

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP

Form 6-K

June 04, 2015

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

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**FORM 6-K**

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

**For June 1, 2015**  
**(Commission File No. 1-31317)**

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**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)*

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

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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  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

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

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*(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, 2014 and 2013**

2014 Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

(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, 2014, 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 these financial statements in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS), issued by the *International Accounting Standards Board (IASB)*, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**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 selected 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 opinion.

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## **Opinion**

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, 2014, and its financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the *International Accounting Standards Board (IASB)*.

## **Other matters**

### *Statements of value added*

We have also audited the statements of value added (DVA) for the year ended December 31, 2014, prepared under the responsibility of the Company's management, the presentation of which is required by the Brazilian Corporate Law for publicly-traded companies and as supplemental information for IFRS, which does not require the presentation of DVA. These statements were subject to the same auditing procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

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

São Paulo, March 26, 2015

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Délio Rocha Leite  
Engagement Partner

## MESSAGE FROM THE CEO

In Sabesp's 41 years of history, 2014 was certainly one of the most challenging years. During the last twelve months, we have worked tirelessly to deal with the most severe drought in the Southeast region in more than eight decades, an event whose likelihood of occurrence was 0.6%.

The strategic initiatives in the operations combined with the population's excellent response to the awareness and the financial incentive campaigns for rational use of water were essential to prevent the jeopardising of the public supply system. The rapid reaction in cities in the state's interior and, especially, in the São Paulo metropolitan region, the most severely affected area, has demonstrated the our strength of the infrastructure and the high technical capacity of our professionals.

Only a company with these attributes is able to replace the source of water supply for a vast and densely populated regions with other production systems, as Sabesp has been doing in Greater São Paulo to support the Cantareira system, which was the most severely affected by the drought. Only a company of this size can execute works like the one to extract water from Cantareira's technical reserve. Delivered in a short time period, it has become a case study due to the ingenuity and expertise used to extract water below the gravity extraction floodgates.

Equally efficient was the strengthening of practices against water losses, including intensive scans, faster repairs and replacement of pipes and branches, in addition to the intensification of pressure management in distribution networks, mitigating leaks. The intensive media campaigns, the mobilization of employees, the adoption of bonuses and, more recently, the contingency tariff complete the set of initiatives that have produced very positive results.

For the first time since it began operating, the Cantareira system is not the greatest contributor to the large metropolis. Its production averaged 14.03 m<sup>3</sup>/s in February 2015 – 56% less than the 33 m<sup>3</sup>/s recorded before the crisis and less than the production volume of the Gurapiranga system, which has become the largest water producer. Our water sources currently produce 70% of what they produced under normal conditions, until the end of 2013.

This 30% reduction pace has to be maintained in 2015. Therefore, we are carrying out works to increase water supply safety, production capacity and the production systems integration in the metropolitan region, especially the interconnection of Billings reservoir with the Alto Tietê system, the enhancement of Billings with Guarapiranga reservoirs and the expansion of the ABV water treatment station. It is also essential that the population continues saving water. With these initiatives, even if rainfall levels are unfavorable, we will possibly not need to adopt more drastic and distressing measures, such as the rotation.

The efforts to fight the water shortage required the reallocation of investments and the creation of budget cuts to ensure the execution of the bonus program and the planned works. Nevertheless, in 2014, the Company invested R\$3.2 billion and plans to invest more than R\$13.5 billion by 2019. These factors did not prevent Sabesp from moving forward to the goal



of providing universal access to sewage collection and treatment services in its area of operations. Established jointly with the state government and the served municipalities, this guideline presented positive numbers in the execution of the third stage of the Tietê project, in the São Paulo metropolitan region, and the *Onda Limpa* (Clean Wave) program in the Santos coast region.

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In 2014, we delivered 20 sewage treatment stations (STs) executed 244,300 new connections, totaling 22.4 million people served. Regarding water supply, although this service is universal, intensive work was required to keep up with the growth of the population and the business. As a result, 231,500 new connections were made. We currently serve 25.3 million people directly, more than the population of many countries.

It is also worth noting the efforts to obtain management efficiency gains and to improve the quality of the services provided in the served municipalities. These initiatives include the policy for employee's valuing and training, the development of leaders and the modernization and technological improvement of internal processes. This transparent and ethical attitude is further reinforced by a compliance program based on practices referenced to the main global requirements, such as the Foreign Corrupt Practices Act (FCPA), and in anticipation of the Anti-corruption Law 12,846/2013, in effect since January 2014. In addition, in 2014, we carried out an extensive assessment of anti-fraud mechanisms, resulting in the improvement of the 93 existing processes and the implementation of another 77 corporate protection initiatives.

The long-term strategic plan, the operating capacity and the dedication of our professionals were essential so that the population could be spared the distress caused by general supply shortage in 2014. We will maintain these efforts in 2015 and in the upcoming years, leaving an important legacy for future adversities, comprising both the structural aspect, which is even more robust and secure, and the population's increased awareness of water issues.

**JERSON KELMAN**

**Sabesp's Chief Executive Officer**

## AMONG THE WORLD'S LARGEST IN SERVED POPULATION

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 to sanitation services in the area it operates. Also, in accordance with 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 improving quality of life and the environment".

As a publicly held mixed capital company headquartered in the municipality of São Paulo, the capital of São Paulo state, Brazil, the Company is governed by public and private Law standards and principles.

Sabesp is currently the largest sanitation company of the Americas and the fifth largest of the world in terms of population served, in accordance with the 14<sup>th</sup> 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 2014, we posted net revenue of approximately R\$11.2 billion and net income of R\$903.0 million. Our assets totaled R\$30.4 billion and our market cap was R\$11.6 billion on December 31, 2014. We supply water to 28.4 million people (25.3 million directly and 3.1 million served on a wholesale basis) and collect the sewage generated by 22.4 million people. Sabesp's services cover approximately 67% of the urban population of the state of São Paulo.

Our structure is divided into five management divisions, in addition to the CEO, two of which are operational, divided into 17 business units throughout the state. We operate 235 water treatment plants and 524 sewage treatment stations, including 9 ocean outfalls. Our water and sewage distribution networks are 70,800 kilometers and 48,000 kilometers long, respectively. The Company currently has 14,753 employees, whose total productivity was 1,008 connections per employee.

The Company operates in 364 municipalities of the state of São Paulo, in addition to partially serving the municipality of Mogi das Cruzes. Between January 1st, 2007, when the new Regulatory Framework (Law 11,445/07) was issued, and December 31, 2014, we entered into agreements to provide services for an additional 30 years with 274 municipalities (including the city of São Paulo), eight of which executed in 2014.

On December 31, 2014, these 274 municipalities accounted for approximately 73.4% of the Company's total revenue and 65.7% of intangible assets. Also, the Company continues to operate in the 54 municipalities for which the agreements have expired and it is negotiating renewal.



By 2030, another 38 municipalities will have their agreements expired. Together, they account for 8.7% of the Company's total revenue and around 8.0% of intangible assets. For these cases, Sabesp will spare no effort to formalize new agreements for another 30 years.

In addition, through December 31, 2014, the Company supplied water on a wholesale basis to five other municipalities located in the metropolitan region of São Paulo (RMSP), four of which also used sewage treatment services.

In another three municipalities of the state of São Paulo, Sabesp holds interest in Águas de Castilho S.A., Águas de Andradina S.A. and Saneaqua Mairinque S.A., which provide water and sewage services and, in the municipality of Mogi Mirim (SP), it holds interest in SESAMM – Serviços de Saneamento de Mogi Mirim S.A., which is engaged in the modernization, implementation and management of the sewage treatment system. It is worth mentioning that there were no capital contributions to these investees in 2014.

In the reuse water segment, Sabesp and Odebrecht Ambiental hold interests in Aquapolo Ambiental to produce, provide and sell the product to the Capuava Petrochemical Complex and, in the non-domestic sewage segment, the Company created, together with Estre Ambiental, Attend Ambiental, which began operating a non-domestic sewage pre-treatment station and sludge disposal system in the São Paulo metropolitan region in the second half of 2014, amongst other activities.

The Company also provides advisory services on the rational use of water, planning and commercial management, financial and operating issues. We currently operate in Panama, Honduras and Nicaragua, in partnership with Latin Consult in the first two countries.

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

The control, oversight and regulation, including tariff regulation, of our operations are mostly carried out by the São Paulo State Energy and Sanitation Regulatory Agency - Arsesp.

The Company's shares – all common voting shares – are traded on the São Paulo Securities, Commodities and Futures Exchange (BM&FBovespa) under the code SBSP3 and on the New York Stock Exchange (NYSE), as American Depositary Receipts (Level III ADR), under the code SBS. On December 31, 2014, we had 5,010 shareholders registered on the BM&FBovespa and our capital stock was composed as follows:



We are still part of the main BM&FBovespa indices, including the Corporate Sustainability Index.

### **Corporate Governance**

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

The Company's Board of Directors is currently composed of ten members for a unified two-year term of office, four of whom independent, reelection being permitted in accordance with the BM&FBovespa's Novo Mercado rules. One of the members was elected by minority shareholders. No executive officer is a member of the Board of Directors, except for the CEO, and the CEO cannot be the Chairman of the Board of Directors.

2014 and the first months of 2015 were marked by major changes in our Management. In March 2014, João Paulo Tavares Papa resigned from the position of Technology, Enterprises and Environment Officer and was replaced by Edson José Pinzan in August. In January 2015, Jerson Kelman replaced Dilma Seli Pena as the Company's Chief Executive Officer.

Also in March 2014, Edson de Oliveira Giriboni resigned from the position of Chairman of the Board of Directors.

At the Annual Shareholders' Meeting held in April 2014, the controlling shareholder renewed part of the Company's Fiscal Council, electing Rui Brasil Assis as a sitting member and Enio Marrano Lopes and Marcio Rea as alternate members. On the same date, Joaldir Reynaldo Machado left the Fiscal Council.

On the same occasion, the minority shareholders introduced changes to the Board of Directors, by electing Luís Eduardo Assis to replace Alexander Bialer, and, to the Fiscal Council, by electing Alexandre Luis Oliveira de Toledo and Antonio Claudio Zeituni as sitting and alternate members, respectively, to replace Massao Fábio Oya and Jorge Michel Lepeltier.

In January 2015, after the state elections, Benedito Pinto Ferreira Braga Junior, the new State Secretary of Sanitation and Water Resources, was elected Chairman of the Board of Directors. Subsequently, in February 2015, Board member Mauro Guilherme Jardim Arce resigned and was replaced by Jerson Kelman.

For further information on the Company's corporate governance structure and its operations, see the "Corporate Governance" section in the Investors Relation area of the Company's website: [www.sabesp.com.br/investidores](http://www.sabesp.com.br/investidores).

In 2014, the compensation of executive officers and members of the Board of Directors, including benefits, amounted to approximately R\$3.4 million. This amount is added by approximately R\$504,000 relating to the executive officers' variable compensation; the variable compensation is not applicable to members of the Board of Directors and the Fiscal Council, pursuant to State Decree 58,265/12 ratified by the Shareholders' Meeting held in April 2013.

As required by Brazilian Corporate Law, the overall compensation paid to executive officers and members of the Board of Directors and the Fiscal Council is established by the Shareholders' Meeting. At Sabesp, the policy relating to the compensation of Board members and executive officers is established in accordance with the guidelines of São Paulo state government, mainly based on performance, always subject to approval by the Shareholders' Meeting.



**INDICATORS**

<b>Indicators</b>	<b>Unit</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
		Services				
Water coverage ratio		Close to universal access <sup>(1)</sup>				
Sewage collection coverage ratio	%	85	84	83	82	81
Collected sewage treatment coverage ratio <sup>(2)</sup>	%	77	78	77	76	75
Resident population served by water supply	thousand inhabitants	25,264	24,560	24,249	23,911	23,625
Resident population served by sewage collection	thousand inhabitants	22,353	21,483	20,992	20,498	20,024
Positive customer satisfaction perception <sup>(3)</sup>	%	80	89	89	92	89
		Operational				
Water connections	thousand	8,210	7,888	7,679	7,481	7,295
Sewage connections	thousand	6,660	6,340	6,128	5,921	5,718
Water network <sup>(4)</sup>	km	70,800	69,619	67,647	66,389	65,379
Sewage network <sup>(4)</sup>	km	47,992	47,103	45,778	45,073	44,279
Water Billed Loss Index <sup>(5)</sup>	%	21.3 <sup>(11)</sup>	24.4	25.7	25.6	26.0
Water Metered Loss Index <sup>(5)</sup>	%	29.8 <sup>(11)</sup>	31.2	32.1	32.0	32.3
Water Loss per Connection <sup>(5)</sup>	liters per connection per day	319 <sup>(11)</sup>	372	392	395	403
Water produced volume	million m <sup>3</sup>	2,840	3,053	3,059	2,992	2,952
Number of employees <sup>(6)</sup>	un	14,753	15,015	15,019	14,896	15,330
Operational productivity	Connections/ employee	1,008	948	919	900	849
		Financial				
Gross revenue	R\$ million	11,823.4	11,984.8	11,391.2	10,529.7	9,785.9
Net revenue	R\$ million	11,213.2	11,315.6	10,737.6	9,927.4	9,230.4
Adjusted EBITDA <sup>(7)</sup>	R\$ million	2,918.7	4,006.6	3,605.0	3,371.0	3,222.5
Adjusted EBITDA margin	% of net revenue	26.0	35.4	33.6	34.0	34.9
Adjusted EBITDA margin less construction revenue and cost	% of net revenue	34.4	44.6	43.0	43.2	44.7

Operating result <sup>(8)</sup>	R\$ million	1,910.7	3,138.8	2,843.3	2,512.0	2,672.1
Operating margin <sup>(8)</sup>	% of net revenue	17.0	27.7	26.5	25.3	28.9
Result (net income/loss)	R\$ million	903.0	1,923.6	1,911.9	1,380.9	1,630.4
Net margin	% of net revenue	8.1	17.0	17.8	13.9	17.7
Net debt/adjusted EBITDA	multiple	3.1	1.9	1.9	1.9	1.9
Net debt/equity <sup>(9)</sup>	%	68.1	59.3	61.8	59.6	64.3
Investment <sup>(10)</sup>	R\$ million	3,210.6	2,716.0	2,535.6	2,440.2	2,194.4

(1) 99% and above.

(2) For methodological reasons, there may be a margin variation of 2 percentage points up and down

(3) Survey conducted by VR Consultoria Ltda. in 2014 (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 collectors, interceptors and outfalls.

(5) The water loss ratio represents lost volume over produced volume. In the calculation of the water billed loss index, the volume of loss is the result of produced volume less billed volume, less other use volume. In the calculation of water metered loss index, the volume of loss is the result of produced volume less metered volume less other use volume. The water loss per connection figure is calculated by dividing the volume of loss (produced volume less metered volume less other use volume) by the number of active connections. Other use volume corresponds to water used to operate the systems, such as filter washing and network disinfection, emergency use water, used by firefighters, and water supplied to shantytowns (calculated by estimation).

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

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

(8) Excludes finance income and expenses.

