

SUSTAINABILITY REPORT



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Audit of the Financial Statements Deloitte Touche Tohmatsu

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OVERCOMING AND LEARNING

THE EFFICIENT MANAGEMENT OF WATER RESOURCES

G4-1 The water crisis which the metropolitan region of São Paulo (RMSP) went through in the two-year period 2014-2015 showed us how drastic a climatic phenomenon can be when it affects the availability of what is, without any doubt, our most precious natural resource. Fortunately rainfall has returned to normalcy and we can safely say that the worst is already over. As well as the return of the rainfall in satisfactory amounts since the end of 2015, factors such as effective social mobilization for the rational consumption of water and Sabesp's strategic action throughout these two years have been fundamental in confronting and overcoming the crisis.

In this context, when we were facing a worsening of the crisis in 2015, apart from continuing with the measures that had been effective during the previous year (use of technical reserves, setting more supply systems in the areas served by Cantareira, pressure reduction in the networks and offering bonus to more economical consumers) we had to take some very short-term measures. These were complex initiatives speedily executed, with advanced engineering resources and the involvement of the whole Company, which demonstrated the great capacity for mobilization and the technical and operational skills of a highly committed and well-trained body of professionals.

The highlight of 2015, in terms of transferring water flows between systems, was the installation of 10.5 km of pipes for the transfer of 4 m³/s from the Rio Grande arm of the Billings reservoir to the Taiaçupeba reservoir, which is part of the Alto Tietê system, the second most affected by the drought. The work, which required an investment of R\$130 million, was completed in mere five months. Sabesp's Team also installed nine kilometers of water mains and a pumping station to transfer 1 m³/s from the Guaió river, in Suzano, to the Taiaçupeba reservoir in the Alto Tietê system. This took only four months and added a further source of untreated water to the RMSP integrated supply system.

Structural integration, in the form of extending the system to sectors belonging to other water sources, was made possible by a series of operations, such as refurbishing the water mains and the pumping stations, and replacing or adapting boosters. To increase water treatment capacity, the option selected took into account the advantages offered by membrane filtration technology. With quicker water filtration, less space taken by the equipment, fully automatic functioning and the addition of fewer chemicals, we were able to increase the treatment capacity of the Alto da Boa Vista Water Treatment Station (ETA), in the Guarapiranga System, by 1 m³/s. Since the crisis began, in 2014, the capacity of this station has been boosted by 2 m³/s, from 14 m³/s to 16 m³/s.

With the delivery of sector reservoirs we were able to increase the stocks of treated water at strategic points, minimizing interruptions in supply. Measures taken to reduce physical and commercial water loss by replacing networks, branch lines and water meters, and by strict measures to control fraud, required an investment of R\$525 million in 2015 alone.

At the same time, we pressed ahead with work on the São Lourenço Production System, which began in April 2014 – this will add up to 6.4 m³/s to the RMSP – - and in February 2016 work started on the interconnection of Cantareira with Paraíba do Sul, which will allow the transfer of 8.5 m³/s between the two basins, increasing the storage capacity of both of them. Not only were efforts required to expand the water supply, but we had to take strategic measures to cut demand. To this end, we reinforced our communication campaigns and applied a contingency tariff to those consuming above the average. The bonus was kept in place for a second year, with an average of 80% of RMSP customers joining the scheme.

The situation we were experiencing required a budget adjustment to cover the reinforcement of the water infrastructure which was reflected in a temporary slowdown of initiatives already under way to expand the sewage network. This, however, does not affect our target to provide this service to everyone in our area of operations.

Having said this, it must be stressed that a full clean-up still depends on the conscientious participation of government and society, in disposing of urban waste properly, keeping the cities clean and correctly connecting residential effluent to the mains sewage network. A major step in this direction was taken at the beginning of 2016, with Sabesp's decision, backed by the court, to connect water only to residences also connected to the mains sewage system. In addition to combating pollution, this measure is for everyone's good, and is only fair to the great majority of the population who have access to the mains system and dispose of their sewage correctly.

At the start of 2015, when the water sources were reduced to dramatically low levels, I remarked in this same message that, as the Chinese sage taught, every crisis represents an opportunity - for innovating, for changing paradigms and, above all, for implementing sustainable long-term solutions. After a year of intense challenges and much hard work, we can say that both the Company and the public have learnt an important lesson, which will provide a legacy for enhancing the relationship between sustainability and water use. This is true both of the efficient technical management of water resources, and of rational habits in the face of what is now more clearly seen to be the finite nature of the most important resource for life on earth.

Benedito Braga, Chairman of the Board of Directors

BETTER PREPARED AND MORE RESILIENT

FOR FUTURE ADVERSITY

G4-1 The worst drought in the history of the metropolitan region of São Paulo (RMSP) could have led to social unrest. Happily, this did not happen, because the public cooperated magnificently, convinced of the need to save water, and also because Sabesp took the right strategic measures from the very beginning of the crisis and, in record time, completed a large number of emergency works to increase the supply of water and the operating flexibility of the production systems.

Today, the RMSP is far better prepared to face much worse droughts than those foreseen in the various water resources plans produced since the 1960s. Even if the adverse water situation of 2014-2015 is repeated, a secure supply of water will be fully guaranteed once these three projects are completed: the Ribeira River Basin Project (up to 6.4 m³/s); the Paraíba do Sul River Basin Project (up to 8.5 m³/s); and the third, the Itapanhaú River Basin Project (up to 2.5 m³/s).

Reducing wastage is another fundamental task to guarantee supplies. In the last ten years, Sabesp has made major efforts in this direction. But much more needs to be done. The key initiative, already operating in the Pegasus community in Embu das Artes, consists of eliminating the maze of pipes scattered along the alleyways of the irregular but irreversibly established settlements. But the success of this project, which offers health and citizenship to the inhabitants of areas where public services do not exist, does not depend only on Sabesp, but also on the city councils and the Public Prosecutor's Office. The Catholic Church, which this year included the importance of sanitation as a theme of its Fraternity Campaign, is another important partner. Through its church groups, which experience the harsh realities of these areas, it operates as a facilitator in carrying out this work.

Giving priority to works to underpin water safety means, inescapably, that other equally important, but less urgent, investments have to be postponed. This situation, however, does not exclude from our outlook the permanent goal of providing sewage collection and treatment services for everyone in our area.

In 2015, the Company invested a total of R\$3.5 billion, including R\$1.3 billion in sewage works, with 226 thousand new connections being installed, serving a total of 22.8 million people. In the interior of the state we inaugurated eight sewage treatment stations (ETEs), and 27 more are under construction. In the RMSP, we reached the milestone of four thousand km of piping in 2015, consisting of networks, trunk collectors and interceptors under the Tietê Project (1992-2015). And on the coast R\$172 million was invested in 2015 in the *Onda Limpa* (Clean Wave) program, the largest sanitation initiative on the Brazilian coastline.

Enhancing management efficiency and the quality of the service we provide means a policy of appreciating and training staff, the development of leaders and the technical modernization of internal processes.

Ethical, transparent and committed governance and rendering accounts to society are further features of constant improvement, based on a compliance program structured on practices aligned with key worldwide requirements, such as the Foreign Corrupt Practices Act (FCPA) and Law 12846/2013 (the Brazilian Anticorruption Law). In 2015, we also became signatories to the “Call to Action”, a United Nations initiative under the Global Compact, which urges governments to introduce anticorruption measures.

Institutionally, we are raising the flag for level A sanitation. There is no reason why Brazilians should have to settle for standards of civilization beneath those attained by other countries. Our revenues in Sabesp come solely from providing water and sewage services. We cannot bring our service levels down to match the payment capacity of the poorest people. We have to provide economic protection for them, through a social tariff. But if we want better quality services, those with the ability to pay more must do so, and then they will be entitled to demand more efficient service. Companies must aim at profitability, for this is what provides the resources for investment and, consequently, for better service to the public.

It is also necessary for society and the courts to understand that the purpose of sanitation is to maximize social wellbeing with the resources available, making water treatment and distribution the priority, followed by sewage collection and, lastly, by sewage treatment. In other words, we have to do what the developed countries did, when they were at our stage of development: put people’s health above any other consideration. It makes little sense, therefore, to use the scarce financial resources of the sanitation companies to pay the so-called “environmental compensation” dues, which are penalties intended to punish companies for polluting the rivers or the ocean during the period that sewage is collected but not treated. Such impositions have the effect of eliminating resources that are extremely necessary for the expansion and improvement of the quality of these services.

To return to the experiences of 2014-2015, there is no doubt that we, both the Company and society, are much stronger and more aware, and possess more resilience to face adversity in the future. A crisis is an opportunity for improvement that must not be wasted.

Jerson Kelman, CEO of Sabesp

AMONG THE WORLD'S LARGEST IN TERMS OF POPULATION SERVED

G4-3/4/5/6/7/8/9 Founded in 1973 from the merger of different sanitation companies and under the guidelines of the National Sanitation Plan (Planasa), Basic Sanitation Company of the State of São Paulo (SABESP)'s mission is "to provide public sanitation services, contributing to improving quality of life and the environment". It also acts in line with the principles of sustainable development and with the environmental, social and economic policies of the São Paulo State Government, its controlling shareholder.

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 in the Americas and the fifth largest in the world in terms of population served, according to the latest edition (2012-2013) of the Pinstent Masons Water Yearbook.

In 2015, we posted net revenue of approximately R\$11.7 billion and net income of R\$536.3 million. Our assets totaled R\$33.7 billion and our market cap was R\$12.9 billion on December 31, 2015. We supply water to 28.6 million people (25.5 million directly and 3.1 million in five municipalities served by the wholesale market) and collect the sewage generated by 22.8 million people. Sabesp's services cover approximately 68% of the urban population of the state of São Paulo.

Our structure consists of five executive areas, 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 539 sewage treatment stations, including 9 submarine outfalls. Our water and sewage distribution networks are 71,700 kilometers and 48,800 kilometers long, respectively. On December 31, 2015, the Company had 14,223 employees, whose total productivity was 1,074 connections per employee.

The company provides water and sewage services in 365 municipalities in the state of São Paulo, including Santa Isabel, where operations began in January 2016, and part of Mogi das Cruzes. We also provide water on a wholesale basis to another five municipalities within the metropolitan region of São Paulo (RMSP), four of which also use our sewage treatment services.

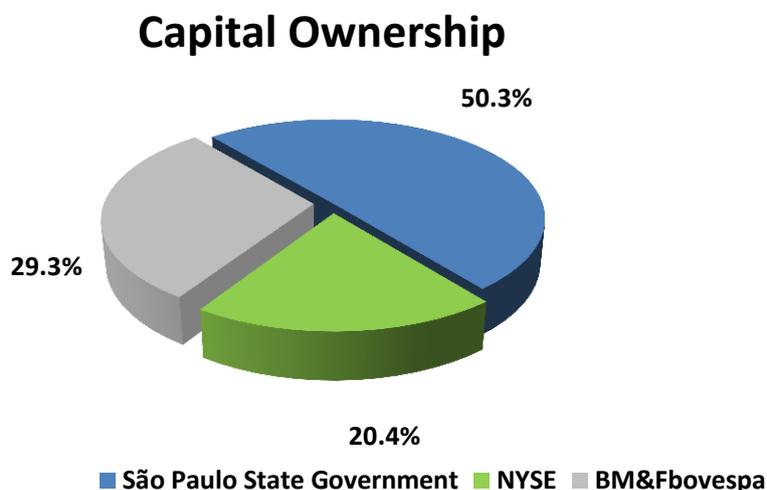
In another three municipalities in the state of São Paulo, Sabesp is a partner in Águas de Castilho S.A., Águas de Andradina S.A. and Saneaqua Mairinque S.A. which provide water and sewage services; and in Mogi Mirim (SP), we are also partners in SESAMM – Serviços de Saneamento de Mogi Mirim S.A., for the modernization, implementation and management of the sewage treatment system. In 2015, SABESP paid R\$2.5 million into Águas de Andradina, as its percentage holding in the company.

Sabesp also produces, supplies and sells reuse water, obtained from the treatment of sewage, directly from its own stations and in partnership with Aquapolo Ambiental, which supplies the Capuava Petrochemical Complex. In the non-domestic sewage segment, we are partners with Estre Ambiental in Attend Ambiental. Sabesp also started to operate in the electricity sector in 2015. For more information, see the “Strategy and Vision of the Future” section.

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 (Artesp).

The Company’s shares – all common voting shares – are traded on the *Novo Mercado* segment of the São Paulo Securities, Commodities and Futures Exchange (BM&FBovespa), code SBSP3, and on the New York Stock Exchange (NYSE) as American Depositary Receipts (Level III ADR), code SBS.

The Company continues to be included in the key BM&FBovespa indices. On December 31, 2015, we had 4,185 shareholders registered on the BM&FBovespa and our capital stock was made up as follows:



PANEL OF INDICATORS

| Indicators | Units | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|-------------------------------|--|----------|----------|----------|----------|
| Service | | | | | | |
| Water service ratio | | Close to universal access ⁽¹⁾ | | | | |
| Sewage collection service ratio | % | 86 | 85 | 84 | 83 | 82 |
| Collected sewage treatment ratio ⁽²⁾ | % | 78 | 77 | 78 | 77 | 76 |
| Resident population served by water supply | thousand inhabitants | 25,537 | 25,264 | 24,560 | 24,249 | 23,911 |
| Resident population served by sewage collection | thousand inhabitants | 22,793 | 22,353 | 21,483 | 20,992 | 20,498 |
| Positive customer satisfaction perception ⁽³⁾ | % | 75 | 80 | 89 | 89 | 92 |
| Operational | | | | | | |
| Water connections | thousand | 8,420 | 8,210 | 7,888 | 7,679 | 7,481 |
| Sewage connections | thousand | 6,861 | 6,660 | 6,340 | 6,128 | 5,921 |
| Water network extension ⁽⁴⁾ | km | 71,705 | 70,800 | 69,619 | 67,647 | 66,389 |
| Sewage network extension ⁽⁴⁾ | km | 48,774 | 47,992 | 47,103 | 45,778 | 45,073 |
| ETA – Water Treatment Stations | un | 235 | 235 | 232 | 214 | 212 |
| Wells | un | 1,085 | 1,055 | 1,083 | 1,079 | 1,102 |
| ETE – Sewage Treatment Stations | un | 539 | 524 | 509 | 502 | 490 |
| Water losses – revenue ⁽⁵⁾ | % | 16.4 | 21.3 | 24.4 | 25.7 | 25.6 |
| Water losses – related to micro-metering ⁽⁶⁾ | % | 28.5 | 29.8 | 31.2 | 32.1 | 32.0 |
| Water losses per connection ⁽⁷⁾ | liters per connection per day | 258 | 319 | 372 | 392 | 395 |
| Water meter index ⁽⁸⁾ | % | 99.97 | 99.97 | 99.97 | 99.97 | 99.97 |
| Water produced volume | million m ³ | 2,564 | 2,840 | 3,053 | 3,059 | 2,992 |
| Water micro-measured volume at retail | million m ³ | 1,397 | 1,573 | 1,624 | 1,601 | 1,557 |
| Water billed volume at wholesale | million m ³ | 216 | 247 | 299 | 298 | 297 |
| Water billed volume at retail | million m ³ | 1,698 | 1,812 | 1,835 | 1,796 | 1,747 |
| Sewage billed volume | million m ³ | 1,481 | 1,562 | 1,579 | 1,535 | 1,486 |
| Number of employees ⁽⁹⁾ | un | 14,223 | 14,753 | 15,015 | 15,019 | 14,896 |
| Operational productivity | Connections/employee | 1,074 | 1,008 | 948 | 919 | 900 |
| Financial | | | | | | |
| Gross revenue | R\$ million | 12,283.5 | 11,823.4 | 11,984.8 | 11,391.2 | 10,529.7 |
| Net revenue | R\$ million | 11,711.6 | 11,213.2 | 11,315.6 | 10,737.6 | 9,927.4 |
| Adjusted EBITDA ⁽¹⁰⁾ | R\$ million | 3,974.3 | 2,918.7 | 4,006.6 | 3,605.0 | 3,371.0 |
| Adjusted EBITDA margin | % of net revenue | 33.9 | 26.0 | 35.4 | 33.6 | 34.0 |
| Adjusted EBITDA margin less construction revenue and cost | % of net revenue | 46.6 | 34.4 | 44.6 | 43.0 | 43.2 |
| Operating result ⁽¹¹⁾ | R\$ million | 3,044.0 | 1,910.7 | 3,138.8 | 2,843.3 | 2,512.0 |
| Operating margin ⁽¹¹⁾ | % of net revenue | 26.0 | 17.0 | 27.7 | 26.5 | 25.3 |
| Result (net income/loss) | R\$ million | 536.3 | 903.0 | 1,923.6 | 1,911.9 | 1,380.9 |
| Net margin | % of net revenue | 4.6 | 8.1 | 17.0 | 17.8 | 13.9 |
| Net debt/adjusted EBITDA | multiple | 2.9 | 3.1 | 1.9 | 1.9 | 1.9 |
| Net debt/equity ⁽¹²⁾ | % | 83.7 | 68.1 | 59.3 | 61.8 | 59.6 |
| Investment ⁽¹³⁾ | R\$ million | 3,481.8 | 3,210.6 | 2,716.0 | 2,535.6 | 2,440.2 |

| Environmental | | | | | | |
|---|--------------------------------|-------------|-----------|-----------|-----------|-----------|
| G4-EN1 – Chemical products used in water and sewage treatment | t | 279,199,698 | 273,417.9 | 268,959.8 | 232,386.1 | 206,376.6 |
| G4-EN2 – Percentage of chemical products used in water and sewage treatment deriving from recycling | % | 3.06 | 3.56 | 3.97 | 4.54 | 5.18 |
| G4-EN3 ⁽¹⁴⁾ - Total electricity consumption | Tera-joules (TJ) | 7,726 | 8,613 | 8,309 | 8,552 | 8,196 |
| G4-EN5 – Electricity consumption/m ³ of water | kWh/m ³ | 0.72 | 0.71 | 0.63 | 0.65 | 0.64 |
| G4-EN5- Electricity consumption/m ³ of sewage | kWh/m ³ | 0.47 | 0.43 | 0.42 | 0.42 | 0.43 |
| G4-EN6 – Energy consumption reduction for water - J | % | 12.4 | -3.2 | - | - | - |
| G4-EN6 – Energy consumption reduction for sewage – J | % | -0.7 | -2.4 | - | - | - |
| G4-EN7- Reductions in energy requirements/m ³ of water - kWh/m ³ | % | -1.4 | -12.4 | - | - | - |
| G4-EN7- Reductions in energy requirements/m ³ of sewage - kWh/m ³ | % | -9.3 | -4.2 | - | - | - |
| G4-EN8 - Total water withdrawn - surface | Million m ³ | 2,397 | 2,674 | - | - | - |
| G4-EN8 - Total water withdrawn - underground | Million m ³ | 168 | 166 | - | - | - |
| G4-EN10 – Percentage of water consumption at ETAs | % | 1.73 | 0.8 | 0.5 | 2.3 | 2.00 |
| G4-EN10 – Recovery percentage of washing water for filters and clarifiers at ETAs | % | 76.59 | 87.4 | 95.5 | 96.8 | 91.4 |
| G4-EN15 Direct and indirect emissions of greenhouse gases ⁽¹⁵⁾ | t CO ₂ e | - | 2,359,114 | 2,154,407 | 2,141,111 | 1,987,645 |
| G4-EN15 ⁽¹⁵⁾ - Direct emissions of greenhouse gases (GEE) (Scope 1) | t CO ₂ e | - | 2,018,912 | 1,912,750 | - | - |
| G4-EN16 ⁽¹⁵⁾ - Indirect emissions of greenhouse gases (GEE) deriving from energy acquisition (Scope 2) | t CO ₂ e | - | 322,006 | 221,212 | - | - |
| G4-EN17 ⁽¹⁵⁾ - Other indirect emissions of greenhouse gases (GEE) (Scope 3) | t CO ₂ e | - | 18,197 | 20,445 | - | - |
| G4-EN22 ⁽¹⁶⁾ - Reuse water volume provided | thousand m ³ | 1,851.8 | 1,214.9 | 1,679.70 | 1,645.79 | 1,572.20 |
| G4-EN22 ⁽¹⁶⁾ - Percentage of reuse water sold over sewage treated at ETEs with reuse | % | 0.52 | 0.27 | 0.35 | 0.35 | 0.35 |
| G4-EN22 ⁽¹⁶⁾ - Reuse water percentage provided over installed capacity | % | 35.67 | 28.50 | 35.42 | 34.74 | 34.74 |
| G4-EN31 ⁽¹⁷⁾ - Total investments and expenses related to environmental protection | R\$ million | 18.4 | 29.8 | 32.5 | 27.7 | 30.4 |
| Number of ETEs and ETAs with Environmental Management System (SGA) ⁽¹⁸⁾ | units | 95 | 95 | 95 | 65 | 65 |
| Number of ETEs and ETAs certified by ISO 14001 ⁽¹⁸⁾ | units | 35 | 51 | 50 | 50 | 50 |
| Number of people that participated in sanitation and environmental education guided tours in our operating units | people | 77,580 | 58,018 | 64,000 | 56,456 | 72,671 |
| Saplings planted voluntarily | units | 12,214 | 20,702 | 19,081 | 30,034 | 126,633 |
| Amount of recyclable materials collected at Sabesp 3Rs | t | 268 | 310 | 381 | 372 | 286 |
| Average consumption of alcohol fuel | liters/vehicle | 2827 | 2861 | 2,747 | 2,532 | 2,529 |
| Alcohol consumption/total fuel ⁽¹⁹⁾ | % | 57 | 53 | 54 | 50 | 32 |
| Positive public perception on Sabesp's environmental responsibility ⁽³⁾ | % | 60 | 63 | 69 | 65 | 78 |
| Social | | | | | | |
| Frequency rate of accidents with leave ⁽²⁰⁾ | Accidents/million hours worked | 4.7 | 6.4 | 6.6 | 5.5 | 7.2 |
| Amount invested in internal social programs ⁽²¹⁾ | R\$ million | 664 | 617 | 594 | 522 | 501 |
| Amount invested in internal social programs ⁽²¹⁾ | % net revenue | 5.7 | 5.5 | 5.3 | 4.9 | 5 |
| Amount invested in external social and environmental programs | R\$ million | 16 | 47 | 63 | 58 | 57 |
| Amount invested in external social and environmental programs | % net revenue | 0.1 | 0.4 | 0.6 | 0.6 | 0.6 |
| Positive public perception on Sabesp social responsibility ⁽³⁾ | % | [64] | 66 | 70 | 64 | 80 |
| Complaints ranked at Procon | Unit | 86 | 78 | 61 | 93 | 91 |
| Ranking at Procon ⁽²²⁾ | Ranking | 43 | - | - | - | - |

