacity of production, reservation, distribution and water loss reduction.

Combined with huge works and investments, carrying out public awareness campaigns for rational water use is still needed. We experienced extreme climate phenomena in the 2013-2014 Summer, never recorded in our recent history. The pluviometric indexes at the Cantareira System, the most important reservoir serving the São Paulo Metropolitan Region

(RMSP), came below the historic average between October 2013 and February 2014. In December, an index 72% lower than the average was recorded. Accordingly, in January and February it rained approximately 65% less than usually rains. The drought period combined with high records at thermometers resulted in the historical drop in the Cantareira System's level. The population's immediate answer by reducing consumption was a determining factor among the actions to maintain the water delivery.

By the way, being close to society is one of our priorities. In 2013, together with our officers, I visited 17 business units distributed throughout the State of São Paulo for accountability roadshows held with mayors and media relations of the municipalities serviced.

As for the market, we were assigned the investment grade by Moody´s credit rating agency and, institutionally, we keep striving for the exemption of PIS/COFINS (taxes on water services revenue) collection. In the case of Sabesp, such taxes totaled R$669.2 million, or 24.6% of our investments in 2013.

In the management field, modernity and transparency were ensured with enabling technology. Examples include the implementation of integrated information system SiiS, besides the adoption of new contracting models, such as public-private partnerships and lease of assets. 2013 was a year of excellent results, which, for Sabesp, means development and lives transformed with access to quality water and a healthier environment for population today and future generations.

Dilma Pena

Sabesp’s Chief Executive Officer

40 YEARS SERVING PEOPLE AND the ENVIRONMENT

Founded in 1973, from the merger of different sanitation companies and under the guidelines of the National Sanitation Plan (Planasa), Companhia de Saneamento Básico do Estado de São Paulo has as its vision to provide universal access[1] to sanitation services in the area it operates by the end of the decade. Also, in accordance with the sustainable development principles and aligned with the environmental, social and economic policies of São Paulo State

Government, its controlling shareholder, Sabesp has as its mission "to provide public sanitation services, contributing to improve quality of life and the environment".

As a mixed-capital corporation headquartered in the municipality of São Paulo, the city capital of São Paulo State, Brazil, Sabesp is governed by public and private Law standards and principles.

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[1] We define “universal access” as: 100% of water supply, 95% of collection, and 100% of collected sewage treatment.

Today, we are the largest sanitation company of the Americas and the fifth largest of the world in terms of population served, as ranked by the 14th edition (2012-2013) of the Pinsent Masons Water Yearbook. We operate water and sewage services in São Paulo State, including in the city of São Paulo. In the year ended December 31, 2013, we posted a net revenue of approximately R$11.3 billion and a net income of R$1.9 billion. Our assets totaled R$28.2 billion and our market cap was R$18.1 billion at December 31, 2013.

We supply water to 28.1 million people (24.6 million directly and 3.5 million served at the wholesale) and collect the sewage generated by 21.5 million people. Sabesp's services cover approximately 67% of the urban population of the State of São Paulo.

Our structure is divided into five divisions, in addition to the CEO, two of which are operational accommodating 17 business units throughout the State. We operated 232 water treatment plants and 509 sewage treatment stations, including 9 submarine outfalls. Our water distribution network reaches 69.6 thousand kilometers while the sewage, 47.1 thousand kilometers. The Company currently has 15,015 employees, whose total productivity was 948 connections per employee in 2013.

The Company operates in 363 municipalities of the State of São Paulo, 204 of which have water and sewage universalized services. In addition, we have two partial contracts with the municipality of Mogi das Cruzes. However, as most of the city is supplied water by wholesale, it was not considered among the 363 municipalities, thus totaling 365 contracts.

Between January 1, 2007, when the new Regulatory Framework (Law 11445/07) was issued, and December 31, 2013, we entered into contracts to provide services for an additional 30 years with 265 municipalities (including the city of São Paulo), 7 of which executed in 2013.

At December 31, 2013, these 265 municipalities accounted for approximately 72.9% of the Company´s total revenue, including construction revenue, and 64.61% of intangible assets. Also, the Company continues to operate in the 61 municipalities for which the contracts have expired and negotiate the new base for its continuity.

From January 1, 2014 to 2034, 37 municipalities will have their contracts expired. Together, they account for 8.98% of the Company´s total revenue, including construction revenue, and around 7.99% of intangible assets. For these cases, Sabesp will also make all efforts needed to renew the concession contracts for, at least, other 30 years.

In addition, through December 31, 2013, the Company supplied water in a wholesale basis to other six municipalities located in São Paulo Metropolitan Region (RMSP), of which five municipalities also used sewage treatment services. It is worth mentioning that Diadema was among these municipalities with which we signed a contract on March 18, 2014 to provide water treatment and distribution and sewage collection and treatment services. Further information can be found in the Debt of Municipalities Served in Wholesale section.

In other three municipalities of the State of São Paulo, Sabesp is a partner in Águas de Castilho S.A., Águas de Andradina S.A. and Saneaqua Mairinque S.A. that provide water and sewage services and, in the municipality of Mogi Mirim (SP), also as a partner, in SESAMM – Serviços de Saneamento de Mogi Mirim S.A., for modernization, implementation and management of the sewage treatment system. It is worth mentioning that there were no capital contributions to the associated companies in 2013.

In the reuse water segment, Sabesp is also a partner of Odebrecht Ambiental in Aquapolo Ambiental to produce, provide and sell the product to the Capuava Petrochemical Complex and, in the non-household effluent segment, the Company created, together with Estre Ambiental, Attend Ambiental, whose operations are expected to begin in the first half of 2014, for implementation and operation of the pre-treatment station of non-household effluents and disposal of sludge in the São Paulo Metropolitan Region, amongst other activities.

In partnership with Latin Consult, the Company also provides advisory services on the rational water use, planning and commercial, financial and operating management, focused on the water losses in the central districts in Panamá and, in Honduras, the Company provides technical support for the modernization of the water and sewage system in seven cities.

In addition, the Company provides advisory services in two state water and sewage concessionaires, Casal and Cesan, in the States of Alagoas and Espírito Santo, respectively. In the City of Maceió, since the beginning of its operations, after the implementation of the new measurement system, the Company decreased total water losses by 20%. In more critical stretches, the Company decreased water losses by up to 50%, eliminated the supply intermittence, reduced the impact of water tank trucks and increased, therefore, the life quality of approximately 200 thousand people. The agreement is expected to expire in October 2014. In Cesan, the Company's work, concluded in February 2014, comprised the implementation and customization of the Aqualog software, developed and owned by Sabesp, in the City of Nova Venécia, in the State of Espírito Santo.

The Company is qualified to provide drainage and urban cleaning services, handle solid waste, sell power and perform other services, provide products and grant benefits and right that directly or indirectly result from its assets, operations and activities, in Brazil or abroad.

The Company's shares – all common voting shares – are traded at the Securities, Commodities and Futures Exchange of São Paulo (BM&FBovespa) under the code SBSP3 and at New York Stock Exchange (Nyse), as American Depositary Receipts (ADR Level III), under the code SBS.

Business Context

The new regulatory requirements of the sanitation sector, although understood and partially implemented by the Company, still represent significant challenges, taking into consideration the territory and cultural extension and diversity, social purposes, and multiple and complex interfaces arising from Sabesp's activities, in addition to strict controls and inspections to which the Company is subject.

Sabesp is not able to determine all effects and impacts from the adoption of Law 11445/07 and regulatory standards on its businesses due to the uncertainties related to their implementation and the effects from the recent decision issued by the Supreme Federal Court (STF), which shared the jurisdiction over the services provided in metropolitan regions between the States and Municipalities with public functions of common interest.

The new regulatory framework also allowed the municipalities to create the regulatory entities, such as the ARES/PCJ consortium comprised of municipalities located in the basin of the Piracicaba, Capivari and Jundiaí rivers in 2011. As a result, the Company is currently a party to claims initiated by such consortium that alleges jurisdiction over the regulation and oversight of the Company's activities in two municipalities: Piracaia and Mombuca. The Company cannot estimate the final outcome of this claim or how it may impact its businesses.

Arsesp Regulatory Standards

In 2013, in addition to resolve on the Sabesp's restructuring and tariff revision, Arsesp also enacted procedures for notification of scheduled downtimes.

The implementation processes of these and other standards already enacted by the Agency maintain, on a gradual and progressive basis, and may continue in the next years, resulting and impacting specially the commercial and operating areas, also including claims. In 2013, the Agency's inspection over the water supply and sewage services provided in the municipalities did not impose relevant fines against the Company.

Tariffs

In 2013, the tariff revision process continued. However, the complexity of the matter and the lack of necessary quorum to resolve the issues by the ARSESP's Executive Board, among other factors, impacted the work flow and the tariff revision process has not been concluded.

Based on the preliminary asset base, in March, ARSESP established for the second tariff cycle, initiated in August 2012, the value of the initial maximum average tariff (P0) to R\$2.5312/m^3, resulting in the tariff repositioning index of 2.3509% compared to the tariffs practiced, which was applied by SABESP in April 2013.

Over the year, the regulatory asset base continued to be discussed (included in the agenda) between Sabesp and the regulatory agency. The Agency alleged few inconsistencies provided by the Company and requested clarifications on 19 aspects, which was provided by SABESP in December.

In addition, in December, the adjustment of 3.1451% was applied in the tariffs on a straight-line basis, which, firstly considered the inflation measured by IPCA from August 2012 to July 2013, of 6.2707%. Based on this rate, Arsesp deducted the Efficiency Factor (X Factor) for the period, of 0.4297%, resulting in the adjustment of 5.8410%. In addition, Arsesp estimated the Company's gain at the rate of 2.3509%, effective beginning April of this year, plus additional discount of 0.9249% in the indicator. On the other hand, Arsesp also estimated

Sabesp's losses due to the delayed IPCA replacement, of 0.6538%, and included the estimate.

On February 11, 2014, ARSESP submitted its proposal for public consultation by means of the Technical Note RTS/001/2014, setting for March 19, 2014, the deadline to send contributions and opinions. In referred Note, ARSESP determined the Final Tariff Level, which defined the Final P0 referenced to December 2012, including the definitive initial Net Regulatory Remuneration Basis. Due to the changes on the dates to conclude the calculation of Final P0, ARSESP also deemed necessary to make retroactive compensatory adjustments to required revenue, as well as it made adjustments to the calculation of X Factor in order to determine the maximum price (P1), reaching a straight-line adjustment of 4.6607% to be applied over tariffs of services rendered as of April 11, 2014 with billing as of May 11, 2014, presenting them in Public Hearing held on March 12, 2014. Sabesp still waits until April 10 to Arsesp publish the final results.

Transfer of Legal Charge to Customers

As set forth by the municipal legislation in the cooperation agreement and in the program contract entered into with São Paulo municipal government, Sabesp has transferred, since the agreement was signed, in June 2010, 7.5% of the revenue derived from the services provided in São Paulo city, net of COFINS, PASEP and the municipality´s own default, to the Municipal Fund for Environmental Sanitation and Infrastructure. However, as established by ARSESP Resolution 413/13, the transfer of such municipal charge to customers residing in the municipality of São Paulo was postponed due to a request of the São Paulo State Government to carry out studies to reduce this measure’s impact on users, among other factors.

Supervison fees

By the time passing the legal charge on to the customer was authorized, Arsesp also resolved on the transfer to the customer, of a regulation and supervision fee of 0.5% of the revenue derived from services provided in the regulated municipalities, net of COFINS and PASEP. The application of this fee depends on adaptations being made in internal processes, especially the financial and commercial ones, which is scheduled to be completed over 2014.

Strategy and Vision for the Future

Universalizing the sewage services through the end of decade, supplying quality water and sewage collection and treatment to the Company's operating area, is a goal that became possible due to the execution of a series of structuring programs and significant investments, always guided by long-term planning, employees' qualification, leadership consolidation and adoption of the most modern engineering resources provided in the market.

This strategy may prevail in the next years, ensuring the business expansion based on secured water supply, expansion of sewage collection and treatment and customers' satisfaction, resulting in higher social and environmental sustainability and health and life quality to the users of our services.

The expected excellence is supported by the management in accordance with the laws and standards in the sector, by qualifying the Company's employees without accepting, however, corruption acts.

Due to the dependence on such essential natural recourse for preservation of life and maintenance of its business, the Company is directly interested in water preservation. And the Company intends to continue its action by improving the programs against water loss in the supply network, increasing the efficiency of its use by large consumers – as companies and public bodies – and ensuring continuous and comprehensive campaigns for rational water use.

The study and implementation of technologies directed to the social and environmental sustainability is another aspect to be further considered with the search for new power sources, such as the researches carried out to use the gas from the ETEs and the sustainable disposal of waste from the Company’s operations.

The Public-Private Partnerships (PPPs) and the implementation of new plants through leased assets (the model selected for the construction of three ETEs and three ETAs) are partnership models to be improved in order to reduce construction time, strengthen our Capex capacity and exchange technology information between stakeholders.

The opening of relationship channels with the communities, suppliers and users and the increasing participation of the communities with our businesses are also Company's concerns today and always. This partnership is essential for the rational use of natural resources and fight against environmental pollution. In this regard, the executive power partnership is important in the inspection of irregular areas occupied, mainly the environmental protection areas in the surroundings of the springs and riverheads.

The Company is aware of the challenges; however, the developments over these 40 years confirm that the Company is on the right path.

Analysis of Goals

In 2013, Sabesp had results aligned with its strategic planning.

The 226.4 thousand new water connections were aligned with the vegetative growth of the areas served by the Company and its business and, better than in 2012 (221.8 thousand), totaled, in 2013, the greatest milestone since 2000, which means the maintenance of the supply universal services in the areas where Sabesp operates.

The expansion of the sewage collection and treatment maintained the growth and the results were aligned with the expectations. The Company performed 236.6 thousand new sewage connections in 2013, the third highest record of new sewage connections since 2000. These connections were performed under the “Se Liga na Rede” (Connect to the Network) Program, which was developed by the São Paulo State Government in partnership with Sabesp to stimulate the connection to the public sewage collection network of low-income households, located in areas of significant poverty and high social vulnerability. The Company reached the rate of 78% of sewage collection treatment, mainly due to the intervention in Córrego Ipiranga, actions of the “Córrego Limpo” Program (Clean Stream Program) and sewage system construction in Campo Limpo - Várzea and Bragança Paulista.

In 2013, the revenue water loss index decreased compared to 2012, and ended the year at the rate of 24.4%, which reflects the actions of one of the Company's main initiatives, the Corporate Program for Reduction of Water Losses, which comprises actions for network maintenance (repair of network leakages, inspection of illegal and idle connections), asset renewal (replacement of pipelines, branches and water meters) and management of existing infrastructure (pressure management, with implementation of segment by sectors).

Since the beginning of the program, in 2009, through the end of 2013, the total water volume saved by the reduction of physical losses (also called real water losses) amounted to 29.4 million cubic meters.

An agreement of approximately R$750 million entered into with the Japan International Cooperation Agency (JICA) in early 2012, boosted investments in reduction of water losses and contributed to reinforce actions in the last quarter of 2013, besides ensuring the execution of work during 2014. Since the program was launched, Sabesp already invested R$1.5 billion in this project, including R$424 million in 2013.

Achievements in 2013 and Targets for 2013-2020

	Achieved	Targets					
	2013	2013	2014	2015	2016	2017	2020
Water supply (1)		Trend to universal access					
Sewage collection (%)	84	84	85	86	87	88	95
Collected sewage treatment (%)	78	78	78	81	86	90	95
New water connections (thousand)	226.4	200(4)	180	177	172	164	480(2)
New sewage connections (3) (thousand)	236.6	241(4)	235	246	243	243	685(2)
Water losses (%)	24.4	25.4	24.0	23.4	22.2	21.2	18.1

(1) 99% and above

(2) Accumulated target 2018/2020

(3) Total sewage connections, including those made under the scope of "Se Liga na Rede" (Connect to the Network) program

(4) Targets of the Profit Sharing Plan approved on March 28, 2013.

Some of these operating indicators comprised the Company’s Profit Sharing Program that, together with economic and financial ratios and customer's satisfaction indicators, regulates the granting of salary bonus according to the performance in relation to the goals established. The Company fully met five out of the seven goals (see table below).

In relation to its customers, the Company maintained the rate of 89% of customers' satisfaction, and most of the customers interviewed declared to be satisfied or very satisfied with the services provided by the Company.

The goal of new sewage connection under the "Se Liga na Rede" Program was not met because the connections took more time than estimated, as these connections depend on the customers' adhesion to the program and the Company's adjustments to the customers' houses, which is an innovative service provided by the Company. The Company's Adjusted EBITDA Margin reached the good performance of 35.4%.

2013 Summary of targets

Indicators	Unit	Target	Achieved
Adjusted EBITDA margin (1)	%	33.5	35.4
Customer satisfaction	%	91	89
Number of new water connections	thousand un	200	226
Number of new sewage connections (conventional)	thousand un	220	221.5
Number of new sewage connections ("Se Liga na Rede" program)	thousand un	20.6	15.2
Revenue Water losses	%	25.4	24.4
Collected sewage treatment	%	78	78

(1) Adjusted EBITDA corresponds to the net income before: (i) depreciation and amortization expenses; (ii) income tax and social contribution (federal income taxes); (iii) financial result and (iv) other net operating expenses

Key Indicators

Indicators	Unit	2013	2012	2011	2010	2009
		Services				
Percentage of population with water connections		Trend to universal access (1)				
Percentage of population with sewer connections	%	84	83	82	81	80
Percentage of treated sewer (2)	%	78	77	76	75	74
Resident population served by water supply	thousand inhabitants	24,560	24,249	23,911	23,625	23,363
Resident population served by sewage collection	thousand inhabitants	21,483	20,992	20,498	20,024	19,600
Positive customer satisfaction perception (3)	%	89	89	92	89	76
		Operational				
Water connections	thousands	7,888	7,679	7,481	7,295	7,118
Sewage connections	thousand	6,340	6,128	5,921	5,718	5,520
Water network extension (4)	km	69,619	67,647	66,389	65,379	63,732
Sewage network extension (4)	km	47,103	45,778	45,073	44,279	42,896
Water losses (5)	%	24.4	25.7	25.6	26	25.9
Water losses per connection (6)	liters per connection / day	372	392	395	403	402
Water produced volume	millions m^3	3,053	3,059	2,992	2,952	2,845
Number of employees (7)	un	15,015	15,019	14,896	15,330	15,103
Operating productivity	connections/ employee	948	919	900	849	837
		Financial				
Gross revenue	R$ million	**11,984.8**	11,391.2	10,529.7	9,785.9	9,085.2
Net revenue	R$ million	**11,315.6**	10,737.6	9,927.4	9,230.4	8,579.5
Adjusted EBITDA (8)	R$ million	**4,006.6**	3,605.0	3,371.0	3,222.5	2,727.3
Adjusted EBITDA margin	% of net revenue	**35.4**	33.6	34.0	34.9	31.8
Adjusted EBITDA margin without construction costs and revenues	% of net revenue	**44.6**	43.0	43.2	44.7	41.2
Operating income (9)	R$ million	**3,138.8**	2,843.3	2,512.0	2,672.1	2,120.6
Operating margin (9)	% of net revenue	**27.7**	26.5	25.3	28.9	24.7
Income (net income/loss)	R$ million	**1,923.6**	1,911.9	1,380.9	1,630.4	1,507.7

Net margin	% of net revenue	**17.0**	17.8	13.9	17.7	17.6
Net debt to Adjusted EBITDA	Multiple	**1.9**	1.9	1.8	1.9	2.1
Net debt to equity (10)	%	**58.3**	60.9	58.4	62.6	67.0
Investment **(11)**	R$ million	**2,716.0**	2,535.6	2,440.2	2,194.4	2,058.8

(1) 99% and above.

(2) Due to the method used, there may be a margin variance of 2 percentage points up and down

(3) Survey conducted in 2013 by DatamÃ©trica Consultoria, Pesquisa e Telemarketing Ltda. (5,850 interviews in the entire operating basis, with a 1.3% margin of error and a confidence interval of 95%).

(4) Includes water mains, trunk collects, interceptors and outfalls.

(5) Includes physical and non-physical losses. The percentage of water loss is represented by the ratio resulting from (i) the difference between (a) the total water volume produced, (b) the total water volume billed to customers, and (c) total water volume produced (after deduction of certain non-physical water losses specified below) divided by the total water volume produced. The following is excluded from our calculation of water losses: (i) the water used to perform periodic maintenance of water mains and water reservoirs; (ii) the water supplied to municipalities, such as, for example, to extinguish fires; (iii) the water used by our units; and (iv) estimated water losses associated with the water supplied to shantytowns.

(6) Calculated by dividing (i) the annual average of water losses by (ii) the average number of connections of active water multiplied by the number of days of the year

(7) Number of own employees. Does not include employees assigned to other entities.

(8) The Adjusted EBITDA corresponds to net income before: (i) depreciation and amortization expenses; (ii) income tax and social contribution (federal taxes on income); (iii) financial result and (iv) other net operating expenses.

(9) Excludes finance income and expenses.

(10) Net debt includes deduction of cash and cash equivalents, interest rates and borrowing charges and domestic and foreign credit facilities.

(11) Excludes financial commitments assumed in the program contracts (R$18 million, R$63 million, R$139 million, R$155 million and R$65 million, in 2009, 2010, 2011, 2012 and 2013, respectively).

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MANAGEMENT ORIENTED BY SECTOR’S increasingly demands

The utilization of the most modern engineering resources, the long-term planning, large investments in structuring programs and the valuation of research and innovation positions Sabesp as a benchmark in the sector. The approaching standpoint and the opening of channels for dialogue with stakeholders (customers, suppliers, investors, governments and community) compose another pillar of our strategy of an integrated performance with different approaching actions and strengthening of partnerships with society.