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

(10) Excludes financial commitments assumed in the program contracts (R\$63 million, R\$139 million, R\$155 million, R\$65 million and R\$116 million in 2010, 2011, 2012, 2013 and 2014, respectively).

(11) Result influenced by the management of pressure, whose effect should be annulled when the operation is normalized.



## **SUPPLY CHALLENGES IN AN ADVERSE CLIMATE SCENARIO**

In addition to operating in all the regions of the vast state of São Paulo, the Company operates in the metropolitan region of São Paulo (RMSP), an area where water availability per inhabitant is extremely critical. With 22 million inhabitants – half of the São Paulo state population and one of the world's largest urban agglomerations – the RMSP is located in the headwaters of the Alto Tietê basin, a combination that leads to a per capita water supply comparable to that of semi-arid regions.

Between the end of 2013 and the beginning of 2014, this already historically challenging supply scenario reached alarming proportions with the most severe drought since water inflow began to be measured in the main water sources that supply the RMSP.

Accompanied by record high temperatures, the drought also affected regions in the interior of São Paulo state and nearby states, such as Rio de Janeiro, Minas Gerais and Espírito Santo, and directly influenced the sharp decline in the water sources that compose the RMSP's water metropolitan system, especially the Cantareira and Alto Tietê systems.

The RMSP's production systems were conceived considering the water availability referenced to the average inflows of the historical series of the last 84 years and the 1953/1954 two-year period was until then considered the most critical period in the São Paulo metropolitan region. However, the situation experienced between the end of 2013 and the beginning of 2015 has substantially reduced water availability in virtually all the RMSP's water sources.

The Cantareira system, which is located in the north side of the RMSP and has a total storage capacity of approximately 1.5 trillion liters of water, was the first to show the effects of the drought, in early 2014. It holds 982 billion liters above the gravity extraction level and the remainder below this level (technical reserve).

Under normal conditions, it supplies approximately 9 million inhabitants with an average intake of 33 m<sup>3</sup>/s. The extraction conditions are defined by the National Water Agency (ANA) and the Water and Electricity Department (DAEE), in compliance with the grant dated 2004. For further information on initiatives to fight the water shortage, see the "Confronting the Water Crisis" chapter in this Report.

### ***Impacts and consequences of the water crisis***

The measures to mitigate the drought resulted in a significant decrease in water billed volume and revenue from services, with a material adverse effect on the Company, which may worsen if the drought escalates in severity.

From time to time, Sabesp faces a reduction in water availability in the water sources due to droughts. The Southeast of Brazil, particularly southern Minas Gerais State, the Piracicaba river basin (from which we extract the water used in the Cantareira system) and the north side of the RMSP have experienced below-average rainfall since 2012 and the drought got worse from the end of 2013 to September 2014.



During the rainy season, which began in October 2014, rainfall was significantly below average from October 2014 to January 2015 and returned to a satisfactory level in February, when it was above average for the month. The result was a negative effect on reservoir levels, already down due to the severe drought in the 2013-2014 summer. The depletion of water is worse in the Cantareira system, the largest one in the RMSP. As a result of the drought and the low volume in this system, DAEE and ANA, since March 2014, have gradually reduced the amount of water that Sabesp is permitted to extract from this system. In February 2015, Sabesp was authorized to extract 13.5 m<sup>3</sup>/s. In March 2014, the Company was allowed to extract up to 33 m<sup>3</sup>/s, 31 m<sup>3</sup>/s of which from the PCJ water basin (Piracicaba, Capivari and Jundiaí Rivers) and 2 m<sup>3</sup>/s from the Alto Tietê water basin. In order to maintain supply and continue meeting consumer demand even with lower water availability, the Company has been adopting a series of measures, including (i) water transfers between the production systems; (ii) the adoption of a water consumption reduction incentive program based on a bonus system; (iii) the reduction in the volume of water supplied to two municipalities served on a wholesale basis from the Cantareira system; (iv) pressure reduction in the water network, which helps reduce the water losses; and (v) the extraction of water from the technical reserve, i.e. water located below the minimum level for extraction by gravity. It is worth noting that extraction from the technical reserve requires pumping.

The extent of the drought and the adopted measures have gradually reduced billed water volume and, therefore, revenue. In 2014, billed water volume fell by 3.1% and gross operating revenue declined by 6.7% from 2013.

If the drought continues and reservoir levels remain low, Sabesp will not be able to ensure that the bonus program and other mitigation measures taken in 2014 and early 2015 will be discontinued nor that it will be able to serve all the population in its area of operations. It is worth noting that the users' increased awareness of the need to save water and the implementation of the bonus program have reduced per capita water consumption. Sabesp cannot ensure that at end of the bonus program the said consumption will return to levels that existed prior to the current water crisis. Lower per capita consumption may adversely affect our business and result of operations in the future.

In addition, the Company had to make a series of investments to continue providing water to the population, which resulted in higher costs and a revision of the capital expenditure. If the drought persists, the Company may be obliged to take more drastic measures, including the implementation of water rotation.

### ***Concession of the Cantareira system***

The water extraction from the Cantareira system is granted to Sabesp by the ANA and the DAEE; the usage rights grant was renewed in 2004 for ten years and would have expired in August 2014. However, due to the severe water shortage in the Cantareira system, the usage rights grant was extended until the end of October 2015.

The Company will try to renew the usage rights granted by ANA and DAEE on the same basis as from 2004 to 2014, which allowed the extraction of 31 m<sup>3</sup>/s from the PCJ water basin. However, the severe drought in 2014, the driest year in the 84 years of record, has brought a new reference for minimum baseline of rainfall and water inflow, which can make the discussion even more complex. It is not possible to ensure that the usage rights grant will be renewed on the same basis, especially because it is not clear how these new minimum baselines and the consequent depletion of water source will factor in the negotiation.

The technical parameters of these historical records, which were used to analyze the removals of water from reservoirs and, consequently, the concession, may be discussed in light of this new reality and, on the other hand, it is not possible to predict if the crisis will persist, worsen or be resolved in the immediate future.

### ***Risk Management***

Sabesp's risk management activities are carried out in accordance with international standards and Brazilian technical standards, specifically COSO – 2013 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) and the Company's strategic planning, processes and organizational culture.

In addition to the risk related to the water crisis, the Company is subject to other risk factors, described in item 4.1 of the Reference Form<sup>1</sup>, and mitigating actions are established based on action plans, with ongoing monitoring.

### ***Legal Proceedings***

In the normal course of its activities, Sabesp is party to civil, environmental, labor and tax legal proceedings, among others. Several individual disputes account for a significant portion of the total amount of these claims. Our financial statements include proceedings classified as possible and probable losses and only those classified as a probable loss are provisioned for. The relevant proceedings are described in Note 19 to the Company's financial statements attached hereto.

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<sup>1</sup> The Reference Form is available on the Portuguese version of Company's investor relations website at [www.sabesp.com.br/investidores](http://www.sabesp.com.br/investidores) in the Informações Financeiras e Operacionais – Formulário de Referência e IAN

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### ***Technological management: SIIS***

The Company is committed to improving the efficiency of its internal processes by implementing Sabesp's Integrated Information System (SIIS). The system is enabled by the Enterprise Resource Planning - ERP technology, composed of SAP software and a commercial customer relations software by the company engineering.

The initial estimate was that the SIIS would be in operation as of mid-2014, with the implementation of the SAP modules. However, during the tests, it became clear that a number of fundamental functionalities had to be redone and exhaustively tested before being implemented. As a result, the activities were re-planned, taking into account the number of professionals allocated to the project.

The team with approximately 150 Sabesp professionals and another 150 professionals from the contracted consortium is still working to enable the implementation of the SAP modules in 2015 and the new commercial system in mid-2016.

The technology increases confidence and assertiveness in decision making in the financial and commercial areas and in regard to corporate governance. This will be possible through the provision of integrated and consolidated information on real time. Another competitive advantage is the change in the organizational culture, to be incorporated by the employees, due to the need for change in the current processes in order to adopt best market practices.

### **STRATEGY AND VISION FOR THE FUTURE**

Service universalization in the area of operations remains as a goal to be pursued, propelled by the execution of structuring programs and a large amount of investment<sup>2</sup>. Financial health, operational efficiency and employees' valuing are some of the pillars that support our strategy.

The plan resulting from this strategy was conceived to ensure continued supply in the regions served by the Company.

Between 1995 and 2014, Sabesp invested R\$10.9 billion in the RMSP in order to increase water availability, the capacity to produce and distribute treated water, and the integration between the production systems and the distribution network. In this period, our production increased from 57 m<sup>3</sup>/s to more than 73 m<sup>3</sup>/s.

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<sup>2</sup> According to 2013 data from the National Sanitation Information System of the National Department of Environmental Sanitation of the Ministry of Cities, Sabesp is responsible for around 30% of the sanitation investments in Brazil.



The planning and implementation of our production systems in the São Paulo metropolitan region were conceived considering the water availability referenced to the average inflows of the historical series of the last 84 years, and the 1953/1954 two-year period was until then considered the most critical period in the São Paulo metropolitan region. However, the situation experienced between the end of 2013 and the beginning of 2015 significantly reduced water availability in virtually all the water sources in the RMSP to well below the minimum baselines that has driven the production systems design.

In order to deal with this situation, Sabesp has adopted a series of actions that reduced dependence on the Cantareira system (the largest system in the RMSP and the water source most affected by the crisis) and consequently increased the use of water available in other production systems located in RMSP. These measures reduced the average outflow of the Cantareira system by half. In order to learn more about the initiatives, see the chapter “Confronting the Water Crisis”.

In order to ensure continuous supply, the Company will implement medium- and short-term initiatives to increase water availability by 30% until the end of the decade.

Public-private partnerships (PPPs) and the installation of new plants through the leasing of assets are partnership modalities that have already been adopted and may be expanded to accelerate the execution of works, strengthen our investment capacity, expedite the response in the implementation of infrastructure, especially in light of this crisis, and enable the exchange of technology and knowledge between those involved.

### ***Analysis of Goals***

Important challenges were brought before our Company in 2014. Nevertheless, we maintained the trajectory of service expansion with 231,500 new water connections and 244,300 new sewage connections.

At the end of 2014, the collected sewage treatment ratio was 77%, in line with 2012 and slightly less than in 2013. This below-expected performance was the result of water shortage, leading to lower water consumption and, consequently, lower amount of sewage to be collected and treated, especially in the areas served with sewage treatment.

In 2014, the water billed loss index fell to 21.3%, reflecting our efforts under the Corporate Program for Reduction of Water Loss, which comprises actions for network maintenance (repair of network leakages, inspection of irregular and idle connections), asset renewal (replacement of networks, branches and water meters) and intensification of the management of pressure in the network to mitigate the effects of the water crisis.



**Goals Achieved in 2014 and Goals for 2014-2020**

	Actual		Goal				
	2014	2014	2015	2016	2017	2018	2020
<b>Water supply <sup>(1)</sup></b>			<b>Close to universal access</b>				
<b>Sewage collection (%)</b>	<b>85</b>	<b>85</b>	<b>86</b>	<b>88</b>	<b>89</b>	<b>90</b>	<b>95</b>
<b>Collected sewage treatment (%)</b>	<b>77</b>	<b>78</b>	<b>81</b>	<b>86</b>	<b>88</b>	<b>90</b>	<b>95</b>
<b>New water connections (thousand)</b>	<b>231</b>	<b>180</b>	<b>177</b>	<b>172</b>	<b>164</b>	<b>164</b>	<b>316<sup>(2)</sup></b>
<b>New sewage connections <sup>(3)</sup> (thousand)</b>	<b>244</b>	<b>235</b>	<b>242</b>	<b>242</b>	<b>242</b>	<b>237</b>	<b>474<sup>(2)</sup></b>
<b>Water losses – revenue (%)</b>	<b>21.3<sup>(4)</sup></b>	<b>24.0</b>	<b>22.6</b>	<b>21.7</b>	<b>20.7</b>	<b>19.8</b>	<b>18.1</b>

(1) 99% or more

(2) Accumulated target for 2019/2020

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

(4) Result influenced by the management of pressure, whose effect should be annulled when the operation is normalized

As in previous year, the Company's profit sharing plan was based on some operational, economic-financial and customer satisfaction goals. The plan complies with Decree 59,598, of October 16, 2013, and set the compensation linked to employees' performance. The Company fully met three of the seven targets, as shown below:

**2014 Profit Sharing Program**

	Unit	Goal	Actual
Adjusted EBITDA margin <sup>(1)</sup>	%	34.0	26.0
Positive customer satisfaction perception	%	85	80
Number of new water connections	thousand units	180.0	231.5
Number of new sewage connections (conventional)	thousand units	215.4	238.1
Number of new sewage connections ( <i>Se Liga na Rede</i> )	thousand units	19.6	6.2
Water billed loss index	%	24.0	21.3 <sup>(2)</sup>
Collected sewage treatment index	%	78	77

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

(2) Result influenced by the management of pressure, whose effect should be annulled when the operation is normalized.

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As a result of the severe drought that has affected our region of operations since late 2013, we have encouraged our customers to reduce water consumption, resulting in a decline in revenue and, consequently, in EBITDA.

Regarding customer satisfaction, although we did not reach the target, we consider the result to be positive because it shows that, despite the water crisis that is affecting the entire Southeast region, our customers recognize the dedication and the efforts of Sabesp's technical staff towards meeting their needs.

The target for new sewage connections in the scope of the *Se Liga na Rede* program was not reached. The Company's focus on efforts to manage the water crisis together with the difficulties inherent in the program, which depends on the customers' adhesion and hydraulic adaptations inside the homes, have led to below-expected performance.

## **ETHICS AND TRANSPARENCY**

The ethical values that underpin Sabesp's actions in its relationships with its stakeholders 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, the Corporate Accountability Procedure, the Ombudsman and the Citizen Information Service.

Sabesp's Ombudsman is a qualified relationship channel, which, due to attentive monitoring, has contributed to reducing the number of complaints against the Company in the Procon in the last five years. This result underlines our daily customer care efforts.

In 2014, the Company recorded 108 complaints, of which 79% were resolved and 21% are being analyzed. Out of the total, 8% relates to improper behavior, such as harassment, discrimination, persecution and unfair treatment. In regard to the claims accepted, 43 own or outsourced employees were punished (8 warnings, 2 suspensions and 33 dismissals).

In accordance with the principle of business transparency and pursuant to Federal Law 12,527/2011 and State Decree 58,052/2012, Sabesp provides the Citizen Information Service (SIC), a channel that provides citizens with access to information on public entities.

The Company's minimum information, required by said legislation, is available on the Company's website ([www.sabesp.com.br](http://www.sabesp.com.br)), under the SIC link, in the top menu, where there is also a channel for citizens to request other information. In addition to the website, citizens can obtain information in person at Rua Costa Carvalho, 300.

In 2014, 533 requests for information were responded to via telephone or the Internet. Over the same period, citizens filed 37 appeals in the lower court and 19 in the appellate court, seeking additional information.





### ***Combat of Corruption***

On January 29, 2014, Law 12,846/2013, known as Anti-corruption Law, came into effect in Brazil introducing the concept of strict liability for private legal entities in the country, holding companies involved in corruption acts in the administrative and civil spheres liable.