- (1) 99% and above.
- (2) For methodological reasons, there may be a margin variation of 2 percentage points up or down
- (3) Survey conducted in 2015 by gMR-Inteligência & Pesquisa (5,850 interviews in the entire operating basis, with a 1% margin of error and a confidence interval of 95%).
- (4) Includes water mains, trunk collectors, interceptors and outfalls.
- (5) Includes real (or physical) and apparent (non-physical) losses. The percentage of water loss is (i) the Lost Volume Billed divided by (ii) the Volume of Water Produced. The Lost Volume Billed is the Volume of Water Produced LESS the Volume Billed LESS the Usage Volume. The Usage Volume is water used for periodic maintenance of water mains and reservoirs; water supplied for municipal use, such as firefighting; and water supplied to shantytowns.
- (6) Includes real (physical) and apparent (non-physical) losses. The percentage of water loss is (i) the Lost Micro-measured Volume divided by (ii) the Volume of Water Produced. The Lost Micro-measured Volume is the Volume of Water Produced LESS the Micro-measured Volume LESS the Usage Volume. The Usage Volume is water used for periodic maintenance of water mains and reservoirs; water supplied for municipal use, such as firefighting; and water supplied to shantytowns.
- (7) Calculated by dividing the Lost Micro-measured Volume in the year by the average number of active water connections in the year, divided by the number of days in the year.
- (8) Water meter connections /total connections
- (9) Number of own employees. Does not include employees assigned to other entities.
- (10) 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.
- (11) Excludes financial income and expenses.
- (12) Net debt includes deduction of cash and cash equivalents, interest rates and borrowing charges on domestic and foreign credit facilities.
- (13) Excludes financial commitments assumed in the program contracts (R\$139 million, R\$155 million, R\$65 million, R\$116 million and R\$177 million in 2011, 2012, 2013, 2014 and 2015 respectively).
- (14) Of the total energy consumption, 6,30 4TJ refer to the water produced, 1,325 TJ to the sewage treated and 97 TJ in administrative areas.
- (15) The 2015 annual inventory of GEE emissions is being prepared in 2016. New indicators have been adopted as of 2015.
- (16) These refer to ETEs ABC, Barueri, Jesus Netto, Parque Novo Mundo and São Miguel, which have reuse facilities. Reuse water provided corresponds to the water sold to public and private companies. It is the nominal capacity of facilities. The 2015 amounts exclude the volume of effluents provided to Aquapolo Ambiental, which is approximately [12] million cubic meters/year.
- (17) We considered environmental protection expenditures and investments, directly associated with the development and implementation of environmental management corporate programs, as well as with the Water Rational Use Program – Pura. Other expenditures and investments related to environmental protection are included in the total amount of operating investments and expenses reported herein.
- (18) In 2014, we carried out a strategic realignment of the SGA implementation program and certifications, aiming at speeding up the implementation of SGA at all stations by 2024. More information is given in the chapter headed “Sanitation and the Environment: a relationship guided by sustainability”.
- (19) Including light vehicles in the owned and leased fleets, fueled by ethanol and gasoline.
- (20) Excludes commuting accidents and occupational diseases.
- (21) Includes profit sharing.
- (22) When no amount is given, it means that Sabesp was not ranked among the top 50 targets of complaints at Procon included in the ranking.

CORPORATE GOVERNANCE

G4-56 The ethical values which guide our relationship with our stakeholders are detailed in the Sabesp Code of Ethics and Conduct, which was rewritten in 2014 to explain in more detail the values and ethical conduct adopted by the Company, and to take into account issues introduced by new legislation and corporate practices such as the anticorruption law and the law on conflicts of interest.

To comply with the provisions of the code and to monitor employees' commitment to ethics, the Ethics and Conduct Committee was set up in 2005. Its preventive role is in disseminating and updating the Code, and it acts correctively in the event of any violations.

Sabesp has tools, norms and internal areas which help to maintain ethical behavior, such as the Whistle-blowing Channel (which also accepts anonymous reports), the Corporate Procedure for Allocating Responsibility, the Audit Superintendence, the Ombudsman, a Citizens' Information Service (SIC) and the Compliance area.

G4-HR3 The Company received more than 210,000 communications in 2015, including information, reports of wrongdoing, compliments, criticism, suggestions and complaints. In the specific case of reports of wrongdoing, 108 were received, 58% were investigated and 42% are under investigation. Thirteen percent of the total are related to inappropriate behavior, such as harassment, discrimination, persecution or unfair treatment. Penalties were applied in all cases where accusations were upheld, involving 20 members of the full-time and contracted staff (3 warnings, 4 suspensions and 13 dismissals).

The Ombudsman is a special customer relationship channel to deal with complaints, suggestions, criticism and information, and it acts on two fronts:

- As the last line of defense, giving a second hearing to people who for whatever reason were not satisfied with their first contact with Sabesp, or whose requirements were not met by the promised deadline;

- As the last line of defense for the image of the Company, acting jointly with public and non-governmental consumer protection bodies, and settling complaints of customers addressed to other public entities or ombudsmen.

An analysis of the content of this information, in the form of a report, allows the Ombudsman to advise senior management and the other areas of the Company on taking immediate action to meet emerging demands, or in implementing improvements in processes and services.

In 2015, after five years during which it did not figure on PROCON's list, Sabesp has

now entered the ranking in 43rd place. The water crisis and the methods adopted to meet it, such as the Bonus and the Contingency Tariff, resulted in 86 complaints being recorded and ranked by the agency. We should stress that, as always, all these complaints were individually monitored, to ensure the best solution for those involved.

In acceptance of the principle of transparency in business, and in compliance with the Law of Access to Information (LAI) (Federal Law No 12527/2011 and State Decree No. 58052/2012), Sabesp offers its Citizen Information Service (SIC), a service channel giving customers the right of access to information on public administration.

The minimum information on the Company demanded by this legislation is available at www.sabesp.com.br, on the SIC link, which is to be found in the menu at the top of the page, with a channel for citizens to submit requests for additional information. As well as using the online contact, citizens can also seek information in person at our office at Rua Costa Carvalho, 300.

Through SIC, the Company contributes to spreading transparency, and our goal is to steadily move from a passive attitude, waiting to be approached before we provide information, to an active one, where we identify the public's needs before being asked. We attended to 610 requests for information during 2015, all submitted by phone or on the internet. Of these, 93% were met in full on first request.

Combat of corruption

On January 29, 2014, Law 12846/2013, known as the Anticorruption Law, came into effect in Brazil, introducing the concept of absolute liability for private legal entities in the country involved in corruption, in the administrative and civil spheres.

In addition to complying with the Brazilian Anticorruption Law, and 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 corruption is 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 and transparent manner, and to respecting people and the environment, and its Code of Ethics includes anticorruption provisions, 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 solicitation and giving of bribes, and is structured on the basis of Senior Management's Commitment; Functional Structuring; Values and Conduct; a Whistle-blowing Channel; Relationships with Third Parties; Governance and Internal Controls; Risk Management; and Training and Communication.

In 2015 we continued to develop and improve our action plans, on the basis of analyzing corruption risks and corporate fraud, giving priority to the most vulnerable processes, i.e. those in the areas of greatest exposure. We also engaged consultants to carry out a thorough analysis of the alignment of the Sabesp Compliance Program with the requirements of the controlling authorities, so that we could plan improvements.

We realize that the most effective anticorruption measures lie in the joint efforts of companies, government and civil society organizations, and so Sabesp is a member of the Anticorruption Working Group of the UN Global Compact, and of the Anticorruption and Compliance Commission of the Brazilian Bar Association (OAB), SP Pinheiros chapter. We also cooperate with initiatives undertaken by the São Paulo State Government.

Notable also is Sabesp's commitment to the international initiative of the Global Compact called "Call to Action", an appeal by the private sector to governments, urging them to introduce anticorruption measures and to implement the corresponding policies, in the interests of good governance. Members of this movement already include more than 260 companies and investors responsible for managing US\$ 3.5 trillion in assets.

The Risks and Quality Superintendence, together with the Audit Superintendence and the Ethics Committee, have as their primary duty the reinforcement of existing mechanisms protecting the Company in terms of integrity, image and ethical values.

Governance Structure

G4-34 The Company's highest governing body is the Shareholders' Meeting. It is incumbent upon the Shareholders' Meeting, among other things, to elect or remove members of the Board of Directors and the Fiscal Council, fix management 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 are independent, with 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.

There were some major changes in the management of the Company in 2015. In January, Benedito Pinto Ferreira Braga Junior, the new State Secretary for Sanitation and Water Resources, was elected chairman of the Board of Directors. Subsequently, in February,

Mauro Guilherme Jardim Arce resigned from the board, and Jerson Kelman took his place as a director.

In April, at the Annual Shareholders' Meeting, Joaldir Reynaldo Machado was elected as a deputy member of the Fiscal Council, and Tomas Bruginski de Paula was appointed a full member in the place of José Antônio Xavier. Massao Fabio Oya (full member) and Maria Elvira Lopes Gimenez (deputy) were appointed to represent the minority shareholders. In June, Edison Airoldi took over as Technology, Projects and Environment Officer, as a replacement for Edson José Pinzan.

Further information on the Company's corporate governance structure and operations is available in the "Corporate Governance" section of the Investor Relations area on the Company's website: www.sabesp.com.br/investidores.

In 2015, the compensation of the members of the Board of Directors, Fiscal Council and executive officers, including benefits, amounted to approximately R\$4.6 million, to which must be added approximately R\$521,000 relating to the executive officers' variable compensation. It's worthy to mention that this type of compensation is not applicable to members of the Board of Directors or the Fiscal Council, pursuant to State Decree 58,265/12, which was ratified by the Shareholders' Meeting held in April 2013.

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

Risk Management

Sabesp counts on Administration Policies of Corporate Risks to introduce the Risk assessment to the corporate environment and help the development of corporate governance, business planning, and the maintenance and creation of the Corporate's value. The Risk assessment complies with international standards and Brazilian technical standards, specifically COSO - ERM - The Committee of Sponsoring Organizations of the Treadway Commission "Enterprise Risk Management - Integrated Framework" and ABNT NBR ISO 31.000 – Risk Management – Principles and Guidelines.

The risk management process is divided into four categories: strategic, financial, operational and compliance. They are coordinated according to eight methodological components, which are internal environment, setting of goals, identification of events, risk assessment, risk response, control activities, information and communication, and monitoring.

Once the critical level of a risk has been identified, the method of treatment is defined and the means in which it should be monitored and communicated to the various parties involved. Handling risks involves choices between avoiding or eliminating them, mitigating them or reducing them, and transferring them or accepting them. In this way action plans can be defined to minimize risks in the short, medium and long term. The risks to which the Company is exposed are described in section 4.1 of the Reference Form.

In the ordinary course of its business, Sabesp is a party to court cases involving civil, environmental, labor and tax issues, among others. A few individual cases represent a substantial portion of the total value of litigation in progress. In the financial statements, cases are classified according to whether a loss is possible or probable, as this latter demands provisions to be set up. The more important cases are described in note 19 to our financial statements, which are included in this annual report.

Internal controls

Internal controls have been 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, internal controls are reassessed considering both any new risks associated with 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 procedures to ensure accuracy of accounting records; the preparation of the financial statements in accordance with current standards; and the proper authorization of transactions related to acquisition, use and disposal of the Company's assets.

The review of the effectiveness of the internal control environment in 2014, as prescribed by Section 404 of Sarbanes-Oxley Law, was completed in April 2015 and no material deficiencies were identified, similarly to previous years. The 2015 tests will be completed in April 2016.

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 a client. Deloitte Touche Tohmatsu Auditores Independentes is the auditor for Sabesp since the review of the quarterly financial information (ITR) as at September 30, 2012. In this period, it has audited financial statements, quarterly financial information, and financing projects.

In 2015, the fees paid for these services by Sabesp totaled R\$1.7 million, of which 89.8% 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.

STRATEGY AND VISION OF THE FUTURE

Because of the changes in the macroeconomic scenario and the water crisis, at the end of 2015 we started on a review of our strategic plan. To achieve our vision of being a global benchmark in providing sustainable, competitive and innovative sanitation services, focused on our customers, we reformulated our strategic guidelines. They are: safe water supplies, excellent service, sustainability, integration and relationships, innovation and technology, appreciation of people and expansion of the sewage treatment network.

Our future objectives, according to these guidelines, will be:

To ensure the availability of water in our area of operations and to continue expanding sewage collection and treatment, using good, economical technology, so as to contribute to the universal availability and to provide quality services and products. Our goal is to maintain universal coverage in water supplies, of good quality and guaranteed availability, with some 816,000 new water connections by 2020. The Company also intends to raise coverage of sewage collection to 95% by 2020, with approximately 1.2 million new connections during the period.

Promote the Company's growth, observing economic and financial balance through an environmentally correct and socially fair means; and to apply principles of financial growth and sustainability to the business, defining goals and responsibilities. One goal to be pursued is to give water its true value through a restructuring of the tariff calculation model.

Another socially fair initiative, which started in 2015, is to offer services to the people living in informal areas, which must be taken further, and it is essential for us to the support of city councils, civil society organizations and the Public Prosecutor's Office, so that we can obtain the needed approvals to regularize supplies to these properties.

By encouraging the creation, adoption and spread of solutions focusing on value creation, Sabesp seeks to enhance the management of assets and to continue to reduce water loss and operating costs. We can achieve this by investing in research and technological development and automation, integrated planning and improved processes.

In 2015, we invested R\$14.7 million in research, development and innovation. As well as supplying water and sewage services, the Company produces, supplies and sells reuse water obtained from the treatment of sewage, directly through its own stations and as the partner of Aquapolo Ambiental, which supplies the Capuava Petrochemical Complex. In the non-domestic sewage segment, we and Estre Ambiental set up Attend Ambiental, a joint venture, which since the end of 2014 has been receiving and treating non-domestic sewage of the metropolitan region of São Paulo.

Sabesp also provides advisory services on the rational use of water, planning, and

commercial, financial and operating management. We currently operate in Panama, Honduras and Nicaragua, in partnership with Latin Consult in the first two countries.

In 2015, Sabesp started to operate in the electricity segment as well, through Paulista Geradora de Energia S.A., a partnership with Tecniplan Engenharia and Servtec. This company plans to generate 7.0 MWh of electricity by using the two outfalls of the Cantareira system. Operations are planned to start in the second half of 2017.

To improve management efficiency, the Company is working on the introduction of an ERP system to replace the current commercial information and management systems. The original timetable provided for the new system to be in place in 2014, but the water crisis obliged us to retarget investments and there has been a delay of the first .

To seek to maintain and expand the operating base. The company provides water and sewage services in 365 municipalities in the state of São Paulo, including Santa Isabel, where operations began in January 2016, and part of Mogi das Cruzes. Between January 1, 2007, when the new regulatory framework (Law 11445/07) was published, and December 31, 2015, we entered into agreements to provide services for a further 30 years with 278 municipalities (including the city of São Paulo), and four of these agreements were signed in 2015.

Currently the Company is negotiating to renew recently expired agreements with 53 municipalities. Together they represent 12.9% of our total revenues and 21.7% of intangible assets.

By 2030, another 36 agreements will expire, representing 7.8% of the Company's revenues and around 7.4% of intangible assets. In these cases, Sabesp will also do what is necessary to renew for another 30 years.

All of this is underpinned by stimulating the growth of our professionals, increasing their job satisfaction and wellbeing, so as to maintain their commitment and productivity. Once complete, this process will result in the revision and detailing of objectives, indicators and goals for the next ten years.

Review of Goals

The planning and implementation of our production systems in the metropolitan region of São Paulo were conceived assuming water availability on the basis of the average flows 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 metropolitan region of São Paulo.

The situation experienced between the end of 2013 and the beginning of 2015, however, resulted in a significant decline in all the water sources serving the RMSP, to a level far below the minimum contemplated in our initial planning. The rainy period starts in October and goes on until the end of March. At the end of 2015, rainfall returned to the levels expected for the period, and the reservoirs began to recover their volumes.

Accordingly, Sabesp introduced a series of measures to reduce the flow from the Cantareira system (the largest system supplying the RMSP and the water source most affected by the crisis) and, in consequence, to make better use of the reserves in the other systems.

Even with these measures, which added around 6m³/s to the Metropolitan Supply System, and with a drop in revenues caused by lower consumption and the bonus scheme, we were able to maintain the rate of new connections, which totaled 226,000 for water and 226,100 for sewage. For more information on the action and strategies adopted, see the chapter entitled “The Legacy of the Water Crisis”.

At the end of the year, the collected sewage treatment index was 78%, the same as in 2013, reversing the slight decline experienced in 2014. This performance was below expectations, as a result of the realignment of investments prioritizing action to minimize the effects of the crisis. Although the increase in the number of homes connected to the collector network contributed to an increase in the index, the fall in volume of sewage produced in areas where it is treated, resulting from the lower consumption of water, had a highly adverse effect on the indicator performance.

The micro-measured loss ratio fell, ending the year at 28.5%, partly due to the efforts of the Corporate Loss Reduction Program, which includes measures such as network maintenance and asset renewal (replacement of networks, branch lines and water meters), but most of all to the network pressure management, which was intensified in order to reduce the effects of the water crisis, and to our efforts to combat fraud.

Achievements in 2015 and Targets for 2015-2020

| | Actual | Targets ⁽¹⁾ | | | | | |
|------------------------------------|--------|------------------------|------|------|------|------|------|
| | 2015 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Water supply ⁽²⁾ | | Close to 100% | | | | | |
| Sewage collection (%) | 86 | 86 | 88 | 89 | 90 | 92 | 95 |
| Treatment of sewage collected (%) | 78 | 81 | 86 | 88 | 90 | 92 | 95 |
| New water connections (thousands) | 226.0 | 177 | 172 | 164 | 164 | 158 | 158 |
| New sewage connections (thousands) | 226.1 | 242 | 242 | 242 | 237 | 237 | 237 |
| Micro-measured water losses (%) | 28.5 | 28.5 | 28.4 | 28.3 | 28.1 | 27.9 | 27.6 |

(1) targets under discussion as part of the strategy review during 2016

(2) 99% or more

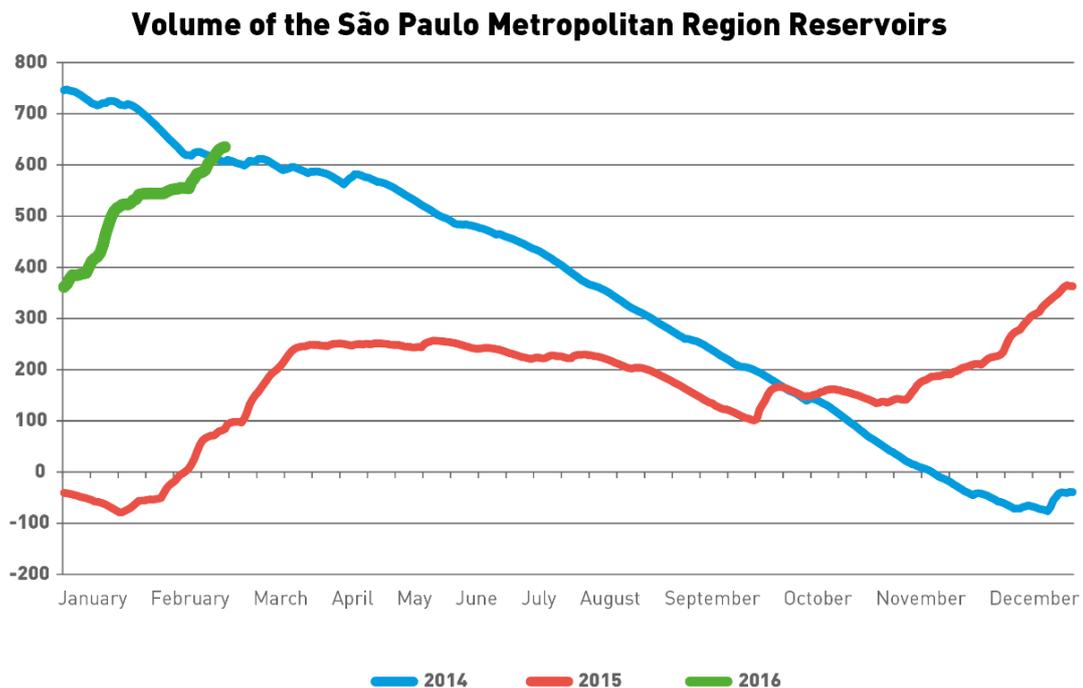
In line with our organizational strategy, some of these indicators, reflecting economic, social and environmental performance, are included in the Company's Profit Sharing Program. For more details, see the chapter entitled "Working for Awareness, Social Participation and Citizenship", in the Compensation, Benefits and Careers section.

THE LEGACY OF THE WATER CRISIS

G4-EC2 The two-year period 2014-2015 saw the most serious drought ever recorded in the history of the metropolitan region of São Paulo (RMSP). It had a substantial effect on the inflow – the amount of water reaching the reservoirs – above all in the Cantareira system, which remained below previously recorded levels for most of the period between the start of 2014 and the end of 2015.

Only with the start of the rainy season (also known as the hydrologic year), in October 2015, did the systems that supply the RMSP start to gradually recover their water storage.