The comprehensive and transparent relationship with the community, the respect and confidence directed to its employees and partners, and the social and environmental actions, which is its core concern, contributed to consolidate the Company’s business and its position as one of the largest sewage companies in the world in terms of customers served (further details about the relationship actions in the section: Valuing the Life Quality and Citizen’s Rights).

The ethical values that guide Sabesp’s actions in the relationship with its targets are set forth in its Code of Ethics. Its compliance is monitored by the Committee of Ethics, which is supported by tools such as the Whistle-blowing Channel, which also receives anonymous complaints, Business Procedure for Determining of Liabilities, Ombudsman and Customer Care. In 2013, the Company recorded 105 complaints, of which 62% was resolved and 38% has been analyzed. Out of total, 25% relates to improper behavior, such as harassment, discrimination, persecution and unfair treatment. For the claims accepted, 25 own or outsourced employees were notified (5 warnings, 2 suspensions and 18 dismissals).

Anticorruption practices

In addition of being subject to the Brazilian Anticorruption Law, due to its assets listed in New York Stock Exchange, Sabesp also complies with the provisions set forth in the Foreign Corrupt Practices Act (FCPA), similar law effective in the United States since 1977.

Sabesp is committed to perform its business on a legal, ethical, transparent and professional basis, extended to its employees and third parties representing the Company the obligation to understand, accept and perform these guidelines, as well as implementing preventive systems and internal integrity procedures, such as revision of the Code of Ethics, management and technical staff training, revision of internal processes and improvement of communication and whistle-blowing channels to avoid corruption acts in the development of its businesses.

In order to avoid irregularities, in 2013, the Company evaluated the corruption and corporate fraud risks of 61 significant work processes, which comprise the activities of the most representative Business Units. In addition, the Company disclosed its ethical values through lectures and attending and virtual trainings to approximately 1,200 employees in charge of lead positions.

Corporate Governance

Sabesp is a mixed-capital company controlled by São Paulo State Government, which holds a 50.3% stake. As December 31, 2013, out of the remaining stock, 25.5% was traded on the BM&FBovespa (São Paulo Stock Exchange) and 24.2% on the New York Stock Exchange under American Depositary Receipts (Level III ADRs). For BM&FBovespa, the number of shareholders was 5,646.

The Company’s highest governing body is the Shareholders’ Meeting. It is incumbent upon the Shareholders’ Meeting, among others, to elect or remove Board of Directors’ members and Fiscal Committee members, set management compensation and approve dividends.

Currently, the Company’s Board of Directors is comprised of nine members for two-year mandate, reelection being permitted, of which four are independent members, according to BM&FBovespa Novo Mercado rules. One of the members was elected by minority shareholders.

Except for the CEO, the Board of Directors is not comprised of executive officers, and the CEO cannot be the Board of Directors' Chairman. Since March 2013, when Mr. João Paulo Tavares Papa held the position of Technology, Development and Environment Executive Officer and replaced Mr. João Baptista Comparini, the Company’s Executive Board was not changed.

For further information on the Company’s corporate governance structure and its operations, see section “Corporate Governance”, under Investors Relation area, at the Company’s website: www.sabesp.com.br/investidores.

In 2013, management compensation, including benefits, amounted to approximately R$3.4 million. This amount is added by approximately R$565.7 thousand relating to executive officers’ variable compensation; the variable compensation is not applicable to directors and Fiscal Committee members, as prescribed by State Decree 58265/12 and approved at the Shareholders’ Meeting held in April 2013.

As required by the Brazilian Corporation Law, the compensation paid to the Board of Directors´ members, the Fiscal Committee members and executive officers is set, as a whole, by the Shareholders´ Meeting. In Sabesp, the policy relating to the compensation of board members and executive officers is established according to the guidelines of São Paulo government mainly based on performance, always subject to the approval of the Shareholders’ Meeting.

External Audit

Sabesp complies with the principles of independence with respect to services provided by the external auditor, namely: an auditor cannot audit his or her own work; an auditor cannot function in the role of management, and an auditor cannot serve in an advocacy role for his or her client. Deloitte Touche Tohmatsu Auditores Independentes is the auditor for Sabesp since the review of the quarterly financial information as at September 30, 2012. In this period, it has audited financial statements, review of the quarterly information and financing projects. In 2013, the fees paid for these services by Sabesp totaled R$1.4 million, of which 56.6% corresponds to the audit of the financial statements.

Deloitte Brasil Auditores Independentes has been the auditor for SESAMM since August 2012.

The auditors have not provided any non-audit services to these companies since they were engaged.

Access to Sabesp's Information by Citizens

In accordance with the principle of business transparency and as set forth in Federal Law 12527/2011 and State Decree 58052/2012, Sabesp provides the Citizenship Information Service (SIC), which is a channel whereby the citizenship may have access to public body information.

The Company's minimum information, under applicable legislation, is available at the Company's website (www.sabesp.com.br), under SIC link, in the top menu, as well as the channel for requesting other information by citizenships. In addition to the website, the citizenship can also attend to Rua Costa Carvalho, 300.

In 2013, 390 requests for information was responded through telephone call and internet. Over the same period, 10 claims were initiated, at first and second instance of administrative bodies by the citizens pleading for supplementary information and clarifications, which were fully resolved.

Efficiency, Transparency and Commitment

In 2013, the Company significantly improved the efficiency of its internal processes and implemented the Enterprise Resource Planning (ERP), the integrated business information system comprised of SAP system and commercial and customer relation software, manufactured by Engineering. The project, denominated SIiS (Sabesp's Integrated Information System), will begin operations in 2014, by offering greater reliability and accuracy in the decision-making process in the financial and commercial areas and in the context of the corporate governance. It will be possible upon provision of integrated and consolidated information in real time.

Another competitive advantage is the change in the organizational culture to be implemented by the employees due to the necessary changes in current processes, according to the best market practices. Therefore, in mid-2013, the staff comprised of approximately 150 professional, including all Sabesp's areas, was allocated for the project development.

The project also includes the necessary actions to prepare Sabesp to operate in this new environment. Accordingly, all current procedures are being revised and adjusted, and approximately 15,000 Sabesp’s employees will be trained, by sharing the information prepared by the staff allocated to the project. The Company also created the Agents of Change, which is a group comprised of 300 employees of all units, in order to disclose the new processes to the Company's other employees.

In 2013, Sabesp also started the 3rd stage of implementing the GVA – Added Value Management, destined to the consolidation of this management system at the Metropolitan Region and Regional Systems Executive Boards, besides starting its expansion to the Technology, Financial, Corporate and Presidency executive boards. With the assimilation of GVA at various levels of the organization, by establishing common metrics for strategic objectives, evaluation of results and stimulus to performance, the consolidation of a culture that creates value to businesses and improves the decision-making quality at all the Company's levels is sought- from strategic levels to operational management, from conception and execution of large projects.

Research and Innovation

In 2013, the Company invested R$6.4 million in research, development and innovation projects, and maintained the resources to the projects performed with the Research Support Foundation of the State of São Paulo (Fapesp). These studies cover Sabesp's main research lines: new treatment alternatives, disposal and use of sludge from ETAs (water treatment station) and ETEs (sewage treatment stations), water quality monitoring; new technologies for implementation, operation and maintenance of water distribution and sewage collection systems; and power efficiency.

In addition, the Company was classified in the most important innovation category by the Brazilian Innovation Agency (FINEP) for the "Sabesp – Tehcnological Innovations for the Sewage Sector" project, which includes the reused water production system, vacuum sewage collection system, bio filtration of the gas generated in the sewage treatment to control smells and sewage sludge drying by irradiation. In early 2014, another proposal was included in the project: the gasification system through solid waste plasma from sewage treatment stations. The project requests the financing of approximately R$90 million.

The use of the gas generated from the sewage treatment is another action to reduce the greenhouse emissions and waste volume disposed in the landfills. In this regard, the Company continues with the biogas production project resulting from the sewage treatment in the ETE in Franca for supply of 49 cars. The project, in partnership with Fraunhofer Institute (Germany), was expected to begin its activities in the second six-month period of 2012. However, the negotiations between the Brazilian Government and German Government for provision of equipment delayed the project. Anyway, the Company established the new goal to start the production in 2014.

Also in 2013, Sabesp performed technological prospect studies in terms of relevance for research and development. As an innovation in the sewage sector in South America, such research allows the identification of promising technologies, as well as indicates new businesses and partnerships. Some of the matters discussed included the removal of specific algae that changes the water taste and smell, desalination, new technologies for reduction of sludge volume, removal of nutrients from sewage system and technologies for environmental adjustment of effluents of stabilization lagoons.

In the intellectual property right protection area, the Company is a party to six patenting claims, one letter of patent issued and 14 software registered with the Brazilian Institute of Industrial Property (INPI). One of the patents addresses the development of the washing device for water reservoirs, which will reduce by up to 90% the water volume used in these operations, in addition to significantly decrease the time. Sabesp also operates actively in the ABNT's study commissions for preparation of Technical Standards.

New businesses and environmental solutions

In the search for solutions that optimize its production processes and collaborate with the preservation of natural resources, in addition to the research and innovation lines, Sabesp seeks to continuously develop other markets and services not related specifically to water supply and sewage treatment.

In this regard, in 2013, the Board of Directors approved the creation of a special purpose entity, whereby Sabesp, in partnership with Servtec and Tecniplan, will produce power as from the Cantareira System hydroelectric potential. The project estimates the production of 7 MW of power, which will be available in the concessionaire’s grid, contributing with the clean power matrix in Brazil. The Company estimates that the construction of the first two plants, with capacity of 4.2 and 2.8 MW, will begin in the second six-month period of 2014. With such power generation, the Company will be able to supply a municipality with 50,000 inhabitants, contributing with the clean and renewable power matrix in Brazil.

Also in this sector, the project for implementation of the solid waste treatment unit developed by the Company with the municipalities of Alto Tietê was assumed by the Secretariat of Energy.

In the non-household effluent segment, Attend Ambiental, a company established in partnership with Estre Ambiental, for implementation and operation of sludge pre-treatment and disposal station in Barueri, in the São Paulo Metropolitan Region, should start operations in 2014.

In relation to the use of gas generated in the sewage treatment processes, the studies for identification of the best alternative are in progress: sludge drying, power generation, transformation in natural gas. The conclusion of these studies is estimated by the end of 2014.

Further information on the Company’s environmental solution projects are available at www.sabesp.com.br, item Products of main menu.

Risk Management

Sabesp’s risk management activities are carried out in accordance with international standards and Brazilian technical standard, specifically COSO – The Committee of Sponsoring Organizations of the Treadway Commission and ABN NBR ISO 31.000 – Risk Management – Principles and Guidelines. All the work is also aligned with the Best Corporate Governance Practice Code, of the Brazilian Institute of Corporate Governance (IBGC), the Company’s strategic planning, its processes and the organizational culture.

The Company is subject to certain risk factors, described in item 4.1 of the Reference Form[2], and the mitigating actions are established in the action plans and are monitored on a continuous basis.

[2] The Reference Form is available at the Company’s website at www.sabesp.com.br/investidores, under section “Financial and Operating Information – Reference Form and IAN”

Despite the efforts undertaken, in 2013 and beginning of 2014, the Company was not able to avoid the exposure of its operations to the effects from the severe shortage of water in our area of operation. From time to time, the Company faces dry seasons and, in 2012, part of the Southeast region in Brazil, mainly the South region of the State of Minas Gerais, Piracicaba river basin region (which supplies the water used in the Cantareira System) and North region of the São Paulo Metropolitan Region, had low average of rainfall. The dry period was aggravated at the end of 2013 and beginning of 2014, due to rainfalls significantly below historical average, which reduced the reservoir level of Cantareira System, the largest system in the São Paulo Metropolitan Region, during the rainy seasons, between October and March.

In order to minimize the effects from the drought period, in February 2014, Sabesp implemented the incentive program for water consumption reduction directed to those consumers supplied by the Cantareira System. Based on the bonus system, the consumers that reduce the water consumption by 20% compared to the monthly average consumption in the last 12 months will receive 30% discount on the water and sewage bill. The program, approved by ARSESP, is scheduled to last through the end of 2014, or until the Cantareira System's reservoir level is recovered.

Due to the drought period and low water volume in the Cantareira System, the Department of Water and Electric Power (DAEE) of the State of São Paulo and the Brazilian Water Agency (ANA) determined that, beginning March 10, 2014, we temporarily must restrict the output of water intake in the Cantareira System from 33 m^3/s to 27.9 m^3/s. In order to compensate for this water reduction and still supply the population, the Company is increasing the use of water from other springs in the metropolitan region of São Paulo. If rain does not return to adequate levels, and accordingly, the reservoir levels cannot be re-established, the Company may be obligated to adopt more severe measures, such as water rotation. As a result, the water volume billed may decrease in 2014 and the Company's costs may increase by virtue of additional investments deemed necessary to mitigate the effects from the dry season in the water production systems.

Despite of this expected revenues reduction, the Company is not able to determine accurately the impact of the program in its revenues, as well as cannot ensure that any eventual continuous dry season in the future will not significantly and materially impact the Company's water supply system and, therefore, its businesses and results.

The continuous improvement and disclosure of the risk management process are still a priority to Sabesp, which continuously seeks for risk prevention and reduction by identifying and addressing those events that could hamper the achievement of its strategic goals and also impact its results, capital, liquidity and reputation.

Internal controls

The internal controls are evaluated on a structured and systematic basis since 2005, based on the parameters established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Control Objectives for Information and Related Technology

(COBIT).

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Annually, the evaluation of internal controls is revaluated considering both eventual new risks associated to the preparation and disclosure of the financial statements and possible significant changes in computer processes and systems.

The controls, which are tested by the Company's independent unit, cover the procedures that ensure the accuracy of accounting records; the preparation of the financial statements in accordance with effective standards; and the proper authorization of the transactions related to acquisitions, use and disposal of the Company's assets.

The review on the effectiveness of internal control environment in 2012, as prescribed by Section 404 of Sarbanes-Oxley Law, was concluded in April 2013 and no material deficiency was identified, similarly to previous years. The 2013 tests will be concluded in April 2014.

Lawsuits

In the normal course of its activities, Sabesp is party to some civil, environmental, labor and tax lawsuits. Several individual lawsuits, in the aggregate, account for a significant portion of the total value of these lawsuits. The Company's financial statements include lawsuits classified as possible and probable losses, and only those with probable losses were accrued. The relevant lawsuits are described in Note 17 to the Company's financial statements attached hereto.

EXPANSION OF WATER INFRASTRUCTURE IN AN ENVIRONMENT OF CLIMATE ADVERSITIES

These four decades of Sabesp's operations in the most populous State in Brazil were characterized by significant challenges, including the monitoring of the growing demand for water in a region of permanent population growth, water shortage and inefficient urban planning, subject to strong climate impacts, such as the dry season in the 2013/2014 summer.

In this scenario, the São Paulo Metropolitan Region is a separate chapter. This region concentrates approximately 72% of the Company's customers and is one of the regions with less water resources in Brazil, whose condition is compared to desert areas.

Due to the shortfall of rain and historical temperature peaks, 2013 was considered one of the ten hottest years of the history, based on the modern records beginning 1850, according to the World Meteorological Organization (OMM) and, therefore, January 2014 also recorded high temperatures, an average of 31.9oC in the City of São Paulo. It was the highest average over 71 years, since 1943, when the Brazilian Meteorological Institute (Inmet) began the measurements. Similar situation was also observed in the remaining cities of the State of São Paulo.

As a result, the Cantareira System, the largest and main reservoir to supply the city of São Paulo recorded, by the end of March 2014, storage volume of 14% only, the lowest level of the history.

In order to minimize the effects from this severe dry season, the Company put into practice operating actions referring to the water intake of other systems to supply the region served by Cantareira System, reinforced the campaigns for rational use of water and offered a 30% discount in water and sewage bill to the customers supplied by the Cantareira System that decreased by 20% the consumption level (based on the average of the previous 12 months). This discount is effective through the end of 2014.

As continuous measure, in order to operate in an increasing challenging environment, the Company has sought for a more agile, efficient and modern management, technological resources and state-of-the-art engineering to implement daring and grand initiatives that reflect the Company’s pioneer position, social and environment concern and long-term strategic view.

An example of these efforts is São Lourenço Production System (SPSL), a large and complex project to capture water at 83 km away, between Cachoeira do França dam, in Ibiúna, in the countryside, and the water treatment, reserve and distribution points, in São Paulo Metropolitan Region. As a result, the treated water production in the São Paulo Metropolitan Region will be increased by 4.7 m3/s, from 73 to 77.7 cubic meters of water per second.

In August 2013, the Company entered into the Public and Private Partnership (PPP) to have the work performed by São Lourenço S.A. Production System. This is a Special Purpose Entity (SPE) comprised of construction companies Camargo Correa and Andrade Gutierrez.

The agreement, in the total amount of R$6 billion, includes the work, whose total investment, fully assumed by the SPE, amounts to R$2.2 billion. After start-up of operations only, Sabesp will pay a monthly installment for system operation and maintenance, for approximately 21 years, totaling 25-year concession period, when added to the four years estimated for the works.

The work will begin in the first six-month period of 2014 and the system delivery is scheduled for mid-2018. Approximately 1.5 million consumers in the West and Southwest regions of the Greater São Paulo will be benefited directly. The initiative, therefore, will indirectly benefit the São Paulo Metropolitan Region as a whole, as the new system will be integrated with the existing system, increasing the water supply. The initiative is added to other Sabesp’s actions to ensure the regular water supply in the region under the Metropolitan Water Program (PMA). Implemented in mid-90s, the Program has already recorded R$1.6 billion in investments from 2006 to the end of 2013, including the PPP Alto Tietê. By 2018, expected investments amount to approximately R$4.4 billion, including own resources and financing with Caixa Economica Federal, Banco Nacional de Desenvolvimento Economico e Social (BNDES) and by means of PPP São Lourenço.

The PMA’s goal is to improve the system reliability and flexibility by increasing the water production capacity in São Paulo Metropolitan Region. Out of the increase of 13.2 m^3/s estimated for 2014, the Company concluded 5.5 m^3/s by 2013, of which 5m^3/s through PPP Alto Tietê, concluded in 2011, and estimates to conclude additional 1m^3/s this year. In 2013, the program’s goals were reviewed to increase through 2018 the production capacity in São

Paulo Metropolitan Region by $9.5m^3/s$, including the São Lourenço System, which will be responsible for the increase of $5m^3/s$.

In 2013, the investments totaled R$128 million in work performed in the municipalities of São Paulo, Embu-Guaçu, Carapicuíba and Arujá for increase of reservoirs, new feeders and lifting stations. This investment also included the Grajaú – Parelheiros feeder, in the amount of R$44.9 million, which benefited approximately 250,000 inhabitants in the South region of the City of São Paulo.

Also in the City of São Paulo, the Company intends to expand the operating production capacity of ETA Alto da Boa Vista (RJCS) and adjust ETA Guaraú in order to meet the demand in consumption peaks. ETA ABV (RJCS) will be completed in 2014 and Guaraú will be adjusted in 2016. Accordingly, São Paulo Metropolitan Region will have a production capacity over 3.5 thousand liters per second.

Santos coast region (“Baixada Santista”) is another complex region in terms of water supply, mainly during the high season, with temperature peaks and high number of tourists. At the end of 2013, the cities of Santos coast region received over 3.6 million visitors and, between beginning of January and mid-March 2013, the City of Guarujá, reached 27 times the highest temperature in Brazil, according to the Brazilian Meteorological Institute (Inmet).

The Santos coast region’s integrated system was reinforced by two new potable water production systems, namely, Mambu/Branco, in the City of Itanhaém, and Jurubatuba, in the City of Guarujá. Both systems have been operated, at testing stage, since the end of 2012 and were officially launched in December 2013. Together, these systems treat 3.6 thousand liters per second, increasing the supply of good water to residents and tourists in the cities of Guarujá, Itanhaém, Mongaguá, Peruíbe, Praia Grande, continental area of São Vicente, Santos and Cubatão.

These actions comprise the “Água no Litoral” Program (Water on the Coast Program) that estimates total investments in the amount of R$1.1 billion through the end of this decade, including own resources and financing with Brazilian Federal Savings Bank. Out of this amount, R$858 million has already been disbursed (R$100 million in 2013 only), including investments for increase of reserves and improvements in the treatment and distribution system in the northern coast.

In the countryside, the Company delivered five water treatment stations (ETAs) and began, in April 2013, the construction of the new water source system in Sapucaí-Mirim river, in the city of Franca, totaling investments of R$162.4 million. Upon completion, in 2015, the system will increase the supply by 800 liters per second, ensuring the water supply in this city and region for additional two decades, at least.

Another action in the countryside is the provision of water and sanitary sewage to low-income households far from urban centers. In this regard, at the end of 2011, the “Água é Vida” Program (Water is Life Program) was launched to benefit approximately 15,000 people in 81 communities of 30 municipalities in Alto Paranapanema and Vale do Ribeira.

In this project, Sabesp is responsible for water supply, and the municipalities, funded by São Paulo State Government, are responsible for the implementation of Individual Sanitary Units (USIs), comprised of septic tanks, fat boxes and anaerobic filter or sink. This is a more simplified system, it is able to meet all necessary sanitary conditions with lower investments compared to the collection systems, which are economically unfeasible in isolated communities.

In relation to water supply, investments in drilling of wells and project infrastructure (reservoirs, equipment, grids and ducts) totaled approximately R$6.5 million. The goal is to invest approximately R$15 million by 2015.

Until 2013, the Company built approximately 64 kilometers of grids and ducts to meet the program and placed into operation 20 wells. Through the end of the program, the goal is to reach 220 kilometers of grids and ducts, and 45 drilled wells in operation.

The Company estimated approximately R$6 million for construction of the sewage infrastructure to be financed by São Paulo State Government. This amount is negotiated between the municipalities and São Paulo State Government, and Sabesp is responsible for indicating the most adequate technical solution for each region.