In addition to complying with the Brazilian Anti-corruption Law, because its shares are listed on the New York Stock Exchange, Sabesp is also subject to the Foreign Corrupt Practices Act (FCPA), a similar law effective in the United States since 1977. In accordance with this law, companies may be held liable even if the corruption acts are practiced by commercial agents, representatives or other parties acting on their behalf, both in the United States and outside that country.

Sabesp is committed to conducting its business in a legal, ethical, transparent and professional manner, extending to its employees and its third-party representatives, the obligation to understand, accept and execute these guidelines.

Our compliance program is in line with the recommendations of the Organization for Economic Co-operation and Development (OECD), the United Nations Office on Drugs and Crime (UNODC) and the World Bank.

Because we are a mixed capital company, our program deals with two different scenarios, the active corruption (to pay a bribe) and passive corruption (to accept a bribe), and is structured based on Senior Management's Commitment; Functional Structuring; Values, Conduct and Whistle-blowing Channel; Relationships with Third-parties; Governance and Internal Controls; Risk Management; Training and Communication.

In 2014, we strengthened our Compliance program through the diagnosis and the mapping of our current compliance practices and defined action plans for 23 procedures considered to be material based on the analysis of corruption and corporate fraud risks in 2013.

The guidelines of the Law are integrated into all the models of the Company's Notices and Drafts of Standard Contracts. They are available at:

<http://sabesp-info18.sabesp.com.br/forneced.nsf>.

In addition, the Company disclosed its ethical values through in-person and virtual lectures and training to approximately 1,520 employees who hold leadership positions.

## CONFRONTING THE WATER CRISIS

At the first signs of drought, in the beginning of 2014, Sabesp implemented emergency measures to maintain regular supply in the metropolitan region of São Paulo and in several affected regions in the whole state. The interiormunicipalities, experiencing the most serious situations, were aided by the transfer of water intake sources, new mains and the increase of water production capacity. In the RMSP, the area most severely affected by the drought, the capacity for infrastructure integration between the production systems and the contingency initiatives prevented the adoption of more drastic measures to the population, such as the water rotation<sup>3</sup>.

The strategic efforts to preserve the water reserves resulted in a 30% decline in water withdrawal from reservoirs in the Greater São Paulo – from 71 m<sup>3</sup>/s in January 2014 to 50m<sup>3</sup>/s in February 2015. We focused our greatest efforts on Cantareira, the most seriously affected system; its contribution to the metropolis' supply fell by 56% in terms of water withdrawal - from a 31 m<sup>3</sup>/s average in January 2014 to around 14 m<sup>3</sup>/s in February 2015. These numbers were achieved through the following initiatives:

- a) **Granting of bonuses to those who reduce water consumption and charging of a contingency tariff to those who waste water.** There was an immediate acceptance of the advertising campaigns widely broadcasted in the media. Per capita consumption fell from 163 liters/inhabitant/day in January 2014 to 126 liters/inhabitant/day at the end of December. To learn more about these initiatives, see the Economic-Financial Management Section of this Report.
- b) **Water flow transfers between the RMSP production systems**, which have a production capacity of 73 m<sup>3</sup>/s under normal conditions. For the first time since the beginning of its operations in 1973, the Cantareira system, which served approximately 8.8 million people before the crisis, stopped being the greatest water producer for the metropolitan region of São Paulo in February 2015, once surpassed by the Guarapiranga system, which is now serving 5.8 million people in the south and west regions, versus 3.9 million people before the crisis. Despite the installed infrastructure, the sectorial maneuvers for systems supply alternation required a series of structural adaptations in hydraulic systems, boosters and pumping stations, among other urgent interventions.
- c) **Use of technical reserves**, i.e., the water below gravity extraction level. As the simulations carried out in the summer of 2014 indicated the potential depletion of the active volume of the Cantareira system before the beginning of the 2014/2015 summer, Sabesp was authorized by the National Water Agency (ANA) and the São Paulo State Water and Electricity Department (DAEE) to use, for the first time, part of the Cantareira system's technical reserve. This required an emergency construction of dams, channels, pipes and a set of 17 floating pumps. The interventions executed in less than two months and ended in May 2014, led to the intake of 182.7 billion liters of water. At the end of October 2014, it was necessary to begin using the second layer of the technical reserve, which added 105.0 billion liters to the system. The Technical Reserve's water quality<sup>4</sup> is the same as of that gravity-extracted water volume.

<sup>3</sup> A rotation situation is characterized when there are programmed water supply interruptions in different regions (sectors) of of city for certain periods of time (hours or days).

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**d) Reduction in the water volume supplied on a wholesale basis to the municipalities served by the Cantareira system, enabling a reduction of almost 2 m<sup>3</sup>/s.**

**e) Intensification of measures to reduce water loss.** Although it was on the spotlight in 2014, the loss control is a permanent part of our efforts for efficient water management. It has been intensified the network pressure reduction, taking into account the installation of pressure reducing valves used by the Company since 1997, and it has also been expanded our efforts for leak detection in order to contain damage and loss in pipelines, reducing the average repair time from 60 to 17 hours. For invisible leaks, it is worth noting that Sabesp has a geophone system, which detects leaks through soil auscultation with a small sensor. This technology is being improved with the adaptation of a smartphone, connecting the operational work on the streets to a data center, ensuring greater speed and accuracy in the repair, besides the classification of different leak profiles. This invention, still in the research phase, is the result of a partnership between Sabesp's Department of Execution of Research, Development and Innovation Projects, and professor Linilson Padovese (USP), being supported by the São Paulo Research Foundation (Fapesp). The device should be operation in around three years.

Comparing water production in February 2014 with February 2015, the Cantareira system's water withdrawal fell by 56%, which means monthly savings of 17.74 m<sup>3</sup>/s – sufficient to supply approximately 7.1 million people for a month. Considering all the systems that serve the RMSP, savings came to 21.4 m<sup>3</sup>/s in the same period, sufficient to serve 8.6 million inhabitants, more than the population of the city of Rio de Janeiro<sup>5</sup>.

The systems' new recently observed rainfall and water inflow levels, formerly based on the figures for 1953-1954, brought new parameters for the hydrological risks assessment. This new scenario directly impacts the conception of projects and anticipates the works already planned in the São Paulo State's Macrometropolis Plan to expand the supply infrastructure.

In light of this new scenario, confronting the crisis involves the repositioning of investments and a series of initiatives to increase water availability and the integration between the production systems, expanding by 30% the water supply in the RMSP by the end of the decade, splitted into three phases. The first comprises short-term measures, expected to be executed and begin operation in 2015. These include: the transfer of 0.5 m<sup>3</sup>/s from the Guaratuba River to the Alto Tietê system, in operation since February, 2015; the interconnection that will enable the transfer of 4 m<sup>3</sup>/s from Billings to the Alto Tietê system, the transfer increase from Billings to Guarapiranga by more than 1 m<sup>3</sup>/s and the enlargement of the ABV water treatment station by 1 m<sup>3</sup>/s.

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<sup>4</sup> The water provided by Sabesp is in compliance with Ordinance 2,914 of the Ministry of Health and is analyzed in the Company's laboratories, which follow the NBR ISO/IEC-17025 standards and are certified by the Inmetro. Every year, more than 700,000 laboratory tests are performed by regional quality control laboratories, with samples collected from several points in the distribution network.

<sup>5</sup> Considering 1 m<sup>3</sup>/s as sufficient consumption to serve 400,000 people.

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At the end of January 2015, the Company published a pre-qualification bid notice for companies interested in bidding for the interconnection works between the Jaguari (Paraíba do Sul basin) and Atibainha (Cantareira system basin) dams. Howbeit an appeal was taken to the São Paulo State Accounting Court, which was granted partial relief leading to its republication on March 21, 2015. It is a large scale construction project, with expected average outflow of 5.13 m<sup>3</sup>/s and maximum outflow of 8.5 m<sup>3</sup>/s, which should begin operating in the second half of 2016, enhancing the Cantareira system.

In the medium-term, more sources should be incorporated into the integrated system. The São Lourenço production system (SPSL), whose works began in April 2014, is one of the main sources. With its start-up scheduled for the end of 2017, it will allow the transfer of another 4.7 m<sup>3</sup>/s (with a maximum capacity of 6.2 m<sup>3</sup>/s). The total amount for this project is budgeted at R\$6.0 billion, including R\$2.2 billion allocated to construction through a public-private partnership with the company Sistema Produtor São Lourenço S.A. and R\$3.8 billion to a 21-year operation and maintenance of the plant's services.

Also in the medium term, the Company is studying the construction of two Reuse Water Production Stations (EPARs), one on "Pinheiros Expressway" (2 m<sup>3</sup>/s) and another in Barueri (1 m<sup>3</sup>/s). In these stations, the collected sewage is treated until it is transformed into reused water with a quality close to that of potable water, and then transported to the Guarapiranga and Isolina reservoirs (Alto Cotia system), respectively, where it will be treated and transformed into potable water again.

In order to achieve this result, the reuse water production station will be equipped with membrane biologic reactors, which perform ultrafiltration and have the capacity to remove solid particles with a diameter a thousand times smaller than a hair. Afterwards, the membrane filtration may be followed by osmosis and oxidation processes. And as a last stage, the water will be submitted to a final disinfection process to eliminate pathogens, such as bacteria and viruses.

The study of the EPARs also includes a comparison with alternative intakes from new water sources near the RMSP, where a good quality water is available.

### ***The Metropolitan Water Program***

The Metropolitan Water Program (PMA), launched in the 90s, ensured regular water supply to the metropolitan region of São Paulo (RMSP) when the water crisis started in 2013. Completed in 2000, the first phase of the Metropolitan Water Program put an end to rotations and expanded the capacity of the whole system as increased untreated water available supply, enhanced the reservation and renovation structures and increased treated water production and transportation (intake) capacity. Between 2006 and 2014, the second phase of the program required investments of R\$1.9 billion, including our own funds and financing from Brazilian Federal Savings Bank (CEF) and Brazilian Development Bank (BNDES) and funds from the public-private partnership (PPP) contracted to expand Alto Tietê system's production capacity by 5 m<sup>3</sup>/s.



Only in 2014, R\$349 million were invested in the program, a 173% increase over 2013 due to changes in the Company's strategy due to works brought forward and emergency actions in operation to face the water crisis.

### ***Protection of Water Sources***

A greater need of water sources to supply the metropolitan region of São Paulo makes actions towards the environmental recovery of these water sources yet more urgent, with an acting of, above all, the municipal executive power, which has the prerogative to promote land regularization of regions already occupied and prevent the irregular settlement in the surroundings of the water sources – considered to be environmental preservation area.

The **Water Sources** Program, implemented in 2008 in a partnership with the municipal government, is focused on improvement and preservation of water reserves in the metropolitan region of São Paulo and the region's urban development, especially at Guarapiranga and Billings dams. Most of funds will be invested to create sewage collection infrastructure in the region. This Program foresees interventions to improve precarious lots and housing units in Guarapiranga and Billings sub-basins' areas.

Out of US\$ 100 million to be invested by Sabesp in this project, up to date, approximately R\$147.4 million were executed, of which R\$30.4 million in 2014. The measures will be implemented with funds of the federal government, State of São Paulo, municipalities, World Bank and Sabesp.

Concurrently, Billings dam also counts on **Pró-Billings** program, whereby sewage treatment works will serve the population with trunk collectors, sewage pumping stations, collecting networks and household connections, taking sewage to ETE ABC for treatment, with an estimated completion date by the end of 2018.

**Nossa Guarapiranga** (Our Guarapiranga) is a third initiative towards the recovery of metropolitan water sources. Started at the end of 2011, the Program is supported by 10 collector dinghies and 11 eco-barriers (which are structures with floats and underwater metallic screens installed in the mouth of the dam inflow that removes waste that reaches these channels). The items taken out of the dam include couches, plastic containers, TV sets, car carcasses, and a variety of waste types that contaminate the water and disrupt water intake and treatment operations. Between December 2011 and October 2014, more than 9,000 m<sup>3</sup> waste were removed. In addition, since July 2012, the Company has been developing diagnoses, water plants control and removal, i.e., the macrophytes, which obstruct the dam's water intake. This service relies on two specially-equipped dinghies for this operation. At the end of 2014, R\$15.1 million were allocated to the program, which should reach R\$17.9 million by the end of 2016.





It is worth mentioning that recovering and preserving urban water sources in an area as complex as the metropolitan region of São Paulo is a collective mission. The participation of sanitation companies of all municipalities through the expansion of sewage collection and treatment, the inspection of irregular occupancy, urban cleaning and the increased citizens' awareness of the proper waste disposal value are critical actions to move forward in preserving these important water sources in such a water shortage environment.

### ***Corporate Program for Reduction of Water Loss***

The Corporate Water Loss Reduction Program This program is divided into two fronts. The first is focused on fighting what we technically call physical or actual losses, which are caused by leaks in the distribution network. The fight against non-physical or apparent commercial loss, comprised of “stolen” water from the network by means of illegal connections, frauds, or inaccurate water meter readings—is another front.

In the 12 years of estimated program activity (2009-2020), investments should total R\$5.1 billion through our own funds or Japan International Cooperating Agency (JICA), CEF and BNDES financing. Until now we've invested R\$2.6 billion, of which R\$541 million were only in 2014. Currently, the metered loss ratio is 29.8% (18.8% of physical losses and 11.0% of commercial losses), a 1.4 percentage point drop compared to 2013, while some Brazilian states present a ratio higher than 50%. By the end of the decade, Sabesp intends to reach a 25.9% meter loss ratio and out of this total, 16.8% of physical losses. These goals have been revised, due to the Program's budgetary restriction, which is a result of current water crisis.

As for 2014, it is important to emphasize that the ratio decline was driven by intensified network pressure management. Although this practice has a direct impact on the loss indicators, they should not be interpreted as resulting only from loss combating actions, but also as a result of an atypical, temporary operation.

### ***Coastal supply***

Supplying nine municipalities in the Santos coast region is a complex, challenging task. Considered by the Brazilian Institute of Geography and Statistics (IBGE) the 15<sup>th</sup> largest metropolitan region in the country considering the number of inhabitants—approximately 1.8 million in 2014, which doubles in high season, when the highest temperatures are registered and caused water consumption per capita peaks, that overwhelms the supply system.

The need to ensure water supply safety in the region required building an integrated water intake, treatment and distribution system, as we have in the Greater São Paulo, intended to make supply flexible. This structure allows us to transfer water flows from regions with higher water availability to regions with higher demand, offsetting the volume availability limitation for water intake a Serra do Mar.



With the inauguration of the Mambu-Branco station in Itanhaém and the Jurubatuba station in Guarujá at the end of 2013, both supplying 3.6 m<sup>3</sup>/second of treated water, the Santos coast region currently has 15 ETAs. After treatment, water is sent to 50 storage centers with total capacity of 320,000 m<sup>3</sup> and is then strategically distributed to nine cities. In 2014 we built 1.3 km of treated water mains and its reservation was expanded by 17.3 thousand m<sup>3</sup> by delivering two reservoirs, one in the city of Vicente de Carvalho and another in Bertioga. In addition, it was started a 25 thousand m<sup>3</sup> reservoir construction in Praia Grande. Two stations were also delivered; ETA Itu, in São Vicente and ETA Bertioga. Together, the stations required investments of R\$16.1 million and added 380 liters/second of treated water on the south coast.