At the end of February 2016 the aggregate volume in the water sources for the RMSP was up to 52.9% of total capacity, including the technical reserves of the Cantareira and Alto Tietê systems. This volume is 142% greater than that recorded a year earlier, in February 2015, when the total was 409 billion liters, or 22% of capacity.



The fact that we coped with nearly two years of drought and have gradually recovered the water sources since the last quarter of 2015 is due to three factors. One of them, as mentioned above, was the return of the rains and the greater inflow to the water sources from the beginning of the hydrologic year. The second factor was the mobilization of much of the population, who understood how critical the situation was and got used to consuming water conscientiously and rationally. The third factor, in turn, was Sabesp's

strategic intervention, intensifying the emergency measures introduced in 2014 and undertaking major works to bring in more water and to make distribution between the production systems more flexible.

These initiatives, resulting from an urgent search for solutions, mark a period of major strategic, technological and operational improvement on the part of the Company. Numerous measures were adopted, all of them intended to ensure that every sector of the RMSP should receive a daily amount of water for distribution to the population, even with the restrictions imposed by the drought and by the water resources management authorities.

The critically low levels reached in the key water sources set new standards of water safety in the RMSP. Today, the combination of works planned or in progress in the Integrated Metropolitan System (SIM) are intended to deal with a phenomenon which has a probability of 0.004 of occurring. Something so unlikely that, until now, it did not figure even in the worst-case scenarios of the main Brazilian meteorological institutions such as Cemaden (National Center of Natural Disasters Alerts and Monitoring).

Anticipating the targets set by the Master Plan for Use of Water Resources for the São Paulo Macro-metropolis, and mobilizing all its efforts to complete complex construction projects in a short space of time, such as pumping the technical reserves and interlinking Rio Grande (Billings) with Alto Tietê, the Company has demonstrated the technical ability and high level of commitment of its professionals.

With the expansion of connections between production systems, installing water mains and adapting pumping stations and boosters, and additional mechanical automation, the infrastructure has become more able to cope with climatic phenomena.

The introduction of new operating rules for day-to-day situations has given a wider range of options for maintaining supplies to the different regions of the metropolis. One example of this flexibility is in the famous Avenida Paulista, in São Paulo city. Previously supplied by the Cantareira system, because of its favorable topography for water distribution, the region started to be supplied also by the Guarapiranga system, which is in the southern part of the city and at a lower altitude, thus adding considerably to the degree of complexity of the task.

One of the many lessons we learned from the crisis in operational terms was that adjusting the pressure in the networks, using pressure reduction valves (VRPs), which Sabesp has been doing since the 1990s and intensified during the water crisis, is an important measure, and one that should be constantly perfected and expanded – at present the VRPs cover 55% of the metropolitan distribution network. As it reduces water loss at times of lower consumption (when there is more pressure in the pipes), the VRPs also allows more switching between sectors and control of supplies in large, densely populated areas like Greater São Paulo.

The installation of sectoral reservoirs, with a large storage capacity for treated water, became a favored option for making the distribution system more secure and more flexible. As well as expanding storage capacity and using strategic locations – closer to the region served – some reservoirs are able to receive water from more than one production system. In addition, the engineering techniques we developed to pump water from the technical reserves now feature in the textbooks of the water sector.

The technology adopted, using ultrafiltration membranes which, compared to the traditional system, take up less space, require smaller amounts of chemicals and treat the water more quickly, has become a viable alternative for a more efficient treatment process.

Another practice perfected for emergency use was the “pipes within pipes” technology, a way of introducing high density polyethylene (HDPE) pipes into old piping. Deactivated water mains can be completely refurbished at low cost and in a short time, allowing for more integration between production systems.

From an institutional point of view, the water crisis brought representatives of the sector – operators, regulators and managers of water resources – together, and at the same time aroused a big public debate about the need to review concepts of water consumption and its real value.

The good results in the face of complex problems attracted interest from abroad, especially from regions that suffer similar droughts, such as Australia and California (USA), and they sent teams to learn about what Sabesp was doing.

The crisis also taught people to be more aware of the fact that natural resources are finite. One example was the great numbers of people in the metropolitan region – an average of 80% of our customers in 2015 – who adopted rational water consumption habits. These changes will tend to last in these families’ daily routines.

Two years after the start of the most serious drought in the history of the RMSP, the experience has shown that it is possible to handle such a crisis if the public is made aware of it and if major investments are made in infrastructure, and through combined action, technological innovation and technical capacity to accomplish. These are important legacies, and they remain as a benchmark for the efficient management of the water resources in São Paulo and Brazil.

BUILDING SUPPLIES FOR THE FUTURE

The water supply, though universalized Sabesp's area, is a service that demands constant monitoring of demographic and geographic growth of a city. For this purpose, 226,037 new connections were made in 2015, the third highest figure in the last 15 years.

Metropolitan Region of São Paulo (RMSP)

Some 80% of Sabesp's customers – around 20 million people – are concentrated in the RMSP. With 39 municipalities in an area of 8,051 km², it is one of the largest agglomerations of people on the planet, comparable with the great metropolises such as Tokyo (26.4 million inhabitants), New York (18.9 million) and Mexico City (18.1 million).

The combination of characteristics such as the dense urban concentration and the location - at the furthest edge of the Alto Tietê basin – makes it a region of very low water availability, even under normal climate conditions, and the supply *per capita* is lower even than in the semi-arid region of Northeast Brazil, where there is a permanent drought

This scenario is challenging enough in itself, and it worsened dramatically between the end of 2013 and September 2015, when low rainfall and the resulting fall in stocks in important water sources led to the most serious and prolonged water crisis in the history of the RMSP.

After facing a year, in 2014, with inflow levels 50% below the all-time low record between 1953 and 1954, and starting 2015 with approximately 5% of available water – already down to the technical reserve –, the Cantareira system, which until 2014 had been the main source of water for the RMSP, serving a population of 8.8 million, began to recover in October 2015, at the beginning of the hydrologic year.

Two months later, with water storage attaining levels of more than 29.3%, the technical reserve – water below the gravity outfall level, which had been being pumped since May 2014 – was no longer necessary, and Cantareira returned to normal operating conditions. In January 2016, the number of people served rose from 5.3 to 5.7 million, and it resumed its role as the main contributor to the Greater São Paulo water supply, which had been taken by Guarapiranga during the major part of the crisis.

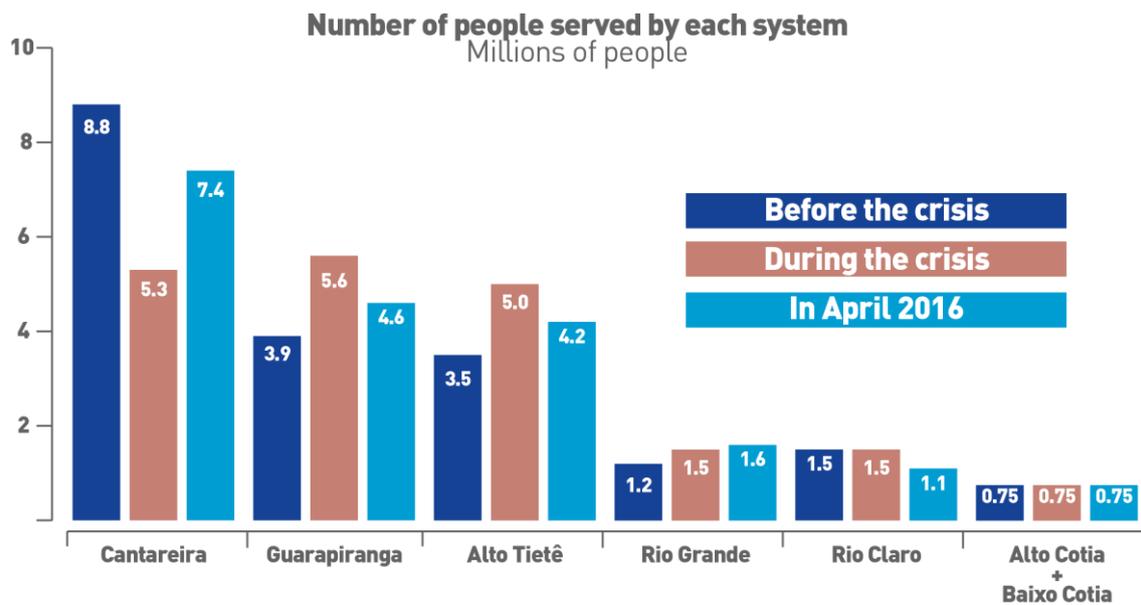
The other seven systems that produce water for Greater São Paulo also entered 2016 with their water sources in better condition. As well as the higher rainfall and inflow starting in the last quarter of 2015, the engagement of the population and the series of strategic actions taken by Sabesp, intensifying the measures initiated in 2014 and executing emergency work throughout 2015, made it possible to overcome a threat that could have

resulted in the collapse of the supply system, with serious effects on the routine of the population of the RMSP.

A more integrated and flexible system

The increased capacity for transferring water, with direct connections between the production systems and the refurbishment of water mains, pumping stations and boosters, continued the strategy introduced in 2014 to expand the scope of the Integrated Metropolitan System (SIM). In this way, from the start of the crisis, regions served by the Cantareira system, which was the one most severely affected by the drought, began to be served by other water sources that were better stocked.

As a result, during 2014 and 2015, some 3.5 million people stopped consuming water from Cantareira, and instead were served mainly by the Guarapiranga, Alto Tietê and Rio Grande systems.



The possibility of supplies from different production systems shows the flexibility of the supply infrastructure, which was extended with the work executed in the two-year period 2014-2015.

Of the significant initiatives undertaken in 2015, one of the most complex was the link between the Rio Grande, an arm of the Billings dam, and the Taiacupeba dam, which is part of the Alto Tietê system, the second most affected by the drought, after Cantareira. Completed in a mere five months, and costing R\$130 million, the link consists of two parallel water mains made of high density polyethylene (HDPE) with a flow capacity of 4 m³/s over a distance of 10.5 km from the arm of the Rio Grande to the Taiacupeba-Mirim stream. From there the water travels another 11.5 km to the Taiacupeba reservoir, where it is taken into the Taiacupeba ETA.

Since April 2015, the Rio Grande system has also started to be used as a new source of supply for some 250,000 people who were previously served by Guarapiranga. This was achieved by installing 2.1 km of water mains to carry the water to the region of Pedreira, in the southern part of the city. The surplus water from Guarapiranga, around 900 L/s, was redirected to areas previously served by the Cantareira system.

At the end of May, it was the Rio Claro system's turn to boost its contribution to the SIM, with a new link being installed between two water mains in Vila Ema, in the eastern part of São Paulo city. This work increased the treated water transfer along the Rio Claro system aqueduct, a pipe 80 km long which starts in Salesópolis, and enabled a further 500 L/s – a sufficient volume to supply more than 150,000 people – to be transferred to districts in the eastern part of the city which previously used water from the Cantareira system.

The França Pinto pumping station was improved and the ABV-França Pinto water main, which connects the district of Santo Amaro to Ibirapuera Park, was refurbished. With the sending of 700 L/s, this in turn, allowed part of the Avenida Paulista and sections of Vila Mariana, which had formerly been served by Cantareira, to be transferred to the Guarapiranga system. Refurbishing the piping was a complex job, and it was done in order to eliminate sections where there were leakages, by injecting HDPE piping into about 550 m of the approximately 6,600 meters of water main.

The steps taken during the two-year period 2014-2015 to integrate the SIM more effectively and to relieve the water sources most affected by the drought increased our capacity to transfer flows between the production systems by more than 10 m³/s¹.

New sources and greater production capacity

¹ Ignoring new flows of untreated water into the Integrated Metropolitan System (SIM).

Once the links were in place and better arrangements had been made for redistributing areas of the city from one production system to another, Sabesp went ahead, in 2015, with work to expand its capacity to bring in untreated water, and for treatment and storage.

With the installation of the second module of ultrafiltration membranes, with a capacity of 1 m³/s, in July 2015, the treatment structure of the Alto da Boa Vista (ABV) ETA, part of the Guarapiranga system, was expanded by 2 m³/s, from 14 m³/s at the start of the crisis, in January 2014, to the current level of 16 m³/s. This expansion, which cost R\$42 million, is enough to supply a population of between 600,000 and 700,000, or a city the size of Uberlândia, Ribeirão Preto.

The membrane technology has a series of advantages: water treatment, which normally takes at least two hours, is completed in 20 to 30 minutes; the system works automatically; and fewer chemicals need to be added. Another advantage is that it takes up much less space.

New inflows of untreated water into the SIM were increased by 1.5 m³/s in 2015. The most important measure, the offtake of 1 m³/s from the Guaió River, on the borders of Suzano and Ferraz de Vasconcelos, started its assisted operations in June. This water is taken to the Moraes stream, a tributary of the Taiaçupeba-Mirim River which flows into the Taiaçupeba reservoir (Alto Tietê System). The work was completed in a few months at a cost of R\$28.9 million, and required nine km of water mains to be laid, as well as a pumping station for untreated water and pressure reduction valves. Previously, in January 2015, the Alto Tietê system had also benefited from an inflow of an additional 500 L/s, with more water transferred from the Guaratuba stream, which rises in the Serra do Mar mountains. The average outtake is now 500 L/s.

Metal storage reservoirs were installed in different sectors of the city, to supplement supply safety. This is because they provide a larger reserve of treated water and uninterrupted supplies to districts which are located far from the principal water mains systems. Twelve such reservoirs were installed in 2015, in nine municipalities of Greater São Paulo: Franco da Rocha, Francisco Morato (three units), Barueri, Osasco, Embu das Artes, Embu Guaçu, Itapeverica (two units), São Bernardo do Campo and São Paulo. In the first two months of 2016, a further two reservoirs came on stream in the capital, one in Jardim São Luiz and the other in Grajaú. From the beginning of 2014 to February 2016, 22 reservoirs were installed and are now operating in 12 cities in the RMSP. Together they provide storage for 147 million liters of treated water.

Combating water loss

G4-EN27 The RMSP is supplied by separating the distribution system into sectors. This separation is fundamental for more efficient water distribution. Boosters have been installed

to serve regions at a higher altitude, and pressure relief valves (PRVs) at the lower levels, where the force of the water could damage the structure of the network.

PRV technology is used in the best systems worldwide, and has been used by Sabesp since the 1990s. PRVs are also used for remote control of pressure at times of low demand, such as the early hours of the morning, when there is more pressure in the networks.

With the worsening of the drought from October 2014 onwards, pressure in the distribution networks was reduced substantially, and this helped to save more than 50% of the water supply during 2015. Pressure was reduced in different sectors at predetermined times, which were announced through the customer relationship channels: the Customer Service Center, regional branches, the website and through social networks. This brought the micro-measured water loss (IPM) down to 27.1% in December 2015 in Greater São Paulo, and 28.5% in the entire area of operations.

At the start of 2016, with an improvement in the reserves of the water sources, the periods of suspension were restricted to nighttime and early mornings. Currently there are 1,303 VRPs operating in the RMSP, 66 of them installed during 2015 (124 units had been installed in 2014). This represents coverage of 55% of the distribution network, which consists of 33,000 km and 1,200 km of water mains.

Cutting water losses has been a priority for more than two decades. In 2009 progress was made with the introduction of the Corporate Loss Reduction Program, in technical partnership with the JICA (Japan International Cooperation Agency). With part of the financing already arranged with BNDES and JICA itself, the investment target is R\$5.5 billion between 2009 and 2020, by when it is planned to have reduced real (physical) losses to 17.9% in the Company's area of operations. This is close to the levels achieved in the UK and better than in France and Italy, where losses range from 25% to 29%. At the end of 2015, Sabesp's real loss ratio was 18.7%².

Since the Corporate Loss Reduction Program started, R\$3.4 billion has been spent, R\$525 million of it in 2015 alone. The Program's operating strategy is on two fronts:

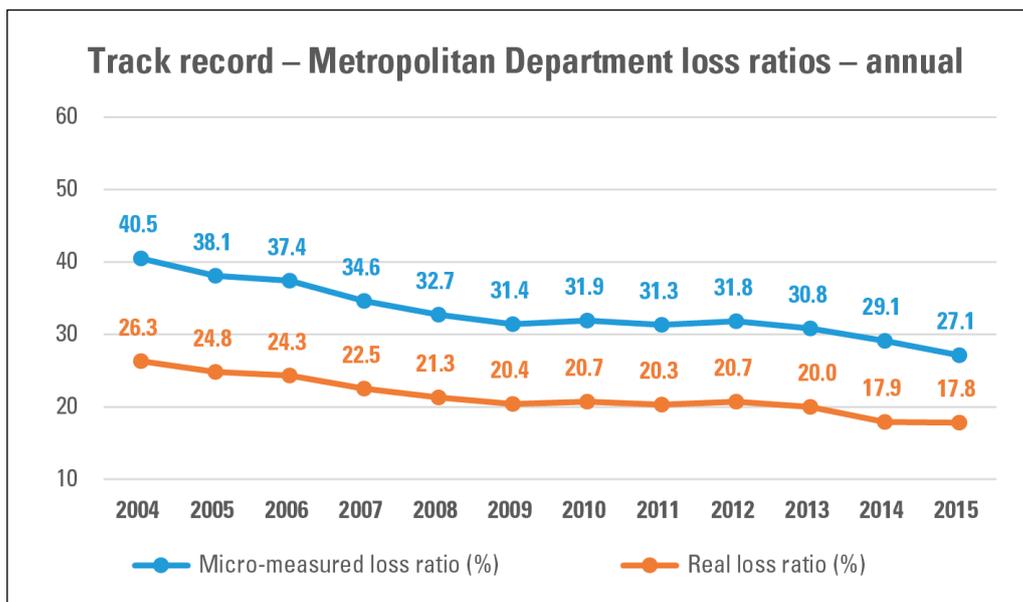
- The aim of the first front is dealing with real or physical losses caused by leaks in the piping. For this, the Metropolitan Department, in addition to installing 66 PRVs (190 in 2014-2015), carried out acoustic sweeps of the distribution network using ground sensors (geophones) along 16,000 km (the length of the network including more than 1.6 million branches). More than 87,000 repairs were made and some 280,000 branches replaced. Real losses were also

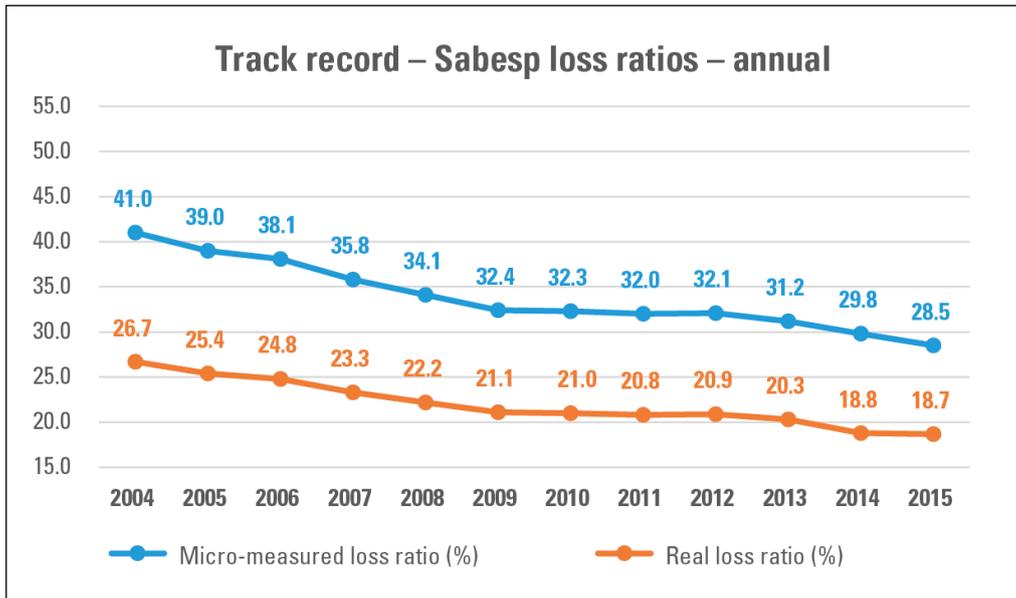
² We should mention that, with the improved situation of the water sources in 2016, the water pressure in the networks (a fundamental measure for dealing with the crisis, which accounted for a good part of the reduction in losses during the two-year period 2014-2015) was increased again, so as to ensure better supplies to the population. This adjustment will without doubt be reflected in the loss ratio.

contained by cutting the time taken to respond to calls, so as to repair leaks more quickly and thus reduce water loss.

- The second front is concerned with reducing apparent or non-physical losses. These are the losses due to illegal connections (locally known as “gatos”) or fraud, or inaccurate measuring by water meters, which lead to water not being accounted for or billed by the Company. As part of these efforts, more than 255,000 water meters were replaced in the RMSP in 2015. The anti-fraud team monitors unexplained variations in consumption and, with the help of the police, inspects properties. Suspect connections are investigated. The team is also assisted by the residents themselves, who can report suspicious cases by calling 195 or our hotline (phone number 181).

The volume embezzled by frauds identified in 2015 was 3.7 billion liters of water, enough to supply nearly 400,000 people for a whole month. A total of 19,200 frauds were detected (52 per day) in Greater São Paulo and the Bragantina region. Our efforts resulted in 24% more irregularities being identified than in 2014.





Since 2009 we have invested R\$3.4 billion (R\$525 million in 2015) to replace equipment, piping and water meters, install pressure reduction valves and carry out a thorough, unrelenting search for leaks and fraud.

Services in informal areas

In November 2015, Sabesp started installing water networks to serve 120,000 properties constructed in informal areas in Greater São Paulo, 70,000 of them in the capital. The purpose is to supply good quality water for nearly 400,000 people, who are currently supplied through illegal connections, and also to reduce water loss caused by the precarious attachment of hosepipes to the mains.