These efforts to reduce the water consumption are supplemented by the reduction of water leakage and deviations. Due to the Corporate Program to Reduce Losses, implemented in the beginning of 2009, the Company was able to reduce, over five years, the water billing losses, from 27.6% to 24.4% and physical losses from 22.2% to 20.3% . In terms of liters per connection/day, the decrease was from 436 to 372. Total physical volume saved in this period was 29.4 million cubic meters. The volume saved is sufficient to permanently serve the population of municipalities with the size of Santos. Until the end of the decade, total investments in this program should reach R$5.9 billion.

The main actions against losses include replacement of networks, branches and water meters, fight against irregular connections (frauds) and elimination of hidden leakage. From the beginning of the program to the end of 2013, the Company invested R$1.5 billion, of which R$424 million in 2013, with resources provided by the Japan International Cooperation Agency (JICA), Brazilian Federal Savings Bank and BNDES, in addition to own resources.

In order to ensure available potable water to the population, the actions to increase the water supply and reduce the water losses are supplemented by initiatives that seek for the efficient water use and preservation of its sources.

In this regard, the Rational Water Use Program (PURA), in partnership with public, state and municipal entities, which supplies approximately 7,900 properties, aims at stimulating the responsible use of water. By adhering to the PURA, the entities may pay a tariff of approximately 25% below the tariff applicable to public entities that have not adhered to the program, if the water consumption is reduced by at least 10%.

The implementation of the PURA, which in 2013 was extended to additional 160 buildings currently ensures monthly savings of treated water that are sufficient to continuously supply approximately 36 thousand inhabitants.

Another initiative to preserve potable water for human consumption is the reuse water. Located in the Sewage Treatment Station (ETE) ABC, between the municipalities of São Paulo and São Caetano do Sul, the Aquapolo Ambiental, implemented at the end of 2012 in partnership with Odebrecht Ambiental, supplies the Capuava Petrochemical Complex, in the City of Mauá, with reused water from the treatment of the effluent generated in ETE ABC.

Currently, the plant produces 450 liters per second of reused water directed to the industrial activity. Aquapolo is expected to reach its production peak (1,000 liters per second) in 2020, when the potable water savings generated by the project will be equivalent to a city of up to 500 thousand inhabitants. In addition, in 2013, the ETEs in São Paulo Metropolitan Region supplied over 400,000 m^3 of reused water. Sabesp’s reused water production process is guaranteed by ISO 9001:2000 management system, according to strict quality parameters.

The protection of springs is another challenge and needs the partnership of municipal government, mainly in terms of strong oversight relating to irregular occupation in the surroundings of the dams that supply big cities, such as São Paulo. In this case, the Company's actions are also applicable to the southernmost region of the City of São Paulo, where some of the main reservoirs are located, the Billings and Guarapiranga dams. This refers to the "Mananciais/Vida Nova" Program (Springs/New Life Program) implemented in 2008.

Although the City of São Paulo is responsible for the intervention in 43 slums and irregular land division of the areas next to the dams, Sabesp expands sewers, mainly in the springs of these dams.

Out of R$355 million in Company's consideration to be invested in this project, R$117 million was performed up to date, of which R$48.4 million in 2013. The total costs, to be performed through the end of 2015, amount to approximately R$1.6 billion, with resources from the Federal Government, State Government, municipalities and World Bank.

Also in connection with the initiatives for recovery of dams, in December 2011, the Company began the Nossa Guarapiranga's actions, at the dam that supplies an average of three million people in the South region of the City of São Paulo. The Program is supported by ten collection barges and 11 ecobarriers.

In this first period of operation of services, 250 cubic meters of waste were collected monthly, on average, and transferred to the landfill. Solely in 2013, 2.5 thousand cubic meters of waste were removed. In addition, since July 2012, the Company has analyzed, controlled and removed water plants, i.e., the macrophytes, which hamper the obtaining of water from the dam. This service is supported by two vessels specifically equipped.

Over the 18-month period, the total of 11.3 m^3 of macrophytes was removed from the dam, which is equivalent to approximately 600 trucks. The material collected was subsequently disposed for drying and dehydration; the residual volume was transferred to the landfill. The amount of R$12.2 million was invested in these actions and additional investments of R$4.3 million are estimated through 2015.

Quality Control

Sabesp is internationally recognized for its high water quality. Accordingly, the Company's monitoring structure oversights from the production to the distribution of water. The Company is supported by 15 regional laboratories distributed strategically in the State of São Paulo, which perform over 760 thousand analyses each year. The findings are monthly disclosed in the customers' bills.

Sabesp is also supported by a laboratory that centralizes the mostly technical complex analyses and that receives samples of untreated and treated water distributed to all regions under its operation. Approximately 300 thousand analyses are carried out each year, including the tasting by technicians of water samplers to identify substances that change the taste or smell. Sabesp is the only company in Brazil that performs this analysis. The Inmetro certification for such analyses is the goal of all laboratories. Currently, 12 units already have some certification and 240 methods are certified.

SEWAGE TREATMENT: HEALTH, ENVIRONMENTAL PRESERVATION AND DEVELOPMENT

Similarly to the water services, one of the Company's main challenges is the sewage treatment in São Paulo Metropolitan Region. In addition to concentrate almost half of total population of the State of São Paulo, the historical disorganized land occupation in the City of São Paulo, which increased over the last 40 years due to the constructions next to the rivers and flood forests, aggravated the environmental damages.

This scenario worsens the problem in the urban region of the City of São Paulo, especially because of the main river in the State, which has its spring at 100 kilometers far from the City of São Paulo; therefore, the river is significant polluted in its initial stretch, where it presents a very low annual average flow.

In its 22nd year, the Tietê Project, which is considered the most important sewage program in Brazil, continues with the construction and expansion of the Sewage Treatment Stations (ETEs), installation of new large-sized pipes (interceptors and trunk collectors), increase of sewers in districts and new household connections.

Currently, the Project is in third stage, which began in 2010 and was supported by Sabesp's investments in the amount of R$1.1 billion, of which R$358 million was invested in 2013, representing 83% of work in progress or under procurement stage in 27 municipalities of São Paulo Metropolitan Region.

Also in the third stage, investments are estimated to reach US$2 billion and are supported by the financing entered into with Inter-American Development Bank (IDB), the Brazilian Development Bank (BNDES) and Brazilian Federal Savings Bank. Until 2016, when current stage will be concluded, over 1.5 million people will be provided with collection services and three million new inhabitants will be benefited by sewage treatment services.

In 2013, amongst the actions in the third stage, the point that deserves attention is the initial expansion of the Sewage Treatment Station in the City of Barueri, which is the largest effluent treatment unit in Latin America. This project will increase the treatment capacity from 9.5 thousand liters per second to 16 thousand liters per second, from 4.5 million to 7.5 million people served.

In current stage, the Company intends to expand in São Paulo Metropolitan Region the collection coverage index from 84% to 87%, and from 70% to 84% in relation to the treatment of collected volume. The positive impact of this construction package will also reduce the river odor in the urban stretch of the City of São Paulo. The pollution spot in Tietê river, which has already been reduced by approximately 160 kilometers in the direction towards the City of São Paulo, will be further reduced.

Also in 2013, the Company advanced in the planning of the fourth stage, which has an estimated investment of US$4 billion. The start of works at this stage, initially estimated for 2016, will be anticipated for 2014. In this last stage, in addition to highly complex works in the central region of the City of São Paulo, which will allow the adjustment and expansion of the existing sewage collection and transportation system, the Company will also implement the grids in the remote, low-income peripheral areas in São Paulo Metropolitan Region.

Since its implementation, in 1992, 3.6 thousand kilometers of ducts have been installed, including collection grids, trunk collectors and interceptors and new ETEs were implemented and others were expanded.

The “Córrego Limpo” Program is another Sabesp’s initiative that has contributed to reduce the water pollution in the City of São Paulo. The project, in partnership with the executive power, from 2007 to the end of 2013, cleared 146 streams, at the cost of R$730.3 million, of which R$130 million was provided by Sabesp.

The fourth stage began in 2013, 30 streams were cleared in the City of São Paulo, whose investments amounted to approximately R$20 million. In this stage, to be concluded through December 2014, additional 20 larger streams are expected to be cleared, with Sabesp’s investments in the amount of R$100 million.

In the municipalities covered by Santos coast region and São Paulo State’s Northern Coastline, through Onda Limpa Program, which is the most important sewage project in the Brazilian coast, the Company intends to expand the sewage treatment and improve the quality of beach water.

In Santos coast region, Onda Limpa Program, launched in 2007, received through the end of 2013 the amount of R$1.9 billion in investments, of which R$75.5 million was invested in 2013. In November 2013, the Company began the supplementary program stage, scheduled to be completed in 2017. In this stage, investments amount to approximately R$700 million, including the submarine pipeline in Praia Grande, which accounts for approximately R$300 million of this amount and 33,000 new sewage household connections. Upon completion of this stage, the Company expects the service index will increase from 73% to 88%.

The executive projects of the second stage of Onda Limpa Program, scheduled to begin in 2015, are already been prepared. The works will expand the sewage services in Santos coast region through the end of this decade.

In northern coast, the program has already made capital contributions of R$144 million, and more than R$18 million of this amount were invested in 2013 in expansion works of collection grids, new pumping stations and ETEs. Until 2016, investments exceeding R$510 million are estimated in the region, with own funds and financing with BNDES and Brazilian Federal Savings Banks, when the coverage index must reach 85%.

Six years after the services in Brazilian coast, the positive results from collection expansion and sewage treatment can be verified, for example, in the Guaiúba beach, in Guarujá, which is about to receive the 2nd Blue Flag Seal, one of the most respectful awards of environmental beach quality in the world.

Currently, about 21.5 million inhabitants in the State of São Paulo have sewage collected through approximately 46.7 thousand kilometers of collection grids, sewage pipelines and sewage interceptors. By the end of 2013, the Company had 509 stations operating in the State of São Paulo. The Company expects to deliver other 28 units in 2014.

Despite of the efforts and investments for expansion of the collection grids, because of the poor economic conditions of a portion of the Company's customers to adjust their sanitary facilities to these pipes, the sewage continues to be disposed improperly. For these cases, Sabesp and São Paulo State Government launched, at the end of 2011, the “Pró-Conexão” Program (Pro-Connection Program) whose commercial name adopted by the Company is “Se Liga na Rede” (Connect to the Network). Within eight years, the Company expects to adjust such household facilities and connect 192 thousand families earning up to three minimum wages to the sewage collection grid.

Under the program, the connection installation costs are fully paid by the State Government (80%) and Sabesp (20%), totaling R$349.5 million investments. In 2013, the program expanded, and 15.2 thousand connections were performed, in the total cost of R$33.2 million, which is equivalent to services provided to approximately 50 thousand persons.

Waste disposal

The solid waste management deriving from the rendering of sanitation services composes a complex equation, composed of several legal, environmental and operational variables. Taking as example the production and final disposal of sludge at ETAs and ETEs, we can see that the prevailing laws, as well as society, requires advances in the search of technological alternatives which consider the reduction of generation and the beneficial use of such waste. In view of these issues, Sabesp has been working in several fronts, seeking innovation towards destination and final disposal of such waste.

Part of the R$6.4 million invested in the research development in 2013 was destined to sludge disposal and beneficial use. The partnerships with the Brazilian Innovation Agency (FINEP) and São Paulo State Research Support Foundation (Fapesp) address projects about the use of sludge to recover damaged areas, its application to cover landfills and extraction of sand for civil construction.

In addition, in the first six-month period, the Company entered into an agreement to transform approximately 70 daily tons of sludge produced in the ETE in Lavapés, São José dos Campos, in organic compound. Experimental volume has already been produced. However, the provision to the agricultural producers is subject to the approval of the authorization registry by the Ministry of Agriculture, whose documentation was filed at the beginning of 2014. The authorization is expected to be obtained between the end of 2014 and beginning of 2015.

In ETE Barueri, Latin America's largest sewage treatment station, planning is directed to the installation of sludge drying units. There are studies to use the surplus biogas generated in the sludge absorption.

In relation to the water treatment, the sludge volume generated in the ETAs, which comprise eight integrated supply systems in the metropolitan regions, was decreased by 22% over the last five years. It resulted from the optimization of the treatment process and application of new technologies. Concurrently, over the last ten years, the Company reduced by 19% the use of chemical products used in the water treatment in the City of São Paulo, with favorable effects on the generation of effluents and sludge.

Financial Management

In order to achieve our top goal, which is provide universal sanitation services by the end of this decade, we are engaged in keeping efficient management of our financial resources, which supports our investment plan, corresponding to approximately 30% of all the total amount invested in sanitation in Brazil.

In addition to routine actions to cut costs, increase efficiency, and negotiate better contract terms, in 2013 we have been actively involved in the tariff revision process with the ARSESP (the São Paulo State Sanitation and Power Regulatory Agency) to set tariffs that ensure adequate compensation for our services.

Our Capex plan aims at expanding our water and sewage systems, increase and protect our water sources to meet the growing demand for water supply and sewage collection services in the municipalities where we operate. We estimate investing approximately R$12.8 billion in 2014-2018, as follow[3]:

Capex plan

[3]For further details on our investment projects, see the chapter *"Water Infrastructure Expansion in an Adverse Climate Environment"* and *"Sewage: Health, Environmental Preservation and Development"*

In 2013 we invested R$2.7 billion, which is within recent years' investment levels.

Capex evolution (1)

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The table below shows the investments made in 2013, broken down by segment and region:

(current R$ million)

	Water	Sewage	Total
São Paulo Metropolitan Region	**652.4**	**977.3**	**1,629.7**
Regional Systems (inland and coast)	**451.3**	**635.0**	**1,086.3**
Total	**1,103.7**	**1,612.3**	**2,716.0**

Note: Does not include commitments assumed with program contracts (R$65 million)

Sabesp uses own funds and debt to finance its investment plan, and most of our debt (60.2%) was raised with official agencies of local and foreign government, and multilateral organizations, at low costs and for long terms. In addition, we resort to raising funds in the local and international markets basically for debt management purposes.

At the end of 2013, our total debt was approximately R$9.5 billion, of which 39.1% was denominated in foreign currency. Most of the foreign-currency denominated debt was raised with international financing organizations, with long-term maturities, an amortization flow diluted over a long period of time, and bearing low interest rates.

In 2013, the total adjusted debt-to-adjusted EBITDA ratio is 2.32 times, i.e., it complies with the covenants contained in certain debt agreements, which impose a ceiling of 3.65 for this ratio. In 2013 we repaid R$1.8 billion of our debt.

The effectiveness of Sabesp's strategy in recent years is acknowledged by the financial market, which is reflected in the ratings awarded by risk rating agencies throughout the period:

a) On May 24, 2013, Fitch Ratings upgraded Sabesp's national rating to "AA(bra)" from "AA-(bra)" and confirmed our global rating at "BB+", both with a stable outlook;

b) On July 15, 2013, Moody's started to monitor Sabesp and awarded a AA1.br rating in the national scale and a "Baa3" rating in the global scale (equivalent to the "BBB-" rating of the other risk rating agencies—first **investment grade** level), with a stable outlook in both ratings;

c) On November 12, 2013, Standard & Poor's confirmed the corporate credit risk ratings "brAA+" in the national scale and "BB+" in the global scale. Note the outlook for both ratings is "positive" since December 21,2012.

Loans and borrowings

In 2013 we raised an amount equivalent to R$3 billion, mainly with the Caixa Econômica Federal and BNDES, which added to the previous hires ensure 78.4% of the third-party funds required for the investments foreseen for 2014-2018 period.

CAIXA ECONÔMICA FEDERAL

In December 2013 we entered into agreements that totaled approximately R$1.2 billion. These agreements are also part of the Ministry of Cities 2012-2013 selection and the funds raised will be issued in the Tietê Project and the Metropolitan Water Program. The loan is repayable in up to 24 years, with a four-year grace period, subject to interest indexed to the TR plus 6% p.a., plus management fee of 1.4% p.a. and a risk rate of 0.3% p.a..

Banco Nacional de Desenvolvimento Econômico e Social - BNDES (Brazilian Development Bank)

In February we signed a loan agreement of approximately R$1.35 billion to make up Sabesp's counterpart to implement the Stage III of the Tietê River Decontamination Program, financed by the Inter-American Development Bank (IDB). The loan agreement's purpose is funding the construction of collectors, interceptors, collection systems and household sewage connections, and the expansion of sewage treatment capacity in the São Paulo Metropolitan Region. The loan is repayable in up to 180 months, with a 36-month grace period, and financial charges of equivalent to TJLP (official benchmark long-term interest rate) + 1.66% p.a..

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As part of the Ministry of Cities 2012-2013 selection, also in December, we entered into an loan agreement amounting to R$415 million to fund the expansion of the Guaraú Water Treatment Station's intake and operating capacity and to build the R3 Tunnel Reservoir of the same Water Treatment Station, both part of the Metropolitan Water Program. The loan is repayable in up to 144 months, with a 36-month grace period, and financial charges of equivalent to TJLP + 1.66% p.a..

In addition, together with BNDES, due to the subscription commitment agreement signed in 2009, in October we conducted the 18th Debenture issue, totaling approximately R$275.4 million, by issuing 100 nonconvertible, secured debentures, divided into three series, as follows:

a) 1st Series: 28 debentures exclusively placed with Banco Nacional de Desenvolvimento Social – BNDES, totaling R$77.1 million;

b) 2nd Series: 30 debentures exclusively placed with BNDES Participações S.A. – BNDESPAR, totaling R$82.6 million; and

c) 3rd Series: 42 debentures exclusively placed with the BNDES, totaling R$115.6 million.

In December 2013 the BNDES and BNDESPAR subscribed and paid in 58 debentures, of which 28 from the 1st Series and 30 from the 2nd Series, totaling R$159.7 million.

In addition to the financing agreements in 2013, Sabesp also entered into a Public-Private Partnership agreement under an administrative concession, for the provision of the São Lourenço Production System project's operating and maintenance services. The agreement is in the amount of approximately R$6.0 billion and is effective for a total of 25 years, of which 4.5 years will be dedicated construction and 20.5 years to service delivery.

In addition, we filed with the National Water Agency (ANA) our application to the financial incentive granted under the Programa Despoluição de Bacias Hidrográficas (Drainage Basin Decontamination Program) -PRODES, in the form of payment for the sewage treated in the Pararangaba Sewage Treatment Plant (STP) of São José dos Campos municipality, by achieving with the treated sewage volume and pollution load reduction targets set forth by the PRODES agreements. The total funds received, derived from Orçamento Geral da União (General Federal Budget), amounts to approximately R$8.0 million. These funds were deposited in Sabesp's restricted account and disbursement based on treated sewage will be made in twelve quarterly, successive installments, which we will be able to withdraw when the STP is fully operational and certified, on a quarterly basis, provide that all contractual obligations are met.

It is also worth mentioning that this year, we signed the 1st amendment to the loan agreement with Japan International Cooperation Agency (JICA) for the second stage of the Corporate Program to Reduce Losses, which enabled the initial disbursement, in the amount of ¥6.0 billion, corresponding to approximately R$120 million, as well as we financially settled the Financing Agreement no. 01.2.619.3.1, in the amount of R$60 million and the Onlending

Agreement no. 10/669.748-6, in the amount of R$180 million, signed in 2002 with BNDES and onlending banks (Banco Alfa and Banco Itaú BBA) to finance the Depollution Project of Tietê River – Stage II.

Further information about loans and borrowings is available at the Company's Reference Form, available at www.sabesp.com.br/investidores, Financial and Operating Information/Reference Form and IAN menu.

Capital Markets

In January 2013, we conducted our 17th issue of debentures totaling R$1.0 billion, divided into three series, the first amounting to R$424.7 million, maturing in January 2018, and paying interest equivalent to the interbank deposit rate (CDI) and spread of 0.75% per year, the second, amounting to R$395.2 million, paying the Broad Consumer Price Index (IPCA) and annual interest of 4.5%, maturing in January 2020, and the third issue amounting to R$180.1 million, maturing in January 2023, adjusted by the IPCA and bearing interest of 4.75% per year. We should emphasize that during the bookbuilding of these debentures, the demand for the securities exceeded R$4.7 billion, which allowed us to allocate the proceeds amount the series as efficiently as possible, to minimize the final transaction cost.

The proceeds of the 17th issue were used to pay financial commitments that matured in 2013, and the early redemption of the 11th issue of Debentures. Accordingly, in March we settled the 11th Issue of the Debentures, issued in April 2010, by repaying one third of the 1st series (R$270 million) and the remaining 50% of the 2nd series (R$202.5 million), and through the early settlement of the remaining balance of the 1st series, which was scheduled to mature in March 2015.

The proceeds of the 16th Issue, completed in December 2012, and the 17th Issue, which totaled R$1.5 billion, allowed us to restructure the maturities of our debt, decreasing our financing requirements until 2015. During 2013, this strategy proved to be quite appropriate, allowing the Company to escape the market turmoil in mid-year (May to August), when the capital markets, both locally and abroad, tightened available funding due to expected changes in the United States monetary policy, with the possible end of the Federal Reserve's bond-buyback policy.

Further information about debts with the capital markets is available at the Company's Reference Form, available at www.sabesp.com.br/investidores, Financial and Operating Information/Reference Form and IAN menu.

Stock Market[4]

2013 was a very intense year for SABESP securities. On January 10th we changed the ratio of ADRs to shares traded in Brazil: previously one ADR was equivalent to two shares; after the transaction one ADR started to represent one share.

In April, with shares trading at around R$90.00 in Brazil, we conducted a 3-for-1 stock split, i.e., each shareholder holder of one share or one ADR received 3 shares or 3 ADRs.