All these actions are part of the **Água no Litoral** (Water on the Coast) Program which estimates R\$1.1 billion in investments by the end of the program's first phase using our own funds and also CEF's. Out of this amount, R\$934 million have already been disbursed, of which R\$76 million in 2014, including investments made on the north coast for improving the system and building treatment stations in Ubatuba and Caraguatatuba, which are in progress, and has a treatment capacity of 150 liters/second each. The second phase of *Água no Litoral* is under the planning phase.

### **Interior actions**

Sabesp operates in 310 municipalities in the São Paulo's interior, where we provide universal water supply services. However, the 2014 drought also affected several regions, depleting rivers and lowering reservoirs, which required emergency actions to maintain regular supply for 1.2 million people. We built 55 emergency water intakes in 26 municipalities with the most serious scenario.

At a cost of approximately R\$21 million, these actions also required setting more than 100 kilometers of water mains and resulted in the production capacity expansion from new intake spots of more than 1.8 m<sup>3</sup>/second, which canceled the need for water rationing in these municipalities. According to the National Protection and Civil Defense Department data, until the last months of 2014, 45 municipalities in the state of São Paulo declared rationing, and none of them operated by Sabesp.

In 2014, 9 ETAs and 36 wells were concluded, making available another 794 liters/second to the water supply systems of 33 cities of the State. Another important action was the construction of 44 reservoirs with total capacity of 42.7 thousand m<sup>3</sup>. These actions contributed to solve water crisis situations considering also the demand deriving from the population growth in these municipalities, maintaining universal supply services in all bases operated by Sabesp. For 2015, 8 ETAs have been built (interior and coast), which will increase production by 1.7 m<sup>3</sup>/s, sufficient to supply a population of 680,000 people.



Also in the interior, we develop actions intended to bring water supply and sewage to isolated and low-income communities. It is called the *Água É Vida* (Water is Life) Program. Created in November 2011, it is being implemented in Alto Paranapanema and Vale do Ribeira regions, once these regions have a large population in rural areas and present the worst human development indexes in the State. In this task, Sabesp is responsible for supplying water and providing technical assistance to the municipalities which, using State funding, are responsible for installing Individual Sewage Units (USIs). These units are pieces of equipment with technology better suited for regions where, due to their isolation, do not have conditions to have the traditional basic sanitation infrastructure.

The initial goal is to serve 81 communities, benefiting more than 15,000 people. By December 31, 2014 we had completed the works in 11 communities and in another 14 communities the works were in progress. In total, we accomplished 78 kilometers of networks and ducts, and 24 new wells, already in operation. Most of the work was performed by its own labor force. As for water supply, we invested R\$7.4 million out of a total of R\$12.5 million budgeted up to 2015.

The scope and goals of this program have been revised, taking into account the measures and consequences of the drought that stroke Brazil's southeast region in 2014 and led to a continuous revenue decline. The investments had to be allocated to expand water availability in the São Paulo metropolitan area and regions with risky supply in the interior and coast.

### *Conscious and sustainable use of water*

As in the Program for Reduction of Water Loss, developing actions aimed at the efficient and responsible use of water has been part of Sabesp's sustainable management guidelines for decades. The water crisis has reinforced the relevance of these initiatives. One of the highlights is **PURA** (Rational Use of Water Program), which combines educational campaigns in public buildings, with practical guidance for civil servants on water consumption reduction. Concurrently, there is a structural measures implementation, with timers, water output acraters, replacement of old plumbing systems and pipelines, and building new reservoirs to collect and reuse rainwater.

Started in 1996, the program has already been implanted in 6,604 properties all over the State, through partnerships with State and Municipal public entities. The participating schools that reduce water consumption by less than 10% get a 25% discount on their bill.

Adopted by the most advanced world systems, the **reused water** technology is among the most efficient initiatives for sustainable water consumption. Accordingly, since 2012 we have been operating Aquapolo Ambiental in partnership with Odebrecht Ambiental, considered the largest project to produce industrial reuse water in South America and fifth largest in the world. Aquapolo is located near the ABC sewage treatment station (ETE), at the border between São Paulo and São Caetano do Sul. Approximately 900,000 m<sup>3</sup> of water per month are supplied to the large companies in the Capuava Petrochemical Complex and used to wash machinery and warehouses, cooling boilers, power generation, etc. We expect that Aquapolo reaches a peak production of 1 m<sup>3</sup>/s in the coming years. In addition to Aquapolo, Sabesp produces reused water from other ETES in the metropolitan region of São Paulo (RMSP) for urban use, such as street cleaning, unclogging sewage networks, watering yards, reducing dust in construction sites, etc. In 2014 we produced 5,000 m<sup>3</sup> for these purposes with quality assured by the ISO 9001:2000 management system.

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## SEWAGE ON THE PATH TO UNIVERSAL SERVICES

Expanding the sewage infrastructure means reducing infant mortality, the number of hospital and clinic admissions due to water-transmitted diseases, decontamination of rivers and water mains, job creation, and increasing the value of tourism and real estate. In other words, sanitation means prosperity, health, life quality and development.

According to the World Water Development Report 2014, a survey conducted by the UNESCO, it is estimated that more than 80% of the sewage in the world – and more than 90% in developing economies — are neither collected nor treated. And more: 36% of the world population, approximately 2.5 billion people, live without appropriate sanitation, which is the probable cause of death of more than 1.5 million children younger than five years old in the world, every year.

In São Paulo, the expansion of sewage collection and treatment in municipalities served by Sabesp, reached in 2014 sewage indexes of 85% for collection and 77% for its treatment.

Our sewage system currently serves 22.3 million people. Even though 2014 was a year of double efforts to ensure water supply, the sewage collection and treatment expansion actions had significant results. Throughout the year we delivered new sewage treatment stations and made 244,280 new connections all over the State, being the highest number of connections since 2011—the second highest over the past 16 years.

### *Interior's Universal services*

Due to the worsening of the water crisis, triggered by the long drought, we had to reallocate resources in order to enable the execution of works in the water production systems set in municipalities more affected by the drought, which ended up delaying some sewage construction works.

Among the the main actions in 2014 are the the delivery of 16 new ETEs and the enlargement of one unit. This set of works increased treatment capacity by 1.9 m<sup>3</sup>/s, benefiting 700,000 people in 16 municipalities. The interventions for sanitation universalization in the interior required an investment of R\$153.2 million during the year. Currently, Sabesp has 524 stations in operation throughout the State. In 2015, 27 new ETEs are already under construction in 25 municipalities. Thus, the treatment flow speed will be expanded by approximately 800 liters/second, directly benefiting more than 300,000 people.

Concurrently to offering more health, comfort and life quality to the served citizens, expanding the sanitation infrastructure has a direct impact on the environment, by improving water resources. The infrastructure expansion outcome is already visible by the improvements in major rivers, such as the Pararangaba, Lavapés, Lavrinhas and Queluz' ETEs, which improved Paraíba do Sul and consequently, the water going to Guandú river, extracted to supply the State of Rio de Janeiro.





Another example is the improvement of Jundiaí river – which during more than 30 years could not be used for public water supply and now, after concluding ETE Campo Limpo and Várzea in 2013, initial operation of ETE Itupeva in 2014 – which was reclassified to Class 3, a category that allows human consumption after conventional treatment. Thus, it will be used to supply approximately 250,000 people in the Itupeva and Indaiatuba municipalities located in region of lower water availability in the State, with only 104 m<sup>3</sup> per inhabitant/year. In addition, along with Sorocaba river, which was benefited with ETEs Paul D'Alho in Boituva and Bairro do Porto in Capela do Alto it contributes to reducing pollution in the Tietê river, which is the State's largest river.

However, it is worth noting that the water bodies pollution also originates from industrial process, waste disposed on soil that ends up carried by rainwater into the rivers (diffuse pollution), disorderly land use and occupancy, and the illegal disposal of sewage in rainwater. Thus, it is essential that society raises its awareness on the importance of correct garbage disposal and connecting houses to the sewage network and that local authorities keep on cleaning their cities and inspecting irregularities.

### ***Metropolitan region of São Paulo(RMSP)***

Irregular and disorderly settlements, illegal sewage disposals, environmental degradation of preservation areas, deficient inspections by the local government, and high population concentration make RMSP a highly complex area to expand the sanitation service. Fighting this set of negative factors, visually represented by the highly polluted rivers that cross the city, requires large-scale initiatives, for example the **Tietê Project**, being the largest environmental sanitation program in Brazil. Implemented in 1992, the project combines actions in 27 municipalities of the Greater São Paulo.

Currently it is in its third phase, whose purpose is to expand the sewage collection index from the current 84% to 87% and sewage treatment levels from 68% to 84% within the RMSP. This phase requires total investments of approximately US\$2 billion, with financing from the Inter-American Development Bank (IDB), BNDES and CEF. Out of this amount, R\$1.55 billion have already been disbursed, of which R\$497 million in 2014.

Initiated in 2010, approximately 39% of the works planned for this stage have already been completed, 36% are in progress and 25% are in bidding process. When completed, these works will benefit another 1.5 million people with sewage collection and 3 million city residents will have their sewage treated.

The current stage supplements the actions taken in the first and second phases, from 1990 to 2010, when the large ETEs' construction, the installation of outfall sewer, ducts, collecting networks, interceptors and connections to the networks enabled the collection to 15.8 million people and treatment of collected sewage to more than 8.5 million RMSP inhabitants.



Sabesp has been structuring the fourth and last phase involving investments estimated at US\$2 billion. It will include large, complex works in São Paulo downtown and the network expansion to the low-income but regularized suburbs. However, due to the water crisis and the need of prioritizing investments in water, the estimated budget for this project is under revision.

In addition to a healthier environment, the actions result directly in environmental benefits. The greatest example is the reduction of the Tietê river's polluted spot, which has already shortened 230 kilometers compared to 1993, when it reached the Barra Bonita reservoir, 530 kilometers from its spring in the Salesópolis municipality. Information is in the study called "A Water Quality Portrait and the Partial Evolution of the Project Tietê Impact Indicators", released in 2014 by Fundação SOS Mata Atlântica. According to this report, in the Greater São Paulo "investments in basic sanitation have turned 18 collection points distributed in streams and small rivers inside São Paulo, from a very bad condition—completely dead rivers—to bad, regular or good condition. In the entire basin area, the collection network and treatment volume sewage expansion have resulted in an improved water quality".

This progress also reflects on the actions taken under the program **Córrego Limpo** (Clean Stream) Program implemented in 2007, by a partnership with the Municipal Executive Power. Sabesp is responsible for identifying illegal discharges, improving the stream area's sewage systems, and cleaning the margins. The municipal government is responsible for registering households in housing programs. In seven years, Sabesp invested R\$144 million in this program, resulting in the decontamination of 148 streams. Approximately 2.2 million people were directly benefited, within an area of approximately 180 km<sup>2</sup>.

In 2014, Sabesp invested R\$14 million in the complete decontamination of two large streams, benefiting 320,000 people, besides the conservation of the already depolluted 146 streams and the actions to initiate the decontamination of another 18 water bodies. We should still emphasize that the Tietê Project actions also help to reduce the pollution generated by these streams. In 2013, starting the program's fourth phase, we expected to fully or partially depollute another 20 major streams by the end 2014, with investments estimated at R\$100 million. However, due to this drought's effects and consequences in the southeast of Brazil and the difficulty faced by the municipal government to remove and reallocate low-income households, the goals had to be revised.

In 2014 we started implementing in Arujá and signed a cooperation agreement with the municipal government of Ribeirão Pires. Additionally, the Bragança Paulista, Ferraz de Vasconcelos, Poá, Suzano, Osasco, Taboão da Serra and Barueri municipalities are analyzing this program's feasibility. Our goal is to, have decontaminated by the end of the decade approximately 200 streams in the metropolitan region of São Paulo, covering an area of approximately 250 km<sup>2</sup>.



### ***Sanitation on the Coast***

The São Paulo coastline is another region benefiting from a better life quality provision, bathing conditions improvement of 82 beaches, better health, and better tourism development conditions under the **Onda Limpa** (Clean Wave) Program. as the greatest intervention in environmental sanitation on the Brazilian coastline, the program is moving up in terms of reaching universal sewage services in the Santos coast region and north coast municipalities.

The works initiated in 2007 have already demanded investments totaling R\$2.1 billion to projects and the expansion of the following: network and sewage connection, trunk collectors and pumping and treatment stations. In addition to our own funds, we've obtained financing from JICA, the Japanese development agency, and the Government Severance Indemnity Fund for Employees (FGTS). Just in 2014, R\$187 million were invested in the program.

In the **Santos coast region**, the program is in its supplemental phase, started in November 2013, subsequent to the first phase. The completion of the first phase (including the supplemental phase) with total investments estimated at R\$780 million will allow an increase from the current 70% to 88% of the sewage service indicators in Santos coast region, by completing another 33,000 connections. The program's goal is to reach 95% and 100%, respectively.

On the **north coast**, the works initiated in 2008 will increase the region's sewage collection index from 36% to 85% by the end of 2016 when approximately R\$510 million will be invested in the region, with our own funds and BNDES and CEF's financing. Until 2014, the program has already demanded R\$157 million, of which R\$12.8 million in 2014 to expand collection networks, connections, rising mains and pumping stations, including the conclusion of two ETEs in São Sebastião (Una/Engenho and Baleia/Sahy).

### ***Se Liga na Rede Program ("Connect to the Network Program")***

This program was rolled out in January 2012 and its purpose is to subsidize sewage connection costs to low-income households. This is a way to stimulate the connection of more households to the public sewage network and thus increase the volumes sent for treatment.

The costs are paid by the São Paulo State government and Sabesp at the ratio of 80% and 20%, respectively. We are also responsible for works, which cover municipalities in our entire area of operation--in the São Paulo metropolitan area, in the interior and coastline.

In eight years, the goal is to make household adjustments and connect 192,000 households with income of up to three minimum wages, with total investments of R\$349 million. By December, more than 21,000 connections were completed in 110 municipalities in São Paulo state, with and investment of R\$67.6 million..



We estimate that at the end of the *Se Liga na Rede* program 800,000 people will be directly benefited and approximately 40 million São Paulo inhabitants will be indirectly benefited from cleaner rivers, streams, and water sources.

### ***Sludge disposal***

The disposal of solid waste originated from sanitation services make up a complex equation, consisting of legal, environmental and operational variables. To this regard, we are committed to seek innovation and technologic alternatives that would contribute to minimization, beneficial use and the appropriate final disposal of sludge volumes. From a total of R\$23.4 million invested in research over the past three years (R\$10.7 million in 2014 alone), part was allocated to developing studies related to sludge use, starting at sanitary landfill coverage material, then composting and drying via solar radiation to finally its use in civil construction. These researches are in partnership with the Brazilian Innovation Agency (FINEP) and Fapesp (São Paulo State Research Support Foundation).