The pilot project was implemented in the Pegasus community, in Embu das Artes, and 1,141 properties were connected to the network between November and January (2016). During this period, 17 million liters of drinking water were saved. Once the 120,000 new connections have been installed, we estimate that the monthly saving will be up to 2.5 million m³/s. Of this volume, 1.25 billion liters (sufficient to supply 114,000 new homes) will stop leaking from improvised hosepipe connections. A further 1.3 billion liters will be recovered in the form of apparent losses (billings), which is water consumed but not paid for. The new clients will pay a social tariff, currently R\$7 (33% of the normal charge) for consumption of up to 10 m³/s a month.

The operation is based on an innovative model of tender, the performance contract. The winning bidder will install networks, connections, measurement tanks and water meters, but will only be remunerated according to the volume of water which is saved. In other words, they will only be paid by Sabesp when the residents are connected and water starts to be saved. In addition to better conditions of hygiene, the families will have benefits in terms of citizenship, as they will have proof of residence with which to enter their children in schools, for example. However we should point out that at present the law prohibits operations in informal areas, and so this initiative depends on partnership with the city councils and the Public Prosecutor's Office to obtain the necessary consents to regularize supplies to these properties.

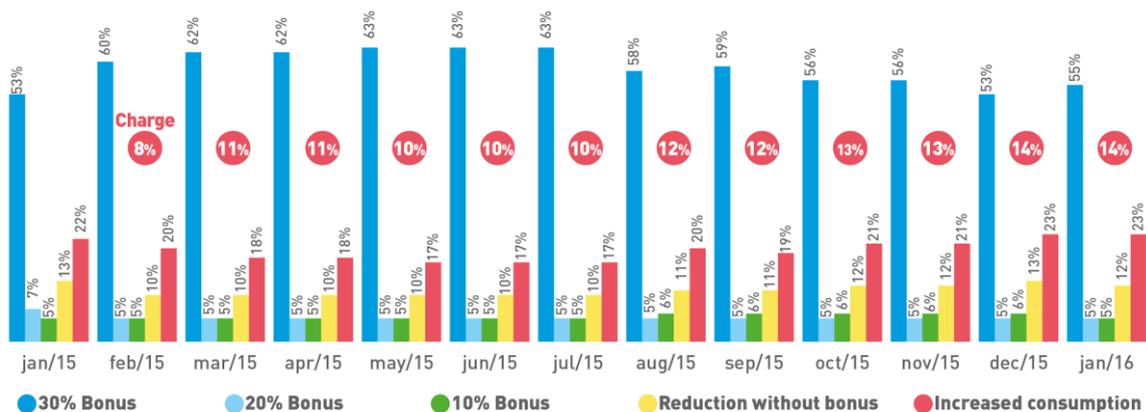
Bonus and Contingency Charge

One of the first measures to be taken to restrain demand, in February 2014, was the granting of a bonus, which was extended throughout 2015. A large number of people joined the scheme, with an average take-up of 80%. The average number of people actually receiving a discount rose from 49% in 2014 to 70% in 2015. The scheme, with a new method of calculating the bonus, is being continued in 2016.

For the year 2015, the savings in water as a result of the scheme reduced the water taken from the reservoirs serving the Metropolitan Region by 5.6 m³/s. This accounts for around 30% of the savings from the anti-crisis initiatives (see Bonus chart). The volume saved is enough to supply almost 2 million people, or the inhabitants of the cities of Campinas, Sorocaba and Santos combined. In other words, in 2015, the population consumed approximately 200 billion liters of water less than in 2013, before the crisis. This is the

equivalent of 40% of the capacity of the Alto Tietê system (517.3 billion liters), and more than double the amount saved in 2014, when, with the bonus already in place, consumers saved a little over 90 billion liters.

For those consumers who did not understand the severity of the crisis and increased their consumption comparatively, Sabesp applied a contingency charge. The charge was introduced in January 2015, and affected an average of 19% of consumers in the RMSP. Some 8% of these were exempt because they did not exceed the minimum consumption level of 10 m³ per month. For more information on the application of the bonus and the contingency charge, see the chapter entitled “Financial-Economic Management”, in the Revenues section.



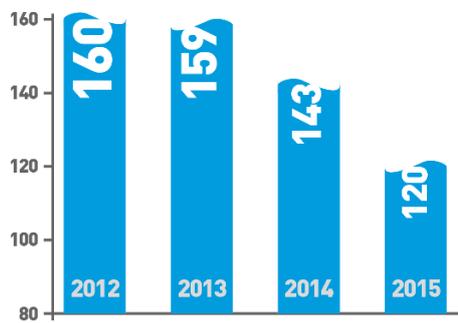
Communication campaigns

Sabesp is continuing its efforts to encourage conscientious use of water through the *Guardião das Águas* (Water Guardian) program, with visits, lectures and the distribution of posters and leaflets. These activities are directed at condominiums, schools, commercial establishments and homes, making people aware of the importance of economizing water. Campaign teams made 73,954 of these visits in 2015, with two million people being approached directly, and almost 20 million indirectly.

The “*Cada Gota Conta*” (Every Drop Counts) campaign was held between February and April 2015, to show people the importance of continuing to save water even after completion of the works that increased availability in the RMSP. The campaign was carried on TV, radio, newspapers, magazines and outdoor media, depicting real situations of people giving tips on how to save water at home and at work. In July, Sabesp launched its “*Cada Atitude Conta*” (Every Attitude Counts) campaign, to thank people for saving water and showing the projects it had completed to maintain supplies of water. The initiative, consisting of ads, spots and publicity by radio, had a total audience of some 180 million people. In February and March 2016, six million leaflets were distributed with water bills, informing people about the contingency charge rules.

Per capita consumption in the RMSP

Track record 2012-2015
In Liters/person/day

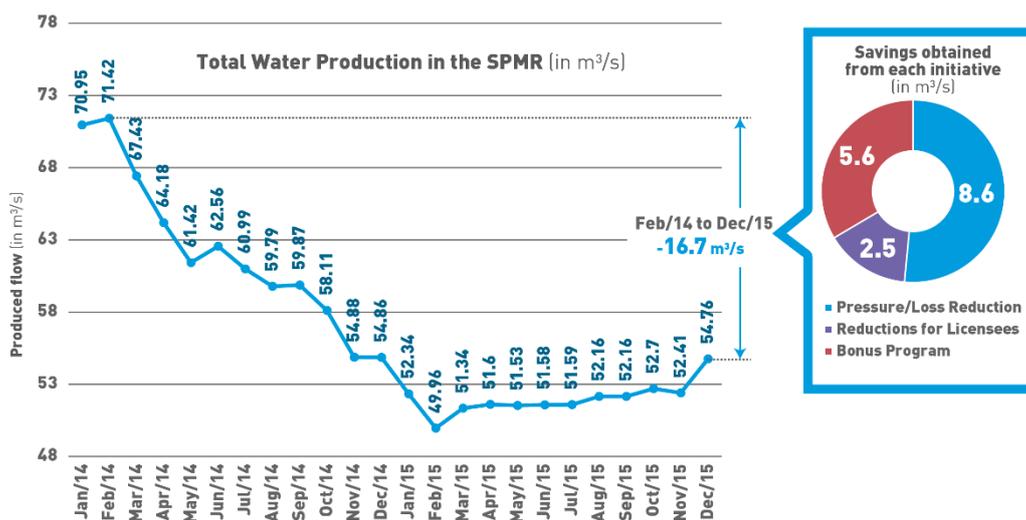


The awareness campaign and bonus incentive resulted in a drop of approximately 25% in consumption per capita in the RMSP, compared to the period before the crisis.

Results

In December 2015, the SIM was producing a total of 54.7 cubic meters per second (m^3/s) for distribution in the RMSP. This is a difference of 16.7 m^3/s , or 23% less than at the start of the crisis, when production reached 71.4 m^3/s (the maximum nominal capacity of the RMSP is 75.8 m^3/s). Management of pressure was responsible for cutting 8.6 m^3/s , or 51.4%, of the total saved; the bonus accounted for 5.6 m^3/s (33.5%) and an adjustment of the volume of water provided to municipalities that operate their own distribution networks, due to lower availability, saved 2.5 m^3/s (14.9%).

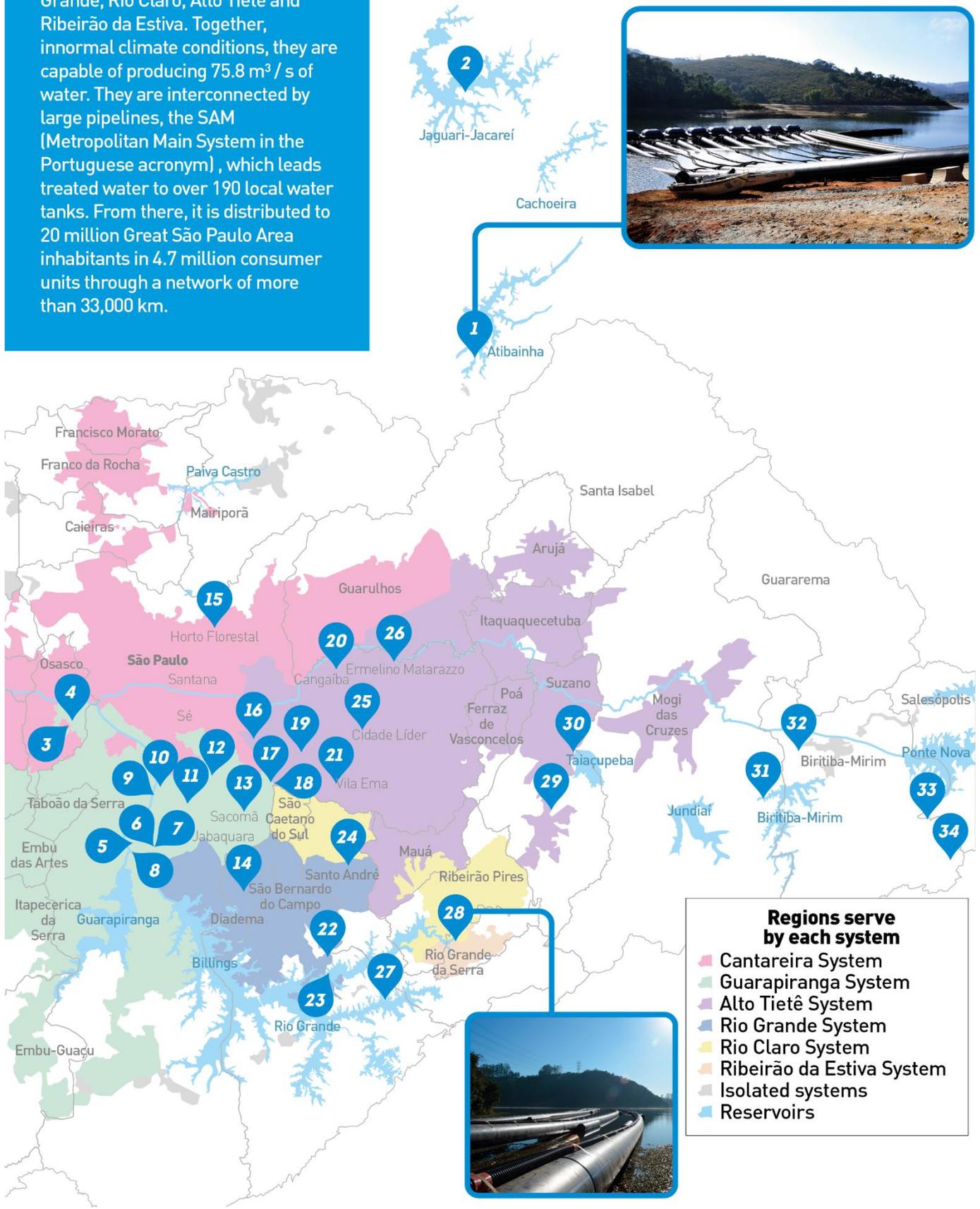
Action by Sabesp and the cooperation of the people made possible a 23% decrease in water production in the RMSP



Comparison with February/2014 – last month of normal production before action to combat the water crisis

Compared to February 2015, when the lowest volume was produced during the two-year crisis – only 49.9 m^3/s – December 2015 displayed 9% more of treated water available in the RMSP. This increase reflects an improving trend in the situation of the water sources and the start of a transition process back to normality.

São Paulo Metropolitan Region is supplied by water production systems - Cantareira, Alto Cotia, Baixo Cotia, Guarapiranga, Rio Grande, Rio Claro, Alto Tietê and Ribeirão da Estiva. Together, in normal climate conditions, they are capable of producing 75.8 m³ / s of water. They are interconnected by large pipelines, the SAM (Metropolitan Main System in the Portuguese acronym), which leads treated water to over 190 local water tanks. From there, it is distributed to 20 million Great São Paulo Area inhabitants in 4.7 million consumer units through a network of more than 33,000 km.



- Regions serve by each system**
- Cantareira System
 - Guarapiranga System
 - Alto Tietê System
 - Rio Grande System
 - Rio Claro System
 - Ribeirão da Estiva System
 - Isolated systems
 - Reservoirs

List of works marked on the map

- | | |
|--|--|
| 1) 1st technical reserve of the Cantareira System | 20) Inversion of Cangaíba booster |
| 2) 2nd technical reserve of the Cantareira System | 21) Upgrading of Vila Ema tank |
| 3) New Bela Vista-Conceição water main, in Osasco | 22) Rio Grande System membranes |
| 4) New Bela Vista pumping station, in Osasco | 23) Pumps changed at Rio Grande System untreated water pumping station |
| 5) Improvements to Theodoro Ramos pumping station | 24) New Haras-Vila Vitória water main, in Santo André |
| 6) Guarapiranga System membranes (lot 1) | 25) Improvements to Cidade Líder booster |
| 7) Guarapiranga System membranes (lot 2) | 26) Increase in power at Ermelino Matarazzo pumping station |
| 8) Improvements to ABV-Socorro water main | 27) Rio Pequeno-Rio Grande link |
| 9) Upgrading of Vila Olímpia water main | 28) Rio Grande-Alto Tietê link |
| 10) Changes to Vila Olímpia pumping station | 29) New water offtake from Guaió River |
| 11) Refurbishment of ABV-França Pinto water main | 30) Electrical improvements to the Taiaçupeba Water Treatment Station (ETA) in the Alto Tietê System |
| 12) Improvements to França Pinto pumping station | 31) Water offtake from the Biritiba-Mirim dam |
| 13) New Jabaquara-Sacomã water main | 32) Readjustments to the Biritiba untreated water pumping station, Alto Tietê System |
| 14) New Jardim das Nações-Parque Real water main, in Diadema | 33) Upgrading of the Rio Claro System untreated water pumping station |
| 15) New valve at Horto Florestal | 34) Increased offtake from Guaratuba stream |
| 16) Reversal of Mooca-Cambuci water main | |
| 17) Operational changes to ABV-Jabaquara pumping station | |
| 18) Operational changes to Cadiriri booster | |
| 19) Improvements to Vila Guarani pumping station | |

Granting of the Cantareira System

Water intake from the Cantareira System is granted to Sabesp by the ANA and the DAEE. The grant in force, renewed in 2004 for ten years, would expire in August 2014. However, due to the climate conditions observed in the area of the Cantareira System, it was extended to the end of October 2015 and, later on, until May 2017, with special and specific norms regarding water withdrawal, so as to face the water shortage registered in the period.

Water flow withdrawn from the basin is authorized through monthly communications, considering rainfall, water inflow, level of reservoirs and Sabesp's requests. With the beginning of the rainy season (October/15 to March/16) and the return of rainfall to normal levels, in February 2016 the Company was authorized to withdraw 23 m³/s, a flow level quite above the 14 m³/s authorized in more critical periods of the water crisis.

More works under way

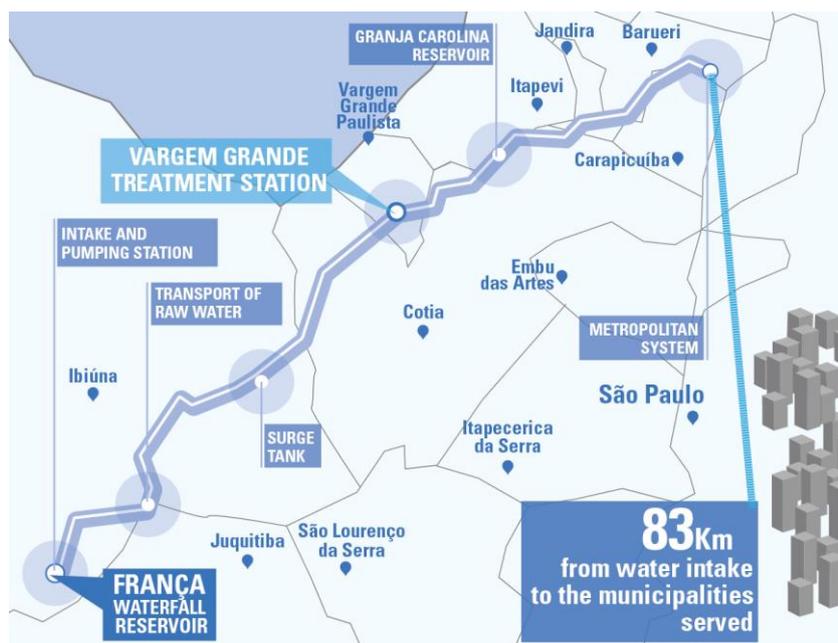
The new risk scenario imposed by the seriousness of the 2014-2015 crisis required a strategic positioning from the Company taking into account the strengthening of the metropole's water safety. This is being made through more works to expand water flow transfers and, especially, through new contributions that are coming from outside the Alto Tietê basin, where the RMSP is located. Actions are divided into two phases.

In the short term, the expansion of the transfer of 1 m³/s from the Taquacetuba to the Guarapiranga System (from 4 m³/s to 5 m³/s), which was considered within the emergency phase targeted for 2016, was completed. Also within this target, the transfer of 4 m³/s from Rio Pequeno river branch of Billings reservoir to Rio Grande river branch is under final phase of execution, supporting the flow with the same volume that is being sent from Rio Grande to the Alto Tietê System since September 2015.

In the medium term, expected to be delivered in 2017, the Guarapiranga basin will benefit from the reversal of 1 m³/s from Alto Juquiá (Ribeirão Santa Rita), while another 2.5 m³/s will be reversed from Itapanhaú river (Ribeirão Sertãozinho) to the Biritiba-Mirim reservoir (Alto Tietê System).

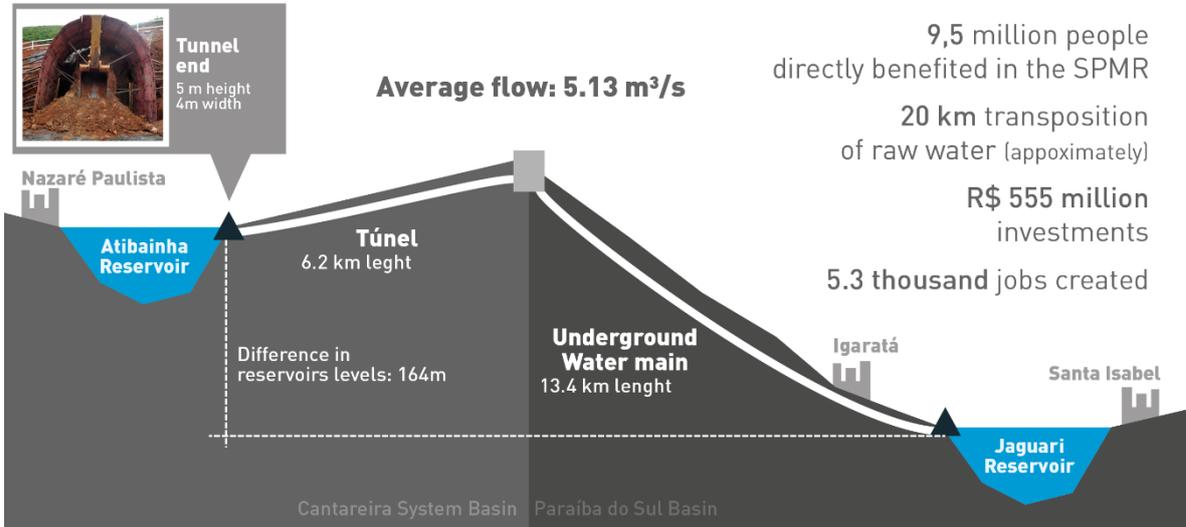
In addition to these interventions, the interconnection between the Jaguari (Paraíba do Sul basin) and Atibainha (Cantareira System) reservoirs, which was expected for 2025 in the scope of the São Paulo Macrometropolis Water Use Master Plan, was brought forward. The interconnection started in February 2016 will have 20 km of water mains (including 6.2 km of tunnels), in addition to a pumping station, and intake and discharge structures, and will enable the addition of 5.13 m³/s of water (maximum 8.5 m³/s) to the Cantareira System.

Another important work is the São Lourenço Production System, which started to be built in April 2014 and is expected to be completed in 2017. It's 83 km of water mains to be installed (28 km were ready as of January 2016) to carry 4.7 m³/s of water from França waterfall, in Ibiúna, to the west zone of the RMSP. This project also includes the construction of a water treatment station (ETA) in Vargem Grande Paulista, and reservoirs to store up to 125 million liters of water.



The expansion resulting from the works in progress and expected will enable addition of up to 15 m³/s of raw water and 6 m³/s of treated water in the RMSP³.

Interconnection between the Cantareira System and the Paraíba do Sul Basin



The Metropolitan Water Program (PMA)

The emergency actions that avoided the collapse of water supply during the most critical period were possible due to a strong supply system that has been structured for over two decades through the Metropolitan Water Program (PMA).

Implemented in the mid 1990s, the PMA was the solution for a situation of rotation (period of 36 hours with water supply against 24 hours without it) experienced by over 5 million people living in Greater São Paulo's south and east areas.