During the first six-month period, while investors waited for the completion of the tariff revision process, our stock maintained its upward trend, reaching R$32.13 has the higher price on March 28, in other words, a 10.97% hike against the stock closing price in 2012. The ADRs followed this trend, reaching a period high of US$16.21 on March 8 (up 16.38 % against the closing price in 2012).

ARSESP's postponement in April and June of the tariff revision process completion, among other factors, caused a drop in the stock and ADR prices, closing at R$26.46 and US$11.34, or a 8.62 % and 18.58 % depreciation, respectively, compared to the closing price in 2012. During the same period, the Ibovespa (São Paulo stock exchange index) dropped 15.5 % while the Dow Jones rose 28.12 %. As a result, Sabesp's market value dropped to R$18.1 billion in 2013 from R$19.8 billion in 2012.

Despite the stock depreciation this year, which did not return to the 2012 level, stock prices showed an upward trend in the second semester and the number of Sabesp shareholders in the BM&FBovespa increased 29.1%, proving that despite the regulatory uncertainties, the market still trusts our fundamentals.

Our stock was traded in all the BM&FBovespa trading sessions and totaled a financial volume of R$11 billion in 2013. In the US market, we closed the year with 165.3 million in outstanding ADRs. The financial volume traded on the NYSE in 2013 was US$5.7 billion, in other words, almost 5.9% below 2012.

In 2013 Sabesp continued to be monitored by the major market financial institutions.

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[4] For purposes of comparison, the stock and ADR quotations prior to the change in the share per ADR ratio and the stock split, referred to in this section, have been adjusted for the impacts of these transactions.

Our stock is traded on the BM&FBovespa under ticker symbol SBSP3 and on the New York Stock Exchange as American Depositary Receipts (ADRs), under ticker symbol SBS. We are still part of the main BM&FBovespa indices, including the Corporate Sustainability Index.

Dividends

Under our bylaws, common shares are entitled to mandatory minimum dividends corresponding to 25 % of profit for the year, obtained after the deductions required or permitted under the law, and can be paid as interest on own capital.

In 2013 we paid R$534.3 million in dividends as interest on own capital for FY 2012, corresponding to roughly R$2.345 per common share and a dividend yield of 2.7 %.

In 2013, the Board of Directors approved the payment of interest on own capital totaling R$537.5 million, or R$0.78633094301 per common share and a dividend yield of 3.0 % to be paid within 60 days after the Annual Shareholders' Meeting where the 2013 accounts will be submitted for approval.

Debt of Municipalities Supplied in wholesale

Some municipalities supplied in wholesale have outstanding debts for unpaid water bills regarding which we are taking all the necessary actions to recover.

When the negotiation is not possible, we file a collection lawsuit, as is the case of debts of Guarulhos, Mauá, Santo André, and Diadema, whereas for the first two some court-ordered debts has already been issued and await payment. The decision on the collection lawsuit filed against the City of Santo André also tends to the issue of court-ordered debts.

As for the lawsuit filed against the City of Diadema, the studies to create a new water and sewage company with an equity interest of Sabesp were discontinued. On March 18, 2014, an agreement was signed for SABESP's direct rendering of water supply and sewage services in the municipality of Diadema, and concurrently signing an agreement statement and legal covenants to solve the water supply debts and indemnities. The agreement also provided for SABESP's future acquisition of SANED subsidiary, former services provider. SANED's employees after the acquisition consolidation will compose SABESP's staff due to succession.

In 2013, all Cities cited paid part of the monthly bulk supply bills issued. Note that the City of Mogi das Cruzes and the City of São Caetano paid their bills in full on the due dates.

In addition to the debts related to the water sales in wholesale, the City of Diadema and the City of Mauá have debts to SABESP arising from the consideration payable for operating assets handed over in advance to these municipalities.

In the case of the City of Diadema, this debt will be settled with the negotiations in progress.

As regards the municipality of Mauá, the courts sentenced the City and the SAMA (Saneamento Básico do Município de Mauá, municipal water and sewage company) to pay the outstanding debt. This court decision was unappealable and in October 2012 we started the execution, however, the municipality of Mauá filed a motion for new trial in an attempt to annul the decision favorable to Sabesp. Sabesp have been notified and will file defense arguments within the statutory deadline.

Economic and Financial Performance

In order to have the funds—capital and debt—necessary to reach universal services, it is essential that we maintain a good operating and financial performance. Our net income for 2013 was R$1.9 billion in 2013.

Profit evolution

In 2013, gross operating revenue from water supply and sewage collection services added to construction revenue increased by R$593.6 million or 5.2%, from R$11.4 billion in 2012 to R$12.0 billion in 2013. Construction revenue had a slight decrease of R$19.7 million or 0.8%, compared to the previous year.

The growth of billed volume and the average effect of tariff adjustments (5.6%) increase in 2013, in other words, the 5.15% adjustment applied in September 2012 and the tariff repositioning of 2.35% applied in April 2013 were determining factors to gross revenue increase. It is worth mentioning that the impact of 3.1% adjustment applied in December 2013 only occurs as of January 2014.

Billed water and sewage volume posted growth of 2.8% in the period as a result of the 2.7% increase in the number of water connections and 3.5% increase in the number of sewage connections. In addition, the high temperatures and the drought, especially in the last quarter of 2013, had a direct impact on the increase in water consumption and, consequently, in sewage billed.

This growth is in line with our forecasts, which were around 2.5% for water volume billed and 3% to 3.5% for sewage volume billed, the latter as a result of the large investments that we have been making in this segment.

The tables below show the water and sewage billed volumes, per type of user and per region, and we should highlight that the volume of effluents supplied to Aquapolo Ambiental in the production of reuse water, which now is separately informed about the reuse water volume directly produced by Sabesp.

Water and sewage billed volume [1] per use category - million m3

	Water			Sewage			Water + Sewage		
	2012	2013	%	2012	2013	%	2012	2013	%
Residential	1,530.00	1,565.60	2.3	1,262.60	1,299.10	2.9	2,792.60	2,864.70	2.6
Trade	172.8	175.4	1.5	160.5	163.4	1.8	333.3	338.8	1.7
Industry	38.3	39.4	2.9	41.6	44.4	6.7	79.9	83.8	4.9
Public	54.8	54.6	(0.4)	42.5	42.5	-	97.3	97.1	(0.2)
Total retail	1795.9	1,835.00	2.2	1,507.20	1,549.40	2.8	3,303.10	3,384.40	2.5
Wholesale	297.5	299	0.5	27.3	29.7	8.8	324.8	328.7	1.2
Reuse water	0.4	0.4	-	-	-	-	0.4	0.4	-
Effluents	-	-	-	-	14.7	-	-	14.7	-
Total	2,093.80	2,149.10	2.6	1,534.50	1,579.10	2.9	3,628.30	3,728.20	2.8

(1) Unaudited

Water and sewage billed volume [1] per region - million m3

	Water			Sewage			Water + Sewage		
	2012	2013	%	2012	2013	%	2012	2013	%
Metropolitan region	1,181.90	1,206.90	2.1	1,005.70	1,029.20	2.3	2,187.60	2,236.10	2.2
Regional systems [2]	614	628.1	2.3	501.5	520.2	3.7	1,115.50	1,148.30	2.9
Total retail	1,795.90	1,835.00	2.2	1,507.20	1,549.40	2.8	3,303.10	3,384.40	2.5
Wholesale	297.5	299	0.5	27.3	29.7	8.8	324.8	328.7	1.2
Reuse water	0.4	0.4	-	-	-	-	0.4	0.4	-
Effluents	-	-	-	-	14.7	-	-	14.7	-
Total	2,093.80	2,149.10	2.6	1,534.50	1,579.10	2.9	3,628.30	3,728.20	2.8

(1) Unaudited
(2) Composed of coast and inland regions

In 2013, the net operating revenue, excluding the construction revenue and taxes levied on water and sewage services, totaled R$11.3 billion, a 5.4% increase compared to the previous year.

Net operating revenue evolution

In 2013 the costs of sales and services, administrative expenses, selling expenses, and construction costs increased by 4.0 % (R$317.9 million). If we disregard the impacts of the construction costs, the increase was 6.2 %. Costs and expenses represented 72.3 % of net revenue in 2013 from 73.2 % in 2012. For further details on the breakdown and the movements in costs and expenses, see our results Press Release, in our website, at www.sabesp.com.br/investidores, Operational and Financial Information item in the top menu.

Adjusted EBITDA increased 11.1 % to R$4.0 billion in 2013 from R$3.6 billion in 2012, and the adjusted EBITDA margin reached 35.4% from 33.6% in prior year. If we disregard the effects of construction revenue and cost, the adjusted EBITDA margin is 44.6% in 2013 (43.0% in 2012).

Adjusted EBITDA and Adjusted EBITDA Margin Evolution

Reconciliation of Adjusted EBITDA[5] (Non-accounting measurements)

[5]Adjusted EBITDA (“Adjusted EBITDA”) corresponds to profit for the year before: (i) depreciation and amortization; (ii) income tax and social contribution (federal income taxes); (iii) finance income (costs); and (iv) other operating expenses, net. The Adjusted EBITDA is not a financial performance measurement in accordance with the accounting practices adopted in Brazil, the International Financial Reporting Standards (IFRSs) or the US GAAP (United States Generally Accepted Accounting Principles), nor should it be taken into consideration exclusively or as an alternative to profit for the year as a financial performance measurement, or an alternative to operating cash flows, or a liquidity measure. The Adjusted EBITDA does not provide any standardized significance and our definition of Adjusted EBITDA may not be comparable to definitions used by other entities. Our management believes that the Adjusted EBITDA provides a useful measurement of our performance that is widely used by investors and analysts to evaluate performance and compare companies. Other entities may use different approaches to calculate the Adjusted EBITDA. The Adjusted EBITDA is not part of our financial statements.

The purpose of the Adjusted EBITDA is to present an economic indicator of operating economic performance. Our Adjusted EBITDA corresponds to our profit for the year before net finance costs, income tax and social contribution (federal income taxes), depreciation and amortization; and other net operating expenses. The Adjusted EBITDA is not a financial performance indicator recognized by the Corporate Law Method and should not be taken into consideration exclusively or as an alternative to profit for the year as a financial performance indicator, or even as an alternative to operating cash flows or a liquidity indicator. Our Adjusted EBITDA is used as a general indicator of economic performance and is not affected by debt restructuring, interest rate fluctuations, changes in taxation, or depreciation and amortization levels. As a result, the Adjusted EBITDA is used as an appropriate instrument to regularly compare operating performance. In addition, there is another formula to calculate the Adjusted EBITDA that is adopted in covenants of specific financing agreements. The Adjusted EBITDA provides a better understanding not only of the operating performance but also of the ability to discharge our obligations and raise funds for capital investments and working capital. The Adjusted EBITDA, however, presents limitations that prevent it from being used as a profitability indicator since it does not take into account other costs arising on our activities or some other costs that might have a material impact our profits, such as finance costs, taxes, depreciation, capital expenditures, and other related charges.

[6]Other operating expenses, net refer mainly to the write-off of property, plant and equipment items, the allowance for impairment losses on intangible assets, losses on economically unfeasible projects, deducted from revenue from sale of property, plant and equipment items, bidding sales, indemnities and expense reimbursements, fines and bonds, property leases, reclaimed water, and Pura and Aqualog projects and services.

(In current R$

	2013	2012	2011	2010
Net income	1.923,6	1.911,9	1.380,9	1.630,4
Financial result	483,2	295,7	633,0	378,8
Depreciation and amortization	871,1	738,5	768,7	552,2
Income tax and social contribution	732,0	635,7	498,1	662,7
Other operating expenses, net [6]	(3,3)	23,2	90,3	(1,6)
Adjusted EBITDA	**4.006,6**	**3.605,0**	**3.371,0**	**3.222,5**
Adjusted EBITDA Margin	**35,4**	**33,6**	**34,0**	**34,9**
Construction revenue	(2.444,8)	(2.464,5)	(2.224,6)	(2.130,6)
Construction cost	2.394,5	2.414,4	2.177,0	2.081,1
Adjusted EBITDA without revenue and construction cost	**3.956,3**	**3.554,9**	**3.323,4**	**3.173,0**
Adjusted EBITDA margin without revenue and construction cost	**44,6**	**43,0**	**43,2**	**44,7**

WORKING TO RESTORE THE ENVIRONMENTAL BALANCE

Our environmental management, set forth in the guidelines proposed in our Environmental Policy, is inherent to the provision of sanitation services and the essence of our business. In order to move toward consolidating an environmental culture, the company prioritizes the internal and external dissemination of knowledge and experience related to environmental good practices. These are actions present in the corporate environmental management programs, which involve the participation of co-workers, the community and partnerships with nongovernmental organizations.

In 2013, R$32.5 million were invested in environmental programs and projects.

Environmental Management System and ISO 14001 certification

We have a program aimed at improving our operating management for the gradual implementation of the Environmental Management System (SGA) in our sewage treatment plants (STPs) and the water treatment plants (WTPs), associated to the ISO 14001 certification of part of the currently operating treatment plants that we consider strategic.

The SGA implementation, according to the ISO 14001 model, was first carried out in 65 treatment plants, and this scope is being increasedincreased year after year, with targets set until 2020, due to the complexity of the model at hand. We chose the facilities based on the Sabesp's geographic reach, the different types of treatment processes employed, and the different station sizes, aiming at ensuring that all types of facilities are covered and, as consequence, optimize the replication of the established practices.

Thus, in the first half of 2013, the SGA was implemented in another 30 STPs, totaling 95 plants to date with a SGA in place, and we maintained the total number of certified STPs at 50. By the date this report was completed, we had started a new cycle of external audits and we expect to keep this certification. Also in 2013 we started to implement the SGA in another 34 treatment plants, which we expect to complete in 2014. Of the R$21.5 million invested under this Program since 2009, most of the funds were used to meet the plant management and infrastructure requirements, which increased operating safety, aimed at reducing risks, accidents, the generation environmental liabilities, and encouraging the development of preventive actions.

Climate change and management of greenhouse gas emissions

Sanitation is one of the most highly affected industries by climate change and the related extreme events. Among the potential impacts, we should highlight a decrease in ground water, increased water demand both in urban areas and by farming, increase in the competition for water resources, damages to physical structures and impacts on the functionality of treatment systems, off-season and more concentrated water flows, lack of energy security, and increase of sea level coupled with a saltwater intrusion risk.

The investments that could be required to manage the climate change effects are hard to measure because we still lack the technology that can accurately forecast our potential resulting costs, also taking into account the inherent complexity of this issue and available studies. There could be an increase in the expenses incurred on compliance with environmental regulations and to prevent and remediate the physical impacts of climate change.

To minimize the greenhouse effects and the consequent climate changes, we have been developing a Corporate Greenhouse Gas (GHG) Emission Management Program to reduce and manage these emissions. One of the program’s actions is taking annual inventories of GHG emissions, an important control tool to monitor the other involved activities.

In 2013 we completed the corporate GHG inventories for the past two years. In 2011, our emissions totaled 1,987,644.67 tCO2e and 2,141,111.06 tCO2e in 2012. We observed that the trend suggested by the previous inventories has been confirmed, namely that the sewage treatment activities (scope 1) continue to be the largest sources of GHG emissions, making up for more than 91% of the CO2e emissions. The growth in emissions from the source Collected and Treated Sewage is explained by the expansion of our services, aimed at the universal service goal.

The largest source of emissions was electricity (scope 2), which increased by 145 % compared to the previous year and results from the expansion of the use of thermal power in the Brazilian energy mix.

Emissions deriving from administrative activities, in particular emissions from vehicle use account for approximately 1% of total emissions (scope 3).

Proceeding with the Program, the company has been discussing the basis of its Climate Change Corporate Policy. Our strategy includes identifying mitigating actions, broadening these actions' scope, managing possible operational risks posed by climate change, and identifying opportunities, by increasing our resilience and implementing new technologies. Some of our initiatives already in place to reduce energy security-related risks include building a small hydropower plant and tapping the biogas generated in sewage treatment. As for the risk of a decrease in available water, we are seeking to adapt to a new water scarcity scenario due to climate change through the Corporate Loss Reduction Program, the Rational Water Use Program, and the increase in the planned use of reclaimed water in urban areas and by the manufacturing industry.

The described actions are aligned with the guidelines da Climate Change State Policy (PEMC), to which we have been contributing, both through the corporate actions already in place and the preparation of actions to meet the state's target of reducing GHG emissions by 20 % by 2020 from the 2005 volumes.

We have also been part of the Carbon Disclosure Project (CDP) Climate Change for eight years. The CDP is an international initiative to standardize and organize the way companies disclose their inventoried GHG emissions, and potential climate change-related risks and opportunities.

Water resources management and spring protection

Sabesp is involved in and takes actions at several levels of the Water Resources National System, through the work of approximately 150 of our employees, from different company units, under corporate coordination. At the National Water Resources System level, we have a seat in the Plenary Session of the National Water Resources Council (CNRH) and seats in three of this Council's technical chambers; we are also represented in the Plenary Session and the technical chambers of the four federal committees with jurisdiction in the State of São Paulo. At the State System level, we are represented in the seven technical chambers of the State Water Resources Council and we have a seat in the Plenary Session of the 21 state watershed committees and technical chambers, where we prioritize our contribution to the Planning, Sanitation and Water Use Billing chambers.

Also aimed at improving the management of water resources as our primary raw material, we are monitoring the gradual implementation of the water use billing instrument, which aims at raising everyone's awareness of the economic value of water, the importance of using water rationally, and which grants part of the funds necessary to implement the actions planned by the members of the water resources recovery and preservation system.

We are also actively involved in the discussions about the classification of bodies of water, which is the forum where each watershed committee can set an arrangement ofof water quality goals linked to the main water uses. Both these major management instruments are directly related to our business. In 2013 we disbursed approximately R$27.1 million, paid to the State and the Federal Government for the use of water from the Paraíba do Sul River, Piracicaba River, Capivari River, and Jundiaí River watershed, the Sorocaba River and Mid Tietê River watershed, and the Santos Lowlands rivers watershed, and the Lower Tietê River watershed. The collection for the use of water from other watersheds in the State of São Paulo will start in 2014-2015.

Sabesp, reinforcing the relevance of its participation in the preservation of water resources, owns and maintains areas inside preservation units, which we inspect and monitor, and where we sponsor studies on biodiversity conducted by universities such as USP (São Paulo state university). We research facilities that can even be used for the nighttime animal observation.

Besides forest reserves, Sabesp maintains two forest nurseries and during 2013, it carried out educational voluntary actions to recover vegetation, planting more than 19,000 tree saplings.

As regard use permits and environmental licensing, all our plants are currently licensed under the Corporate Programs to Obtain and Maintain Water Resource Usage Right Permits and Environmental Licensing. We have filed use permit requests for all water uses with the relevant managing agency, many of which have already been granted and other are under analysis at the State Department of Water and Electric Energy (DAEE) and the National Water Agency (ANA). Obtaining licenses and permits for new projects is already an integral part of each project’s life cycle, i.e., a new project is only started if its’s environmentally licensed.

Sabesp Environmental Education Program (PEA)

We have been investing in a change in the culture of our employees and the community by promoting Sanitation and Environmental Education actions and projects, which have contributed to building social values, knowledge, abilities, attitudes, and skill aimed at preserving the environment, one of society’s common use asset, essential to the quality of life and sustainability.

At corporate level the Sabesp Corporate Environmental Education Program (PEA) comprises more than 100 Environmental Education activities in all our units. The main actions and projects are Clubinho Sabesp, the Rational Water Use Program (PURA), the Sabesp Millennium Day, Navega São Paulo, Abraço Verde, Prol, Ecopoints, Sabesp 3Rs, Community Involvement, Sabesp of All Colors, Fish Repopulation, Green Life, Futurágua, Clean Beach, and Small Scientists, entre outros. Many of these projects startedstarted from local initiatives and afterward expanded companywide.

The Environmental Education projects for the community pass on concepts, in a fun, interactive way, through theater, dance, music, mimes, drawing workshops, manuals, exhibits, fish repopulation, forestation, stream, river and beach cleaning, guided tours to treatment plants, educational lectures, etc. There are mainly aimed at children and young adults, public and private school students, teachers, and lower-income communities.

In 2013, we conducted almost 2,000 lectures in schools, communities, and businesses, reach an audience of 170,000 people. We also organized 1,500 guided tours to our facilities, to approximately 65,000 visitors.

In order to disseminate and deepening an environmental sanitation culture among our employees that fosters an interconnected, integrating and strategic vision about environmental management, the Sabesp Corporate Environmental Education Program (PEA) have trained 2,400 employees to act as multipliers within their own units since 2007.

In 2013 we trained more than 500 employees and we have been investing in in-company training specifically focused on our own reality and the situation in the sanitation industry. We also trained, through the Sanitation, Health, and Environment course, more than 50 employees who work as Community Liaisons in the context of the São Paulo Metropolitan Region Community involvement Program.

Good environmental practices in administrative areas

The Sabesp 3Rs Program is being implemented in our units since 2007, through a procedure that defines the management guidelines for the solid waste generated by administrative activities, which establishes Sabesp's standard approach.

The program includes employee and outsourced worker training and implementing facilities for: selective collection, temporary storage, and responsible socio-environmental disposal of solid waste, in accordance with the prevailing legislation and in association with waste collector cooperatives.

Additionally, we develop Environmental Education practices that encourage our employees to adopt responsible consumption and waste minimization habits, both within the corporate environment and socially speaking.

In 2013 we sent 380 tonnes of solid waste generated by administrative activities for recycling.

The implementation of the Sabesp 3Rs Program in some units includes innovations, as in the case of Caraguatatuba, by building a Waste Storage Unit and a Composting Site by the headquarters of the North Shore Business Unit, where the Porto Novo Water Treatment Plant is also located. These facilities are intended for the temporary storage of recyclable solid waste, subsequently sent to waste collector cooperatives, and composting organic waste generated in this unit, to be used as soil conditioners.