In early 2014, Sabesp filed a registration request at the Ministry of Agriculture to daily use 70 tonnes of sludge generated by the Lavapés ETE, in São José dos Campos, in agriculture. In 2013, we generated a small volume for experimental purposes. We expect to obtain this permit in 2015. For the ETE Barueri, the largest sewage Latin American Treatment Station, planning is focused on the installation of sludge drying units and we have studies on how to use the remainder biogas in sludge digestion.

With respect to water treatment, Sabesp recorded an approximate 30% decrease in sludge generation at our eight production systems over the past five years. This was possible due to the untreated water collected quality, treatment process optimization, and the implementation of new technologies and products. Concurrently, over the past 12 years, we've gradually reduced the use of chemicals in water treatment in the Greater São Paulo area, with positive environmental effects.



## FINANCIAL-ECONOMIC MANAGEMENT

Pursuing growth while maintaining a sustainable financial-economic stability was an especially challenging goal in 2014.

The severe drought which, since the end of 2013, has been beleaguering the region where we operate led us to take indispensable measures to overcome the adversities we have been facing.

The discount we have granted to customers to reduce water consumption and other actions that the Company has taken to tackle the water crisis resulted in a decline in revenue and in yet more restrictive expenses, in addition to the need to reschedule our investments.

To preserve our water resources stocks, in February 2014 the Company implemented an incentive program to reduce consumption based on a bonus whereby those customers served by the Cantareira system, based on the monthly average consumption seen between February 2013 and January 2014, who monthly reduce water consumption by 20% would qualify for a 30% discount in their water and sewage bills.

In March, the program was extended throughout the São Paulo Metropolitan region and promptly to the Piracicaba, Capivari and Jundiaí Rivers water basin region located in the Cantareira system's area of influence. Originally scheduled to be effective for 7 months, it should remain effective up to December 2015.

With a view to encourage the population which had already been reducing consumption without qualifying for the benefit in October 2014, we decided to set new ranges of bonuses and the following discounts have been granted:

- 10% for customers reducing from 10% to 15%;
- 20% for customers reducing from 15% to 20%;
- 30% for customers reducing more than 20%.

In April 2014, after several discussions with public participation since 2011, Sabesp's Tariff Revision process has been concluded. On this date, we were authorized to apply the tariff repositioning index of 5.4408%.

However, in order to not harm the stimulus offered by the incentive program to reduce water consumption, by the Company's decision, the implementation of tariff repositioning only became effective in December 2014, so that to offset the postponement period, ARSESP authorized to apply the tariff repositioning of 6.4952%. tariff mechanism consisting of customers who are not reducing their consumption

Despite our efforts to reduce the demand for water, in January 2015, we still recorded an increase in consumption by few customers. Accordingly, to reinforce the incentive to reduce consumption, ARSESP approved and we implemented a contingency tariff mechanism, which consists of additions to water and sewage bills for customers<sup>6</sup> whose monthly water

consumption exceeds the average monthly consumption seen between February 2013 and January 2014, the same one adopted for the incentive program to reduce water consumption, under the following conditions:

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- 40% when consumption exceeds up to 20%;
- 100% when consumption exceeds more than 20%.

The effects of the actions taken over the water billed volume are shown in the Financial-Economic Management item of this Report.

In March 2015, considering the adverse conditions imposed by the water crisis, the Company filed with ARSESP, a request for extraordinary revision, as provided for in the Final Technical Note RTS/01/2012 – Detailed Methodology for SABESP’s Tariff Revision Process – First Tariff Cycle.

Additionally, regarding regulatory issues, an adaptation of the internal processes to pass on to customers the regulatory and inspection fee, equivalent to 0.5% of revenue, net of COFINS and PASEP derived from services provided to regulated municipalities, was completed in 2014, however, the application thereof will occur only at the appropriate time.

Also, we should emphasize that the transfer of legal charge<sup>7</sup> to customers residing in the Municipality of São Paulo, as set forth in the municipal legislation, under the cooperation agreement and services agreement executed with São Paulo State and Municipal governments, and as provided for by Arsesp Resolution 407/13, is still suspended.

Still regarding actions to tackle the water crisis effects, we cut R\$ 1.1 billion in 2014 cash basis budget, so as to reduce the pressure on cash in this period and maintain the Company’s liquidity at an adequate level.

With respect to investments, despite some changes in initial plans and rescheduling to face the water crisis, we were able to execute the original Capex plan.

In 2014, we invested R\$3.2 billion, as shown in the table below:

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<sup>6</sup> Customers with firm demand agreement, although they are not included in the bonus program, they are exempted from complying with consumption contracted and are subject to the collection of contingency tariff, if consumption increases. Customers with water consumption equal to or lower than 10m<sup>3</sup>, hospitals, first-aid clinics, nursing homes, police stations, prisons and centers of Fundação CASA (social and educational treatment center for adolescents) are exempted.

<sup>7</sup> Refers to the amount corresponding to 7.5% of revenue earned with services rendered in city of São Paulo, net of COFINS, PASEP and default of municipality’s taxes that Sabesp has been transferring to the Municipal Fund of Environmental Sanitation and Infrastructure since the signature of the agreement with the municipality of São Paulo, in June 2010.



### Investments Track Record

The table below shows the investments made in 2014, broken down by segment and region:

	(R\$ million current)		
	<b>Water</b>	<b>Sewage</b>	<b>Total</b>
<b>São Paulo Metropolitan Region</b>	<b>833.8</b>	<b>1,174.2</b>	<b>2,008.0</b>
<b>Regional Systems (inland cities and coast region)</b>	<b>472.9</b>	<b>729.7</b>	<b>1,202.6</b>
<b>Total</b>	<b>1,306.7</b>	<b>1,903.9</b>	<b>3,210.6</b>

Note: Commitments assumed with program contracts (R\$115,6 million) are not included.

For the 2015-2019 period, the Capex plan was adjusted to increase investments in water over the next years and, thus expand the water availability and safety in the São Paulo metropolitan region.

Between 2015 and 2019, we expect to invest approximately R\$13.5 billion, as shown in the chart below <sup>8</sup>:

### ***Indebtedness Level***

Most of the Company's debt (around 60%) was raised with official agencies of local and foreign government, and multilateral organizations, at low costs and for long terms. The remaining derives from funds raised in the local and international capital markets, preferably intended for debt management purposes.

At the end of 2014, our total debt was approximately R\$10.8 billion, of which 40.3% was denominated in foreign currency. Most of the foreign-currency denominated debt was raised with international financing organizations, with long-term maturities, a repayment schedule diluted over a long period of time, and bearing low interest rates. In 2014, we repaid R\$529.5 million of our debt.

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<sup>8</sup> For additional information about our investment projects and emergency works to deal with the water crisis, check the chapter "Confronting the Water Crisis".

Between 2008 and 2013, with the acceleration of investment, the total debt ratio adjusted by the adjusted EBITDA, stood stable at around 2.5 times, since the total indebtedness level increase consistently with the Company's operating cash generation level. However, in 2014, the Company's indebtedness level increased 3.64 times, due to the adverse effects of the water crisis, especially on EBITDA, and not due to a disproportionate rise in debts. We have set certain limits to make debt agreements, and the ratio should not exceed 3.65 times.

Sabesp's management approach over the years has resulted in a solid financial-economic performance, which was decisive to absorb the effects of 2014's water crisis.

This financial-economic performance was reflected in the gradual increase in credit risk rating over the last years. Nevertheless, due to the financial impacts of the water crisis, there was a change in the rating from neutral to negative in 2014, as shown in the graph below:

#### *Loans and Financing*

In 2014, the Company obtained loans and financing in the amount of approximately R\$382 million to make the investments planned for the 2015-2019 period.

- **Brazilian Federal Savings Bank – CAIXA**

In June 2014 we entered into agreements that totaled approximately R\$320.8 million. These agreements were part of PAC 2012-2013 and PAC 2013-2014 selections made by the Ministry of Cities, intended for the performance of works under Tietê Project, the Metropolitan Water Program and water supply and sewage treatment works in the Municipalities of Hortolândia and Itatiba. The loans are repayable within 24 years, with a four-year grace period, subject to interest rates indexed to the TR (benchmark interest rate), plus 6% per year and a management fee of 1.4% p.a. and a risk rate of 0.3% p.a.

### • **Brazilian Development Bank (BNDES)**

In June 2014, we entered into an agreement involving approximately R\$61.1 million intended for the works under the Metropolitan Water Program in the Municipality of Santana de Parnaíba. This agreement was part of PAC 2013-2014 selection made by the Ministry of Cities. This financing is repayable within 108 months, with a 36-month grace period, and bears financial charges equivalent to TJLP (long-term interest rate) + 1.76% p.a.

Additionally, BNDES subscribed and paid-in 13 debentures out of the 42 under the 3<sup>rd</sup> series of the 18<sup>th</sup> issuance of debentures, in the total amount of R\$35.8 million. The remaining balance is scheduled to be subscribed by 2016.

Additional information on loans and financing are available in the Company's Reference Form available only in Portuguese version at [www.sabesp.com.br/investidores](http://www.sabesp.com.br/investidores), menu Informações Financeiras e Operacionais – Formulário de Referência e IAN.

### **Capital Markets**

In June 2014, the Company made the 19<sup>th</sup> issuance of debentures in the total amount of R\$500.0 million, in a single series, maturing in June 2017, pegged to the CDI rate plus an interest rate ranging from 0.80% to 1.08% per year. The resulting proceeds intended for the payment of financial commitments maturing in 2014 and 2015.

Additional information on debts with the capital markets are available in the Company's Reference Form available only in Portuguese version at [www.sabesp.com.br/investidores](http://www.sabesp.com.br/investidores), menu Informações Financeiras e Operacionais – Formulário de Referência e IAN.

### **Stock Market**

Although the tariff adjustment process, eagerly awaited by the market, has been completed in April 2014, Sabesp's shares over the year reflected the unpredictability of the effects of the severe drought that, since the end of 2013, has affected the region where the Company operates.

Thus, shares and ADRs depreciated by 35.7% and 44.5% over 2013, closing the year at R\$17.01 and US\$6.29, respectively. During the same period, the Ibovespa (São Paulo Stock Exchange index) dropped by 2.9% while the Dow Jones appreciated by 7.5%. As a result of this performance, the Company's market value, which, in 2013, was R\$18.1 billion declined to R\$11.6 billion in 2014. The book value per share was R\$19.46 as of December 31, 2014.





Sabesp's shares are traded in 100% of BM&FBovespa trading sessions and handled an annual financial volume of R\$7.5 billion in 2014. In the US market, the Company closed the year with 169.9 million outstanding ADRs. The annual financial volume traded at NYSE in 2014 remained in line with 2013, at US\$5.7 billion.

In 2014 Sabesp continued to be monitored by the market financial institutions.

### **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 shareholders' equity.

In 2014, Sabesp paid R\$537.5 million in dividends as interest on shareholders' equity for FY 2013, corresponding to roughly R\$0.78633094301 per common share and a dividend yield of 3.0%.

In 2014 the Board of Directors approved the proposal for the payment of interest on shareholders' equity totaling R\$252.3 million, or R\$0.36913009306 per common share and a dividend yield of 2.2%, to be paid within up to 60 days after the Annual Shareholders' Meeting where the 2014 accounts will be submitted for approval.

### **Debt of Municipalities Served on Wholesale Basis**

The municipalities of Guarulhos, Mauá and Santo André are served with treated water on wholesale basis by Sabesp, however, currently, Guarulhos does not pay the bill, Mauá pays around 2% of the bill and Santo André nearly 15% of the account. The unpaid amounts are claimed in court and Sabesp has been receiving favorable court decisions.

In addition, the municipality Mauá also owes to Sabesp the investments made by the Company and not indemnified upon the resumption of services by referred municipality. Sabesp filed a lawsuit against Mauá and the courts sentenced this municipal government and SAMA (Mauá's municipal water and sewage company) to pay the debt. A final and unappealable court decision was issued and Sabesp started the court-ordered collection; however, the Municipality of Mauá filed an action for relief from judgment in an attempt to annul the decision favorable to Sabesp. The lawsuit is pending judgment.

Referring to the municipality of Diadema, which also had debts related to the failure to pay water bills at wholesale and resumed and non-indemnified assets, in March 2014, Sabesp assumed the direct rendering of water supply and sewage services, as part of the judicial settlement to solve the debts. For details, see Note 9 to the financial statements.



### ***Related Parties***

On March 18, 2015, the Company, São Palo State government and the Water and Electricity Department (DAEE), and the Sanitation and Water Resources, as intervening party, signed a Term of Agreement, in order to adjust the undisputable amount of debts related to pension and retirement supplementary benefits referred to by São Paulo State Law 4819, of August 26, 1958, paid by the Company and not reimbursed by the State. The current amount of the agreement is R\$1.01 billion, out of which R\$696.2 million relating to the principal amount and R\$316.0 million relating to inflation adjustment to the principal through February 2015. For details, see Note 31 c) to the financial statements.

### ***Financial-Economic Performance***

In 2014, the Company disclosed a net income of R\$903.0 million.

#### **Net income Track Record**

In 2014, net operating revenue remained steady, totaling R\$11.2 billion, with a slight decline of 0.9% over 2013.

#### **Net operating revenue track record**

Gross operating revenue declined by R\$634.6 million, or 6.7%, compared to 2013, basically due to the adoption of the Water Consumption Reduction Incentive Program since February 2014 and accordingly, a decrease of 2.2% in water and sewage billed volume, with an impact not offset against the tariff adjustment of 3.1% applied since December 2013. The tariff repositioning index of 6.5%, applied in December 2014, has impact on revenue only as of January 2015.