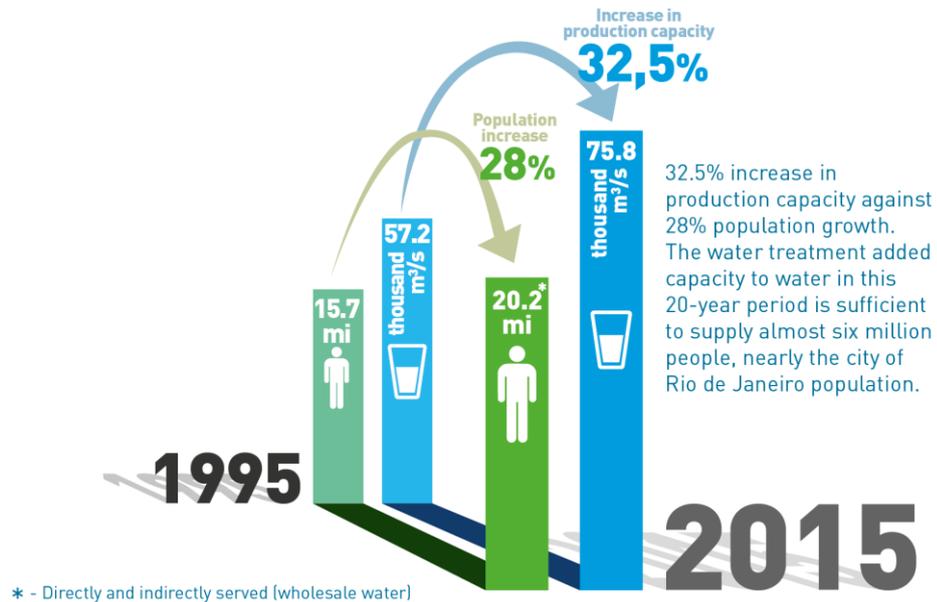
Unlike the climate event that occurred in 2014-2015, the instabilities in supply during the 1990s were due to structural bottlenecks, and insufficient treatment capacity, water transmission and distribution in a region showing high population density and growth. Since 2000, the PMA has increased production capacity by 8.1 m³/s, particularly in Alto Tietê (5 m³/s), through the Public Private Partnership completed in 2011, and in the Guarapiranga System (2 m³/s), completed in 2015.

Still pursuing its objective to increase the water safety in the Metropolitan Region of São Paulo, the Company plans to increase its treated water production capacity by over 7 m³/s by 2018. In 2015, the Company invested approximately R\$378.1 million in the PMA. From 2016 to 2020, investments should exceed R\$1.2 billion, with focus on the interconnection between the Jaguari (Paraíba do Sul basin) and Atibainha (PCJ basin)

³ Considering grants being studied.

reservoirs, in addition to the investments in the São Lourenço PPP.

RMSP Population



Source: Sabesp, Seade, IBGE

Restoration of urban water sources

Since 2009, in partnership with the local government of the Capital City, Sabesp has developed the Water Sources Program, which is focused on restoring the two main water reservoirs of the Greater São Paulo: Billings and Guarapiranga dams. The actions of the program are financed by the Federal Government, the State of São Paulo, Sabesp, the São Paulo State government and the World Bank. Therefore, it is now possible to expand sewage collection and make improvements in the precarious land divisions and housing projects installed in sub-basin areas of these two water sources. In 2015, investments amounted to R\$84.2 million.

The *Pró-Billings* program is also expanding the sewage system through the installation of trunk collectors, pumping stations, networks and household connections that will take sewage from part of the population from the Billings basin to ETE ABC for treatment. In 2015, the program received investments worth R\$10.8 million.

A third initiative towards recovery of metropolitan water sources was the *Nossa Guarapiranga* (Our Guarapiranga) program, started in the end of 2011. The program is intended to improve the quality of the reservoir water through the removal of waste, macrophytes, and water plants that block water intake. Since its implementation, some 14.9 thousand m³ of waste have been removed from the water source, of which 4.3 thousand in 2015.

Coastal Supply

After the RMSP, the Metropolitan Region of Baixada Santista (RMBS) is considered the second most complex area regarding water supply. This is so for two reasons. First, the area has a huge population which, according to the IBGE statistics institute, totaled some 1.8 million people in 2015. Second, and maybe the most challenging aspect, is the large number of tourists that get to the region in the high season, making the population twice as big. It is also the time when we the highest temperatures are recorded and related per capita water consumption peaks, overloading the supply system.

In order to meet such large demand, in addition to 13 ETAs and 45 reservation centers strategically located in its nine municipalities, the RMBS also counts on the largest water reservoir set on rocks in Latin America, the Santa Tereza/Voturuá Reservoir-Tunnel, with capacity for 110 million liters of water (44 olympic pools). Additionally, an integrated water intake, treatment and distribution system that, just as it happens in Greater São Paulo, enables the transferring of water flows between regions with higher or lower demand, was built to allow flexibility and safety to supply.

With the start of operations, in the end of 2013, of the Mambu-Branco System, in Itanhaém, and Jurubatuba, in Guarujá, as part of the “Água do Litoral” (Water on the Coast) structuring program, RMBS’s Integrated Water Supply System was strengthened with 3.6 m³/s of water, which is sufficient to supply 1.1 million persons.

In addition to the ETA with treatment capacity for 1.6 m³/s, the Mambu-Branco System also includes a 1.9-km raw water main, two treated water reservoirs, one treated water pumping station, and a 64.1-km treated water main.

A reservoir with capacity for 25 thousand m³ and located in the Melvi Reservation Center (in Praia Grande) should be completed in 2016, when the whole system will total an investment of R\$421 million *Reais*. In a second phase, to be executed until 2019, the ETA will be expanded by 1.6 m³/s of water, which is sufficient to supply 500 thousand persons.

In 2015, simultaneously to the “Água no Litoral program,” the Baixada Santista benefited from the completion of the Tancredo Neves water main, in São Vicente, which received investments of R\$1.9 million, as well as from the replacement of 60 km of new pipes in the nine cities of the region. In the district of Ponta da Praia, in Santos, R\$2.3 million were invested in more than two km of new pipes.

In 2015, the amount of R\$68.3 million was invested in the Program, whose supply actions also included the northern region of São Paulo’s coast. In the district of Guaxinduba, in Caraguatatuba, a compact ETA was put into operation, totaling investments of R\$2.2 million. The project’s treatment capacity is 180 l/s. Also in this municipality, a metallic reservoir is under construction, with capacity for 5 thousand m³. In Ubatuba (districts of Maranduba, Sapé, Lagoinha and Sertões) and São Sebastião (Boiçucanga), the water supply

system is being improved or implemented through new construction works. The districts of Maranduba and Boiçucanga will also benefit from ETAs that are currently under construction.

Inland supply

In the interior of the State of São Paulo, Sabesp operates in 310 municipalities and provides universal water supply services. In 2015, this region recorded normal weather conditions. The return of rainfall to the average levels registered as to what was previously to the crisis and the task force conducted in 2014 ensured the supply of water to the population. In the 26 municipalities most affected by the drought, Sabesp invested R\$2.1 million in the implementation of 100 km of water mains and 55 emergency water intakes that served 1.2 million persons.

In 2015, the Company invested approximately R\$75.9 million in the construction of water supply systems in São Paulo's inland, with focus on the construction of three ETAs, such as the ETA Sapucaí-Mirim, in the city of Franca. This project is expected to be delivered in February 2017, and it should increase water intake by 800 l/s, ensuring the supply of water to the city and the region at least for the next two decades.

In the scope of the Corporate Program for Reduction of Losses, whose actions cover both the coastal and inland regions of the State, the executive projects prepared in 2015 provide for the future division of distribution networks into sectors, and replacement of 690 km of networks in 36 municipalities. In 2014-2015, over 130 thousand branches and 220 thousand water meters were distributed; 120 thousand repairs were made in the networks and branches; and 44 thousand km were analyzed for non-visible leakages.

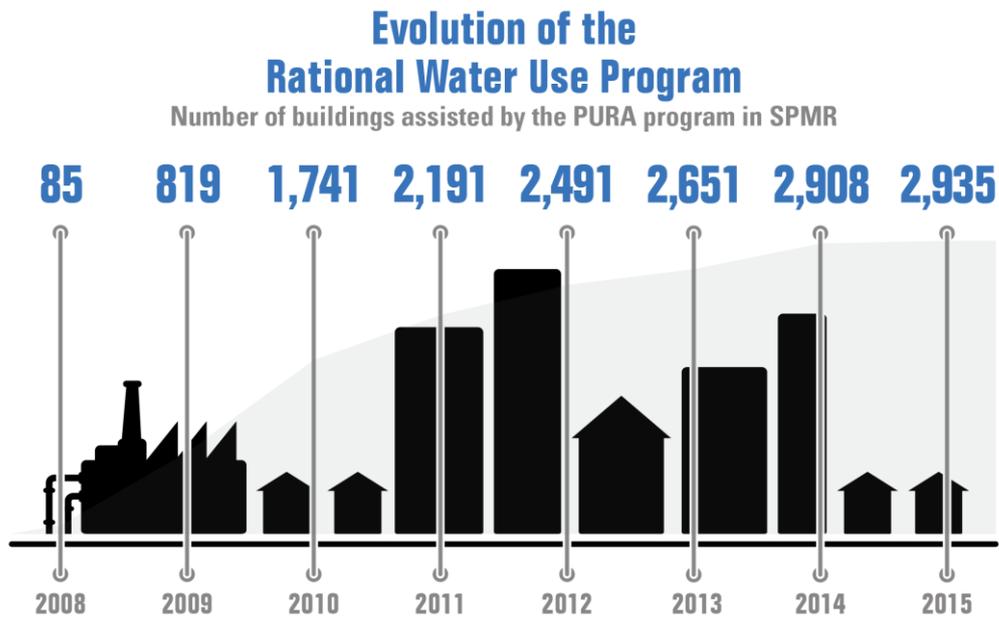
Conscientious and sustainable use of water

G4-EN27 The actions involving sustainability include measures aimed at the efficient and responsible use of water, expanding people awareness to the fact that water resources are finite. The 2014-2015 water crisis reinforced the relevance of these initiatives. Among these actions, we highlight the Rational Water Use Program – PURA, which promotes structural adjustments in public buildings in order to reduce losses and reinforce responsible consumption.

These buildings received valves, water output ventilators, new floats, water volume sensors, and new pipes and reservoirs for collection and reuse of rainwater. Simultaneously, educational campaigns are also launched to provide practical guidance to the employees and students of State schools.

Sabesp's actions are implemented in partnership with public, state and municipal entities. On the state level, the Company participates in the Program for Improvement of Public Spending of the State Government, which is coordinated by the Government

Department, identifying buildings with high water consumption and problems regarding supply structure. Started in 1996, the program was implemented in 7,014 buildings in all regions of the State.



G4-EN27 Adopted by the most advanced world systems, the reuse water technology is among the most efficient initiatives for sustainable water consumption, resulting in great savings of raw water which is no longer withdrawn from water sources. We highlight the “Aquapolo Ambiental,” a project implemented and operated since the end of 2012 by means of a partnership between Sabesp and Odebrecht Ambiental.

As the largest project to produce industrial reuse water in South America and the fifth largest in the world, Aquapolo is prepared to treat the effluent generated at ETE ABC. Approximately 1 million m³ of water per month are supplied to large companies of the Capuava Petrochemical Complex, in the São Paulo’s ABC region, and used to wash machinery and warehouses, cooling boilers, and generate power, among other uses. Aquapolo is expected to reach a peak production of 1 m³/s in the coming years.

In addition to Aquapolo, Sabesp reuses effluents at Barueri, Jesus Neto, Parque Novo Mundo and São Miguel ETEs for urban use supply, such as cleaning of streets, yards and memorials, unclogging of sewage networks, and washing gardens, among other uses. In 2015, these four ETEs produced 1.8 million of m³ for these purposes.

Water quality

Sabesp has 16 quality control laboratories, of which 14 are ISO 17025 certified by the National Institute of Metrology, Quality and Technology (Inmetro). Installed in different State regions, these laboratories conduct 62 thousand analyses on average in the distribution network. The samples collected since their origin until consumption spots are analyzed on a regular basis and include basic control parameters, such as turbidity, color, chlorine, coliform bacteria and thermotolerant coliforms.

The results are submitted to the Sanitary Surveillance departments of the municipalities served, and indicated on customers bills, as provided for in Presidential Decree 5440/05. Customers receive a report with a follow-up of water quality analyses. The origin and quantity of water consumed in households, as well as the results of samples, are available on Sabesp's website.

SEWAGE

HEALTH, DEVELOPMENT AND ENVIRONMENTAL PRESERVATION

Strong investments and the continuous expansion of the sanitation infrastructure reflect the advances made in São Paulo's sanitation system, which ranks among the best of the 26 Brazilian states. According to the National Sanitation Information System (SNIS), issued by the Ministry of Cities, Sabesp tops the ranking of investments in basic sanitation in the country.

Published in February 2016, the document shows that the Company accounted for 37% of the sanitation investments made by Brazilian state companies from 2011 to 2014. Sabesp was responsible for 26.5% of total consolidated investments made throughout this period in the country.

At the end of 2015, the municipalities in which Sabesp operates recorded a collection index of 86%, while 78% of the loads collected in the 365 cities operated by the Company was treated. This work had a direct impact on the advances made in the State. According to data from the Social Vulnerability Map of Brazilian Municipalities, published by the Institute of Applied Economic Research (Ipea), the state of Sao Paulo shows the lowest percentage of people living under improper conditions of water supply and sewage.

Another important entity, the Fundação Seade, showed that the expansion in households with proper sanitation services was the main reason for the reduction of children mortality in the State, which recorded the lowest mortality rates ever, with 11 deaths for each 1,000 live births, against a national average of 14 deaths.

Despite the fact that in 2014-2015 the efforts and investments made to face the water crisis in the Metropolitan Region of São Paulo have affected the continuity of works to expand sewage collection, removal and treatment in the areas served, the works conducted in 2015 registered material advances.

Metropolitan Region of São Paulo (RMSP)

As the largest environmental sanitation program in Brazil, the Tietê Project is now in its third fase, which aims at expanding the sewage collection index from 84% to 87%, and sewage treatment levels from 68% to 84% within the RMSP. In 1992, when the project was implemented, 70% of sewage was collected, and only 24% was treated.

Started in 2010, the third phase will require investments of approximately US\$2

billion, with financing from the Inter-American Development Bank (IDB), the National Economic and Social Development Bank (BNDES) and the Caixa Econômica Federal savings bank.

47% of the works scheduled have already been completed, and 27% are under way. The works remaining are now under bidding processes. When completed, these works will benefit over 1.5 million people with sewage collection, and 3 million city residents will have their sewage treated.

Major works performed in 2015 include the trunk collectors of São João do Barueri (Jandira and Itapevi), Ipiranga (São Paulo), Carapicuíba (Osasco-Carapicuíba), and another collector located in the city of Santo André, in addition to the interceptor located in the region of the Tietê Ecological Park. The fourth and last stage of the Project is currently under way, involving investments estimated at US\$2 billion. It will include large, complex works in downtown São Paulo, and the expansion of the system to regularized areas of low-income neighborhoods of the metropolitan region. In 2015, total investments in the Tietê Project amounted to R\$377.9 million.

In addition to providing greater comfort and health to families living in Greater São Paulo, the Project's actions are also noticed in the reduction in pollution of the Tietê river. As the State's largest river in length, with 1,100 km, the Tietê serves 62 municipalities from its spring in Salesópolis until the boarder of the State of Mato Grosso do Sul, where it flows into the Paraná river.

At the beginning of the Project, pollution reached an extension of 530 km of the river, from Mogi das Cruzes until the Barra Bonita reservoir. At the end of the second phase, in 2010, pollution was reduced to a 243-km stretch from Suzano to Porto Feliz. According to the study "A Water Quality Portrait and the Partial Evolution of Project Tietê Impact Indicators", released by Fundação SOS Mata Atlântica, pollution was reduced to a 154.7-km stretch in 2015.

The evolution in sewage collection and treatment indices was also indicated in other study released by SOS Mata Atlântica as one of the factors that most contributed for the improvement in quality of rivers and streams of the capital city. This progress also reflects the actions taken under the "Córrego Limpo" (Clean Stream) Program implemented in 2007 in partnership with the municipal government. The study analyzed the results of measurements made in 36 rivers and streams of São Paulo from March 2014 to February 2015. The percentage of samples with regular or good quality rose from 25% to 55.4%, while the number of points of collection with bad or very bad conditions fell from 74.9% to 44.3%.

The program has already helped to depollute 148 streams within an area of approximately 200 km² in São Paulo, with benefits for 2.2 million people. Some 1,500 l/s of sewage were removed from the water bodies served by the program. In 2015, the Program received investments of R\$3.8 million.

Completed at the end of 2014, and with results that could already be seen in the beginning of 2015, depollution of the Mandaqui stream, in the northern area of São Paulo, is an example of the relevance of this program. Depollution was made through the sweeping of 440 km of sewage collection networks for repair and detection of illegal sewage disposal; installation of 10 km of networks and trunk collectors; and installation of connections to 455 households.

Investments amounted to R\$18 million. Mandaqui has a 7.5 km extension, and its tributaries total 33 km, that is, the streams that form the basin total an extension of over 40 km. In this basin, Sabesp serves over 457 thousand persons living in 114,300 households connected to the public sewage collection system, whose effluents are directed to the Barueri ETE.

Community engagement

The good results achieved with the improvement of structures under the “Córrego Limpo” program have only become permanent with the engagement of the community that surrounds these water bodies. For this reason, Sabesp has implemented a “collaborative governance” model in the areas of 29 streams included in the program.

Developed in partnership with Cebrap (Brazilian Analysis and Planning Center), this initiative encourages the participation of residents and social organizations to control illegal sewage discharges, and disseminate awareness against waste disposal on streets and margins of water bodies. The management and preservation of streams is made through local forums that establish representatives, objectives and priorities. These forums are also a place for discussing social and environmental issues of common interest.

In addition to the activities developed by Sabesp, the population plays an important role by avoiding the disposal of waste on the streets and the stream, and denouncing any irregularities. In partnership with SOS Mata Atlântica NGO, Sabesp develops environmental awareness actions in the areas of streams from which pollution has already been removed.

Industrial effluents

In the segment of non-household sewage, the Company created Attend Ambiental, together with Estre Ambiental. Attend Ambiental has received industrial effluents from RMSP since the end of 2014. According to the environmental legislation, companies must treat their effluents before discharging them for conventional treatment by the ETEs. Attend is a supplier of such services, being a profitable option in outsourcing this process. In 2015, that is, the first year of Attend’s integral operations, the company processed 1,066 million cubic meters of sewage, which were sent for treatment by the Barueri ETE.

Inland expansion

Among the major initiatives undertaken in 2015 by the Company in the São Paulo hinterland is the delivery of eight ETEs in seven municipalities that serve around 160,000 people. A further 26 sewage treatment stations are under construction in 24 municipalities. One of the symbols of excellence of the services the company provides is the municipality of Franca. Since 2009, when the sanitation quality ranking in Brazil's 100 largest cities was created by Trata Brasil, an NGO dedicated to monitoring the progress of sanitation in Brazil, Franca has been among the front runners, having held first place in Brazil in three editions.

In 2015, one of the cities that benefited from the expansion in sanitation was Iporanga, which received two ETEs and enjoyed an across-the-board sewage collection and treatment service. Besides providing a service to the population, the construction work was ecologically beneficial to the Ribeira de Iguape and Betari rivers, as well as the Córrego da Onça stream.

At Valentim Gentil, Sabesp handed over a new sewage system that includes a treatment station and 4 kilometers of outfalls. Using a biological method, one of the most modern in the São Paulo hinterland, the ETE has seven stabilization ponds with 6 modules: 2 anaerobic, 2 facultative and 2 maturation ponds. The sewage is also subject to an aeration process that adds atmospheric oxygen to the final effluent, contributing to improving the quality of the water bodies of the Varação stream, a tributary of the Ribeirão do Marinheiro and Rio Grande rivers.

One of the first municipalities to have universal basic sanitation, in 1998, Franca received new sewage pipes in the sewer crossing the SP-334 (Cândido Portinari Highway), eliminating the risk of gases escaping and sewage leaking out. This directly benefited around 60,000 residents.

With conclusion expected in 2016, the new sanitation treatment system at Agudos will ensure the municipality universal basic sanitation, benefiting an additional 41,000 residents. With an investment of R\$23 million, the project consists of an ETE, four sewage pumping stations, (foreign pumps) and 13 km of outfalls. The new ETE will also contribute to cleaning up the Agudos, Água da Serraria, Bonsucesso and Ribeirão dos Patos streams – all tributaries of the Ribeirão Grande, which flows into the Tietê River.

Sabesp is also investing around R\$5 million in implementing a sewage system in the districts of Rio Bonito and Mina, in Botucatu. Conclusion is expected in 2016, and the set of projects includes an ETE, four pumping units and over 30 km of piping, including collecting networks and booster lines. The 12-liter-per-second capacity of the new system will benefit around 5,200 residents. Besides the direct benefits to the population, the investments has brought about improvements in important water courses. Take the case of the Lavapés River, which crosses Botucatu, whose class of water quality was raised from 4 to 3, in accordance

with the criteria of the Conama (National Council for the Environment) Resolution.

The Jundiaí River, which is part of the Piracicaba, Capivari and Jundiaí (PCJ) water basin, also saw the quality of its waters reclassified from 4 to 3, between the mouth of the São José stream in Itupeva, and the Barnabé stream, in Indaiatuba. Thanks to the rating change, these rivers have become optional reservoirs for the supplying the public. In the case of the Jundiaí River, it will be possible to draw water, if necessary, to supply 250,000 residents in the municipalities of Campo Limpo Paulista, Várzea Paulista and Itupeva.

The 2014 Surface Water Quality Report, published in May 2015 by Cetesb, also pointed to Paraíba do Sul River's water quality improvement. The quality of this river has been ranked as good, maintaining the trend towards water improvement. The samples analyzed were collected at 11 points across 9 municipalities. Of these, 6 are served by Sabesp: São José dos Campos, Caçapava, Tremembé, Pindamonhangaba, Lorena and Queluz. In São José dos Campos, where there are two measurement points, the Water Quality Index (WQI), which was rated as good, has improved further. The indices have risen from 57 and 58, to 62 and 63, respectively.