In line with the sustainable use of natural resources, in February 2014 we obtained the LEED (Leadership in Energy and Environmental Design) certificate, awarded by the USGBC (United States Green Building Council) for the set of sustainable solutions adopts. The new building was built in a 19,000 square-meter plot and has 391 square meters in built-up area. The remaining 13,000 square meters, i.e., 70 % of total, are green areas. The building meets the requirements of six sustainability categories: space, rational water use, energy efficiency, natural materials and resources, internal environmental air quality, and innovation and design.

Another outstanding initiative is the Vehicle Fleet Renovation Program, one of the mitigation actions with which we have contributing to reduce greenhouse emissions, besides offering greater efficiency to operations. In 2013, we advanced in replacing our light vehicle fleet, replacing them with Flex technology compulsorily fueled with ethanol. We reached the percentage of 77% for light vehicles and 65% for heavy fleet, whose technology complies with Law Euro-5 of reducing pollution emissions.

The economic benefits and management revamp brought by the Program are added to the environmental relevance, such as reduction of fuel consumption, maintenance savings, documentation and revenues from replaced vehicle auctions (R$15.4 million in 2013), besides the decommissioning of the company's asset base. With this program, we reduced the need of 615 vehicles to operate at the same time the fleet availability increased from 85% to 98%. This means that, without the need of maintenance downtime, we managed, within one year, to serve 48 days more with the same number of vehicles.

VALUING THE QUALITY OF LIFE AND THE RIGHTS OF CITIZENS

At Sabesp we believe that a company can and should, especially in the case of a state-owned company as our own, inspire, serve as role model, take actions that encourage change in behavior that have a broader contribution to the social development of the populations in its area of influence.

Because of our broader resources, organization and relationships than those of individuals, we have the ability to act as a transformative core in our surroundings and, by extension, society as a whole. This is the way we exercise our corporate citizen role by also broadly promoting the idea of citizenship among those with whom we are in touch.

Developing relationship, communication and engagement practices with our stakeholders (customers, shareholders, governments and the community) guided by ethical and transparency principles. We have created corporate guidelines on socio-environmental sustainability and valuing our human capital, aligned with our Code of Ethics and Professional Conduct, in our search for sustainable development, integrated management, respect for human rights, and the diversity and the improvement of quality of life.

In the social arena, we highlight the continuing volunteering to join global citizenship movements and compacts. We are partners of Instituto Ethos and every year we fill in the corporate social responsibility questionnaire that allows us to compare our practices with other market players.

Concurrently, for the sixth consecutive year, we renewed the certificate awarded by Fundação Abrinq–Save the Children as a child friendly company. To be entitled to this seal, every year we showcase the projects aimed at younger audiences, including, in 2013: Clubinho Sabesp, the Apprentice Program, and the Child Citizen Institute (ICC), of which we are cosponsors, dedicated to educating youngsters from families in financial and social disadvantagestrife, by promoting education, culture, and welfare in the São Paulo metropolitan region. In 2013, we contributed with R$2.9 million that allowed for free services for 7,000 children and adolescents, in nine daycare centers and three circus schools.

We support and encourage the compliance with UN's eight millennium goals, which are part of our Corporate Volunteering Program. Consisting of approximately 1,200 people, the group conducts 'campaigns that annual result in the tonnes of food, clothes, personal care products, books, magazines, etc. In addition, we take several social inclusion, apprenticeship, and child, elderly, handicap assistance actions. We also have a partnership with surrounding communities, NGOs, the State Government, city governments, schools, orphanages, daycare centers, and other entities.

In 2013 we highlight the Winter Clothing Campaign organized by FUSSESP (São Paulo State Solidarity and Social and Cultural Development Fund). This campaign is already part of our calendar as one of the most integrated and most successful corporate initiatives. Inspired by the campaign's motto "Good clothing is to give away", everyone worked hard to gather and donate good quality items. The campaign numbers are impressive: over 2.5 million items collected, distributed among 470 charities, and benefiting 58,800 families and 254,000 people.

These initiatives are in line with our Code of Ethics and Conduct, which values the respect to society and customer, the environment, people, integrity, competency and citizenship.

In order to ensure that these principles are observed, we have an Ethics Committee, a channel of in-house complaints and a corporate procedure to verify responsibilities. We also maintain an open channel to receive external complaints by means of the Ombudsman and Customer Service.

Customer relations

The pursuit for excellence in services rendered, as well as the approach standpoint and the opening of dialogue channels with our stakeholders is one of our strategy's pillars of a performance integrated by different approach actions and the strengthening of partnerships with society. Within the list of initiatives, we highlight in 2013 the innovative Accountability caravan held throughout the state. With a team composed of the company's top management (chief executive officer, executive officers and headsheads), 16 events were held comprising all the company's business units. At these occasions, Sabesp's Capex was presented for the 2011 – 2014 four-year period and mayors of municipalities were able to explain their demands. We had a total of 2,781 attendances, among mayors, authorities, employees and journalists.

The continuous improvement of the services provided springs outout of our strategic planning (2011-2020) also was reflected in the online environment, with the improvement of our Virtual Office, available on our website. In 2013, approximately 80 % of services available in an on-site office are now offered online. It is worth mentioning that this environment was developed to ensure the digital inclusion of the visually impaired and we also offer the possibility of issuing a Braille bill on demand by the customer.

The improvement of our relationship with customers also includes our call centers, where 100 % of calls are answered within 60 seconds or less. We offer on-site service in 391 offices and service points, of which 65 are located in the São Paulo Metropolitan Region and 326 in the São Paulo inland and coastal regions.

Currently 100% of the cities served have meter reading, bill issue, and water and/or sewage service calculation on spot, at the customer's home, through a TACE (External Customer Service Technician). Technicians are also trained to clarify doubts and provide guidance to any customer, thus saving him or her a trip to the nearest Sabesp office.

The need of a trip can also be avoided with the consolidation of the process that automatically reimburses or bills over- or underpayments in future bills. Once a month, we correct credits or debts in approximately 30,000 bills. We launched a new monthly consumption bill layout that reorganizes information to make reading and understanding easier. We added information on the taxes levied on the bill and calculation statement is more detailed.

Customer surveys and satisfaction

We conduct an annual satisfaction survey with our customers since 2004, always using the same methodology, which allows us to compare the performance of different business units throughout different periods. Our goal is to enhance customer services based on the survey's results.

In 2013, we maintained a general satisfaction with the company at 89%. We believe that we were able to maintaining a good result mainly due to the quality and regularity of water supply: 91% of 5,860 respondents stated they were "satisfied" or "very satisfied" with services.

We also began conducting satisfaction surveys in each municipality where we have a program contract. The surveys are conducted every two years. In 2013, the survey was conducted in 138 cities. Survey results guided the enhancement of our customer service. The surveys are widely disclosed, thus strengthening our commitment to transparency and constant improvement of services provided.

Ombudsman Office

Our Ombudsman Office has a customer service structure and team capable of receiving different types of opinions on the services provided by us. In 2013, we saw a 45 % reduction in the total number of complaints filed against Sabesp with the São Paulo State Sanitation and Power Regulatory Agency (ARSESP).

This was the fourth year in a row Sabesp will not be in the annual ranking of the 50 companies with most grounded complaints issued by Fundação Procon (State customer protection agency). We believe that this reflects our respect for the customer, set forth in our vision, and our search for service excellence, which result from planning and the successive improvement cycles, one of this administration's trademarks.

Relationship with suppliers

The valuation of ethics, transparency and criteria that take into account social and environmental concerns is also present in the company’s relationship with suppliers. Our purchases rely on meeting criteria that observe strict quality standards and have the social and environmental seal granted by the State Program of Sustainable Public Contracts. Enacted by State Decree nº 50.170/05, this seal signals to the supplier market the São Paulo State Government’s intention of adjusting its consumption profile to the sustainable development international guidelines.

In addition, we are pioneers among the governmental entities to implement an electronic purchase process in the country, speeding up and simplifying bidding processes. This measure increases competitiveness in prices and reduces the costs involved. In 2013, we also work jointly with other 18 strategic suppliers for our businesses (melted iron and PVC pipes) to include them in our records.

Our objective is to provide greater competitiveness in the bidding process and improve the quality of products employed by Sabesp. In this regard, in 2013 approximately 10,000 inspections were carried out in supplies and equipment. We also carried out inspection procedure to evaluate the material conformity with technical specifications and standards. Established by Decree 59.327/13, the renegotiation of contractscontracts was also another beneficial measure for business through which we got discounts of R$11.8 million.

Valuing Our Human Capital

The goal of our People Management policy is to attract, develop, motivate and retain people, by investing in their talents and enhancing the skills of both our employees and our leaders.

Our 2011–2020 strategic planning establishes “Human Capital as a Competitive StrengthStrength” as one of our Guidelines, to develop integrated actions that will sustain our leadership position in the sanitation industry, by increasing our business scope, and seizing market opportunities.

In 2013 there was a series of people management projects and actions specifically designed to advance this guideline.

Career and Salary Plan (PCS)

The principle guiding the design the principal Career and Salary Plan (PCS) was that it had to be challenging and motivating, aimed at attracting, retaining, rewarding good employees, recognizing overachievers, and fostering continuing skill progress, thus helping to build competitive edges in the environmental sanitation sector.

The PCS is aligned with Skill-based People Management, which consists of the following guidelines: manage human resources more independently and flexibly; follow the best market practices; include actions to tract and retain good employees; pay compensation according to the market average; maintain a regional salary policy; increase the mobility budget; reduce the career advancement time; and recognize personal qualification improvement efforts.

Skill- and Performance-Based Assessment

An employee’s career advancement is contingent to his or her Skill and Performance Assessment and the budget.

The first assessment cycle, called “Assessment Week”, took place in January 2013, when all our employees and managers were asked to make this assessment in an on-line application, available on Sabesp portal. As a result, in February 2013, approximately 5,500 employees were promoted and become entitled to salary increases of 5%, 10% or 15%.

From a professional development standpoint, the skill and performance assessment is used to generate the Individual Development Plan (PID) of each employee, and during the first assessment cycle our Managers made approximately 28,000 professional development recommendations, using on-line courses, in-class programs, congresses, books, teaching or business videos, benchmarking, on-the-job training, etc. The highest number of recommendations focused on on-line courses, with 44.4 % of total recommendations. The Skill and Performance Assessment System that we currently use has been enhanced in 2013 by a group consisting of representatives from our Departments and labor unions, who analyzed and proposed improvements. In November 2013 we held a new skill and performance assessment cycle to proceed with our scheduled annual cycles.

It is worth noting that this is a dynamic, continuous process that allows us to reach a new level of skill development, which are key to meet the challenges take up by the entire societysociety.

Strengthening Sabesp’s Leadership

The Sabesp Corporate University (UES) is responsible for leader and employee development, focused on skills, performance and organizational culture, and by continuously preparing our organization for its business challenges.

The highlight among UES’s actions is the Management Excellence Program (PEG), which aims at develop our leaders, whose main challenge is to help reaching sustainable, responsible universal water and sewage services by the end of the current decade.   This program, which begun in 2012 and continues in 2013, has already been attended by 360 managers and covered strategic issues such as result-driven management, people valuation and development, incentive to creativity and innovation in work processes. The program is developing as partnership with Fundap and offers a range of activities: in-class courses, lectures, workshops, manager profile assessment, and coaching, consisting of career guidance aimed at achieving goals that increase performance and contribute to the management results effectiveness.

In 2013, after a careful assessment process, we formed a class of 40 managers who started to attend an MBA program at Fundação Instituto de Administração (FIA), which is intended to improve the students’ knowledge of advanced business administration subjects.

Succession and Career Program

The need to replace our current leaders and the fact that 50 % of our managers and headswillheadswill retire in the next five years, required us to prepare their successors. Our succession and career program aims at developing a new generation of leaders, culturally aligned and ready to face competitivenesscompetitiveness and ensure the business sustainability. In this context, 85 prospective future leaders undergoundergo an intense development process, covering: profile and potential assessment, MBA, language courses, coaching, and performance monitoring. The Corporate University expects to be able, through these initiatives, to provide differentiate qualification to these professionals so that they are able to respond to our increasing business challenges.

Enhancing our employees' skills

The programs developed by the UES are designed in accordance with the guidelines and requirements set forth by our three-pronged organizational strategic planning: core business skills, technical qualification, and organizational culture and strategy. Their pillars are the Corporate Education, Knowledge Management, Socio-environmental Responsibility premises.

To make its programs feasible, UES uses a learning framework that mixes in-class methods with self-development, knowledge sharing practices, and distance learning. These different teaching approaches are used to promote both formal learning and informal learning, the latter having a key role in knowledge knowledgeretention and sharing within our organization.

In 2013 the Sabesp Corporate University offered the following development opportunities:

- Investment of R$13.7 million in strategic courses and programs related to Sustainability, Corporate Governance, Environment, Social Responsibility, Occupational Safety and Health, and core business skills;

- 450 distance learning courses available to all employees, totaling approximately 47,000 visits;

- 160 grants to employees to attend post-graduation courses aimed at ensuring that employees receive business strategy training;

- 41 grants to technical and operating area employees to attend mid-level technical courses on subjects related mainly to the Environment and Basic Sanitation to increase their professional skills and, consequently, improve the services provided to our customers;

- Grants to 366 employees from different departments to attend language courses, which help them improve their performance in activities that require knowledge of English or Spanish, and also allow them to research and write technical documents in a foreign language, appropriately talk to and communicate with foreign professionals visiting Brazil or when they travel abroad.

- Behavioral and Technical qualification courses attended by 1,000 Managers and Delegated Appraisers specifically for the Skill and Performance Assessment process**.**

- Education Arrangement Program that involves 135 private teaching institutions that grant discounts from 5% to 40% on the monthly tuitions of their: graduation, post-graduation, secondary school, elementary school, technical, preschool, language, adult education, and literacy courses.

We are committed to investing in people and building a quality and trust relationship with our employees by creating a work environment that rewards each employee's talent and allows everyone to contribute to the achievement of our goals. To retain our employees in an increasingly competitive market requires us to constantly seek the best people management practices. We believe that combination of such qualified experiences and the search for new talent will ensure our sustainable growth.

Workforce

Currently our organization has 15,015 employees, whose contracts are governed by the Brazilian Labor Code (CLT). We employ mostly men (80%), with a high school degree (51%), white (82%), over 40 years of age (73%). The average turnover is 17 years.

We also engage service providers, as required. Currently we have approximately 7,108 contractors. We also employ 924 interns and 491 young apprentices—who combine a job opportunity to with chance of attending qualification courses.

Building a more equitable and sustainable society necessarily entails valuating diversity and social inclusion. The respect for human and cultural diversity and nondiscrimination are part of our core principles. We guarantee that right to difference, ensuring each worker, regardless of his or her background, all the conditions to develop his or her talents and potentialities. We comply with relevant laws as to the right of reserved vacancies offered in public selection processes to individuals with disabilities. In 2013 we had 71 positions occupied by individuals with disabilities, where 73 % by physically impaired, 18% by hearing impairment, and 8% by visually impaired employees. Since 2005 we also have an agreement with the Association for the Promotion of Individuals with Disabilities (AVAPE), under which we currently employ 103 individuals with disabilities who work in customer service points and have received 108 hours of prior training.

Benefits - Our policy is to grant benefits that contribute to improving the quality of life and wellbeing of our employees. This increases the attractiveness for outside workers, fosters talent retention, and ensures a better performance and the streamlining of benefit management. Our benefit package includes: Benefit Card – Food Staples Basket and Discounts at Supermarkets and Pharmacies, and a Meal Card. These benefits are granted to all employees, regardless of their working hours, position, gender or ethnicity.

Employees with legal custody of children are granted a childcare allowance or can use our Daycare Center, for children from 6 months to less than six years old. We have reimbursement forfor the expenses incurred by employees with physically and or mentally disabled children on their treatment in specialized institutions equivalent to up to two times the amount of the childcare allowance, with no age limit. Employees on sick or accident leave whose salary is higher than the ceiling allowance paid by social security are automatically granted a salary supplement during up to six months.

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In addition to these benefits, we also subsidize healthcare and pension fund benefits for all employees, through Fundação Sabesp – Sabesprev. In 2013 we contributed with 2.6% of the monthly payroll to the employees' pension plan.

In 2010 we created the Previdenciário Sabesprev Mais Pension Benefit Plan (a defined contribution plan) due to the need to resolve the technical actuarial deficit of the Basic Pension Benefit Plan (a defined benefit plan), currently estimated at R$600 million. We then started to migrate plan participants from one plan to the other, while the employee's labor union and retirees association were granted an injunction by courts to suspend the migration process.

In December 2011 we entered into an agreement with the labor union to seek alternatives to solve the litigation. The judge in charge of the lawsuit, however, ordered the expert evidence.

As regards the healthcare plan, in December 2013 we engaged Fundação Instituto de Pesquisas Econômicas – FIPE, a research institute, to prepare actuarial analyses and studies of the plans managed by Fundação Sabesp de Seguridade Social – Sabesprev for active employees, former employees, an retirees, as agreed with the labor union.

Quality of Life and Occupational Health and Safety

The Sabesp Quality of Life Program was designed to comprise actions integrated and fine-tuned with the main aspects that influence people's quality of life and all the human development conditions necessary to work.

It main purpose is to "Build a work environment that fosters productivity, quality of life and well-being, contributing to reducing absenteeism and improving the organizational climate."

The initiatives promoted in 2013 include:

- ***The Challenge Day:*** a worldwide physical activity campaign held on every last Wednesday of May, a day dedicated to the quality of life. Consisting of more than 200 activities that include spots matches, dance, gymnastics, power walking, etc. Our participation in 2013 involved more than 6,100 employees and this number was included in the official world total.

- ***Arrangements with Fitness Gyms:*** we entered into arrangements with several fitness gyms in São Paulo state capital, and inland and coastal cities. Our employees are entitled to discounts in monthly fees that can be extended to their dependents.

- **Blood Donation Campaigns** in association with Blood Centers and Hospitals, including sensitization and awareness building actions about the importance of giving blood, which resulted in a total of 417 blood bags collected in 2013.

- **Employee Assistance and Recovery Program (PARE)**, in 2013, the program celebrated 20 years of implementation at Sabesp. It assists employees with more than three

(3) months of employment relationship and with alcohol addiction, other drugs and smoking problems. Treatment takes place in specialized clinics accredited by Sabesprev, subsidized by SabesSabes, such as outpatient clinic or hospitalized. Since its implementation, 1,320 employees were assisted, currently, we have 260 alcohol and drug addicted people enrolled. For tobacco, 640 employees were assisted, of which 204 stopped smoking, improving their Quality of Life.

- **Pink October and Blue November** - In October and November our employees joined the campaigns Pink October, dedicated to women and focused on the fight against breast cancer, and Blue November, dedicated to men and focused on the fight against prostate cancer. To show their commitment to these causes, the employees dressed in pink every Friday in October and dressed in blue every Friday in November. As it happen all around the world, several Sabesp buildings were illuminated with the corresponding colors and we have taken other important actions, such as information lectures, video screenings, and testimonial talks about the importance of prevention and early diagnosis.

The purpose of our Occupational Health and Safety Management is to ensure the implementation of actions that promote the development of a companywide prevention culture and the improvement of working conditions, improving the quality of life of our employees and contractors.

The System is certified by the OHSAS PR1/PR2 standard and encompasses 72 locations within the scope of digging services and works, and work in confined spaces carried out in public ways, which were recertified in 2013 by Bureau Veritas.

A quarter of our staff work in formal safety and health committees, and are involved in activities such as: systematization, monitoring and specific programs. We should highlight the efforts and engagement of the 4,000 Internal Accident Prevention Commission (CIPA) members, emergency brigade members, and Specialized Occupational Health and Safety Engineering Services professionals.

Sabesp works with formal health and safety committees concerned with CIPA and fire brigades.

The programs developed for occupational safety and health have gradually resulted in a gradual decrease in the frequency and severity of accidents. The most frequent accidents are traffic accidents (28%), falls (24%), and collisions against moving or fixed objects (18%). Human behavior (68%) is the main cause of accidents due to overconfidence and noncompliance with safety procedures.

This year we have invested approximately R$12 million in accident prevention. The main programs are: CIPA in Action (1,047 unsafe conditions identified and 75 % resolved); Note 10 Safety Campaign (3,904 inspections completed); Occupational Health and Safety Training (40,000 participants) and Prevention Minute (2,460 events, with 39,338 participants); You in Traffic: Motorcycle Accident Prevention; Occupational Health Medical Control (11,645 medical exams); Vaccination Campaign (11,343 employees vaccinated against the flu).

Satisfaction and commitment

Our Organizational Climate Management provides an analysis of the internal environment and monitors employee satisfaction, which provides inputs used in improving policies and processes. Build an engagement climate and advancing people management practices is a challenge for all of us, employees and managers.

In 2013 we triggered a broad employee sensitization process aimed at monitoring the Organizational Climate, consisting of attendance and distance lectures, involving more than 2,273 participants.

The survey consisting of 55 questions was completed online and covered leadership, valuation, equity, pride, and work environment variables. The survey was conducted in July-August 2013, managed by an external consultancy to ensure the secrecy and confidentiality of the process, and was answered by an impressive 73 % of our employees. In addition to the proposed affirmative sentences, the survey included key issues aimed at identify how much people are willing to wage on the organization. This key affirmative sentence: “Taking everything into consideration, this is a good place to work,” had one of the highest reply rates and in a very positive way for Sabesp. The survey showed that 77 % of our employees consider Sabesp a good place to work.

The market is increasingly acknowledging that the way employees experience their work environment has a strong impact on their performance and motivation. The survey results were determined in the form of a Favorability Ratio and represent the percentage number of favorable replies to total replies. The respondents expressed their opinions on their teams and Sabesp and, therefore, we were able to identify that the employees’ perception is more favorable to the team (61.9%) than the organization (56.1%) by 5.8 percentage points. The average Favorability Ratio or satisfaction was 59 %. The results are currently being worked into action plans for 2014.