*Water and sewage billed volume (1) per user category - millions of m<sup>3</sup>*

	Water			Sewage			Water + Sewage		
	2013	2014	%	2013	2014	%	2013	2014	%
Residential	1,565.6	1,548.6	(1,1)	1,299.1	1,292.7	(0.5)	2,864.7	2,841.3	(0.8)
Commercial	175.4	172.6	(1,6)	163.4	162.4	(0.6)	338.8	335.0	(1.1)
Industrial	39.4	38.9	(1,3)	44.4	43.0	(3.2)	83.8	81.9	(2.3)
Public	54.6	51.7	(5,3)	42.5	39.9	(6.1)	97.1	91.6	(5.7)
<b>Total retail</b>	<b>1,835.0</b>	<b>1,811.8</b>	<b>(1,3)</b>	<b>1,549.4</b>	<b>1,538.0</b>	<b>(0.7)</b>	<b>3,384.4</b>	<b>3,349.8</b>	<b>(1.0)</b>
Wholesale	299.0	256.8	(14,1)	29.7	24.2	(18.5)	328.7	281.0	(14.5)
<b>Total</b>	<b>2,134.0</b>	<b>2,068.6</b>	<b>(3,1)</b>	<b>1,579.1</b>	<b>1,562.2</b>	<b>(1.1)</b>	<b>3,713.1</b>	<b>3,630.8</b>	<b>(2.2)</b>

(1) Unaudited

*Water and sewage billed volume (1) per region - millions of m<sup>3</sup>*

	Water			Sewage			Water + Sewage		
	2013	2014	%	2013	2014	%	2013	2014	%
Metropolitan Region	1,206.9	1,172.4	(2.9)	1,029.2	1,005.4	(2.3)	2,236.1	2,177.8	(2.6)
Regional Systems <sup>(2)</sup>	628.1	639.4	1.8	520.2	532.6	2.4	1,148.3	1,172.0	2.1
<b>Total retail</b>	<b>1,835.0</b>	<b>1,811.8</b>	<b>(1.3)</b>	<b>1,549.4</b>	<b>1,538.0</b>	<b>(0.7)</b>	<b>3,384.4</b>	<b>3,349.8</b>	<b>(1.0)</b>
Wholesale	299.0	256.8	(14.1)	29.7	24.2	(18.5)	328.7	281.0	(14.5)
<b>Total</b>	<b>2,134.0</b>	<b>2,068.6</b>	<b>(3.1)</b>	<b>1,579.1</b>	<b>1,562.2</b>	<b>(1.1)</b>	<b>3,713.1</b>	<b>3,630.8</b>	<b>(2.2)</b>

(1) Unaudited

(2) Composed of the coast and interior regions

In 2014, the costs of products and services rendered, administrative and selling expenses, and construction costs increased by 13.6% (R\$1.1 billion). If we exclude the effects of the construction cost, the increase was 11.3%. Costs and expenses represented 82.9% of net revenue in 2014 from 72.3% in 2013.

For additional information on the breakdown and changes in costs and expenses, see our Press Release available on the Company's website [www.sabesp.com.br/investors](http://www.sabesp.com.br/investors), Operational and Financial Information item in the top menu.

Adjusted EBITDA decreased by 27.2% from R\$4.0 billion in 2013 to R\$2.9 billion in 2014, and the adjusted EBITDA margin reached 26.0% from 35.4% in 2013. If we exclude the effects of revenue and construction cost, the adjusted EBITDA margin ends up in 34.4% in 2014 (44.6% in 2013).

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## Adjusted EBITDA and Adjusted EBITDA Margin Track Record

### Reconciliation of Adjusted EBITDA<sup>9</sup> (Non-accounting measurements)

	2014	2013	2012	2011	2010
Profit	903.0	1,923.6	1,911.9	1,380.9	1,630.0
Finance income (costs)	635.9	483.2	295.7	633.0	378.0
Depreciation and amortization	1,004.5	871.1	738.5	768.7	552.0
Income tax and social contribution	371.8	732.0	635.7	498.1	662.0
Other operating income (expenses), net <sup>10</sup>	3.5	(3.3)	23.2	90.3	(1.6)
Adjusted EBITDA	2,918.7	4,006.6	3,605.0	3,371.0	3,222.0
Adjusted EBITDA margin	26.0	35.4	33.6	34.0	34.0
Construction revenue	(2,918.0)	(2,444.8)	(2,464.5)	(2,224.6)	(2,130.6)
Construction cost	2,885.5	2,394.5	2,414.4	2,177.0	2,081.0
Adjusted EBITDA less revenues and construction cost	2,856.2	3,956.3	3,554.9	3,323.4	3,173.0
Adjusted EBITDA margin less revenues and construction costs	34.4	44.6	43.0	43.2	44.0

<sup>9</sup> The Adjusted EBITDA ("Adjusted EBITDA") corresponds to the net income before: (i) depreciation and amortization expenses; (ii) income tax and social contribution (federal tax on income); (iii) financial results and (iv) other net operating expenses. The Adjusted EBITDA is neither a measurement of financial performance according to the accounting practices adopted in Brazil, the IFRS - International Financial Reporting Standards or USGAAP (accounting principles generally accepted in the United States), nor should be considered individually or as alternative to the net income, as measurement of operating performance, or alternative to the operational cash flows, or measurement of liquidity. The Adjusted EBITDA does not have a standardized meaning and the Company's definition of Adjusted EBITDA may not be compared to those adopted by other companies. The Company's Management believes that the Adjusted EBITDA provides a useful measurement of its performance, which is broadly used by investors and analysts to assess performance and compare peers. Other companies may calculate the Adjusted EBITDA different from our means. The Adjusted EBITDA is not an integral part of the financial statements.

The Adjusted EBITDA aims at reporting an operational economic performance index. Sabesp's Adjusted EBITDA corresponds to the net income before net financial expenses, income tax and social contribution (federal tax on income), depreciation and amortization and other net operating expenses. The Adjusted EBITDA is not a financial performance index recognized by the Brazilian Corporate Laws' methodology and should not be considered individually nor as an alternative to net income as an operational performance index, nor as an alternative to operational cash flows or as liquidity index. Sabesp's Adjusted EBITDA works as an overall economic performance index and is not affected by debt restructuring, fluctuations in interest rates, changes in the tax burden or levels of depreciation and amortization. As a result, the Adjusted EBITDA works as an adequate instrument for a regular comparison of the operational performance. In addition, there is another formula to calculate the Adjusted EBITDA which is adopted in clauses of few financial commitments. The Adjusted EBITDA allows a better understanding not only of the operational performance but also of the capacity to meet the Company's

obligations and raise funds for investments in capital goods and working capital. However, the Adjusted EBITDA has limitations preventing it from being used as profitability index, because it does not take into account the costs resulting from Sabesp's activities or other costs that may considerably affect its profit, such as financial expenses, taxes, depreciation, capital expenditures and other related charges.

<sup>10</sup> Other net operating expenses mainly refer to the write-offs of property, plant and equipment, provision for intangible assets loss, loss related to economically unfeasible projects minus revenue from sale of property, plant and equipment, public notices sales, indemnities and refund of expenses, fines and sureties, property lease, reusedreuse water, Pura and *Aqualog's* projects an servicesAqualog.

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### ***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, quarterly financial information, and financing projects. In 2014, the fees paid for these services by Sabesp totaled R\$1.2 million, of which 93.9% corresponds to the audit of the financial statements. Deloitte Touche Tohmatsu Auditores Independentes does not audit any of our investees. While providing audit services, the external auditors did not provide non-audit services to the Company.

### ***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) 2013 and the Control Objectives for Information and Related Technology (COBIT).

Annually, the evaluation of internal controls is reevaluated 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 about 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 2013, as prescribed by Section 404 of Sarbanes-Oxley Law, was completed in April 2014 and no material deficiencies were identified, similarly to previous years. The 2014 tests will be completed in April 2015.

## ENVIRONMENTAL SANITATION IN PURSUIT OF SUSTAINABILITY

Sabesp's environmental management, ruled by the guidelines proposed in its Environmental Policy, is inherent to the rendering of sanitation services and the essence of its businesses. Focused on consolidating the environmental culture, the Company prioritizes the in-house and external dissemination of the knowledge and experiences related to the good environmental practices. These are actions included in the corporate environmental management programs, which rely on the involvement of employees, community and partnership with non-governmental organizations.

In 2014, R\$29.8 million were invested in environmental programs and projects, directly related to the development and implementation of corporate environmental management programs, as well as the Rational Water Use Program – *Pura*. Other investments and expenses related to environmental protection are included in the total amount of operating expenses and investments reported herein.

### *Environmental Management System and ISO 14001 Certification*

Aiming at improving the operating management, by inserting the environmental issue in the Company's processes in an integrated and corporate manner, in 2009, Sabesp established a program to gradually implement an Environmental Management System (EMS) at the sewage treatment stations (STS) and water treatment stations (WTS), reinforcing the process of changing the culture under development at the Company, which inserted the environmental management to the corporate guidelines.

The EMS was structured based on ISO 14001 standard, as it is internationally recognized by the market, also considering the Company's intention of certifying the sewage and water treatment stations. The EMS was implemented in 95 stations and under phase of implementation in another 34 stations, totaling 129 stations.

Sabesp, understanding the need of accelerating the implementation of EMS, made a strategic realignment of the Program in 2014, aiming at implementing the SGA in all sewage and water treatment stations until 2024.

Therefore, SABESP will start adopting a mixed model from 2015. The ISO 14001 model will be kept at the certified stations, and may be expanded according to the Business Units' strategy, while for other stations, Sabesp's owned model will be adopted (SGA-SABESP).

Until March 2015, Sabesp had 51 stations certified by ISO 14001. Considering the new scenario presented, the scope of certifications was reviewed and SABESP obtained recommendation for 14001 re-certification of 35 stations, as of April 2015.

In the period between 2009 and 2014, approximately R\$30 million were disbursed for the program. This amount aimed at improving the management requirements and stations'

infrastructure, offering greater operating safety to minimize risks, accidents and generation of environmental liabilities, besides stimulating the development of preventive actions.

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### *Climate changes and greenhouse gas emission management*

Currently, the climate changes represent one of the great global challenges to be faced, and sanitation is one of the sectors highly impacted by the effects of climate change and the extreme events related thereto. Sabesp, aware of its responsibility and the need of playing its role within this context, has been advancing in the development of its Greenhouse Gas Emission Corporate Management Program – GHG, in line with the guidelines of the Climate Change State Policy, the objective of which is to reduce and manage gases emissions.

The GHG emissions annual inventories and the promotion of operational improvement actions and control of GHG emissions are important work fronts of the Company's initiative.

These guidelines are in agreement and they aim at meeting PEMC, both referring to the mapping of main sources of emissions, and the survey and dissemination of actions with potential reduction of GHG emissions.

In 2014, Sabesp concluded the corporate inventory of GHG of 2013, totaling 2,154,407 tCO<sub>2</sub>e, the 7<sup>th</sup> inventory since 2007, observing the principles and requirements of NBR ISO 14.064:2007 Part 1 standard and the GHG Protocol Brazilian Program.

The trend seen in previous inventories continues with sewage collection and treatment activities as the highest sources of GEE emissions, accounting for approximately 89% of total. The electricity's share is 10% and other activities account for nearly 2%.

Among the actions to reduce emissions, we point out the project developed in partnership with the municipal government of Botucatu and the Agronomy College of Unesp. We refer to the work called "Transforming Sludge into Organic Fertilizer and Decreasing the Generation of Greenhouse Gases", winner of the 8<sup>th</sup> Ozires Silva Sustainable Entrepreneurship Award, under the Environmental Entrepreneurship for Large-Sized Companies category, recognized nationwide.

The system foresees drying 22 tonnes/day of sludge and add tree barks and tree pruning remains, so that to transform the raw material, with high phosphorus and nitrogen content into an organic fertilizer appropriate for agricultural use. Besides this aspect, the process uses solar energy and promotes the most adequate processing of material under aerobic conditions and at the generation place, thus, reducing by 80% the need of transportation and minimizing the generation of greenhouse gases by approximately 76 tonnes of CO<sub>2</sub>e/month.

Sabesp also seeks to develop initiatives aiming at incorporating the generation of renewable energy into its processes, as additional alternatives to the conventional electric system. An example is the pilot study, which has been conducting a diagnosis to install a vertical wind turbine in an operating unit located in the district of Sapopemba, in the city of São Paulo.

In 2014, for the 9<sup>th</sup> consecutive time, Sabesp participated in the CDP - Carbon Disclosure Project - Climate Change, an international standardization and organization initiative through which the companies release their results on GHG emissions under inventory, as well as other

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aspects of the climate change management.

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### ***Water resources management and water sources protection***

Sabesp is involved in and takes actions at several levels of the Water Resources National System, through the work of approximately 160 of its employees, from different company units, under corporate coordination. At the Water Resources National System level, we have a seat in the Plenary Session of the National Water Resources Council 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 water basins 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 we are monitoring the gradual implementation of the water use billing instrument (its main raw material), which is the instrument that 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 to the recovery and preservation of water resources. We are also actively involved in the discussions about the classification of bodies of water, which is the forum where each basin committee can set an arrangement for water quality goals linked to its preponderant uses.

Both these major management instruments are directly related to our business. In 2014, the Company disbursed R\$40.7 million, paid to the State and the Federal Government, for the use of the water from the Paraíba do Sul river, Piracicaba river, Capivari river, and Jundiáí river basins, the Sorocaba and Médio Tietê rivers, the Baixada Santista rivers, Alto Tietê and Baixo Tietê rivers basins. The beginning of the charging for water use in other river basins in the State of São Paulo is expected for the period 2015-2016.

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 and non-governmental organizations – NGOs in social and environmental studies within the scope of its assets and water basins where their reservoirs are inserted.

These are four reserves, namely: Morro Grande Reserve (municipality of Cotia), Rio Claro Reserve (municipalities of Salesópolis and Bertioga), Capivari Farm (municipality of São Paulo) and São Francisco Reserve (municipality of São Sebastião).

Besides these protected areas, Sabesp has been maintaining two forest nurseries since 1990, to produce native species tree saplings to conduct the riparian forest restoration and recovery projects nearby water sources supplying the metropolitan region of São Paulo. The largest nurseries are installed at Jaguari dam of the Cantareira system, in the municipality of Vargem, and another one installed at the Alto Cotia water treatment station (WTS), in the municipality of Cotia.



During 2014, we executed educational voluntary actions to recover vegetation, planting approximately 21,000 tree saplings.

Regarding to the water 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 Water and Electricity Department (DAEE) and the National Water Agency (ANA). The Corporate Program associated with the licensing of STS, WTS and sewage pumping stations is in progress, and estimated to be concluded until 2017.

Concerning the new projects, the obtainment of licenses and grants for the right of water use is already included in their life cycle, i.e., a new project only begins with its environmental regular standing.

### ***Sabesp Environmental Education Program – PEA***

The Sabesp Environmental Education Program (PEA Sabesp) is composed of a set of Environmental Educational actions and projects within the corporate scope, concerned with changing the culture of employees and community.

Currently, these actions demonstrate even more necessary in order to provide information to the population, clarify doubts and emphasize everyone's collaboration to reduce consumption and rationally use water. In addition, sanitary and environmental educational actions enable the population's appropriate use of sanitation equipment available and the achievement of business targets to serve the population.

Many of these projects came from local initiatives and then were expanded at the Company and 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 stations, educational lectures, etc. There are mainly aimed at children and young adults, public and private school students, teachers, and low-income communities.

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, Green Life, Futurágua, Clean Beach, and Small Scientists, amongst others.

In 2014, we conducted almost 3,000 lectures at schools, communities and businesses, reaching an audience of 560,000 people. We also organized nearly 2,000 guided tours to our facilities to approximately 58,000 visitors.

In 2014 we published the book "40 years of Sanitary and Environmental Education in Sanitation", aiming at registering and disseminating a sample of these actions



comprehensiveness, whether through its effective insertion in people's daily lives, changing behavioral standards and promoting improved life quality, whether due to its potential reach referring to the preservation of environment and natural resources.

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### *Good environmental practices in administrative areas*

With a view to promoting the management of solid waste generated in Sabesp's administrative activities, the Sabesp 3Rs Corporate Program is based on the concepts of Reduction, Re-utilization and Recycling.