Onda Limpa (Clean Wave)

The largest environmental sanitation program on the Brazilian coastline, *Onda Limpa* began in 2007, encompassing projects, management, network expansion works, sewage connectors, trunk collectors and pumping and treatment stations. Besides its own resources, the program is being financed by the JICA (the Japanese development agency) and the Workers' Retirement Fund (FGTS).

Since it was installed, the program has expanded sewage collection from 53% to 71%, as well as treating 100% of the sewage collected. The company invested R\$172.4 million in this program in 2015. Between 2016 and 2020, estimated investments will be approximately R\$885.0 million.

On the northern shoreline, the program has already commissioned several sewage treatment stations, over 400 kilometers of collecting networks and 30,000 household connections. In 2015, around R\$7.0 million were invested.

Mandatory connections

The pollution found in rivers, streams, beaches and water tables arises because of clandestine sewage connections to rainwater gullies, to the detriment of the connections to the collecting network. At present, of the 7.5 million water connections provided by 238,000 are not connected to sewers - 89% are residential and 7% business.

In accordance with the Sanitation Law (11445/07), since February 2016, Sabesp only

installs new water connections for clients who also connect their property to the sewage system. This conditionality applies to all types of clients - residential, business and industrial – and will apply to all those that: 1) request new water connections, 2) request reconnection (empty property, demolition, unification) and 3) make changes to the location of current connections – as in the case where a garage is renovated.

G4-EC8 The act of not connecting to the collecting network also arises from financial insufficiency. In such cases, Sabesp provides the *Se Liga na Rede* (Connect To The Network) Program, in partnership with the State Government. This program subsidizes the connection costs for families with an income of up to three times the minimum wage - 80% by the State Government and 20% by Sabesp. In 2015, 1,001 connections were installed at a cost of R\$1.8 million, benefiting 3,800 people.

It should be pointed out that, in addition to the incorrect disposal of sewage, the pollution of water courses arises from the improper disposal of industrial waste and the disposal of garbage on city streets, which ends up being carried by rainwater into water courses (diffuse pollution). Another aggravating factor is the irregular use and occupation of the land, especially the clandestine disposal of sewage into rainwater gullies. Thus, it is essential for the company to participate in raising awareness about the proper disposal of garbage and the connection of homes to the sewage network, and for the local authorities to keep the cities clean and inspect any irregularities.

Waste disposal:

Finding viable and environmentally sustainable solutions for the final disposal of solid waste produced by sewage and water treatment stations is one of Sabesp's key challenges. At the Barueri ETE, the largest treatment station in Latin America, planning is being channeled to the search for partnerships for drying mud, so as to reduce the waste being sent to landfills.

Drying reduces 500 tons of mud to 140 tons, transforming it into pellets that are used as source of fuel to produce thermal energy (biogas). The energy produced returns to the cycle and is used to dry the mud. Another alternative is the production of electricity for commercialization or use within the ETE's own facilities.

Where the hinterland and the coast are concerned, initiatives are under way to set up solar-powered mud drying systems, in some cases associated with the implementation of composting systems using, for example, the remains of eucalyptus trees and bark, while the compost produced is used in agriculture.

This process reduces greenhouse gas emissions, the use of sanitary landfills and, consequently, expenditures on waste disposal, as well as being an ecologically sustainable alternative for the beneficial use of the mud. In 2014, one such initiative was received the 8th

Ozires Silva Award for Environmental and Sustainable Entrepreneurship.

Research and innovation

The search for innovative solutions, such as the initiatives for the correct disposal of waste, is the outcome of significant investment in research, as well as Sabesp's strategic engagement with academia, research promotion entities and vanguard companies in the application of technology to the sanitation industry.

With an area exclusively dedicated to technological development, the last three years have seen investments of R\$32.6 million in research and development – R\$14.7 million in 2015. One of the highlights of this work is the Cooperation Agreement with FAPESP. The partnership provides for non-reimbursable financing of R\$50 million, of which 50% comes from Sabesp and 50% from FAPESP.

Initiated in 2009, the partnership has produced 17 projects, nine of which have been concluded. The agreements for the other on-going eight projects were signed in 2015. The highlight among the projects under consideration is the use of ETA (sic) material to cover landfills, as well as the feasibility of applying it directly to compacted soil landfills.

In 2015, also worthy of note was the signing of a financing program of around R\$60 million with the Brazilian Innovation Agency – FINEP, to set up the "Plan for Technological Innovations in Sanitation". With an expected execution period of 30 months, the plan consists of four projects intended to optimize sewage treatment: biofiltration units to control the odor from pumping stations; a solar radiation mud drier; a plasma gasification system for solid waste from sewage treatment stations and the production of water for re-use in urban and industrial environments.

Further details about the projects can be found in the chapter *Sanitation and the environment: a sustainability-oriented relationship*.

ECONOMIC AND FINANCIAL MANAGEMENT

If on the operations side, the key objective in 2015 was to ensure water supply, from an economic and financial standpoint, the major challenge was to ensure the conditions for this to take place, without prejudice to the progress achieved in the sewage collection and treatment indices.

Since 2014, Sabesp has made successive adjustments to its expenses and investment budget, extending the continuous search for efficiency in order to ensure its economic and financial sustainability, preserve its access to credit and, thereby, the pace of investment, a fundamental point for overcoming the water crisis.

The scenario led the company to review its investment priorities, since the volume of funds is limited and insufficient to simultaneously address the two objectives being pursued: water supply and sanitation.

In 2015, investment totaled R\$3.5 billion, in line with the pace observed in previous years. However, having prioritized investment in water, the amount invested in this segment accounted to approximately 62.7% of the total, while over the last three years, this portion accounted to approximately 40% of the total.

The next table gives a detailed breakdown of the investments, segregated by segment and region:

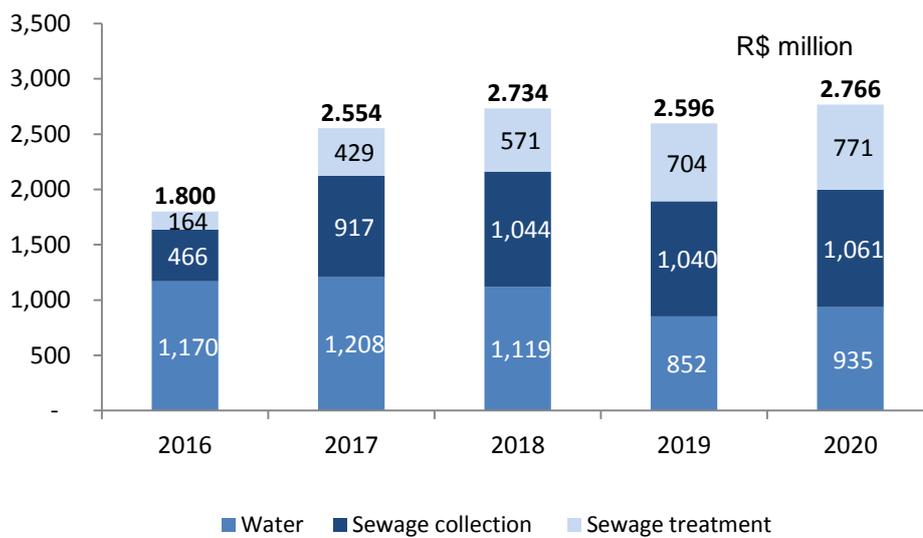
R\$ million (current)

| | Water | Sewage | Total |
|--|----------------|----------------|----------------|
| Metropolitan Region of São Paulo | 1.805,5 | 822,9 | 2.628,4 |
| Regional Systems (hinterland and coastline) | 377,2 | 476,2 | 853,4 |
| Total | 2.182,7 | 1.299,1 | 3.481,8 |

Note: Does not include the commitments assumed with the program agreements (R\$177.4 million)

For the period from 2016 to 2020, the company expects to invest around R\$12.5 billion, still focusing on expanding the availability of water security, as shown in the following table⁴:

⁴ For further information about our Investment projects and emergency Works for addressing the water crisis please see the chapters "Legacy of the Water Crisis", "Water Security: building the future of the water supply", "Sanitary Sewage Systems: health, development and environmental conservation".



Revenues

In order to continue to encourage water savings, the Program for Encouraging the Reduction in Water Consumption⁵ was retained in 2015 and, in December, the ARSESP authorized its extension, updating the reference consumption to calculate the tariff bonus on water bills where the consumption was read, and since February 2016, a restatement factor of 0.78 has been applied to the average consumption observed during the reference period, from February/2013 to January/2014.

As a boost to the Program, the Contingency Tariff⁶ was also maintained throughout the entire year and extended until the end of 2016, or until the water situation becomes more predictable, maintaining the conditions established at the outset.

On March 24, 2016, the company's Board of Directors approved the request to the ARSESP cancellation - commencing from the meter readings of May 1st, 2016, the Program for Encouraging the Reduction in Water Consumption by granting bonuses on water and sewage bills- Bonuses, as well as the Contingency Tariff levied on water bills. On the same date, the company filed the request with ARSESP.

In March 2015, the company filed with ARSESP a request for an exceptional tariff review, based on the drop in the water volume caused by the water crisis and on the higher

⁵ Program for Encouraging the Reduction in Water Consumption based on bonuses for clients in the Metropolitan Region of São Paulo. For further information, see the 2014 Sustainability Report. The municipalities where we operated in the region encompassed by the water basins of the Piracicaba, Capivari and Jaguari rivers took part in the Program for Encouraging the Reduction in Water Consumption between 05/28/2014 and 03/30/2015 and were subject to the application of the Contingency Tariff between 01/09/2015 and 03/30/2015.

⁶ For more information, see the 2014 Sustainability Report.

electricity tariffs.

After analyzing contributions received at a Public Consultation, on May 04, 2015 ARSESP approved an adjustment of 7.7875% on current tariffs, consisting of: (i) the 2015 annual tariff adjustment of 7.1899%, calculated based on the variance of 8.1285% in the IPCA in the period from March 2014 to March 2015, minus the efficiency factor (X factor) of 0.9386%; and (ii) an additional adjustment of 0.5575% because of the postponement of the application of the Ordinary Tariff Review approved for May 2014, but only applied in December of that year, when it was partially offset.

On the same date, ARSESP also established the index of 6.9154% referring to the Exceptional Tariff Review applicable to the tariffs approved above. The two accumulated adjustments resulted in an index of 15.24%, with the new tariff values coming into force on June 4, 2015.

Furthermore, it should be pointed out that the transfer of the legal charge⁷ contemplated in the case of residential consumers in the municipality of São Paulo remains suspended and, in addition, there is no expectation regarding when the transfer to clients of the regulation and supervision fee, levied on Sabesp by the Arsesp for the services rendered in the regulated municipalities, will commence.

Accounts receivable from the Municipalities Served by the Wholesale Market

The municipalities of Guarulhos, Mauá and Santo André receive water under the Sabesp wholesale system. However, at present Guarulhos is not paying its bills, while Mauá and Santo André are partly paying their monthly bills. Unpaid amounts are collected through the courts, and Sabesp has successfully pursued these legal actions.

Furthermore, Mauá is also in debt to Sabesp for the investments made by the company and not indemnified when the services recommenced in the municipality in 1995. Sabesp went to court, which issued a ruling in its favor, sentencing the local Prefecture and SAMA (the Mauá Basic Sanitation Company) to pay the debt. The decision became a matter adjudged and Sabesp initiated the execution. Thereafter, the municipality filed an Action for Relief from Judgment in an attempt to annul the ruling in the company's favor. This action became final and unappealable a matter adjudged on December 17, 2015, with the court ruling in favor of SABESP.

Between mid-2015 and early 2016, Sabesp signed Protocols of Intent with three municipalities to prepare studies and assessments that seek to resolve their business relations and outstanding debts.

⁷ Refers to the amount representing 7.5% of the revenue from provision of services in the capital, net of COFINS and PASEP taxes and defaults within the municipality, which Sabesp has been transferring to the Municipal Fund for Environmental Sanitation and Infrastructure since the agreement was signed with the municipality of São Paulo, in June 2010. For further information, see the 2014 Sustainability Report.

Moreover, the company has intensified the collection of credits by registering water and sewage services in the São Paulo Single Register of Debtors (the State list of delinquent debtors).

GESP Agreement

In 2008, Sabesp, the State of São Paulo and the Department of Water and Electricity – DAEE, through the Department of Sanitation and Water Resources, entered into the Third Amendment to the agreement signed in 2001, for the purpose of resolving the amount of the debts involving the supplementary pension and retirement benefits covered by State Law 4819, dated August 26, 1958, paid by the company but not reimbursed by the state.

According to this document, the assets comprising the reservoirs of the Alto Tietê production system were given in provisional payment as part of the debt. However, given that the legal action is not yet final and unappealable, it has been impossible to transfer these reservoirs.

Because of this impediment, in March 2015, the State, Sabesp and the DAEE signed a Deed of Agreement to pay the debt in installments, as described in Note 10 (a) vii to the Financial Statements.

Indebtedness

Managing the Company's indebtedness, which is fundamental to maintaining the level of the company's investments, was especially challenging in 2015, given the deterioration in Brazil's macroeconomic scenario, especially the high volatility of the currency rate, which imposed sharp restrictions on the availability of credit in the capital markets, in addition to increasing funding costs for businesses.

In response to this scenario, Sabesp took several economic measures, such as revising the volume of investment, requesting an exception review of tariffs and capping costs and expenses, among others, for the purpose of ensuring its financial health and permitting proper management of its debt, in addition to executing the works required for dealing with the water crisis.

At the end of 2015, the company's total indebtedness was approximately R\$13.1 billion, with foreign currency debt accounting for 50.4% of total debt.

The water crisis, with its direct impact on the company's earnings, and the effects of exchange rate variance on the total debt, brought pressure to bear on our covenants. In the specific case of the "Total Adjusted Debt / Adjusted EBITDA" ratio, the company's quarterly figures became closer to the contractual limit of 3.65 times, giving special attention to

managing this indicator so as to avoid non-compliance.

To that end, on September 30, 2015, Sabesp and the IDB entered into an arrangement called “Letter Agreement”, regarding the AB Loan Agreement 1983AB, as described in Note 16 (h) (i) of the Financial Statements.

The adjustment to the aforementioned agreement enabled its covenant to be aligned with the other debt agreements where this covenant also exists, where non-compliance is only characterized by infringing the limit of 3.65 times in two quarterly periods (consecutive, or not, over a period of twelve months).

Although Sabesp has to live with the effects of exchange rate oscillations on its financial statements, it does not employ hedging instruments, since the largest portion of the foreign currency debt was contracted with official Brazilian and foreign government agencies and multilateral organisms, with much lower costs, long maturity periods and a diluted flow of amortizations.

The way in which Sabesp has managed it enabled the company to register a robust economic and financial performance in the years that preceded the water crisis. This reality was fundamental for absorbing the effects of the water crisis in 2014 and 2015, while maintaining a solid economic and financial structure.

However, given the impacts of the water crisis and the deteriorating macroeconomic conditions in Brazil, the company saw its credit risk rating revised in 2015, as shown below:

| Rating agency | National Scale | Global Scale |
|-------------------|----------------|--------------|
| Standard & Poor’s | brA+ | BB |
| Fitch Ratings | AA- (br) | BB |
| Moody’s | Aa2.br | Ba2 |

Loans and Financing

In 2015, the company repaid R\$1,292.3 million of debt and contracted approximately R\$795.7 million required for the investments envisaged during the period from 2016 to 2020.

- **The Brazilian Development Bank - BNDES**

In June 2015, Sabesp arranged financing of approximately R\$747.4 million, intended for executing the works to connect the Jaguari Reservoir, located in the Paraíba do Sul river basin with the Atibainha Reservoir, one of the reservoirs comprising the Cantareira System. This financing was of an exceptional nature and within the scope of Selection Process of the Ministry for Cities. Total maturity is up to 240 months, with a grace period of 36 months, and financial charges of TJLP + 2.18% p.a.

In the case of the 3rd Series of the 18th Debenture Issue of the 42 debentures foreseen, the BNDES subscribed and paid in 13 debentures in December 2014, and an additional 14 in July 2015, making a total of R\$74.3 million. The remainder is expected to be subscribed in 2016. Further information about loans and financing can be found in our Reference Form available at www.sabesp.com.br/investidores. Go to the menu *Informações Financeiras e Operacionais/Formulário de Referência e IAN*.

- **Brazilian Innovation Agency – FINEP**

In October 2015, a financing agreement was entered into for approximately R\$48.3 million for the purpose of partially funding the execution of the Strategic Innovation Plan. Total maturity is up to 121 months, with a grace period of 30 months, and financial charges of TJLP + 1.5% p.a.

Capital Markets

On June 24, 2015, Sabesp redeemed in full the 16th debenture issue of R\$500.0 million, due to expire in November 2015. No premium was paid.

In December 2015, Sabesp closed its 20th debenture issue amounting to R\$500.0 million, in a single series, to mature in December 2019, at the CDI rate plus an interest rate of 3.8% per annum.

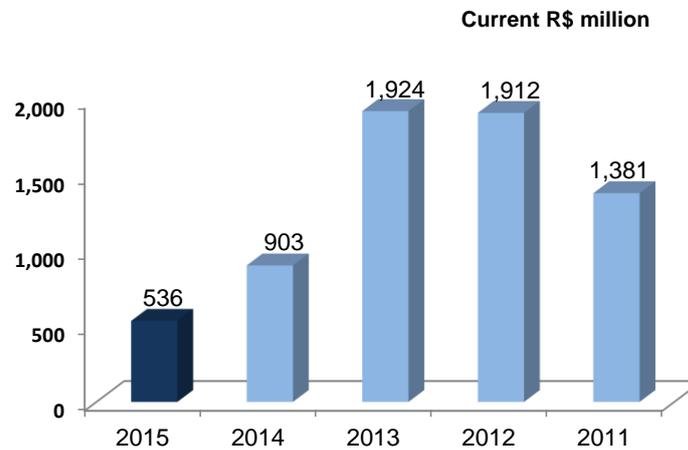
The proceeds were used to replace cash and to refinance financial commitments expiring in the first quarter of 2016. On March 30, 2016, the company partially amortized the debentures in free float from the 19th issue, for a nominal amount of R\$300.0 million.

Further information about debts to the capital markets can be found in the Reference Form available at www.sabesp.com.br/investidores. Go to the menu *Informações Financeiras e Operacionais/Formulário de Referência e IAN*.

Economic and Financial Performance

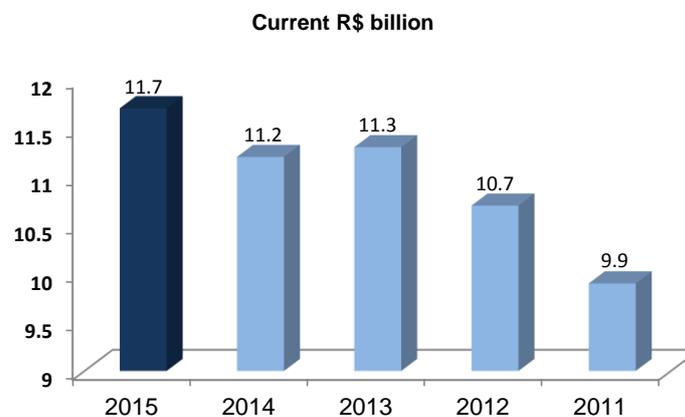
In 2015, the company's net income was R\$536.3 million.

Earnings track record

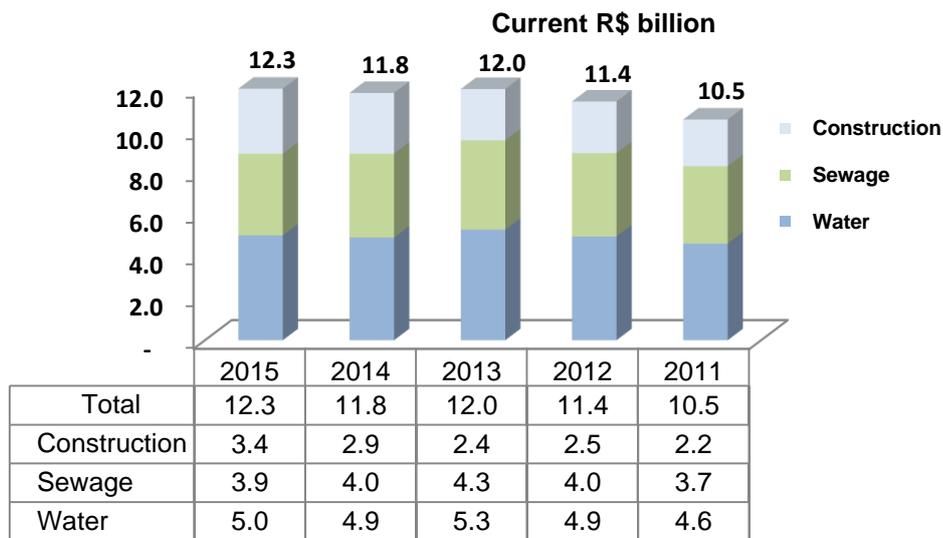


Net operating revenue was R\$11.7 billion, an increase of 4.4% over the previous year.

Net operating revenue track record



Gross operating revenue from provision of water and sewage services rose by R\$41.4 million, or 0.5%, when compared to 2014, which can be explained primarily by the tariff adjustment of 6.5% since December 2014, the tariff adjustment of 15.2% since June 2015 and the application of the contingency tariff, with an impact of R\$499.7 million in 2015. These factors were partially offset by the larger bonuses granted in 2015 and by the decline of 6.8% in the total volume billed.