Labor relations

We encourage and support our employees to get involved in any type of entities and associations, as is their right and helps in their individual development and the improvement of the organizational climate. All our employees are entitled to freedom of association, are represented by a union, and are parties to collective labor agreements.

We conduct negotiation processes responsibly and with transparency, and value the healthy dialogue with trade unions. We also meet at any time to discuss reasonable proposals that aim at meeting the expectations of our employees and keeping a good organizational climate, within the limit of our financial capacity and governmental guidelines. In 2013 there were no situations in which this right to freedom of association and negotiation were at risk.

We conduct annual negotiation with the five main labor unions representing the majority of our employees (90%): the São Paulo Water, Sewage and Environmental Workers' Union (SINTAEMA), the Santos, Santos Lowlands, Southern Shore and Vale do Ribeira Urban Industry Workers' Union (SINTIUS), the São Paulo State Engineers' Union (SEESP), the São Paulo Lawyers' Union (SASP), and the São Paulo State Mid-Level Technicians' Union (SINTEC). We emphasize that 80% of our employees have joined one of these unions voluntarily.

The 2013-2014 collective bargaining was completed in May and involved all the main labor unions. The parties agreed to a salary increase of 8 % and an average benefit increase of 15 %, and set the Profit Sharing Plan (PPR) rules. We emphasize that, as agreed with the labor unions during the 2012 collective bargaining on April 26, 2011 we made the final payment of the 2012 profit sharing bonuses, linked to the achievement of the established goals. The amount paid was R$52 million, to 100% of our employees.

Community partnerships for a better world

Our business has very intense interaction with the community, whether to build people's awareness on the importance of being connected to the sewage system, preserving the areas surrounding water sources, the rational use of water, or the impacts of diffuse pollution. One of our main projects is the **"Se Liga na Rede" ("Connect to the Network")** project, already detailed herein**.** We have other major initiatives in the education, cultural, sports, and citizenship promotion areas. We describe below some of our initiatives:

Eco-drives: Conducted in association with NGOs, where we encourage the community to get together to clean water streams. This initiative also aims at building the population's awareness about the need to get together and work to preserve the environment.

House competition: held in São Roque, SP, the campaign is sponsored by Sabesp, Brastemp and Finish. Approximately 780,000 liters of water were saved in two months, or average savings of 30 % from 2012. This is a pioneering initiative in Brazil and was developed to encourage rational water use. The saved water is equivalent to almost 80 tank trucks, enough to supply the 90 participating households during 2.5 years.

Support to the Second Congress of the Paraisópolis Women's Association: The congress gathered approximately two thousand people to discuss public policy for the women in this community, located in the south end of the São Paulo city. During two days, the participants were able to use services such as traveling court, Id and birth certificate issue, haircut, facial cleansing, etc.

Clubinho Sabesp: The website www.clubinhosabesp.com.br created a new relationship with children's and youngsters from 6 to 13 years old, through on-line gaming and characters. Launched in November, the club brings information to kids on rational water use, in playful, fun way. We also created the Cine Clubinho, a movie theater where we screen cartoons with messages on earth's preservation.

Movie School Project: Since 2000 we have sponsored 140 movies under the Audiovisual Act (since 2004). We are the São Paulo company that invests more in cinema and one of the three largest cinema sponsors in Brazil. This project has already brought more than 20,000 public school students to commented film sessions.

Inclusive film session: The film sessions exclusively for the visually impaired, using audio description, are another example of initiatives dedicated to inclusion. We were also pioneers in this regard and since 2012 we require that all movies sponsored by us include audio description.

Sponsorship of projects for individuals with disabilities: The Cadê Você (Where Are You) project was conceived by the Mara Gabrilli Institute and seeks to identify individuals with disabilities, living in the poorest communities in São Paulo city, to bring them information on the main services in their areas: health, work, sports, accessibility, education, and legal.

Aqua Mundo School Truck: Carried out by the EPTV Institute and the International Institute of Ecology and Environmental Management, and sponsored by us, the project consists of a school truck adapted with TV sets and tablets, and divided into different sections that such biodiversity, water, floods caused by littering, and integrative games that speak of the need for selective collection and the importance of environmental recovery.

“Um dia na Sabesp” (One Day at Sabesp) - learning about and taking care of nature: The purpose is to bring our organization closer to our employees’ children, showing how their parents’ work takes water to every household and collects and treats the sewage.

Paraisópolis Philharmonic Orchestras: Sponsored by Sabesp, they promote social inclusion through music, by offering free classes to children and adolescents living in the Paraisópolis community. Currently it teaches 150 children and adolescents in all types of musical styles: classic, popular, and folkloric.

More green areas

Also in 2013 we announced the creation of three green areas in properties owned by Sabesp, in the Cangaíba, Mooca and Butantã districts, thus increasing the number of areas in São Paulo city dedicated to sports and leisure, which are also places where we promote awareness about the importance of taking care of water resources. These areas, which have large reservoirs currently being recovered, are being transformed into parks that will be open to the population in the upcoming years.

Awards Received in 2013

National Quality Award (PNQ), granted by the National Quality Foundation to the Eat (ML) and North (MN) Business Units.

Iberian-American Quality Award (PIQ): First sanitation company to be recognized and win this international award.

São Paulo Management Quality Award, PPQG/2012, organized by the São Paulo Management Quality Institute (IPEG).

Abrasca Value Creation Award, granted by the Brazilian Association of Publicly Held Companies. We were the highlight of the “Sanitation and water and gas services” category for the third consecutive time.

Anefac 2013 Transparency Trophy: Publicly Held Companies with RevenueRevenue above R$5 billion Category, awarded by the National Association of Finance Executives.

Best of the Largest Annual Balance Sheet Award – Services Category, organized by the São Paulo Trade Association (ACSP) and the “Diário do Comércio” newspaper, granted to Sabesp for its profit generation and growth capacity.

Modern Consumer Award of Excellence in Customer Services: state public utility services, granted by the Modern Consumer magazine to the Metropolitan Department Call Center.

50 Do-Good Companies, Environment category, title awarded by the Isto É Dinheiro magazine for the Aquapolo Ambiental project.

Gold Medal Trophy and Highlight: awarded to the Billings Regional Management Unit (MS), the Interlagos Regional Management Unit, and the São Miguel Paulista Regional Office.

São Paulo Diversity Seal (full seal), awarded by the São Paulo State Government to Sabesp for reaching the most advanced professional and personal diversity policy level.

Learning & Performance Award Brasil 2013/2014: category Broad Corporate University, organized by Micropower, granted for the “Developing skills and managing performance for the business” project.

Abrinq Seal: for the sixth consecutive year, awarded by Fundação Abrinq – Save the Children, for Sabesp’s projects for young audiences: Child Citizen Institute (ICC), through which Sabesp is the cosponsor of nine daycare centers and three circus schools; Clubinho Sabesp, and the Apprentice Project.

Mário Covas Award - State Management Innovation Category: granted by the Mário Covas Foundation to the Center Business Unit (MC), as finalist for its initiative “Relationship with Lower-income Communities Focused on Loss Reduction – Vera Cruz”.

2013 Annual Social Report

C ompanhia de Saneament o B ásico
do Est ado de São P aulo - Sabesp

1– Calculation Basis	**2013 (thousand reais)**			**2012 Amount (thousand reais)**		
Net revenue (NR)			11,315,567			10,737,631
Operating profit (OP)			3,138,845			2,843,343
Gross payroll (GP)			1,927,078			1,498,445
2 – Internal Social Indicators	**Amount**	**% on GP**	**% on NR**	**Amount**	**% on GP**	**% on NR**
Meals	135,320	7.02%	1.20%	118,368	7.90%	1.10%
Compulsory payroll charges	160,195	8.31%	1.42%	144,082	9.62%	1.34%
Private pension	88,426	4.59%	0.78%	51,829	3.46%	0.48%
Healthcare plan	124,305	6.45%	1.10%	124,614	8.32%	1.16%
Occupational health and safety	12,494	0.65%	0.11%	10,983	0.73%	0.10%
Education	2,919	0.15%	0.03%	997	0.07%	0.01%
Culture	846	0.04%	0.01%	848	0.06%	0.01%
Professional training and development	10,785	0.56%	0.10%	11,788	0.79%	0.11%
Day-care assistance	2,154	0.11%	0.02%	1,797	0.12%	0.02%
Profit sharing	52,928	2.75%	0.47%	52,574	3.51%	0.49%
Other	4,178	0.22%	0.04%	4,164	0.28%	0.04%
Total - Internal Social Indicators	594,550	30.85%	5.25%	522,044	34.84%	4.86%
3 – External Social Indicators	**Amount**	**% on OP**	**% on NR**	**Amount**	**% on OP**	**% on NR**
Education	2,028	0.06%	0.02%	2,700	0.09%	0.03%
Culture	24,933	0.79%	0.22%	15,375	0.54%	0.14%
Health and sanitation	5,396	0.17%	0.05%	3,048	0.11%	0.03%
Sports	4,341	0.14%	0.04%	4,713	0.17%	0.04%
Hunger eradication and food safety	26	0.00%	0.00%	105	0.00%	0.00%
Other	10,606	0.34%	0.09%	12,253	0.43%	0.11%
Total contributions to society	47,330	1.51%	0.42%	38,194	1.34%	0.36%
Taxes (excluding payroll charges)	1,834,843	58.46%	16.22%	1,664,991	58.56%	15.51%
Total - External Social Indicators	1,882,173	59.96%	16.63%	1,703,185	59.90%	15.86%
4 – Environmental Indicators	**Amount**	**% on OP**	**% on NR**	**Amount**	**% on OP**	**% on NR**
Investments related to the Company's production / operation	17,096	0.54%	0.15%	7,569	0.27%	0.07%
Investments in external programs and/or projects	15,437	0.49%	0.14%	20,147	0.71%	0.19%
Total investments in environment	32,533	1.04%	0.29%	27,716	0.98%	0.26%

Concerning the establishment of “annual goals” to minimize w aste, general consumption in production /operation, and improve the efficiency in the use of natural resources, the Company	(x) does not have goals ( ) fulfills from 0 to 50%	( ) fulfills from 51to 75% ( ) fulfills from 76 to 100%		(x) does not have goals ( ) fulfills from 0 to 50%	( ) fulfills from 51to 75% ( ) fulfills from 76 to 100%	
5 – Staff Indicators		**2013**			**2012**	
Nº of employees at the end of the period		15,015			15,019	
Nº of employees hired during the period		536				
Nº of outsourced employees		7,108			7,372	
Nº of interns		924				
Nº of employees above 45 years		8,234			8,471	
Nº of female employees		3,047			3,018	
% of management positions held by female employees		19.03%			19.44%	
Nº of Afro-descendant employees		2,307			2,227	
% of management positions held by black employees		3.34%			3.49%	
Nº of physically-impaired employees or employees w ith special needs		174				
6 – Relevant information about the exercise of corporate citizenship		**2013 (thousand reais)**			**2014 Targets**	
Ratio betw een the highest and the low est compensation in the Company		20.1				
Total number of occupational accidents		165				
The social and environmental projects developed by the Company w ere defined by:	( ) management	(x) management and managers	( ) all employees	( ) management	(x) management and managers	( ) all employees
The safety and health standards in the w ork environment w ere defined by:	(x) management and managers	( ) all employees	( ) all +Cipa	(x) management and managers	( ) all employees	( ) all +Cipa
With respect to the trade union freedom, the right to collective bargaining agreement and the internal representation of employees, the Company:	( ) does not get involved	(x) follows OIT standards	( ) incentivates and follows OIT	( ) does not get involved	( ) will follow OIT standards	(x) will incentive and follow OIT
The private pension plan includes:	( ) management	( ) management and managers	(x) all employees	( ) management	( ) management and managers	(x) all employees
The profit sharing includes:	( ) management	( ) management and managers	(x) all employees	( ) management	( ) management and managers	(x) all employees
In the selection of suppliers, the same ethical and social and environmental responsibility standards adopted by the Company:	( ) are not considered	( ) are suggested	(x) are requried	( ) will not be considered	( ) will be suggested	(x) will be required
With respect to the employees participation in voluntary w ork	( ) does not get	( ) supports	(x) organizes and	( ) does not get	( ) will support	(x) will organize

programs, the Company:	involved		encourages	involved		and encourage
Total number of consumer's complaints and comments	in the Company (ombudsman) 48,067	in Procon CIP 1221 JEC/Conc. 330	In Court	in the Company n/a	n/a	n/a
% of complaints and comments received or solved:	in the Company (ombudsman) 99.0%	in Procon CIP 95.0%	in Court JEC/Conc. 82%	in the Company n/a	n/a	n/a
Total value added to distribute (in thousands of R$):	**In 2013: 6,656,476**			**In 2012: 6,133,683**		
Distribution of value added:	27.6%government 6.9%shareholders 22.0%retained	26.3%employees 17.2%outsourced		27.1% government 7.4%shareholders 23.8%retained	25.8%employees 15.9%outsourced	

Other information

"This Company does not use child or slave labor, is not involved w ith prostitution or sexual exploration of children or adolescents and is not involved in corruption."

"Our Company values and respects the internal and external diversity."

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Statement of Financial Position as of December 31, 2013, 2012 and January 1, 2012

Amounts in thousands of reais

Assets	**Note**	**December 31, 2013**	**December 31, 2012 Restated**	**January 1, 2012 Restated**
Current assets				
Cash and cash equivalents	6	1,782,001	1,915,974	2,142,079
Trade accounts receivable	8 (a)	1,120,053	1,038,945	1,072,015
Accounts receivable from related parties	9 (a)	134,855	109,273	185,333
Inventories		58,401	53,028	44,576
Restricted cash	7	10,333	64,977	99,733
Recoverable taxes	16 (a)	87,405	118,421	117,893
Other accounts receivable		61,039	29,980	43,065
Total current assets		3,254,087	3,330,598	3,704,694
Noncurrent assets				
Trade accounts receivable	8 (a)	395,512	335,687	333,713
Accounts receivable from related parties	9 (a)	130,457	153,098	170,288
Indemnities receivable		-	-	60,295
Escrow deposits		54,827	53,158	54,178
Deferred income tax and social contribution	17	114,030	145,302	142,603
Water National Agency – ANA	10	107,003	108,099	100,551
Other accounts receivable		94,952	111,047	35,034
Investments	11	23,660	20,826	21,986
Investment properties	12	54,039	54,046	52,585
Intangible assets	13	23,846,231	21,967,526	20,125,721
Property, plant and equipment	14	199,496	196,710	181,585
Total noncurrent assets		25,020,207	23,145,499	21,278,539
Total assets		28,274,294	26,476,097	24,983,233

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Statement of Financial Position as of December 31, 2013, 2012 and January 1, 2012

Amounts in thousands of reais

Liabilities and equity	**Note**	**December 31, 2013**	**December 31, 2012 Restated**	**January 1, 2012 Restated**
Current liabilities				
Trade payables and contractors		275,051	295,392	244,658
Current portion of long-term loans and financing	15	640,940	1,342,594	1,629,184
Accrued payroll and related charges		314,926	267,332	243,502
Taxes and contributions	16 (b)	115,382	152,710	180,794
Interest on shareholders' equity payable	21 (c)	456,975	414,355	247,486
Provisions	18 (a)	631,374	565,083	764,070
Services payable	20	323,208	389,091	383,116
Public-Private Partnership – PPP	13 (j)	20,241	24,357	12,693
Program Contract Commitments	13 (d) (iv)	77,360	148,220	62,287
Other liabilities		116,924	159,055	188,356
Total current liabilities		2,972,381	3,758,189	3,956,146
Noncurrent liabilities				
Loans and financing	15	8,809,134	7,532,661	6,794,148
Taxes payable		-	-	18,363
Deferred Cofins and PASEP		129,849	123,731	114,106
Provisions	18 (a)	549,008	624,071	807,759
Pension obligations	19 (b)	2,327,016	2,592,550	2,016,327
Public-Private Partnership – PPP	13 (j)	322,267	331,960	416,105
Program Contract Commitments	13 (d) (iv)	88,678	87,407	130,978
Other liabilities		145,160	168,766	184,358
Total noncurrent liabilities		12,371,112	11,461,146	10,482,144
Total liabilities		15,343,493	15,219,335	14,438,290
Equity	21			
Capital stock		6,203,688	6,203,688	6,203,688
Capital reserve		124,255	124,255	124,255
Earnings reserves		6,736,389	5,387,634	4,217,953
Other comprehensive income		(133,531)	(458,815)	(953)
Total equity		12,930,801	11,256,762	10,544,943
Total equity and liabilities		28,274,294	26,476,097	24,983,233

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Statement of Income for the

Years ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

	Note	2013	2012 Restated
Net operating income	24	11,315,567	10,737,631
Operating cost	25	(6,816,263)	(6,449,951)
Gross profit		4,499,304	4,287,680
Selling expenses	25	(637,103)	(697,252)
Administrative expenses	25	(729,117)	(717,377)
Other operating income (expenses), net	27	3,296	(23,175)
Equity results	11	2,465	(6,532)
Operating profit before financial result		3,138,845	2,843,344
Financial expenses	26	(602,910)	(578,230)
Financial income	26	386,110	333,129
Foreign exchange result, net	26	(266,446)	(50,571)
Financing cost, net		(483,246)	(295,672)
Profit before income tax and social contribution		2,655,599	2,547,672
Income tax and social contribution			
Current	17 (d)	(742,578)	(593,743)
Deferred	17 (d)	10,538	(42,029)
		(732,040)	(635,772)
Profit for the year		1,923,559	1,911,900
Earnings per share - basic and diluted (in reais)	22	2.81	2.80

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Statement of Comprehensive Income for the

Years ended December 31, 2013 and 2012

Amounts in thousands of reais

	Note	2013	2012 Restated
Profit for the year		1,923,559	1,911,900
Other comprehensive income		325,284	(457,862)
Items which will not be subsequently reclassified to the statement of income:			
Actuarial gains and (losses) on defined benefit plans	19 (b)	325,284	(457,862)
Total comprehensive income for the year		2,248,843	1,454,038

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

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Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Statement of Changes in Equity for the

Years ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

				Earnings Reserves					
	Note	Capital stock	Capital Reserve	Legal Reserve	Investments Reserve	Additional proposed dividend	Retained earnings	Other Comprehensive income	Total
Balances as of December 31, 2011 –as originally published		6,203,688	124,255	521,219	3,408,591	288,143	-	-	10,545,896
Recognition of actuarial liability CPC 33 (R1) / IAS 19, net of taxes		-	-	-	-	-	-	(953)	(953)
Balances as of December 31, 2011 - restated		6,203,688	124,255	521,219	3,408,591	288,143	-	(953)	10,544,943
Net income for the year		-	-	-	-	-	1,911,900	-	1,911,900
Actuarial gains (losses)	19 (b)	-	-	-	-	-	-	(457,862)	(457,862)
Total comprehensive income for the year		-	-	-	-	-	1,911,900	(457,862)	1,454,038
Legal reserve	21 (e)	-	-	95,595	-	-	(95,595)	-	-
Interest on shareholders' equity (R$ 1.99 per share)	21 (c)	-	-	-	-	-	(454,076)	-	(454,076)
2011 additional dividends, approved		-	-	-	-	(288,143)	-	-	(288,143)

(R$ 1.26 per share)									
Additional proposed dividends		-	-	-	-	80,201	(80,201)	-	-
Transfer to investments reserve		-	-	-	1,282,028	-	(1,282,028)	-	-
Balances as of December 31, 2012 - restated		6,203,688	124,255	616,814	4,690,619	80,201	-	(458,815)	11,256,762
Net income for the year		-	-	-	-	-	1,923,559	-	1,923,559
Actuarial gains (losses)	19 (b)	-	-	-	-	-	-	325,284	325,284
Total comprehensive income for the year		-	-	-	-	-	1,923,559	325,284	2,248,843
Legal reserve	21 (e)	-	-	96,178	-	-	(96,178)	-	-
Interest on shareholders' equity (R$0.6684 per share)	21 (c)	-	-	-	-	-	(456,845)	-	(456,845)
2012 additional dividends, approved (R$ 1.99 per share)		-	-	-	-	(80,201)	-	-	(80,201)
Additional proposed dividends		-	-	-	-	80,620	(80,620)	-	-
Withholding income tax on interest on shareholders' equity attributed as minimum mandatory dividends		-	-	-	-	(37,758)	-	-	(37,758)
Transfer to investments reserve		-	-	-	1,289,916	-	(1,289,916)	-	-
Balances as of December 31,		6,203,688	124,255	712,992	5,980,535	42,862	-	(133,531)	12,930,801

2013

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Statement of Cash Flows for the

Years ended December 31, 2013 and 2012

Amounts in thousands of reais

		December 31, 2012
	December 31, 2013	Restated
Cash flow from operating activities		
Profit before income tax and social contribution	**2,655,599**	**2,547,672**
Adjustments for:		
Depreciation and amortization	871,073	738,525
Residual value of property, plant and equipment and intangible assets written-off	28,498	12,059
Allowance for doubtful accounts	103,864	192,236
Provisions and inflation adjustment	202,730	201,196
Interest calculated on loans and financing payable	390,039	404,196
Inflation adjustment and foreign exchange gains (losses) on loans and financing	340,492	85,122
Interest and inflation adjustment losses	18,401	24,553
Interest and inflation adjustment gains	(7,671)	(12,862)
Financial charges from customers	(234,138)	(171,481)
Margin on intangible assets arising from concession	(50,248)	(50,072)
Provision for Consent Decree (TAC)	22,518	57,332
Indemnities receivable	-	60,295
Equity results	(2,465)	6,532
Provision from São Paulo agreement	3,168	2,466
Provision for defined contribution plan	9,167	5,728
Pension obligations	260,003	213,747
Other adjustments	(33,576)	34,772
	4,577,454	**4,352,016**
Changes in assets		
Trade accounts receivable	(11,515)	56,003
Accounts receivable from related parties	5,586	60,450
Inventories	(6,133)	(8,858)
Recoverable taxes	31,016	(29,758)
Escrow deposits	(1,669)	1,020
Other accounts receivable	(13,868)	(77,613)
Changes in liabilities		
Trade payables and contractors	(15,454)	(16,898)
Services received	(65,883)	5,975