This program, implemented in 2008, started to be developed from the need identified of organizing and standardizing the various selective collection initiatives carried out by different units of the Company. Therefore, a business procedure was prepared which defines the guidelines to manage such waste and establishes the standard methodology for the selective collection implementation phases, temporary storage and responsible destination in charge of waste managed by Sabesp's administrative activities, pursuant to prevailing laws and in partnership with waste collector cooperatives.

Additionally, through Environmental Education practices and by means of employees' qualification and outsourced workers' training, the program stimulates the adoption of responsible consumption and waste minimization habits, both within the corporate environment and socially speaking.

In 2014, we sent approximately 310,000 tonnes of solid waste generated by administrative activities and trained nearly 250 employees for the program's management and monitoring. Since the inception of the Program, more than 1,655 tonnes of waste have already been disposed appropriately from the social and environmental viewpoint, by training approximately 1,800 professionals among employees and outsourced workers.

Another initiative is the Social and Environmental Seal for 206 purchase specifications of Sabesp, granted by the State Program of Sustainable Public Contracts. We achieved 30% of the foreseen target – the certification of 700 specifications – in view of the need of making technical changes in the seal issue process, required by the Environmental State Department. Enacted by State Decree nº 50,170/05, the seal signals to the supplying market the São Paulo State's intention of adjusting its consumption profile to the sustainable development international guidelines. Sabesp's bidding procedures do not allow the participation of entities interdicted by environmental crimes, pursuant to Article 10 of Law 9,605/98, which provides criminal and administrative sanctions deriving from conduct and activities harmful to the environment. In bidding is required to the

Bidder the issuing of a statement that it will be used only wood products and by-products of exotic origin or legal native origin in executing the works and engineering services.



Sabesp's contractual instruments also have clauses requiring the compliance with legal federal, state and municipal provisions, which interfere in the execution of works and/or services, pointing out the compliance with the environmental laws.

The Outsourced Services Studies of the São Paulo State Government – Specific Social and Environmental Instructions are also applied. This study establishes the implementation of environmental actions by means of training the contractor's employees and awareness of all those involved, especially pointed out in Technical Specifications and obligations of Sabesp and Contractor.

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## VALUING EDUCATION IN THE CONSCIOUS USE OF WATER

Sabesp's commitment with legitimacy, ethics, transparency and respect for people and environment, guides its socially responsible performance and its business decisions. Thus, we adopt the assumption that the positive impacts a company may exercise in the value chain contribute to the social development of population under its influence. In a scenario susceptible to climate changes and low water availability, Sabesp assumed the challenge of stimulating the changes of behavior contributing to the rational and conscious use of water. In this regard, Sabesp launched in 2014 the *Guardião das Águas* Program (Water Guardian), which reinforces the need of gathering all employees in a network to raise the awareness of customers, communities, institutions, condominiums and children towards limited water resources.

The corporate citizenship principles guide the sustainability actions among those with whom the Company maintains contact, reinforcing its commitment with society. In this regard, we establish business guidelines related to the social and environmental sustainability and the valuation of human capital, in line with our Code of Ethics and Conduct, in pursuit of the sustainable development, integrated management, respect for human rights, diversity and improved life quality. The social responsibility trespasses the Company and is reflected in its strategic objective of fomenting the citizenship practices that promote the relationship between Sabesp, volunteers and community. This a broad set of commitments incorporated into the organizational culture, the business strategies and the ethical way of conducting the operations.

Aware of the relevance of volunteer work and its benefits for the community in general, Sabesp created in 2009 the Corporate Volunteering Program, as way of recognizing the volunteers at the Company, who promptly react when they are called due to emergency needs or structured projects.

We support and encourage the compliance with UN's eight millennium goals, which are part of our Corporate Volunteering Program consisting of approximately 1,100 volunteers and its main vector are the United Nation's "Eight Millennium Development Goals", with emphasis in ODM 7 – Life Quality and Respect of Environment. Within this perspective, 150 facilitators were training with the objective of disseminating their knowledge, thus, creating a citizenship network, whose projects were added to Sabesp's Volunteer Management Program to control the indexes. Supported by volunteers' work and their results in 2014, the volunteer actions interconnected with the ***Guardião das Águas*** Program, contributing to the community's environmental education. Sabesp's major social and environmental campaign in 2014 referred to the water focused on "water saving as a way to avoid water shortage", including tips and advices for consumers about not wasting water.

Once more, Sabesp participated in the **Winter Clothing Campaign** organized by FUSSESP – São Paulo State Solidarity and Social and Cultural Development Fund, inspired by the campaign's motto "Good clothing is to give away", and with over 2.1 million items collected, 170 events, benefiting 280 entities and 52,000 families. These initiatives are in line with our Code of Ethics and Conduct, which values the respect towards society and customer, the

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environment, people, integrity, competency and citizenship.

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### *Volunteer adhesions and institutional programs*

In the social area, we point out the maintenance of voluntary adhesions to citizenship actions and global pacts. For the seventh consecutive year, we renewed the certificate granted by **Fundação Abrinq – Save the Children**, for Sabesp’s projects targeting children, such as the Clubinho Sabesp, the Apprentice Program and the Child Citizen Institute (ICC). To know more about these projects, check our Sustainability Report.

Sabesp is also a signatory of the United Nations **Global Compact**, which promotes the sustainable growth and the citizenship, aligning its activities to the human rights, labor, environmental protection and anti-corruption principles of **Ethos Institute for Business and Social Responsibility**.

### *Local communities*

The worsening of water crisis led the Company to potentialize its relationship with community, seeking to more and more strengthen the dissemination of conscious use of water, the proper use of sewage network, waste disposal and the preservation of water sources areas.

The *Guardiões das Águas* network now is the Company’s flagship, we point out the field day about the conscious use of water at schools, leaders’ meetings with community, besides several educational actions in partnership with Bradesco, in Cidade de Deus, Osasco and other two bank’s branches in Alphaville, to disseminate the concept “Water: the life energy” and activities of the **Rational Water Use Program – Pura**.

Also by means of the *Guardião das Águas* Program, teams comprised by the Company’s technicians visited thousands of households. In addition, the awareness action was accompanied by distribution of water tanks to socially vulnerable households, earning income of up to three minimum wages and facing water shortage caused by low or none reservation at their houses. The objective was to adjust the households’ reservation capacity to the ABNT rules and maintain supply for until 24 hours. In partnership with the São Paulo State Government, 700 units were distributed by February 2015. In addition, millions of customers in the metropolitan region of São Paulo received low-flow faucets, which allow to reduce consumption as much as 20%.

Aware of depriving communities, Sabesp also develops other cultural and sports initiatives and promotes citizenship, such as (i) the **educational leisure**, reservoirs previously closed now are open for adjacent community; (ii) the **inclusive culture, which in partnership with** the Association of the Visually Impaired Friends (ADEVA), offers an inclusive movie session (including subtitles and audio-description) at Sabesp movie theater, free of charge (iii) the **Cadê Você** (Where are You?) Project conceived by the Mara Gabrielli Institute and sponsored by Sabesp, 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 the areas of health, work, sports, accessibility, education, and legal; **besides supports, sponsorships and culture incentive through Rouanet Law, amongst others**.





We conduct an annual satisfaction survey with our customers, 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 2014, we maintained a general satisfaction with the Company at 80%. 5,850 people were interviewed in the entire State of São Paulo, where out of 10 respondents, 8 stated they were "satisfied" or "very satisfied" with services. This good result was due to the dedication and efforts endeavored by Sabesp's technicians to meet their customers' demand amid a scenario of water crisis which affects Brazil's southeast region, especially the metropolitan region of São Paulo.

### **LABOR PRACTICES AND DECENT WORK**

Sabesp, consistent with its corporate and prospective strategy in relation to future scenarios, defined in its Strategic Plan, among business guidelines, the development of **human capital as a competitive advantage** in order to achieve goals, such as the sustainable universal services and liable for water and sewage services, develop solutions to address the restrictions raised by water shortage, which has motivated the Company to develop alternatives to reduce risks and the impacts over the rendering of services to population.

The qualification and expertise of professionals in the sanitation business have been decisive for results obtained. It was also necessary to involve and commit several stakeholders in convergent efforts. In this case, people management played a relevant role, with coordinated actions and strict control of personnel indicators and intensifying the development of leaders with vision of the future, on an integrated and entrepreneurship basis, adding efforts so that the Company could seek alternative and innovative solutions to provide quality answers to society.

Sabesp invests in a model of **People Management Skills**, stimulating the development of critical skills for businesses. Once adopted, our people management model has been improving aiming at offering to Sabesp a value proposal to employees, capable of improving their commitment with the organization's objectives and strategy. In this concern, we especially point out its integrated processes: the continued education, the career management, life quality, climate management and human resources services.

Taking into account the Corporate Governance, Sabesp's bylaws set forth that all decisions related to the "Personnel Policy", such as the definition of staff, career plan and salaries, the collective bargaining agreement, the opening of selection process and the profit sharing program, must be resolved by the Board of Directors and approved by controlling bodies of the State of São Paulo.

Sabesp conducts the recruiting and selection process through **civil-service examination** for employees, trainees and apprentices, so that to comply with specific laws, ensuring the hiring of qualified professionals, prepared to work in several positions at the Company. Seven civil-service examinations were conducted between 2011 and 2014, organized by Carlos Chagas Foundation– FCC to fill in 1,013 vacant positions of employees, 1,117 apprentices and 2,838 trainees.



Sabesp has a Bank of Opportunities, accessible to all employees and matches interests by means of in-house reallocations.

In 2014, Sabesp started the process of merging Empresa de Água e Esgoto de Diadema S.A., a subsidiary of SANED – Companhia de Saneamento de Diadema concessionaire of sanitation services in the municipality of Diadema. Aiming at aligning SANED's professionals with Sabesp's strategies, culture and competencies, the employees were interviewed to analyze current activities and their classification into Sabesp's current Career and Salary Plan. The effective reallocation of these employees to Sabesp is estimated for 2015.

Since we are a mixed-capital corporation, people management has different characteristics from only government or private companies. On the one hand, the staff must answer to decisions of the State of São Paulo's controlling bodies, and on the other hand, it is considered highly strategic for business, where the decision-making process has a direct impact on the quality of services rendered, as well as results for the government and other shareholders. In this regard, the area's planning and control are essential to ensure qualified professionals who believe and share the Company's mission.

In December 2014, Sabesp had 14,753 employees, ruled by Brazilian Labor Laws (CLT), the male gender prevails (80%), high school educational (50%), white ethnic group (82%), over 40 years of age (76%). Employees work 18 years on average at the Company and the return rate of 86 women who were on maternity leave stood at 78% in 2014.

The turnover ratio in 2014 was mainly concentrated among professionals above 55 years and hiring and dismissal over the past three years remained in line.

Besides the permanent personnel, development opportunities are offered to 942 trainees and 559 young apprentices, with learning and qualification activities aiming at their inclusion in the labor market. Sabesp executes services agreements, relying on approximately 7,478 outsourced workers.

The Company complies with prevailing laws as to the right to reserve job vacancies, offered in the public selection process for disabled people. In 2014, 74 job positions were filled under these conditions, 74.3% employees physically impaired, 17.6% employees hearing impaired and 8.1% visually impaired. We maintain agreements with associations, through which 145 disabled people work in our service branches, activity to which they receive over 108 hours of previous training.



## Salary Policy

Sabesp adopts a Salary Policy which seeks the internal and external balance. Therefore, surveys are yearly carried out with specialized external advisors, so that to attract and retain qualified professionals necessary for the proper services rendering.

Until May 2014, Sabesp considered two regional salary bases, different from each other by 20% and of the 2014-2015 collective bargaining agreement, it started to adopt a single salary base.

The **Career and Salary Plan (PCS)** is structured so that to attract, retain and 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's practices; include actions to attract and retain good employees; pay compensation according to the market's average and recognize the employee's qualification efforts. This model enables to attracting, retaining and developing qualified and committed professionals, offering careers prospects and compensation compatible with the market.

Employees' compensation is composed of base salary, corresponding to the job position, bonus, if designated to a managerial or leadership/supervision position, as well as by all benefits granted by the Company. The managerial and leadership duties are assigned according to the complexity and the characteristics of activities directed and supervised, indicators – number of employees under leadership/supervision, municipalities serviced, water/sewage connections and geographic area coverage. By means of **Y career**, the PCS allows mobility and the professional ascension of undergraduate employees in two directions, one technical and the other one managerial, so that the technical employee at more advanced stage of his/her career may continue specializing in his/her technical area, with possibility of receiving compensation corresponding to a managerial career.

As variable compensation, Sabesp adopts the **Profit Sharing Program (PPR)** aligned with the compliance with strategic targets and involving everyone in a single objective. The PPR aims at stimulating and recognizing the employees' efforts to outpace targets and indicators set out in the Strategic Plan. Over the years, the program has been evolved in terms of scope, forms of distribution and indicators, always aiming at aligning the criteria to the Company's strategies. It is yearly negotiated with the unions, the general guidelines of which are set forth by Federal Law n° 10,101/2000 and State Decree n° 59,598/2013.

Sabesp's employees are distributed in 364 municipalities operated, accounting for 56.4% of the São Paulo State's municipalities. The proportion between the smallest salary and the minimum wage paid at the Company is 1.90, **without any base salary difference for men and women.**

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## **Benefits**

Sabesp adopts a policy of maintaining benefits consistent with those practiced in the market, which contributes to improve employees' life quality. This policy also enables to attracting professionals, retaining talents and improving performance.

**Legal benefits:** night-shift premium, paid weekly rest, overtime, premium for unhealthy work, hazardous work pay, day-care assistance, special day-care assistance, uniform cleaning, remote duty and transportation ticket.

**Other practices:** social welfare, group life insurance, supermarket/drugstore card.

**Benefits Granted by the Company:** meal ticket, snack at extraordinary hour, staple basket, Christmas basket, Children Center – CCI, job stability, additional sick pay, vacation bonus, health care and private pension plan (Fundação Sabesprev). It is worth mentioning that the health care and private pension plan benefits have been discussed by the Company, requiring studies to analyze the impacts and support the decision on these issues.

- The **Health Care Plans** administered by Sabesprev have been revised by Economic Research Institute Foundation – FIPE, evaluating the possibility of improving the inactive employees' plans.
- Employees until July 2010, had access to a single defined benefit (BD) **private pension plan**. In view of its characteristics, this plan recorded a relevant actuarial deficit. The National Superintendence of Supplementary Private Pension - PREVIC approved the proposal to extinguish BD plan and create a new plan under the Defined Contribution mode (CD). Currently, this matter is under judgment, and the Defined Benefit Plan – G1 remains with 8,670 active beneficiaries and the Defined Contribution Plan - Sabesprev Mais with 5,188 beneficiaries.

## **Skill-and Performance-Based Assessment**

The Skill- and Performance-Based Assessment is an important managerial tool which foments the continued communication between manager and his team, besides identifying the level of skill development and performance of employees related to business strategies. The assessment cycle targets all employees, every year, allowing to equalize expectations between manager and employee. The possibility of employee's career ascension relies on the skill-and performance-based assessment results and the budgetary availability. It is worth mentioning that the skill-and performance-based assessment goes beyond promotion issues, enabling a perception of the organizational climate, identify performance gaps and define development individual plans. In the last cycle, 3,640 employees were promoted and 42,332 development commitments were established.