Volume of water and sewage ⁽¹⁾ billed by user category - millions of m³

| | Water | | | Sewage | | | Water + Sewage | | |
|--------------------------|----------------|----------------|--------------|----------------|----------------|--------------|----------------|----------------|--------------|
| | 2015 | 2014 | % | 2015 | 2014 | % | 2015 | 2014 | % |
| Residential | 1,465.0 | 1,548.6 | (5.4) | 1,232.1 | 1,292.7 | (4.7) | 2,697.1 | 2,841.3 | (5.1) |
| Commercial | 160.0 | 172.6 | (7.3) | 151.9 | 162.4 | (6.5) | 311.9 | 335.0 | (6.9) |
| Industrial | 32.6 | 38.9 | (16.2) | 38.9 | 43.0 | (9.5) | 71.5 | 81.9 | (12.7) |
| Public | 40.6 | 51.7 | (21.5) | 33.4 | 39.9 | (16.3) | 74.0 | 91.6 | (19.2) |
| Total retail | 1,698.2 | 1,811.8 | (6.3) | 1,456.3 | 1,538.0 | (5.3) | 3,154.5 | 3,349.8 | (5.8) |
| Wholesale ⁽³⁾ | 215.5 | 269.1 | (19.9) | 24.4 | 24.2 | 0.8 | 239.9 | 293.3 | (18.2) |
| Total | 1,913.7 | 2,080.9 | (8.0) | 1,480.7 | 1,562.2 | (5.2) | 3,394.4 | 3,643.1 | (6.8) |

(1) Unaudited

Volume of water and sewage ⁽¹⁾ billed by region - millions of m³

| | Water | | | Sewage | | | Water + Sewage | | |
|---------------------------------|----------------|----------------|--------------|----------------|----------------|--------------|----------------|----------------|--------------|
| | 2015 | 2014 | % | 2015 | 2014 | % | 2015 | 2014 | % |
| Metropolitan Region | 1,084.3 | 1,172.4 | (7.5) | 939.1 | 1,005.4 | (6.6) | 2,023.4 | 2,177.8 | (7.1) |
| Regional Systems ⁽²⁾ | 613.9 | 639.4 | (4.0) | 517.2 | 532.6 | (2.9) | 1,131.1 | 1,172.0 | (3.5) |
| Total retail | 1,698.2 | 1,811.8 | (6.3) | 1,456.3 | 1,538.0 | (5.3) | 3,154.5 | 3,349.8 | (5.8) |
| Wholesale ⁽³⁾ | 215.5 | 269.1 | (19.9) | 24.4 | 24.2 | 0.8 | 239.9 | 293.3 | (18.2) |
| Total | 1,913.7 | 2,080.9 | (8.0) | 1,480.7 | 1,562.2 | (5.2) | 3,394.4 | 3,643.1 | (6.8) |

(1) Unaudited

(2) Consists of coastal and hinterland regions

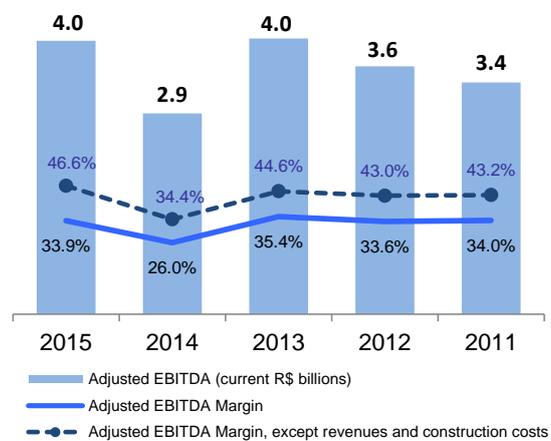
(3) The wholesale figure includes the volumes of water for re-use and non-domestic sewage

In 2015, the costs of products sold and services provided, administrative, selling and constructions expenses declined by 5.2% (R\$482.7 million). Excluding the effects of the construction costs, the decline was 13.8%. The share of costs and expenses in net income

rose to 75.3% in 2015, against 82.9% in 2014. For further information about the compositions and variances in costs and expenses, see the Results Press Release available on the company's website at www.sabesp.com.br/investidores, *Informações Financeiras e Operacionais* in the header menu.

Adjusted EBITDA rose by 36.2%, from R\$2.9 billion in 2014, to R\$4.0 billion in 2015, while the adjusted EBITDA margin stood at 33.9%, against 26.0% for the previous year. Excluding the effects of the construction revenues and costs, the adjusted EBITDA margin was 46.6% in 2015 (34.4% in 2014).

Adjusted EBITDA and Adjusted EBITDA Margin Track Record



G4-EC1 Accumulated Economic value (R\$ thousands)

| Component | 2015 | 2014 | 2013 |
|---|-------------------|-------------------|-------------------|
| A- Direct Economic Value Generated | 12,900,211 | 12,369,246 | 12,436,533 |
| Revenue (a) | 12,900,211 | 12,369,246 | 12,436,533 |
| B - Economic Value Distributed | 9,307,382 | 10,037,632 | 9,737,238 |
| Operating Expenditures (b) | 6,104,882 | 5,902,839 | 5,172,151 |
| Employee salaries and benefits (c) | 1,507,964 | 2,132,245 | 1,932,739 |
| Payments to providers of capital (d) | 885,243 | 842,286 | 1,063,581 |
| Payments to governments (e) | 798,063 | 1,128,159 | 1,521,437 |
| Investments in the community (f) | 11,229 | 32,102 | 47,330 |
| Accumulated Economic Value (A-B) | 3,592,830 | 2,331,614 | 2,699,295 |

Notes:

(a) Composed of all operating and financial revenues and other operating revenues, monetary variations and currency gains, and revenues from the construction of assets.

(b) Composed of operating costs and expenses, such as: general materials, treatment materials, services, power and light, general expenses (excluding the expenses with water and meals/snacks) and employee training courses. Expenditures with depreciation, amortization and write-off of credits were not taken into account.

(c) Employee wages and benefits – Composed of salaries and charges (excluding courses and training), meals/snacks and amounts paid to government institutions (employee charges and taxation).

(d) Payment to sources of capital – composed of Interest on Shareholders' Equity/Additional Dividends Proposed, financial expenses paid, such as interest, penalties and other financial expenses (excluding withholding tax on overseas remittances), monetary variances and exchange rate variances paid. Retained earnings were not included.

(e) Payments to the Government – Composed of Cofins/Pasep taxes on operating and non-operating revenues, fiscal expenses, income and social contribution taxes (excludes deferred taxes) and withholding tax on overseas remittances and the use of water.

(f) Investments in the Community – Consists of institutional support, support for events, receptions, exhibitions and tax incentives distributed in the fields of education, culture, health, sport, fight against hunger and food safety.

Reconciliation of Adjusted EBITDA⁸ (Non-accounting measurements)

R\$ million

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|-----------|-----------|-----------|-----------|-----------|
| Net Income | 536.3 | 903.0 | 1,923.6 | 1,911.9 | 1,380.9 |
| Financial Income | 2,456.5 | 635.9 | 483.2 | 295.7 | 633.0 |
| Depreciation and amortization | 1,074.1 | 1,004.5 | 871.1 | 738.5 | 768.7 |
| Income tax and social contribution | 51.2 | 371.8 | 732.0 | 635.7 | 498.1 |
| Other operating revenues / expenses, net ⁹ | (143.8) | 3.5 | (3.3) | 23.2 | 90.3 |
| Adjusted EBITDA | 3,974.3 | 2,918.7 | 4,006.6 | 3,605.0 | 3,371.0 |
| Adjusted EBITDA Margin | 33.9 | 26.0 | 35.4 | 33.6 | 34.0 |
| Revenue from construction | (3,336.7) | (2,918.0) | (2,444.8) | (2,464.5) | (2,224.6) |
| Construction cost | 3,263.8 | 2,885.5 | 2,394.5 | 2,414.4 | 2,177.0 |
| Adjusted EBITDA before construction revenues and costs | 3,901.4 | 2,856.2 | 3,956.3 | 3,554.9 | 3,323.4 |
| Adjusted EBITDA Margin before construction revenues and costs | 46.6 | 34.4 | 44.6 | 43.0 | 43.2 |

⁸ Adjusted EBITDA ("Adjusted EBITDA") represents net income before: (i) depreciation and amortization expenses; (ii) income tax and social contribution (federal income taxes); (iii) financial income and (iv) other operating expenses, net. Adjusted EBITDA is not a measure of financial performance, according to the accounting practices adopted in Brazil, IFRS - International Financial Reporting Standards or USGAAP (accounting principles generally accepted in the United States), nor should it be considered on a stand-alone basis or as alternative to net income as a measure of operating performance or an alternative to operating cash flows or as a measure of liquidity. Adjusted EBITDA has no standardized meaning, and the company's definition of Adjusted EBITDA cannot be compared with those used by other companies. The company's management believes that the Adjusted EBITDA provides a useful measure of its performance, which is widely used by investors and analysts to evaluate performance and compare companies. Other companies may calculate Adjusted EBITDA in a different manner from the company. Adjusted EBITDA is not part of the financial statements.

The purpose of the Adjusted EBITDA is to present an indicator of operating economic performance. Sabesp's Adjusted EBITDA is equal to net income before net financial expenses, income and social contribution taxes (federal income taxes), depreciation and amortization and other net operating expenses. Adjusted EBITDA is not an indicator of financial performance recognized by the Company Law Method and must not be considered individually or as an alternative to net income as an indicator of operating performance, as an alternative to operating cash flows or as an indicator of liquidity. Sabesp's Adjusted EBITDA serves as an overall indicator of economic performance and it is not affected by debt restructurings, oscillating interest rates, changes in the tax burden or levels of depreciation and amortization. Consequently, the Adjusted EBITDA serves as an appropriate instrument for the normal comparison of operating performance. In addition, there is another formula for calculating the Adjusted EBITDA and which is adopted in clauses involving financial covenants. Adjusted EBITDA allows for a better understanding, not only of operating performance, but also of the company's ability to meet its obligations and raise funds for capital investment and working capital. Adjusted EBITDA, however, has limitations that prevent its use as an indicator of profitability, because it does not take into account the costs arising from Sabesp's activities or several other costs that could considerably affect its earnings, such as financial expenses, taxes, depreciation, capital expenses and other related charges.

⁹ Other net operating revenues/expenses refer primarily to write-downs of fixed assets, provisions for losses on intangible assets, losses on economically unviable projects, minus revenues from sales of fixed assets, sales of call notices, compensations and reimbursements of expenses, penalties and pledges, property leases, water for reuse and projects and services of the Pura and Aqualog programs.

Stock Market

The behavior of shares in 2015 reflected investor expectations, primarily with regard to the reservoirs recovering in the Metropolitan Region of São Paulo¹⁰ and the company's ability to address the water crisis and Brazil's deteriorating macroeconomic indicators.

The emergency measures taken by the management, the rainfall levels, for most of the year above those recorded in 2014, in addition to the company's financial resilience saw the shares appreciate by 11.3% closing the year at R\$18.93. In the same period the Ibovespa depreciated by 13.3%.

In the case of the ADRs, in addition to the effects of the water crisis, these were affected by the impact of the depreciation of the Brazilian Real, of approximately 47.0%, ending the year down by 26.9% at US\$4.60. The Dow Jones Index posted a drop of 2.2% in the period. This performance meant that the company's market value recovered slightly, from R\$11.6 billion in 2014, to R\$12.9 billion in 2015. As of December 31, 2015, the company's equity value was approximately R\$20.1 per share.

Sabesp's shares were quoted in 100% of the trading sessions of the BM&FBovespa, with an annual financial turnover of R\$5.6 billion in 2015. In the US market, the company ended the year with 139.6 million ADRs in free float. The annual financial volume traded on the NYSE in 2015 was US\$3.0 billion and, in the same period, Sabesp continued to be monitored by the main financial institutions in the market.

Dividends

Under the company's bylaws, common shares are entitled to a mandatory minimum dividend corresponding to 25% of net income for the year, obtained after certain deductions or permitted by law, and which can be paid as interest on own equity. In 2015, Sabesp paid out dividends as interest on own equity amounting to R\$252.3 million for the year 2014, representing around R\$0.3691 per common share, with a dividend yield of 2.2%.

In the case of 2015, the board of directors approved the proposed interest payments on own equity of R\$149.9 million, representing R\$0.2193 per common share, and a dividend yield of 2.2%, payable within 60 days following the general meeting of shareholders which will approve the accounts for 2015.

¹⁰ For further information about the operating performance and recovery from the water crisis see the chapters "Legacy of the Water Crisis", "Water Security: building the future of the water supply", "Sanitary Sewage Systems: health, development and environmental conservation".

SANITATION AND THE ENVIRONMENT

SUSTAINABILITY-ORIENTED RELATIONSHIP

Environmental management at Sabesp is built on the guidelines set out in its Policy on the Environment, and is inherent to providing sanitation services and the core of the business. With the aim of consolidating an environment culture, Sabesp allocates priority to the internal and external dissemination of knowledge and practices involving good environmental practices. These actions are present in the corporate environmental management programs in which the employees and the community are engaged, as well as partnerships with non-governmental organizations.

G4-EN31 In 2015, some R\$18.4 million were channeled to investments and expenditures in environmental protection associated with the development and implementation of corporate environmental management programs, in addition to the Program for the Rational Use of Water – Pura, among other initiatives. Other investments and expenditures associated with environmental protection are included in the total amount of operating expenses and investments shown in this report, given the direct relationship of these activities with the company’s core business.

Environmental Management System and ISO 14001 Certification

In 2009, Sabesp set up a corporate program for the gradual implementation of an Environmental Management System (EMS) at the Effluent/Sewage Treatment Stations (ETEs) and the Water Treatment Stations (ETAs). The initiative bolsters the on-going process of cultural change within the company, which includes environmental management in the corporate guidelines. The purpose is to enhance operational management, so as to keep risks, accidents and the generation of environmental liabilities to a minimum, in addition to encouraging the development of preventive steps.

In 2014, the program was strategically realigned in order to speed up the implementation of the EMS at all stations by 2024. Thus, from 2015 onward, Sabesp has begun to adopt a mixed model, with ISO 14001 applied to the certified scope, which can be extended according to the internal planning process of the Business Units. The other stations began applying an in-house environmental management model (SGA-Sabesp), focusing on the environmental aspects that are most relevant to the operations of the ETAs and ETEs.

Until March 2015, Sabesp had 51 stations certified to ISO 14001. Bearing in mind the new scenario that has arisen, there was a reduction in the scope of the certifications, Sabesp having sought and obtained, as of April 2015, the recommendation for recertification of 35 stations to ISO 14001. A new external audit cycle is expected for the first half of 2016.

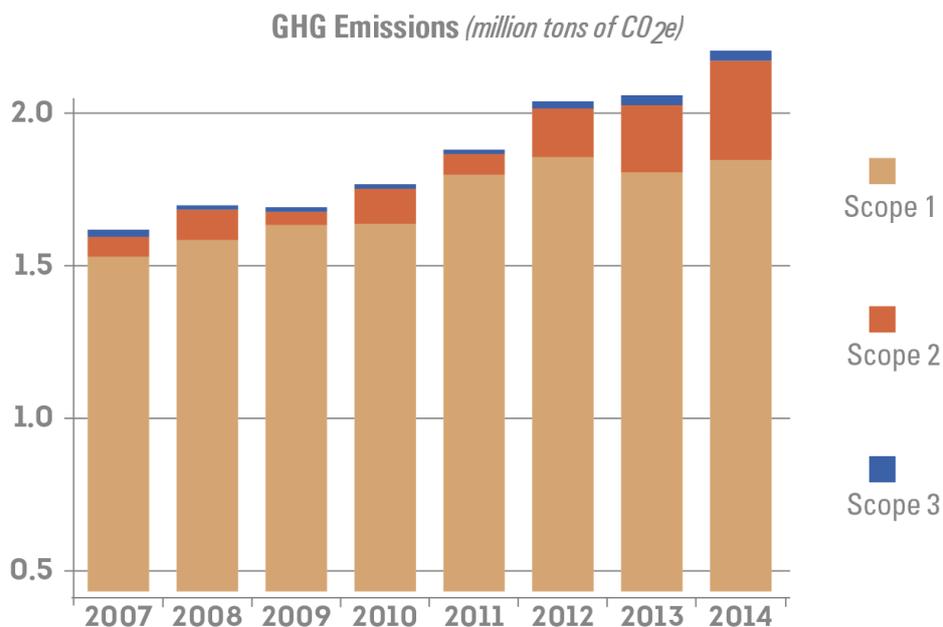
Climate change and greenhouse gas management

Global climate change has driven states and nations to search for alternatives for mitigating the impacts of their activities on the climate, by creating policies and actions, in addition to signing up to international agreements. Climate conditions and extreme events interfere directly with sanitation activities. Thus, technical capability, the quantification of greenhouse gases and the implementation of actions to mitigate these emissions, as well as adaptation to current climatic conditions are now on the agenda of businesses, constituting a set of initiatives intended to enhance their environmental and operating performance.

The preparation of annual inventories to measure greenhouse gas emissions - GHG, the fostering of awareness programs regarding climate issues and the fostering of the adoption of environmentally more efficient measures and practices so as to manage greenhouse gas emissions are some of the actions on-going within the company within the scope of the Corporate Program for the Management of Greenhouse Gas Emissions – GHG. The initiative reflects the responsibilities set out in the guidelines and the requirements of the State Policy on Climate Change (PEMC).

In 2015, Sabesp concluded its 2014 corporate GHG inventory, totaling 2,359,114.40 tCO₂e. This is the 8th edition of the inventory, and it shows the trend observed in previous inventories, whereby the collection and treatment of sewage are the largest sources of GHG emissions, accounting for approximately 84% of the total. Electricity contributed 14%, while the other activities accounted for approximately 2%. Drawn up since 2007, the document abides by the principles and requisites of the standard NBR ISO 14.064:2007 Part 1 and the Brazilian GHG Protocol Program.

G4-EN15/EN16/EN17 Evolution of Greenhouse Gas Emissions at Sabesp, by scope, from 2007 to 2014



Within the scope of the actions for reducing the company's GHG emissions, one example is the project for processing the biogas generated at ETEs, for use in vehicles, thanks to an agreement with the Fraunhofer Institute in Germany. The purpose is to produce fuel by obtaining biomethane from the sewage treatment process. This project is expected to take 36 months, with an estimated investment of R\$7.3 million, of which R\$4.1 million donated by Fraunhofer. The estimated annual return is around R\$235,000 from the reduction in the consumption of traditional fuels.

In the same vein, Sabesp participated as coauthor in preparing the "Technical Guide to Exploiting Biogas Energy at Sewage Treatment Stations". This benchmark material is the outcome of the cooperation within the Brazil-Germany Project for Exploiting Biogas Energy in Brazil – Probiogás.

The document offers guidance on the use of technologies for producing biogas and its exploitation as an energy source, thereby contributing to a reduction in GHG emissions and to the self-sufficiency of treatment systems. Methane gas can be used to generate electrical and/or thermal energy for in-house consumption or in activities such as the hygienization of the mud produced from treating effluents, leading to higher energy efficiency.

Another solution designed to reduce emissions was the use of natural gas piped to feed 12 generators at the untreated water pumping station (EEAB) connecting the Rio Grande and Alto Tietê systems, whose energy consumption is equivalent to 33,000 households.

In the same vein, Sabesp is researching alternative cleaner and renewable energy sources, such as wind energy. The proposal is to innovate and use this type of energy at the water pumping stations. To that end, a pilot project was set up within the area of the Sapopemba Pumping Station, for the purpose of taking measurements to determine the local wind power potential and, if viable, the future installation of a vertical wind power turbine.

With a view to optimizing energy consumption, for example, the pumps at the França Pinto Pumping Station were replaced, increasing the pumping capacity while at the same time consuming less electricity from the grid.

Also worthy of note is the project for the technological optimization of the Várzea Paulista ETE, which seeks to reduce the plant's operating cost involving electricity and chemical products by incorporating instrumentation and automation technologies. As a result, a 60% reduction is expected in electricity consumption in the station aeration system, thereby reducing the emissions associated with this source.

Water resource management and protection

G4-16 Sabesp actively participates at different levels of the National Water Resource System, represented by 158 of its employees from different company units who follow a corporate course of action. Within the scope of the System, Sabesp holds a position in the Plenary Sessions of the National Council for Water Resources and in three of the latter's technical chambers; it is also represented at the plenary session and in the technical chambers of the four federal committees encompassing the State of São Paulo. At state level, Sabesp participates in the seven technical chambers of the State Council for Water Resources and has a seat at the plenary sessions of the 21 state water basin committees and in technical chambers, the priorities being the chambers dealing with Planning, Sanitation and Charging for the Use of Water.

Also with a view to further enhancing water resource management, Sabesp has been accompanying the gradual implementation of charges for the use of water. This is an important instrument whose objectives provided for in the National Policy on Water Resources include, among others, awareness as to the rational use of water and the provision of part of the funds required for the actions planned by the Water Basin Committees aimed at recuperating and preserving water resources.

Another debating point in which the company is involved focuses in the classification of water bodies in which the water basin sets up a pact on the targets for the quality of the water associated with its predominant uses. These two management instruments have a direct relationship with Sabesp's business.

In 2015, the company disbursed R\$43.1 million as payment for the use of water under federal and state dominion in the water basins of the Paraíba do Sul river, the Piracicaba, Capivari and Jundiaí rivers, the Sorocaba and Médio Tietê rivers, the rivers in Baixada Santista region and those of the Alto Tietê and Baixo Tietê regions. Charging within the other water basins on the State of São Paulo is expected to begin in 2016.

In valuing the need to preserve its water resources, the company owns and maintains areas within conservation units which are inspected and monitored. The areas are also open to universities and NGOs for socioenvironmental studies.