Accrued payroll and related charges	47,594	(33,502)
Taxes and contributions payable	(146,664)	(47,800)
Deferred Cofins/Pasep	6,118	9,625
Provisions	(211,502)	(583,871)
Pension obligations	(158,442)	(140,115)
Other liabilities	(59,211)	(53,086)
Cash generated from operations	**3,977,427**	**3,493,588**
Interest paid	(533,362)	(589,189)
Income tax and social contribution paid	(666,883)	(561,158)
Net cash generated from operating activities	**2,777,182**	**2,343,241**
Cash flows from investing activities		
Acquisition of intangibles	(2,305,031)	(2,008,699)
Restricted cash	54,644	34,752
Investment increase	(369)	(5,372)
Purchases of tangible assets	(30,743)	(17,377)
Net cash used in investing activities	**(2,281,499)**	**(1,996,696)**

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Statement of Cash Flows for the

Years ended December 31, 2013 and 2012

Amounts in thousands of reais

(continued)

	December 31, 2013	December 31, 2012 Restated
Cash flows from financing activities		
Loans and financing		
Proceeds from loans	1,779,529	1,620,852
Repayments of loans	(1,780,673)	(1,518,240)
Payment of interest on shareholders' equity	(498,669)	(578,705)
Public-Private Partnership – PPP	(13,809)	(40,285)
Program Contract Commitments	(116,034)	(56,272)
Net cash used in financing activities	**(629,656)**	**(572,650)**
Decrease in cash and cash equivalents	**(133,973)**	**(226,105)**
Represented by:		
Cash and cash equivalents at beginning of the year	1,915,974	2,142,079
Cash and cash equivalents at end of the year	1,782,001	1,915,974
Decrease in cash and cash equivalents	**(133,973)**	**(226,105)**

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Statement of Value Added for the

Years ended December 31, 2013 and 2012

Amounts in thousands of reais

	Note	2013	2012 Restated
Revenues			
Operating income	24 (a)	9,540,021	8,926,737
Other income		64,272	75,721
Construction of assets	13 (c)	2,444,735	2,464,482
Allowance for doubtful accounts	8 (c)	(103,864)	(192,236)
		11,945,164	11,274,704
Inputs purchased from third parties			
Operating and construction costs		(4,121,605)	(3,961,486)
Materials, electricity, outsourced services, and other		(631,894)	(676,063)
Other operating expenses	27	(54,086)	(91,539)
		(4,807,585)	(4,729,088)
Gross value added		7,137,579	6,545,616
Retentions			
Depreciation and amortization	25	(871,073)	(738,525)
Value added generated by the Company		6,266,506	5,807,091
Value added received in transfer			
Equity in the earnings of subsidiaries		2,465	(6,532)
Financial income		387,505	333,124
		389,970	326,592
Total value added to distribute		6,656,476	6,133,683
Value added distribution			
Personnel			
Direct compensation		1,179,618	1,051,453
Benefits		466,760	406,443
Severance Indemnity Fund for Employees (FGTS)		108,388	124,699
		1,754,766	1,582,595
Taxes, fees and contributions			
Federal		1,747,351	1,584,972
State		57,311	51,686
Municipal		30,181	28,333
		1,834,843	1,664,991
Lenders and lessors			

Interest, exchange and monetary variations		1,075,763	911,812
Rentals		67,545	62,385
		1,143,308	974,197
Shareholders			
Interest on shareholders' equity	21 (c)	456,845	454,076
Retained earnings		1,466,714	1,457,824
		1,923,559	1,911,900
Value added distributed		6,656,476	6,133,683

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

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Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

1 Operational context

Companhia de Saneamento Básico do Estado de São Paulo ("SABESP" or the "Company") is a mixed-capital company headquartered in São Paulo, at Rua Costa Carvalho, 300, CEP 05429-900, controlled by the São Paulo State Government. The Company is engaged in the provision of basic and environmental sanitation services in the State of São Paulo, as well as it supplies treated water on a wholesale basis.

In addition to providing basic sanitation services in the State of São Paulo, SABESP may perform these activities in other states and countries, and can operate in drainage, urban cleaning, solid waste handling and energy markets. The objective set in the new vision of SABESP is to be recognized as the company that ensured universal access to water and sewage services in its marketplace, in a sustainable and competitive manner, with excellence in customer service.

On December 31, 2013, the Company operated water and sewage services in 363 municipalities of the State of São Paulo. Most of these municipalities operations are based on 30-year concession, program and services contracts. The Company has two partial contracts with the municipality of Mogi das Cruzes; however, since most of municipality is serviced by wholesale, it was not included in the 363 municipalities. On December 31, 2013, the Company had 365 contracts.

SABESP is not temporarily operating in some municipalities due to judicial orders. The lawsuits in progress refer to Iperó, Cajobi, Álvares Florense, Macatuba and Embaúba, and the carrying amount of these municipalities' intangible assets was R$11,351 as of December 31, 2013.

As of December 31, 2013, 61 concession agreements had expired and are being negotiated. From 2014 to 2034, 38 concession agreements will expire. Management believes that concession agreements expired and not yet renewed will result in new contracts, disregarding the risk of discontinuity in the provision of municipal water supply and sewage services. By December 31, 2013, 266 program and services contracts were signed (258 contracts on December

31, 2012).

As of December 31, 2013, the carrying amount of the underlying assets used in the 61 concessions of the municipalities under negotiation totaled R$5,972,414, accounting for 25.05% of total, and the related revenue for the year then ended totaled R$1,930,348 on December 31, 2013, accounting for 16.11% of total.

The Company's operations are concentrated in the municipality of São Paulo, which represents 51.75% of the gross revenues on December 31, 2013 (51.21% in December 2012) and 42.46% of intangible assets (43.51% in December 2012).

On June 23, 2010, the State of São Paulo, the Municipality of São Paulo, the Company and the regulatory agency “Sanitation and Energy Regulatory Agency – ARSESP” signed an agreement to share the responsibility for water supply and sewage services to the Municipality of São Paulo based on a 30-year concession agreement. This agreement is extendable for another 30 years, pursuant to the law. This agreement sets forth SABESP as the exclusive service provider and designates ARSESP as regulator, establishing prices, controlling and monitoring services.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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Also, on June 23, 2010, the State of São Paulo, the city of São Paulo and SABESP signed the "Public service provision agreement of water supply and sewage services", a 30-year concession agreement which is extendable for another 30 years. This agreement involves the following activities:

i. protection of the sources of water in collaboration with other agencies of the State and the City;

ii. capture, transport and treat of water;

iii. collect, transport, treatment and final dispose of sanitary sewage; and

iv. adoption of other actions of basic and environmental sanitation.

In the municipality of Santos, in the Santos coast region, which has a significant population, the Company operates under an authorization by public deed, a situation similar to other municipalities in that region and in the Ribeira valley, where the Company started to operate after the merger of the companies that formed it. As of December 31, 2013 the carrying amount of the municipality of Santos' intangible assets was R$340,530 (R$328,693 in December 2012) and gross revenue in the year ended December 31, 2013 was R$249,393 (R$202,103 in December 2012).

Article 58 of Law 11,445/07 determines that precarious and expired concessions, as well as those effective for an undetermined period of time, including those that do not have an instrument formalizing them, will be valid until December 31, 2010. However, Article 2 of Law 12,693 of July 24, 2012 allows program agreements to be executed until December 31, 2016.

The Company's Management understands that the concession agreements not yet renewed are valid and are governed by Laws 8,987/95 and 11,445/07, including those municipalities served without an agreement.

Public deeds are valid and governed by the Brazilian Civil Code.

The Company's shares have been listed in the *Novo Mercado* (New Market) segment of BM&FBovespa under the ticker symbol SBSP3 since April 2002 and on the New York Stock Exchange (NYSE) as American Depositary Receipts ("ADRs") Level III, under the SBS code, since May 2002. In 2007, SABESP adhered to the Corporate Sustainability Index, or ISE of BM&FBovespa, which reflects the high level of commitment with sustainable development and social practices.

Since 2008, the Company has been setting up partnerships with other companies, which resulted in the following companies: Sesamm, Águas de Andradina, Saneaqua Mairinque, Aquapolo Ambiental, Águas de Castilho and Attend Ambiental. Although SABESP has no majority interest in the capital stock of these companies, the shareholders' agreements provide for the power of veto and casting vote in certain issues jointly with associates, indicating the shared control in the management of investees.

The financial statements were approved by the Board of Directors on March 27, 2014.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

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2 Basis of preparation and presentation of the financial statements

The financial statements of the Company have been prepared in accordance with the IFRS, issued by the International Accounting Standards Board – IASB), and the accounting practices adopted in Brazil and issued by the Brazilian Pronouncements Committee – CPC. These Brazilian accounting policies applied in the financial statements are different from the International Financial Reporting Standards - IFRS in the valuation of the joint controlled entities by equity method, since in IFRS the valuation should be at cost or fair value.

The financial statements have been prepared under the historical cost except for certain financial instruments which were measured at fair value according to IFRS.

The preparation of financial statements in conformity with IFRS and CPC's requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree to judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are described in Note 5.

3 Summary of Significant Accounting Practices

Main accounting policies applied in the preparation of these financial statements are defined below. These policies have been applied consistently in all years presented.

3.1 Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits, other short-term highly liquid investments with original maturities less than three months as of the investment date, with an insignificant risk of changing value, as well as current account overdrafts.

3.2 Financial instruments

Classification

The Company classifies its financial assets according to the following categories: measured at fair value through profit or loss, loans and receivables, held-to-maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets at inception. On December 31, 2013 and 2012, the Company did not have financial assets classified under the fair value through profit or loss, held-to-maturity and available-for-sale financial instruments category.

Financial assets calculated at fair value through profit or loss

These are financial assets held for trading. A financial asset is classified into this category when mainly acquired for sale purposes in the short term. These assets are classified as current assets. Gains or losses arising from changes in the fair value of financial assets measured at fair value through profit or loss are presented in the statement of income in 'Financial income' or 'Financial expenses' in the period they occur, unless the instrument has been contracted in connection to another transaction. In this case, changes are recognized in the same line item of income affected by this transaction.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

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Loans and receivables

These comprise receivables which are non-derivative financial assets with fixed or determinable payments, not quoted in an active market. Loans and receivables are presented in current assets or liabilities, except for those with maturity of more than 12 months after the statement of financial position date (these are classified as noncurrent assets or liabilities). The Company's loans and receivables include cash and cash equivalents, balances of trade accounts receivable, accounts receivable from related parties, other accounts receivables, receivables from the Water National Agency – ANA, contractors and suppliers, loans and financing, services payable, balances payable from public-private partnership (PPP), and program contract commitments. Loans and receivables are recorded at fair value and subsequently at amortized cost, under the effective interest rate method.

3.3 Operating income

(a) Revenue from water and sewage services

Revenue from water supply and sewage collection are recognized as the water is consumed and services are provided. Revenues, including the revenues unbilled, are recognized at the fair value of the consideration received or receivable for the sale of those services. Revenue is shown net of value-added tax, rebates and discounts. Revenues from unbilled represent incurred revenues in which the services were provided, but not yet billed until the end of the each period. Water supply and sewage services are recorded as trade accounts receivable based on monthly estimates of the completed services. Concerning revenues of wholesale municipal governments which do not pay the full invoice, the Company records an allowance for doubtful accounts upon invoicing in revenue reduction account.

The Company recognizes revenue when: i) products are delivered or services are rendered; ii) the amount of revenue can be reliably measured, iii) it is probable that future economic benefits will flow to the Company and iv) it is probable that the amounts will be collected. The amount of revenue is not considered to be reliably measurable until all conditions relating to the sale have been satisfied. Amounts in dispute are recognized as revenue when collected.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

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(b) Construction revenue

Revenue from concession construction contracts is recognized in accordance with CPC 17 (R1) and IAS 11 (Construction Contracts), using the percentage-of-completion method, provided that the applicable conditions for application are fulfilled. The percentage of completion is calculated from the ratio of the actual costs incurred on the balance sheet date to the planned total costs (cost-to-cost method). Revenue from cost plus contracts is recognized by reference to the construction costs incurred during the period plus a fee earned. The fee represents the additional margin related to the work performed by the Company in relation to such construction contracts and it is added to the construction costs incurred and the total is recognized as construction revenue.

3.4 Trade accounts receivable and allowance for doubtful accounts

Trade accounts receivable are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as noncurrent assets.

The Company records an allowance for doubtful accounts for receivable balances in an amount that is deemed by management to be sufficient to cover probable losses in accounts receivable, based on the analysis of the history of receipts and current guarantees and it does not expect to incur in additional significant losses.

3.5 Inventories

Inventories of supplies for consumption and maintenance of the water and sewage systems are stated at the lower of average cost of acquisition or realizable value, and are classified in current assets.

3.6 Investment Properties

The investment properties are recorded at the acquisition or construction cost, less accumulated depreciation, calculated by the straight-line method at rates that consider the estimated useful life of assets. Expenditures related to repairs and maintenance are recorded in the statement of income when incurred.

The Company also maintains few assets for indeterminate use in the future, i.e., it is not defined if the Company will use the property in the operation or sell the property in the short term during the ordinary course of business.

3.7 Property, plant and equipment

Property, plant and equipment comprise mainly administrative facilities not composing the assets, subject-matter of the concession agreements. Those assets are stated at historical acquisition or construction cost less depreciation, net of impairment charge, when necessary. Interest, other financial charges and inflationary effects deriving from financing effectively applied to construction in progress are recorded as cost of respective property, plant and equipment.

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Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

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Subsequent costs included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefit associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they were incurred.

Depreciation is calculated using the straight-line method to allocate their cost and is described in Note 14(c). Lands are not depreciated.

Residual values and the useful life of assets are revised and adjusted, where applicable, at the end of each year.

Gain and losses on disposals are determined by the difference between the proceeds with the carrying amount and are recognized within other operating income (expenses) in the statement of income.

3.8 Intangible assets

Intangibles are stated at acquisition cost and/or construction of the underlying assets, including construction margin, interest and other financial charges capitalized during the construction period, in this case, for the qualifying assets. Qualifying assets are assets that, necessarily, take a substantial period to get ready for its intended use or sale. The Company considers that substantial period means a period greater than 12 months. This period was established by considering the completion period of the majority of its constructions which is greater than 12 months, which corresponds to one fiscal year of SABESP.

The intangible has its amortization initiated when the intangible assets are available for use in location and the necessary condition established by the Company.

The amortization of intangible assets reflects the period over the expected future economic benefits generated by the intangible asset are consumed by the Company and can be the period of the contract or the useful life of the asset.

The amortization of the intangible assets is discontinued when the asset is totally consumed or it is disposed of, whatever occurs first.

Donations in assets to the concession grantor received from third parties and governmental entities to allow the Company to render water and sewage supply services are not recorded in the Company’s financial statements, since these assets are controlled by the concession grantor.

Financial resources received as donations for the construction of infrastructure are recorded under “Other operating income”.

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(a) Concession arrangements/programs

The Company operates concession agreements including the rendering of basic sanitation, environmental, water supply and sewage collection services signed with the concession grantor. The infrastructure used by SABESP subject to service concession arrangements is considered to be controlled by the concession grantor when:

(i) The grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and

(ii) The grantor controls the infrastructure, i.e., retains the right to take back the infrastructure at the end of the concession.

SABESP's rights over infrastructure operated under concession arrangements is accounted for as an intangible asset as SABESP has the right to charge for use of the infrastructure assets, and users (consumers) have the primary responsibility to pay SABESP for the services.

The fair value of construction and other work on the infrastructure is recognized as revenue, as its fair value, when the infrastructure is built, provided that this work is expected to generate future economic benefits. The accounting policy to recognize construction revenue is described in Note 3.3 “Operating income”.

Intangible assets related to Concession agreements and Program contracts, when there is no right to receive the residual value of the assets at the end of the contract, are amortized on a straight-line basis over the period of the contract, or the useful life of the underlying asset, whichever occurs first.

Investments made and not recovered through rendering of services, within the agreement term, must be indemnified by the concession grantor, (1) with cash or cash equivalents or also, in general (2) with the contract extension. These investments are amortized by the useful life of asset.

Law 11,445/07 indicates, whenever possible, that basic sanitation public utilities will have the economic and financial sustainability ensured through the remuneration due to service collection, preferably as tariffs and other public prices, which may be established for each service or both jointly. Therefore, investments made and not recovered through services rendered, within original term of the contract, are recorded as intangible assets and amortized by the useful life of the asset, taking into consideration a solid track record of concession renewal and, therefore, the continuity of services.

(b) Software licenses

Software licensing is capitalized based on the acquisition costs and other implementation costs. Amortizations are recorded according to the useful lives and the expenses associated with maintaining these are recognized as expenses when incurred.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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3.9 Impairment of non-financial assets

Property, plant and equipment, intangibles and other noncurrent assets with definite useful lives, are yearly reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Company does not record assets with indefinite useful life and assessed that there are no indications of impairment losses.

3.10 Trade accounts payable and contractors

Accounts payable to contractors and suppliers are obligations to pay for goods or services purchased from suppliers in the ordinary course of business and are classified as current liabilities if the payment is due in the period up to one year. Otherwise, the accounts payable are presented as noncurrent liabilities and are initially measured at fair value, which generally correspond to the bill and subsequently at amortized cost.

3.11 Loans and financing

Borrowings are initially recognized at fair value, upon receipt of funds, net of transaction costs. Subsequently, borrowings are stated at amortized cost, as presented in Note 15. Loans and financing are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Nonconvertible debentures issued by the Company are recognized in a similar manner to borrowings.

3.12 Borrowing costs

Borrowing costs attributable to acquisition, construction or production of an asset, which, necessarily, requires a substantial time period to be ready for use or sale are capitalized as part of the cost of these assets. Other borrowing costs are recognized as expenses in the period they are incurred. Borrowing costs are interest rates and other charges incurred by the Company related to loans, including exchange variation, as described below.

The capitalization occurs during the period in which the asset has been built, considering the weighted average rate of loans effective on the capitalization date.

For foreign currency-denominated loans or financing, the Company analyzes them as if they were contracted in local currency, restricting the capitalization of interest and/or exchange variation by the amount that would be capitalized if these were contracted in the domestic market.

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3.13 Payroll and related charges

Salaries include an accrual for vacations and the 13th salary and additional payments negotiated in collective labor agreements plus related charges and are recorded on the accruals basis.

3.14 Profit sharing

The Company's profit sharing plan for its employees is based on targets of the Company as a whole, and based on the performance of each business unit. The Company recognizes a provision when it is contractually required or when there is a practice in the past that created a constructive obligation. The accrual for profit sharing is recorded on the accrual basis period as operating expenses and operating cost.

3.15 Provisions, legal liabilities, escrow deposits, securities deposits and contingent assets

Provisions related to claims are recognized when: i) the Company has a present legal or constructive obligation as a result of past events; ii) it is probable that an outflow of resources will be required to settle the obligation; and iii) the amount can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the disbursements expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

For financial statement presentation purposes, the provision is stated net of the related escrow deposits based on the legal right to offset. The bases and the nature of the provisions for civil, tax, labor and environmental risks are described in Note 18.

Escrow deposits not linked to related liabilities are recorded in noncurrent assets. Escrow deposits are restated for inflation.

Contingent assets are not recognized in the books.

3.16 Environmental costs

Costs related to ongoing environmental programs are expensed in the income statement, when there is any indication of an event. Ongoing programs are designed to minimize the environmental impact of the operations and to manage the environmental risks inherent to the Company's activities.

3.17 Income taxes – current and deferred

Income taxes expenses comprise current and deferred income tax and social contribution.

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For information about the Transition Tax Regime (RTT) and Provisional Measure 627/2013, see Note 17 (e) and (f), respectively.

Current tax

The provision for income tax and social contribution is based on the taxable income for the year. The income tax was accrued at rate 15%, plus 10% surtax on taxable income exceeding R$ 240. The social contribution was accrued at rate 9% over adjusted net income. Taxable income differs from net income (profit presented in the statement of income), because it excludes income and expenses taxable or deductible in other years, and excludes items not permanently taxable or not deductible. Income tax and social contribution are accrued based on legislation in place in the end of the year. Management periodically evaluates and measures the positions taken in the income tax return with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements, according to CPC 32 and IAS 12. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit nor loss, except for business combinations. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax and social contribution assets are recognized only to the extent that it is probable that future taxable profit will be available for which temporary differences can be utilized and tax losses can be carryforward.

Deferred taxes assets and liabilities are offset when there is a legally enforceable right of offsetting current tax assets against current tax liabilities and when deferred income tax assets and liabilities are related to income taxes levied by same tax authority over the tax entity.

3.18 Taxes on revenues

Revenues from water and sewage services are recognized on accrual basis for PASEP and Cofins, calculated at the rates of 1.65% and 7.60%, respectively. Taxes levied on billed amounts to public entities are due when bills are received.

As these taxes are calculated by the non-cumulativeness regime and presented net of tax credits, as deductions from gross revenues. Debts measured on "other operating income" are presented as deductions from the respective operating income or expense.

3.19 Pension obligations

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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(a) Defined benefit

The Company makes contributions to defined benefit plans on a contractual basis and sponsored thereby, managed by Fundação Sabesp de Seguridade Social – SABESPREV, a supplementary private pension closely-held entity. The regular contributions are recognized in the statement of income for the period.