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### ***Union Freedom and Collective Bargaining Agreement***

Sabesp seeks to be proactive in its relationship with professional associations, prioritizing ethics and harmony. Also consistent with corporate governance principles, the Company encourages and supports its employees to participate in professional associations, as a full exercise of their rights. This also foments the individual development and collaborate to maintain a good organizational climate. Out of total employees, approximately 70% are voluntary Union members.

The Unions represent employees at the Company, at the proportion of one Union leader for each 478 employees. Main Unions at the Company are: **SINTAEMA** - the São Paulo State Water, Sewage and Environmental Workers' Union, **SINTIUS** Workers Union of Urban Industries of Santos, Santos coast region, south coast and Vale do Ribeira, **SEESP** – Engineers Union in the State of São Paulo, **SASP** - the São Paulo Lawyers' Union, **SINTEC** - the São Paulo State High School Industrial Technicians' Union and others. These entities play their role actively not only claiming improvements, but also giving opinions on corporate issues. The collective bargaining process takes place every May and issues are discussed directly with workers unions, without the employer's union intervention. The Company conducts negotiations with responsibility and transparency, valuing the healthy dialogue with Union entities. They also hold meetings at any time in order to discuss reasonable proposals aiming at meeting employees' expectations and they maintain a positive agenda with leaderships, aiming at mitigating the usual restrictions of this relationship, however, in observance to its financial capacity and governmental guidelines.

In the 2011-2014 period, the answer to claims prioritized relevant issues referring to labor relations, in line with the best market's practices.

Besides Unions, other entities and associations gather employees with different objectives, enabling greater participation and integration.

In labor relations, our challenge is to maintain a contingency plan encompassing strategies and attitudes ensuring continued production processes. This requires a stimulating and synergic environment so that business leaderships and employees' representatives show to be endeavored to always find conciliatory solutions for any differences.

### ***Occupational health and safety***

To preserve health and develop a culture of safety is priority at Sabesp's people management. To minimize risks and zero accidents during working process are the main challenges, converging integrated actions towards preservation of health. Sabesp has been improving occupational health and safety prevention programs in order to ensure and improve professional activities, adding and incorporating life quality. Amongst other, the main actions developed are: the improved rules standardization, the Environmental Risk Prevention Program, the Occupational Health Medical Control Program, the Employees' Vaccination

Program and corrective actions.

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The integration of programs developed and investments made in occupational health and safety over the past years contributed to the gradual reduction by 16% in the number of accidents in the period.

### *Life Quality*

The Life Quality – Live Happy Program aims at offering the opportunity to, by means of cultural change, assimilate the relevance of having a healthy life. The program has prevention characteristics, supporting and encouraging personal habits and life styles which promote health and wellbeing, also contributing to improved work environment.

In order to direct the corporate actions to life quality, Sabesp's Employees Life Style Mapping was conducted and 6,274 employees participated (40% of permanent employees), whose results allowed to conclude that, implementing two corporate actions related to food education and prevention against sedentary lifestyle, it is possible to contribute to control and prevent chronic diseases, such as obesity, hypertension, diabetes, high cholesterol and stress, thus, reducing these risks.

In 2014, the higher emphasis was the fight against sedentary lifestyle, promoting the regular practice of physical activity, such as, for instance:

- **The Challenge Day:** a worldwide physical activity campaign held every last Wednesday of May, a day dedicated to the life quality. Consisting of more than 200 activities that include spots matches, dance, gymnastics, power walking and others, Sabesp added more than 22,600 participants in the Challenge Day between 2011 and 2014.
- **Arrangements with Fitness Gyms:** Employees and dependents have discounts in the monthly fees of 23 accredited fitness gyms.

Several other corporate actions are regularly conducted to promote changes of behavior, life style and raise the health concern: the **Blood Donation Campaign** in 2014 resulted in a total of 1,270 blood bags collected, **Pink October and Blue November:** these are breast and prostate awareness and prevention campaigns where 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.

### *Training and education*

Sabesp was one of the pioneers to adopt the concept of corporate education in Brazil and naturally transformed into influencers of its continued evolvement. The Sabesp Corporate University has been an ideal tool for the professional development, so that Sabesp is able to adapt to a complex scenario and several transformations of the sanitation sector and the Brazilian economy. In order to make feasible its programs, UES adopted a learning architecture which mixes on-site methods and self-development, practices to share knowledge and distance education.



A company with operations geographically distributed, such as Sabesp, the distance education plays a relevant role in the process of disseminating knowledge and collectively exchange information. With an annual list of approximately 500 distance courses in different formats, Sabesp offers 35,000 participations/year on average. The number of participants has been growing yearly and the proportion of those attending distance courses already achieved 52% of total attendances in 2014.

The Qualification and Development Plan is prepared yearly– PCD, addressing the technical and operational demands focused on environment, water resources, sustainability, environmental sanitation, solid waste, environmental laws, environmental education, safety, quality, social and environmental responsibility and compliance. Another source of analyzing needs is the **Development Individual Plan – PID** a product of the Skill-and Performance-Based Assessment, where after the feedback at the end of each assessment cycle, manager and employee establish a development plan for the next prevailing period. As a result of two cycles of Skill-and Performance-Based Assessment, 83,000 development commitments were generated directing the UES' qualification and development programs.

The University has a subsidy program aiming at raising education to answer with expertise to the organization's technical demands, pointing out MBA/graduate studies, technical professional courses, languages, educational agreement and professional certification. The average number of hours of training/employee in 2014 was 72.7h.

### ***Strengthening Sabesp Leadership***

The Sabesp Corporate University (UES) is liable for developing leaders continuously preparing the organization for business challenges. The highlight among UES's actions is the Management Excellence Program– PEG aiming at developing our leaders, whose main challenge is to help reaching sustainable, responsible universal water and sewage services. This activity aims at contributing to implement an entrepreneurship culture, focused on result-driven management, people valuation and development, incentive to creativity and innovation in work processes. Between 2012 and 2014, we formed three classes, comprising 370 leaders.

The need to replace our current leaders and the fact that 50 % of our officers will 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 competition and ensure the business sustainability. The company's main challenge in this program was to build a successor development process consistent with and in line with the market's best practices, offering a competitive edge in these professionals' qualification. The results obtained are already translated into the ascension of 19 professionals (22% of participants), who assumed managerial positions between 2011 and 2014. Aiming at structuring other members of the Succession Program, an assessment process was conducted in 2014 which resulted in the selection of 78 professionals. This time, the emphasis was the appointment of new successors by Sabesp's units, valuing the perception of potential leadership detected by respective areas' managers.



Another drive to development is the **Coaching** process where leaders have the opportunity to reflect and review skills and challenges and from action plans, improve the most varied capabilities to achieve their goals, in line with the Company's mission. Up to date, 180 leaders underwent the executive coaching.

The direction conferred to the leadership programs considers the sanitation activity external plan, which has daily becoming more competitive with the presence of domestic and international competitors with new and higher requirements from granting authorities, regulatory authorities and the society in general. Therefore, the evolvement of this sector challenges leaders to find new answers to new questions – and managers of the future need to be thus qualified.

### ***Knowledge Management***

This is an essential process for the intellectual exchange amongst individuals, so that to build a collective knowledge asset to meet as much as possible the business' objectives and involves the participation of qualified and experienced professionals. Among the knowledge management practices of Sabesp Corporate University, we point out: knowledge centers, Sabesp cooperation network, stimulus to innovation, critical knowledge, monographs, works and technical presentations, travel report and external events, 64 virtual areas and blogs; knowledge center, electronic management of 2,513 documents about working processes, articles from domestic and international training program.

### ***Climate Management***

The Organizational Climate Management at Sabesp enables the analysis of the company's environment and the monitoring of employees' satisfaction, allowing to identify employees' motivation in several aspects: leadership, relationship, pride, recognition, amongst others. The latest climate survey took place in the second half of 2013, with 73% participation amongst active employees. Summarizing results, 77% of employees considered Sabesp a good place to work and the average satisfaction index stood at 59%. In 2014, the Company focused the employees' involvement to prepare action plans, thus, 18 workshops were held, involving 362 participants in focused groups with representatives of the Company's executive boards.

Our conviction is sustained that climate monitoring and employees' involvement contribute to the development of an efficient people management and the organization's joint commitment to enable positive results.

### ***Evaluation of suppliers***

The Company's procurement processes are broadly disclosed in our electronic bidding portal, available at our Website, ensuring suppliers equal participation conditions. The relationship with our suppliers is guided by ethics, transparency and social-environmental criteria, reason that we encourage entities with which we maintain business relationship to adhere to the management practices and reduce the greenhouse gas emissions. We are the first

government company to implement an electronic procurement process in Brazil. Besides reducing costs, the system offers greater transparency, efficiency and agility to its suppliers and population.

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Sabesp's on-line procurement system offers its suppliers same competition and participation conditions, regardless of the place these are installed, besides a relevant reduction of costs, waste and obsolescence.

All the requirements to evidence the compliance with labor liabilities enacted by the bidding laws are applied in our public notices. The agreement contains labor, occupational safety and environmental requirements. The contractor also undertakes to establish partnerships (sub-contractors or outsourced workers) only with companies with social security, labor and tax regular status, being solely liable for any irregular acts of facts practiced by sub-contractor and/or outsourced worker of its behalf, employees or representatives.

Sabesp's bidding procedures also determine that bidder declares its regular standing before the Ministry of Labor in the observance to the rules forbidding night, hazardous or unhealthy work to those under 18 years of age and any work to those above 16 years, unless under the condition as apprentice, as of 14 years of age. During bidding phase, the failure to comply with such rule results in the bidder's disqualification and during the contractual performance, any infringement to such rules may also result in contractual termination.

Besides the conditions foreseen in the bidding procedures, the Company has its own qualification process for suppliers and related products to acquire strategic materials, such as chemical products. Suppliers are evaluated in several requirements, amongst them, the production process, from raw material to the end product and aspects related to the social responsibility, such as child labor.

In addition, in order to remove all forms of forced or slave labor, Sabesp:

- a) systematically consults the records of the "black list" of the Ministry of Employment and Labor in order to check if Sabesp's suppliers are using slave labor;
- b) requires the bidders interested in participating in bids, or to qualify their products in the Company, declare they do not use slave labor in their production chain and;
- c) contractually provides that the contractor will take the responsibility for any use of slave labor in its production chain. Within this context, we point out that, the utilization of forced or compulsory labor is reason for terminating the agreement with Sabesp.

### AWARDS RECEIVED IN 2014

- **Corporate Sustainability Index (ISE) BM&FBovespa.** Sabesp joins this portfolio for the eight consecutive year.
- **“Value 1000” Award – Water and Sanitation Sector,** granted by *Valor Econômico* newspaper.
- **The most influential people in Brazil - 2014,** conferred to the former chief executive officer, Dilma Pena by *Época* magazine, considered one of 2014’s eminent persons.
- **IT & Government Award – Public e-Administration category,** awarded by *Fórum Editorial* to Siges – Service Orders Computerized Management.
- **Excellence Modern Consumer in Customer Services Award – state government services category,** awarded by *Consumidor Moderno* magazine to the customer service of regional systems executive board
- **One of 100 most innovative companies in IT - Brazil,** conferred by *IT Mídia*, in partnership with PricewaterhouseCoopers (PwC) to Sabesp, ranked in the 50<sup>th</sup> position.
- **Best Brazilian Sanitation Company,** according to the ranking prepared by Spanish consulting firm Merco (Business Reputation Monitor) in partnership with *Ibope Inteligência*, which lists the 100 most reputed companies in Brazil.
- **Sanitation Quality National Award (PNQS) 2014,** conferred by the Brazilian Association of Sanitary and Environmental Engineering (Abes):
  - **Level I** – Bronze trophy: Vale do Paraíba business unit
  - **Level II** – Gold trophy: Mooca and Interlagos regional management units
  - **Level II** – Silver trophy: São Mateus regional management unit
  - **Level III** – Platinum trophy: Santo Amaro regional management unit
- **São Paulo Management Quality Award PPQG/2014,** organized by the São Paulo Management Quality Institute (IPEG):
  - **Level III** – State Governor Trophy: Billings regional management unit
  - **Level II** – Gold Medal: Santo Amaro regional management unit

- **One of the 15 priority works for Brazil's development**, granted according to a study issued by KPMG, independent auditors, auditing companies to PPP São Lourenço.
- **Anefac 2014 Transparency Trophy**– publicly-held companies with turnover above R\$5 billion, awarded by the National Association of Finance Executives (Anefac) to Sabesp's financial statements.

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- **SP 2014 Highlights CIO Award**, conferred by IT4CIO Network Technology to Sabesp's TI Superintendent, Mr. Osvaldo Antonio Pazianotto, due to his influence on the information technology sector.
- **DatacenterDynamics Awards 2014 National Champion** in two categories: innovation in medium datacenter and leadership in the public sector, awarded by Datacenterdynamics to Sabesp's data center.
- **Winner in the Sanitation Ranking 2014**, awarded by *Instituto Trata Brasil* to the city of Franca with the basic sanitation best indexes (water supply; sewage collection and treatment; losses; investments/collection).
- **2<sup>nd</sup> position in the Benchmarking Ranking of Companies with the Best Sustainability Practices in Brazil**, awarded to Sabesp by Benchmarking Brasil, recognized as benchmark in the management of sustainability practices.
- **3<sup>rd</sup> Most Reliable Institution**, conferred by Brazilian institute of Public Opinion and Statistics (Ibope) to *Rede Nossa São Paulo*, São Paulo citizens' recognition to Sabesp for its services rendered with quality.

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**Companhia de Saneamento Básico do Estado de São Paulo - SABESP****Statement of Financial Position as of December 31, 2014 and 2013****Amounts in thousands of reais**

<b>Assets</b>	<b>Note</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Current assets</b>			
Cash and cash equivalents	7	1,722,991	1,782,001
Trade accounts receivable	9 (a)	1,034,820	1,120,053
Accounts receivable from related parties	10 (a)	121,965	134,855
Inventories		66,487	58,401
Restricted cash	8	19,750	10,333
Recoverable taxes	17 (a)	148,768	87,405
Other accounts receivable		100,664	61,039
<b>Total current assets</b>		<b>3,215,445</b>	<b>3,254,087</b>
<b>Noncurrent assets</b>			
Trade accounts receivable	9 (a)	189,458	395,512
Accounts receivable from related parties	10 (a)	102,018	130,457
Escrow deposits		69,488	54,827
Deferred income tax and social contribution	18	209,478	114,030
Water National Agency – ANA	11	122,634	107,003
Other accounts receivable		87,286	94,952
<b>Investments</b>	<b>12</b>	<b>21,223</b>	<b>23,660</b>
Investment properties	13	54,039	54,039
Intangible assets	14	25,979,526	23,846,231
Property, plant and equipment	15	304,845	199,496
<b>Total noncurrent assets</b>		<b>27,139,995</b>	<b>25,020,207</b>
<b>Total assets</b>		<b>30,355,440</b>	<b>28,274,294</b>

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

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