Liabilities from defined benefit pension plan obligations correspond to the present value of the defined benefit obligation at balance sheet date, less the fair value of the plan assets. The defined benefit obligation (G1) and (G0) are calculated on an annual basis by independent actuaries, using the projected unit credit method. The estimated future cash outflows is discounted to its present value, using the interest rates of Government bonds with maturities that approximate the maturity of the related liability.

Referring to actuarial gains and losses deriving from adjustments based on the experience and changes in actuarial assumptions are directly recorded under equity, as other comprehensive income (OCI), so that the plan's net assets or liabilities are recognized in the statement of financial position in order to reflect the full amount of plan's deficit or surplus.

The expenses related to pension plan are recognized in profit and loss of the year as operating cost, selling expenses or administrative expenses, according to employee's allocation.

In an event where a curtailment relates to only some of the employees covered by a plan, or where only part of an obligation is settled, the gain or loss includes a proportionate share of the past service cost and actuarial gains and losses. The proportionate share is determined on the basis of the present value of the obligations before and after the curtailment or settlement.

(b) Defined contribution

The Company makes contributions to defined contribution plans (Sabesprev Mais) on a contractual basis and sponsored thereby, managed by Fundação Sabesp de Seguridade Social – SABESPREV, a supplementary private pension closely-held entity that provides post-employment benefits to its employees.

A defined contribution plan is a pension plan according to which the Company makes fixed contributions to a separate entity. The Company has no obligation of making contributions if the fund has no sufficient funds to pay to all employees the benefits related to employee’s services in current and previous period.

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3.20 Financial income and expenses

Financial income is primarily comprised of interest, inflation adjustments and exchange variations on escrow deposits and negotiations with customer to pay by installments, using the effective interest rate method.

Financial expenses are primarily comprised of interest, inflation adjustments and exchange variations on loans and financing, refinancing, provisions, public-private partnership, program contract commitments and provisions. These financial income and expenses are calculated using the effective interest rate method.

Inflation adjustments and foreign exchange gains and losses derive from the collection or payment to third parties, as contractually required by law or court decision, and recognized on an accrual basis *pro rata temporis*.

Inflation adjustments included in the agreements are not considered embedded derivatives, since they are deemed as inflation adjustment rates for the Company’s economic scenario.

3.21 Leases

Lease agreements are classified as financial lease when property, risks and rewards inherent to the ownership of asset to the lessee are transferred. Other leases are classified as operational lease, recognized as expenses in the statement of income on a straight-line basis during the lease term.

Financial lease agreements are measured based on the lower amount between the present value of minimum mandatory payments of the agreement or fair value of asset on the start date the lease agreement. The amounts payable deriving from considerations of financial lease agreements are recognized and allocated between financial expenses and amortization of financial lease payables so that to obtain a constant interest rate. The corresponding lessor's liability is recorded as current and noncurrent debt.

3.22 Other current and noncurrent assets and liabilities

Other assets are stated at cost of acquisition, net of any impairment loss, where applicable. The amounts recognized as other liabilities are stated at known or estimated amounts, including, where applicable, related charges and monetary variations.

3.23 Dividends and Interest on Shareholders' Equity

The Company uses the tax benefits of distributing dividends as interest on shareholders' equity, as permitted by Brazilian Law. This distribution of dividend is accounted for in accordance with Brazilian Law 9249/95 for tax deductibility purposes, limited to the daily pro rata fluctuation of the Long-term Interest Rate (TJLP). The benefit attributed to the shareholders is recognized in the current liability against Equity, based on its by-laws. Dividends and interest on shareholders´ equity over the minimum established in the by-laws are recognized when approved by the shareholders in the general meeting. The tax effects of the interest on shareholders' equity are recognized in the statement of income of the year, under the same recognition basis.

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3.24 Present value adjustment

Current and noncurrent financial assets and liabilities are adjusted to present value based on discount rate at current market rate as of the transaction date, when the effects are relevant.

3.25 Statements of value added (DVA)

The purpose of the statement of value added is to present the wealth generated and distributed by the Company as required by the accounting practices adopted in Brazil and reported as supplementary information to the financial statements for the purposes of IFRS.

The DVA was prepared based on information obtained in the accounting books, which is the base to prepare the financial statements. In its first part is presented the wealth generated by the Company representing revenues (gross revenue, including taxes on revenues, other revenues and the effects of the allowance for doubtful account), by services and products acquired from third party (cost of sales and material purchases, electricity and outsourced services, the effects of losses and recoverable of assets, depreciation and amortization) and by value added received from third parties (equity share of investment in investee, financial income and other revenues). The second part of the DVA present the distribution of the wealth segregated in employees, taxes, fees and contributions, lenders and lessors and shareholders.

3.26 Segment reporting

Operating segments are reported in a manner consistent with the Management internal reporting to make strategic decisions, allocate resources and evaluate the operating segment performance.

Based on how the Company treats its business and how decision-making of resources allocation is made, two operating segments (water and sewage) were stated for financial reporting purposes. The segment reporting is detailed in Note 23.

3.27 Translation into foreign currency

(a) Functional and reporting currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The financial statements are presented in Brazilian *reais* (R$), which is also the Company's functional and presentation currency. All financial information presented has been presented in reais, except where indicated.

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(b) Foreign currency translation

Foreign currency-denominated transactions are translated into Brazilian *reais* using the exchange rates prevailing at the transaction dates. Balance sheet accounts are translated at the exchange rate prevailing at balance sheet date.

Foreign exchange gains and losses resulting from the settlement of these transactions and the translation of foreign currency-denominated cash assets and liabilities are recognized in foreign exchange result in the statement of income, except for loans and financing referring to property, plant and equipment or intangible assets in progress, where foreign exchange gains and losses are recognized as corresponding entry to the asset while construction is in progress.

4 Changes in accounting practices and disclosures

4.1 New standards, amendments and interpretations effective for periods beginning on or after January 1, 2013

New standards and reviews

Standard	Key requirements	Effectiveness date
Amendments to IFRS 7 – Financial Instruments: Disclosures CPC 40 (R1)	The amendments to IFRS 7 increase the disclosure requirements of transactions involving the financial assets. These amendments aim at providing greater transparency to risk exposures when a financial asset is transferred, but the transferor still retains certain level of exposure on the	January 1, 2013

	asset. The amendments also require the disclosure of transfer of financial assets when not equally distributed in the year.	
IFRS 10 – Consolidated Financial Statements (it replaces parts of IAS 27 and SIC 12) CPC 36 (R3)	Pursuant to IFRS 10, there is only one basis of consolidation for all entities, i.e., the control. This change removes the inconsistency between the previous version of IAS 27 and SIC 12; the former applied the concept of control, while the latter emphasized the concept of risks and benefits. It includes a more detailed definition of control to solve the summarized definition of control from previous version of IAS 27. The definition of control under IFRS 10 includes the following three elements: i) power on investee; ii) exposure, or rights, to variable returns of activities with investee; and iii) capacity of using the power over investee to affect the value of return on investments.	January 1, 2013

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IFRS 11 – Joint Arrangements (it replaces IAS 31 and SIC 13) CPC 19 (R2)	The definition of joint arrangement according to the new standard is the same of previous one, except for the fact that the new definition emphasizes the investee's relevant activities instead of only the investee's operating and financial activities. This new approach is in line with the definition of control under IFRS 10. It discusses how a joint arrangement in which two or more parties own the joint control of an agreement should be classified. There are two types of joint arrangements under IFRS 11: joint arrangements and joint ventures. These two types of joint arrangements are differentiated by the parties' rights and obligations.	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities CPC 45	This is a new standard which defines the disclosures to be included in the financial statements when the entities hold interest in subsidiaries, joint arrangements, associated companies or non-consolidated structured entities (similar to special purposes entities under SIC 12).	January 1, 2013
IFRS 13 – Fair Value Measurement CPC 46	It presents a new definition of fair value. Pursuant to IFRS 13, the fair value is defined as the price that would be received upon sale of an asset or paid when transferring a liability in a transaction in the main market on the measurement date, according to current market conditions, regardless if this price is directly observable or estimated by means of another valuation technique.	January 1, 2013
IAS 19 – Employee benefits CPC 33 (R1)	The amendments to IAS 19 change the accounting for defined benefit plans and severance pay. The most relevant change refers to the accounting for changes in defined benefit liabilities and plan assets. The amendments require the recognition of changes in defined benefit liabilities and	January 1, 2013

	in the fair value of plan assets as they occur, and therefore, remove the “corridor approach” allowed in the previous version of IAS 19 and speed up the recognition of past cost of services. The amendments require that all actuarial gains and losses are immediately recognized in other comprehensive income, so that the pension plan’s net assets or liabilities are recognized in the statement of financial position in order to reflect the full amount of plan’s deficit or surplus.	
IAS 27 – Separate Financial Statements CPC 35 (R2)	The reviewed standard only refers to separate financial statements. Most of requirements were maintained in relation to the previous standard.	January 1, 2013
IAS 28 –Investments in Associated Companies and Joint Ventures CPC 18 (R2)	Likewise the previous standard, the new standard gives instructions on how to apply the equity method. However, the scope of reviewed standard was amended in order to treat the investments in joint ventures and due to the fact that IFRS 11 requires that these investments are accounted for by the equity method.	January 1, 2013

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The new rules, amendments or interpretations of the rules which resulted in effects to the Company are as follows:

CPC 19 (R2) Joint Ventures and CPC 33 (R1) Employee Benefits

The retroactive adoption of CPCs 19 (R2) and 33 (R1) for the fiscal year ended December 31, 2012 had the following adjustments:

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	December 31, 2012			
	Original	Effects of CPC 19 (R2) (a)	Effects of CPC 33 (R1) (b)	After adopting CPCs
Assets				
Total current assets	3,336,865	(6,267)	-	3,330,598
Deferred income tax and social contribution	141,356	(5,459)	9,405	145,302
Investments	-	20,826	-	20,826
Intangible assets	21,991,922	(24,396)	-	21,967,526
Property, plant and equipment	383,383	(186,673)	-	196,710
Total noncurrent assets	23,338,928	(202,834)	9,405	23,145,499
Total assets	26,675,793	(209,101)	9,405	26,476,097

	December 31, 2012			
	Original	Effects of CPC 19 (R2) (a)	Effects of CPC 33 (R1) (b)	After adopting CPCs
Liabilities and equity				
Total current liabilities	3,797,370	(39,181)	-	3,758,189
Loans and financing	7,701,929	(169,268)	-	7,532,661
Pension obligations	2,124,330	-	468,220	2,592,550
Total noncurrent liabilities	11,162,846	(169,920)	468,220	11,461,146
Total liabilities	14,960,216	(209,101)	468,220	15,219,335
Total equity	11,715,577	-	(458,815)	11,256,762
Total liabilities and equity	26,675,793	(209,101)	9,405	26,476,097

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	December 31, 2012			
	Original	Effects of CPC 19 (R2) (a)	Effects of CPC 33 (R1) (b)	After adopting CPCs
Statement of income				
Net operating income	10,754,435	(16,804)	-	10,737,631
Operating costs	(6,465,398)	15,447	-	(6,449,951)
Selling expenses	(697,874)	622	-	(697,252)
Administrative expenses	(726,128)	8,751	-	(717,377)
Other operating income (expenses), net	(19,775)	(3,400)	-	(23,175)
Equity accounting	-	(6,532)	-	(6,532)
Operating profit	2,845,260	(1,916)	-	2,843,344
Financial expenses, net	(301,356)	5,684	-	(295,672)
Income tax and social contribution	(632,004)	(3,768)	-	(635,772)
Profit for the year	1,911,900	-	-	1,911,900

	December 31, 2012			
	Original	Effects of CPC 19 (R2) (a)	Effects of CPC 33 (R1) (b)	After adopting CPCs
Statement of comprehensive income				
Profit for the year	1,911,900	-	-	1,911,900

Other comprehensive income	-	-	(457,862)	(457,862)
. Items which will not be subsequently reclassified to the statement of income:				
Actuarial gains (losses) on defined benefit plans	-	-	(457,862)	(457,862)
Total comprehensive income for the year	1,911,900	-	(457,862)	1,454,038

	December 31, 2012			
	Original	Effects of CPC 19 (R2) (a)	Effects of CPC 33 (R1) (b)	After adopting CPCs
Statement of cash flows				
Net cash deriving from operating activities	2,336,220	7,021		2,343,241
Net cash from investing activities	(1,998,778)	2,082		(1,996,696)
Net cash from financing activities	(566,253)	(6,397)		(572,650)
Increase (decrease) in cash and cash equivalents	(228,811)	2,706		(226,105)

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	December 31, 2012			
	Original	Effects of CPC 19 (R2) (a)	Effects of CPC 33 (R1) (b)	After adopting CPCs
Statement of value added				
Revenue	11,296,137	(21,433)	-	11,274,704
Inputs acquired from third parties	(4,746,388)	17,300	-	(4,729,088)
Depreciation and amortization	(740,147)	1,622	-	(738,525)
Equity in the earnings of subsidiaries	-	(6,532)	-	(6,532)
Financial income	332,045	1,079	-	333,124
Total value added to distribute	6,141,647	(7,964)	-	6,133,683
Value added distribution				
Personnel	1,586,553	(3,958)	-	1,582,595
Taxes, fees and contributions	1,675,728	(10,737)	-	1,664,991
Lenders and lessors	967,466	6,731	-	974,197
Shareholders	1,911,900	-	-	1,911,900
Value added distributed	6,141,647	(7,964)	-	6,133,683

January 1, 2012

	Original	Effects of CPC 19 (R2) (a)	Effects of CPC 33 (R1) (b)	After adopting CPCs
Assets				
Total current assets	3,725,833	(21,139)	-	3,704,694
Deferred income tax and social contribution	179,463	(1,537)	(35,323)	142,603
Other accounts receivable	39,933	(4,899)	-	35,034
Investments	-	21,986	-	21,986
Intangible assets	20,141,677	(15,956)	-	20,125,721
Property, plant and equipment	356,468	(174,883)	-	181,585
Total noncurrent assets	21,489,151	(175,289)	(35,323)	21,278,539
Total assets	25,214,984	(196,428)	(35,323)	24,983,233

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	January 1, 2012			
	Original	Effects of CPC 19 (R2) (a)	Effects of CPC 33 (R1) (b)	After adopting CPCs
Liabilities and equity				
Total current liabilities	3,968,668	(12,522)	-	3,956,146
Loans and financing	6,966,285	(172,137)	-	6,794,148
Deferred Cofins andPasep	114,957	(851)	-	114,106
Pension obligations	2,050,697	-	(34,370)	2,016,327
Other liabilities	742,359	(10,918)	-	731,441
Total noncurrent liabilities	10,700,420	(183,906)	(34,370)	10,482,144
Total liabilities	14,669,088	(196,428)	(34,370)	14,438,290
Total equity	10,545,896	-	(953)	10,544,943
Total liabilities and equity	25,214,984	(196,428)	(35,323)	24,983,233

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(a) Adoption of CPC 19 (R2)

The joint investees (Note 11) started to be classified as joint venture and are subject to the accounting recognition by the equity method under IAS 28. This amendment implied to change the proportional consolidation to account for investment by the equity method.

The adoption of CPC 19 (R2) resulted in changes in the consolidation for investments held by the Company in Sesamm – Serviços de Saneamento de Mogi Mirim S/A, Águas de Andradina S.A., Águas de Castilho, Saneaqua Mairinque S.A., Aquapolo Ambiental S.A. and Attend Ambiental S/A.

(b) Adoption of CPC 33 (R1)

The Company's accounting practice until December 31, 2012 was to account for actuarial gains and losses by the "corridor" approach, where gains and losses deriving from changes in actuarial assumptions were only recognized in profit or loss to the extent they exceed the "corridor" value and amortized over the remaining estimated average life of population which holds the benefits; therefore, the actuarial gains and losses measured in a period were not recognized immediately. As a result of this method, the value recognized in liabilities differed from estimated present value of liabilities by the amount of actuarial gains and losses not yet recognized.

With the adoption of the new accounting standard, SABESP started to record in the statement of financial position the total effect of actuarial losses, net of income tax and social contribution, against other comprehensive income; i.e., without carrying through the statement of income. This accounting has been applied during 2013 interim accounting information, with retroactive effect on the Company's financial statements for the fiscal year ended December 31, 2012 and the opening balance as at January 1, 2012.

Deferred income tax and social contribution were accounted for only for G1 plan, since the G0 plan's expenses are not tax deductible.

Below, the reconciliation of new balance sheet balances of actuarial liabilities for the fiscal year ended December 31, 2012 and the opening balance, on January 1, 2012, affected by amendment to the standard:

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	December 31, 2012	January 1, 2012
Balance of actuarial liabilities as per previous accounting practice - G1	577,169	538,619
Effect of adopting CPC 33 (R1)	27,663	(103,892)
Balance of actuarial liabilities after change in the accounting practice	604,832	434,727
Balance of actuarial liabilities as per previous accounting practice - G0	1,547,161	1,512,078
Effect of adopting CPC 33 (R1)	440,557	69,522
Balance of actuarial liabilities after change in the accounting practice	1,987,718	1,581,600
Total balance of actuarial liabilities after change in the accounting practice	2,592,550	2,016,327

Due to the adjustment described above deriving from the adoption of CPC 33 (R1), the balances of items “Deferred Taxes” under noncurrent assets, “pension obligations” under noncurrent liabilities and “Other comprehensive income” under equity as of December 31, 2012 and January 1, 2012, related to the previous years compared to this financial statements, were adjusted as follows:

	December 31, 2012			January 1, 2012		
	Original balance	Adjustment	Restated balance	Original balance	Adjustment	Restated balance
Noncurrent assets						
Deferred taxes	135,897	9,405	145,302	177,926	(35,323)	142,603
Noncurrent liabilities						
Pension obligations	2,124,330	468,220	2,592,550	2,050,697	(34,370)	2,016,327
Equity						
Other comprehensive income	11,715,577	(458,815)	11,256,762	10,545,896	(953)	10,544,943

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The adoption of CPC 33 (R1) did not imply in adjustments to the statements of income and cash flows reported in these financial statements.

IFRS 12 Disclosure of interest in other entities

It refers to the disclosure of interest in other entities, the purpose of which is to enable that users know the risks, the nature and effects on the financial statements of these entities. The disclosures included in the financial statements for the fiscal year ended December 31, 2013 are in compliance with IFRS 12.

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IFRS 13 Fair value measurement

Applicable when other IFRS pronouncements require or allow measurements or disclosures of fair value (and measurements, such as the fair value less cost of sales, based on fair value or disclosures about referred measurements). The disclosures included in the financial statements for the fiscal year ended December 31, 2013 are in compliance with IFRS 13.

4.2 New standards, amendments and interpretations to existing standards that are not yet effective

The Company did not early adopt the new and revised IFRSs below:

Amendments to IFRS 7	Financial Instruments: Disclosures[2]
IFRS 9	Financial Instruments[2]
Amendments to IFRS 10 and 12	Consolidated Financial Statements and Disclosure of Interests in Other Entities – Investment Entities[1]
Amendments to IAS 27	Separate Financial Statements – Investment Entities[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities [1]

1 Effective for annual periods beginning on or after January 1, 2014.

2 Effective for annual periods beginning on or after January 1, 2015.

4.3 Financial Risk Management

4.3.1 Financial risk factors

The Company's activities are exposed to Brazilian economic scenario, expositing to market risk, such as exchange rate, interest rate, credit risk and liquidity risk. The Company’s financial risk management is focused on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company’s financial performance.

The Company has not utilized derivative instruments in any of the periods reported.

(a) Market risk

Foreign currency risk

SABESP’s foreign exchange exposure implies market risks associated with Brazilian *real* currency fluctuations against the US dollar and yen. SABESP’s foreign currency-denominated liabilities mainly include US dollar and yen-denominated loans.

In case of Brazilian *real* depreciation in relation to foreign currency in which the debt is denominated, SABESP will incur in monetary loss in relation to such debt.

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SABESP's specific foreign currency risks are related to exposures caused by its current and noncurrent debts denominated in foreign currency.

The management of SABESP's foreign currency exposure considers several current and projected economic factors, besides market conditions.

This risk arises from the possibility that the Company may incur losses due to exchange rate fluctuations that would impact liability balances of foreign currency-denominated loans and financing raised in the market and related financial expenses. The Company does not maintain hedge or swap contracts or any financial instrument to hedge against this risk, but conducts an active management of debt, taking advantage of opportunities to swap expensive debts with "cheaper" debts, reducing the cost through early maturity.

A significant amount of the Company's financial debt is indexed to the U.S. dollar and Yen, in the total amount of R$3,715,645 on December 31, 2013 (R$3,231,183 in December 2012). Below, the Company's exposure to foreign currency risk:

	December 31, 2013		December 31, 2012 Restated	
	Foreign currency	**R$**	**Foreign currency**	**R$**
Loans and financing – US$	1,181,256	2,767,210	1,136,274	2,321,976
Loans and financing – Yen	41,504,249	926,790	37,535,650	890,346
Interest and charges from loans and financing – US$		14,512		12,487

Interest and charges from loans and financing – Yen	7,133	6,374
Total exposure	3,715,645	3,231,183
Funding cost	(17,092)	(15,422)
Total foreign currency-denominated loans	3,698,553	3,215,761

As of December 31, 2013, if the Brazilian *rea*l had appreciated or depreciated by 10% against the US dollar and Yen with all other variables remaining constant, effects on results before taxes for the year would have been R$371,564 (R$323,118 in December 2012), lower or higher, mainly as a result of foreign exchange losses or gains on the translation of foreign currency-denominated loans.

Scenario I below presents the effect in net income for the next 12 months, considering the projected rates of the U.S. dollar and the Yen. Considering the other variables as remaining constant, the impacts for the next 12 months are shown in scenarios II and III with possible depreciations of 25% and 50%, respectively, in the Brazilian Real.

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