G4-EN11 Reserves within protected areas

| Morro Grande Reserve (municipality of Cotia) | Rio Claro Reserve (municipalities of Salesópolis and Bertioga) | Capivari Farm (municipality of São Paulo) | São Francisco Reserve (municipality of São Sebastião) |
|--|--|---|---|
| <ul style="list-style-type: none"> • Area: 10,700 ha • Perimeter: 70 km • Reservoirs: Graça and Pedro Beicht • Pedro Beicht reservoir water basin • Alto Cotia Production System • Law 1949/79 - M. Grande Forest Reserve. • protected by the Condephaat since 1981. • Unesco (1994) declares the Biosphere Reserve of the São Paulo Green Belt. | <ul style="list-style-type: none"> • Area = 16,200ha • Water basin of the Ribeirão do Campo, Guaratuba and Poço Preto Reservoir • Rio Claro Production System • inserted within the Serra do Mar State Park (Decree 10251/77) and declared a Biosphere Reserve of the Atlantic Forest by UNESCO in 1994. | <ul style="list-style-type: none"> • Area = 2,900ha • Perimeter: 12km • Inserted in the Capivari-Monos Area of Environmental Preservation - APA. • Guarapiranga Production System | <ul style="list-style-type: none"> • Area: 2,580,971.00 m2 • Perimeter: approximately 7,144.40 m2 • Stream: São Francisco • São Francisco Production System • inserted within the Serra do Mar State Park (Decree 10251/77) and declared a Biosphere Reserve of the Atlantic Forest by UNESCO in 1994. |

Besides the reserves, since 1990 Sabesp has run two forest nurseries intended for producing seedlings of native species. The objective is to contribute to the projects for restoring and recovering the gallery forest surrounding the water sources that supply the metropolitan region of São Paulo (RMSP). One of them is installed at the Jaguari dam of the Cantareira System within the municipality of Vargem. The other is at the Alto Cotia ETA, within the municipality of Cotia. Another important program in the water source protection area is the “Nossa Guarapiranga” (Our Guarapiranga) Program, which has been on-going at the Guarapiranga lake since 2011.

In regard to environmental grants and permits, the existing operating complex is the subject of the Corporate Programs for Obtaining and Maintaining Grants of Right of Use of Water Resources and Environmental Permits. The requests for grant for all uses of water included within the scope of the program were filed with the management body, many of them approved and others under analysis by the Department of Water and Electricity - DAEE and the National Water Agency - ANA. A further stage of the program is envisaged to address new demands.

The Corporate Program associated with ETE and ETA permits is currently on-going, while the Sewage Pumping Station Program (EEEs) is at the analysis stage at the State of São Paulo Environmental Agency - CETESB.

Sabesp Environmental Education Program – PEA

Environmental education has been a relevant tool to put into effect sanitation actions. It enables a connection between projects and people, with the engagement of several sectors of society, stimulating critical thinking and potentiating the development of values and practices for behavior changes and cultural reconstructions required to develop sustainable societies.

Sanitary and environmental education actions are supported by government policies, and therefore Sabesp assumed this issue as one of the key points for performance of its activities, together with sanitation, water resources and environmental policies.

Currently, these actions seem to be even more necessary to bring information to the population, clarify doubts and emphasize how everyone's cooperation is relevant in the rational use of water and in the correct use of sanitation equipment available. Attentive to such needs, Sabesp implemented the Environmental Education Program (PEA Sabesp), which comprises a set of actions and projects concerned about changing the culture of employees and society.

Thus, the Company seeks to build social values, knowledge, skills, attitudes and competences targeting environmental preservation, an asset to be commonly shared by society and that is essential to life quality and to promote sustainability.

The activities developed within the scope of PEA are organized with the following objectives:

- Increment of water intrinsic value;
- Care for environment;
- Preservation of springs;
- Improved environmental quality;
- Bringing value to sanitation activities;
- Bringing value to water and motivating its conscientious use;
- Guided training and production of guidance material.

In 2015, we conducted 4,365 lectures at schools, communities and businesses, reaching an audience of nearly 492,100 people. We also organized 1,500 guided tours to our facilities to approximately 77,600 visitors.

As an example of the program's activity, we point out the traditional Horse Back

Riding to celebrate the World Water Day. With a 10-km ride and three-hour duration, it is a part of Sabesp Green Life Program and aims at raising awareness about preservation and restoration of riparian forests along Canoas river and Pouso Alegre stream, which account for 80% and 20%, respectively, of water supply in the region of Franca. Riparian forests are vegetation systems essential to environmental balance, and therefore, must represent the main focus of sustainable development, as they ensure the protection of one of the key natural resources - water. Also 5,000 young fishes were released in Canoas river, in partnership with a non-governmental organization. Also to celebrate the World Water Day, Sabesp delivered the Sabesp Cangaíba Park in the east area of São Paulo capital city. This park has an area of 12,300 m² and was created in Sabesp's former Cangaíba reserve where 470 trees were preserved and other 120 trees of most varied species have been planted.

In addition, its architecture employs environmentally sustainable materials, such as permeable floor tiles, facilitating rainwater absorption and feeding groundwater. This park is a new leisure and sports area for nearly 400,000 residents of the districts of Cangaíba, Jardim Danfer, Engenheiro Goulart, Parque Boturussu, Vila Cisper, Vila Paranaguá and Vila Sílvia. More than leisure, this area get the Company closer to the population with cultural practices and environmental awareness.

Sabesp also holds several activities to celebrate the Tree Day, aiming at mobilizing its public towards environmental issues. The city of Igarapava held its 3rd Bike Ride, followed by the launch of the Spring Recovery Project in the region. Also, the municipalities of Guariba, Serra Azul, Miguelópolis, Terra Roxa and Pedregulho planted tree seedlings aiming at making community sensitive to the importance of preserving the environment. This four-year program has mobilized school teachers, principals, supervisors and employees, in addition to primary and secondary school students, about the importance of rational use of water.

In line with new educational tools and methodologies, Sabesp organized the ETA Virtual project. This initiative has amongst its partners, the Educational State Department, and aims at promoting education and awareness by means of a virtual visit, broadcasted live via Internet, to Alto da Boa Vista ETA (Water Treatment Station), from catchment at the dam until water reaches consumer's tap. Also Jesus Netto ETE (Sewage Treatment Station) can be virtually visited through such tool.

This project can be visited by approximately 4.5 million public school students by means of virtual platforms, allowing students' interaction with questions, comments and clarification of doubts. This activity's characteristic is the interactivity between participants, which occurs by means of a game of questions and answers, besides questions sent by students, which usually address the most varied issues, such as the function of flocculation, the role of each chemical element added to water during treatment, the difficulty of transforming salt water into drinkable water, amongst others.

We also point out the Water Waste Prevention Program, an Environmental Education activity that was given the Mario Covas Award under the Innovation in Municipal Management – Organizational Processes category. This program is a Sabesp’s action in partnership with the Educational Department of the municipal government of Suzano. Another project related to water waste prevention is the “School Competition,” another partnership that integrates disciplines and rewards the best results. This activity mobilized 30,000 students in 20 cities of the State of São Paulo and reduced consumption by 5.2 million liters of water.

The concerns about the environment and the preservation of natural resources are ongoing stimulating actions held by the Company, both jointly with its employees and in partnership with several types of audiences. An example of this partnership was the planting of 1,000 tree seedlings in the city of Presidente Prudente, alongside Gramado stream, close to Juscelino Kubitshek de Oliveira Avenue, nearby Jardim Itapura.

In the city of Adamantina, Sabesp took part in the “Global Action,” an activity performed by Tiro de Guerra army training, which offered oil and electronic waste collection and river cleaning services, amongst other activities. Another example of partnership was Sabesp’s participation in the cleaning of *Balneário da Amizade* (Friendship Spa), located between the cities of Presidente Prudente and Álvares Machado. This action was promoted by these two municipal governments and counted on the participation of several partners. Three tones of waste were removed from water and from the spa’s bank.

In 2015, we conducted guided tours to the Cantareira Supply System, especially the dams of Jaguarí and Jacaré rivers, the reservoirs’ connection channel, water gates and the dam’s surface outlet channel, river bottom sluiceway, forest seedlings nursery and the weather station. This is an activity linked to the Jaguarí Environmental Education Center-CEA, an important area to spread a culture about good environmental practices, transforming people through experience and knowledge.

In this environment, besides guided tours, courses, lectures and meetings are held involving national and international audiences comprising public powers (executive, legislative branches), federal, state and municipal governmental agencies, organized civil societies and especially the school network in its varied levels (from primary and secondary schools to graduate courses/ Master’s and PhD degrees).

Another important activity are the students’ visits to the Santos coast region’s Sanitation Assets at the Saturnino de Brito Palace, where Sabesp’s headquarters are located in the Historical Center of the municipality of Santos. In addition to the historical rooms, original drawings and objects, children have the opportunity to learn about the advances obtained in terms of social and economic development in the region, from arrival of sanitation engineer Mr. Francisco Saturnino Rodrigues de Brito in Santos, until works of the *Onda Limpa* (Clean Wave) program.

Good environmental practices in administrative areas

Sabesp 3Rs Program has been in place at Sabesp's units since 2008 and is based on a business procedure prepared for the purpose of standardizing several Company's initiatives, defining objectives and establishing rules to structure the selective collection of solid waste generated in administrative activities. Based on the "3Rs" waste management concept, this corporate program foresees actions to reduce, reuse and recycle materials and solid waste.

In 2015, we sent approximately 268 tones of waste collected to recycling. To this end, the Program focuses on raising awareness and training its employees, by training a work group composed of Business Units' representatives, which become in charge of implementing, managing and monitoring waste management in their areas. On the other hand, employees act as multiplying agents by conducting environmental education lectures focused on responsible consumption and proper waste disposal, both for Sabesp's internal and external audiences. The program also foresees the inclusion of outsourced employees in environmental education activities, besides specific training to develop activities inherent to selective collection.

Pursuant to prevailing laws, the Program also promotes the donation of solid waste generated in administrative activities for legally organized trash-picker cooperatives, whenever possible. In addition, the program encourages employees to adopt responsible consumption habits and minimize the generation of waste, both in the corporate environment and in their social relations.

Sabesp applies this waste management concept also in the disposal of used meters. Part of them returns to manufacturers, which disassemble the meters and reuse their parts in the manufacturing of new units. Another part is disassembled by Sabesp, which returns part of waste to manufacturers and reuses another part in the units' recovery process. With such action, raw material which would be necessary to produce meters is no longer withdrawn from environment. Additionally, energy consumption as well as consumption of other materials involved in this production chain are reduced.

Another initiative is the maintenance in 2015 of the vehicle fleet renewal percentage of 78.5% for light vehicles and 68% for the heavy fleet, with the legal requirement of using ethanol in flex-fuel vehicles. The economic benefits and the modernization of management brought by the Program are added to the environmental relevance, and include reduction of fuel consumption, savings with maintenance and documentation and revenues from replaced vehicle auctions. With this program, we maintained a fleet availability at 98%, increasing the operating activities productivity.

SOCIAL RESPONSIBILITY

ACTING FOR AWARENESS, PARTICIPATION AND CITIZENSHIP

G4-10/56 Sabesp's actions are guided by legality, ethics, transparency and respect for people and the environment, contributing to the social development of the population under its area of influence.

G4-EC8 In 2015, amid a scenario of low water availability, Sabesp invested in raising awareness of customers, communities, institutions, condominiums and children for the fact that water resources are finite. The hallmark of this action was the *Guardião das Águas* (Water Guardian) Program, which launched the campaign "if you save water and you won't face shortage", including tips and guidance for customers about not wasting water.

Aware of the relevance of volunteer work and its benefits for society in general, Sabesp, by means of its Corporate Volunteering Program, fosters good practices, bringing more dignity to those involved, besides contributing to the Citizenship value expressed in the Company's Code of Ethics and Conduct.

Another important action at Sabesp was the Winter Clothing Campaign organized by FUSSESP – the São Paulo State Solidarity and Social and Cultural Development Fund. With its network of volunteers, Sabesp held more than 140 events throughout the State and collected more than 2 million quality clothes, which were distributed to 211 charitable entities, benefiting 43,000 families.

Customer satisfaction surveys

Over the last 10 years, Sabesp has been conducting wide-ranging customer satisfaction surveys, using the same methodology each time, which allows us to compare the results obtained by Sabesp itself, its departments and business units. From the results obtained, it is possible to improve customer services.

In 2015, 5,850 people were interviewed in the entire State of São Paulo, where an average of 75% of people stated they were satisfied with water and sewage and customer services. This is a good result, taking into account the severe water crisis affecting Brazil's southeast region, especially the metropolitan region of São Paulo. These positive results at such a critical moment were only possible because of the dedication and efforts of Sabesp's technical staff in meeting customers' demands.

Voluntary commitments and institutional programs

G4-15 In 2015, Sabesp continued its voluntary commitment to citizenship actions and global pacts, by renewing for the twelfth consecutive year the certificate granted by Fundação Abrinq. Sabesp is also co-sponsor of the Child Citizen Institute (ICC), with seats on its Support and Fiscal Council, and a signatory to the United Nations Global Compact, which proposes the alignment of the company's activities with human rights, labor, environmental protection and anti-corruption principles.

Sabesp also fosters the 8 Millennium Development Goals (MDG), a worldwide action sponsored by the United Nations (UN) member countries (UN), with emphasis on MDG 7 – Quality of Life and Respect for the Environment.

Over the past 15 years, the purpose of this action has been to contribute to building a peaceful, fair and sustainable world, and it has produced good results, such as a 50% reduction in the number of people living in extreme poverty and in the number of undernourished people in developing regions, the enrollment fees at primary schools in developing regions, which fell by 91%, the mortality rate of children under five years of age, which decreased by more than 50%, and the childbirth mortality rate, which dropped 45%. As from 2016, the objective is to lead the world to a sustainable path, and thus its name has been changed to 17 Sustainable Development Goals (SDGs).

In this regard, Sabesp will align its Social Responsibility Program with these guideline, reinforcing even more its commitment to sustainable development. With a network of approximately 1,100 volunteers, efforts will be directed to promoting social and environmental actions and projects within the community, aiming at stimulating behavior changes that more broadly contribute to the sustainable development of the population in its area of influence, and accordingly, the world we live in.

Sabesp is also a partner of Ethos Institute and maintains agreements with the Association for Valuing Disabled Persons (Avape) and with the Association of Metro Employees Supporting Disabled Persons (AME), through which several disabled persons work in our service units.

Among our institutional programs, we would mention the *Clubinho Sabesp* (www.clubinhosabesp.com.br), which uses games and characters to attract the attention of children and adolescents between 6 and 13 years of age to environmental issues, and the Apprentice Program, which in partnership with SENAI and CIEE, contributes to citizenship and professional training of young people between 14 and 21 years of age. This initiative has already opened opportunities to 2,878 young persons, 510 of whom joined our staff in 2015.

Local communities

G4-SO1 The Community Participation Program was primarily created to assist low-income customers or groups by means of social responsibility practices comprising prevention of losses, community relations and awareness of environmental issues, collective efforts to clean up rivers and streams, tree planting and so on. Meetings with communities are held periodically and community leaders are invited to hear about Sabesp's actions and investments, so that we can survey the population's expectations and align the company's performance with local needs. This initiative, carried out over 18 years, has achieved awareness and changes in behavior related to the rational use of water, besides leading to improvements in the services provided in the metropolitan region of São Paulo.

In 2015, the following projects were also of note:

Water Guardian: a project which mobilizes people to develop positive attitudes to the conscientious use of water. This is the great challenge of this program, which relies on the participation of society, Sabesp's employees, apprentices and trainees, suppliers, community leaders, customers and condominiums to reduce consumption and preserve water resources.

"Water: Use it right, and there will be enough" combines actions, such as the distribution of water tanks and water saving kits for customers with a family income of up to three minimum wages, residing in socially vulnerable areas, who constantly suffer from water shortages due to the low reserve capacity in their properties. 10,000 water tanks and 10 million water saving kits were distributed.

Mutual Cooperation in Government Property Areas: this consists of assigning areas suffering or which may suffer man-made pressures from urbanization, aiming at developing social and environmental projects and actions to improve the neighboring community's quality of life.

Community Gardens: It aims at the preservation of water sources, soil permeability, generation of income, conservation of water mains, as well as cooperation between the parties involved. People in the water mains coverage area interested in the project are prepared and supported in the garden's first year, with training, water connection, and the donation of materials, tools and saplings.

After this period, the beneficiaries maintain the area from the sale of vegetables cultivated without pesticide or industrialized fertilizers. Currently, there are four projects benefiting 244 people of 61 families in an area of 19,800 m², where vegetables, greens, potatoes, fruits and herbs for cookery and for making tea are produced. These projects also assist neighboring area residents and other consumers. Next steps: increase the number and the size of kitchen garden areas.

SAT NGO Project: This is a large area of Sabesp assigned for different sports and cultural projects and activities, for use by the population of Taiacupeba. The community's participation in the process of occupying a public area on a coordinated basis contributes to the collective benefit. The areas made available for the projects showed considerable improvements in terms of conservation and maintenance, besides reducing the accumulation of solid waste and invasions by squatters. These activities directly benefit 1,500 people.

Integrated Operation for Inspection and Cleaning of Paiva Castro Reservoir: the main objective of this initiative is to collect the waste deposited at the reservoir's margin and has the help of the fire brigade of Franco da Rocha, the 5th Firefighting Group, Environmental Military Police, Military Police 26th Dog Handlers, Cantareira State Park and Mairiporã Civil Defense. The operation also has the support of motor vessels to remove objects irregularly discarded alongside the reservoir. This event was attended by approximately 500 people, collecting nearly seven tons of waste, including tires, furniture, plastic and PET bottles.

The "My City has Sabesp" Program: a set of relationship events with the public including lectures, educational workshops and guided tours to water and sewage treatment stations and catchment systems, enabling visitors not only to learn about Sabesp, but also experience contact with the main basic sanitation and environmental issues.

Community Participation Summary Chart

| Low-Income Groups | 2015 |
|------------------------------|--------|
| Number of Technical Visits | 23,410 |
| Registrations and Surveys | 19,455 |
| Meter boxes provided | 10,126 |
| Number of water connections | 9,693 |
| Number of sewage connections | 3,013 |
| Number of people benefited | 88,404 |

| Relations with Community | 2015 |
|-----------------------------------|---------|
| Visit to Leaders | 2,595 |
| Services provided | 4,898 |
| Number of meetings with community | 1,318 |
| Numbers attending meetings | 110,354 |

| Institutional actions | 2015 |
|--|--------|
| Number of visits to ETAS/ETES/laboratories and other Sabesp premises | 663 |
| Number of people assisted | 45,728 |
| Number of lectures, courses, presentations, social mobilization | 3,634 |

| | |
|--|-------------|
| Number of people assisted | 317,330 |
| Social and environmental responsibility | 2015 |
| Number of lectures | 1,776 |
| Number of people benefited | 85,654 |
| Number of events (Course on Leakage Research /Environmental Awareness/PURA/Water Trail/Visits to Tietê river source) | 684 |
| 3R's – number of activities | 12 |
| PROL – Total liters of oil collected | 96,552 |
| Clean Stream Program (lectures/visits/events/surveys) | 15 |
| Number of streams with Cooperative Governance | 29 |
| Guidance at schools | 1,457 |

Support and sponsorship – Culture incentive through the Rouanet Law

Sabesp sponsors several projects in literature, fine arts, music, dance, theater, circus, cinema and preservation of the cultural heritage. Since 2004, when the company joined the Incentive Program for São Paulo Film Production, more than 150 films have been sponsored by Sabesp, the company which invests most in film production in the State of São Paulo and one of the three largest sponsoring entities of this sector in the entire country. The activities include films with audio description for the visually or hearing impaired, offering commented sessions for more than 10,000 students through the Cinema School Project.

Financial incentives

| Incentives | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------------------------|---------------|---------------|---------------|---------------|--------------|
| Culture incentive - Rouanet law | 5,405 | 9,280 | 7,341 | 4,304 | 396 |
| Audiovisual incentive | 8,000 | 4,672 | 6,908 | 5,572 | 1,188 |
| Sports incentive | 3,090 | 2,872 | 3,379 | 2,130 | 396 |
| Cancer aid incentive | 0 | 0 | 0 | 0 | 396 |
| Condeca | 3,000 | 3,000 | 3,300 | 2,100 | 0 |
| Total | 19,495 | 19,831 | 20,928 | 14,106 | 2,376 |

People Management

In a year marked by water crisis, it was necessary to mobilize the entire company to develop alternatives to reduce the risks and impact on services to the population. Therefore people management had a fundamental role, which without forgetting the “Human Capital as a Competitive Force” guideline, enabled us to maintain practices which ensured the skills considered strategic for the sanitation business. Our staff’s expertise in sanitation was decisive in overcoming this critical scenario.

Sabesp, a mixed-capital and publicly-held company, has specific methods of People Management, as it complies with decisions of São Paulo State’s regulatory bodies, as well as needing to present satisfactory results to shareholders.

These characteristics require special methods, and any change in the people management practices relating to Personnel, Hiring, Positions and Salary Plan, amongst others, have to be submitted for approval at appropriate levels, such as the Executive Board, Board of Directors, Treasury Department or the State Government, by means of specific request.

Labor Relations

Sabesp seeks to meet the main demands of its employees, always respecting the limit of its financial capacity and legal and governmental guidelines. In this regard, the 2015/2016 collective bargaining agreements with the main employees' unions took place in May 2015 and resulted in the collective agreement, with a salary adjustment of 8.29%, thus preventing strikes.

Union Freedom and Collective Bargaining Agreement

Unions

G4-HR4/G4-11 Approximately 70% of our employees are unionized voluntarily, and union representation at the company is in the ratio of one union leader to each 455 employees. Main unions of the different professional categories are:

| Unions | Representativeness | | |
|---|--------------------|----------|------------------------|
| | Sabesp Base | Partners | % partners in the base |
| Sintaema - São Paulo State Water, Sewage and Environmental Workers' Union | 10,370 | 7,808 | 75 |
| Sintius – Workers Union of Urban Industries of Santos, Santos coast region, South coast and Ribeira Valley | 1,073 | 844 | 78 |
| SEESP – Engineers Union of the State of São Paulo | 716 | 401 | 56 |
| SASP - São Paulo Lawyers' Union | 157 | 51 | 32 |
| SINTEC – São Paulo State Medium Level Industrial Technicians' Union | 270 | 161 | 60 |
| Other | 1,511 | 15 | 1 |

Representative Entities

Sabesp maintains a permanently friendly relationship with employees' unions and associations seeking improvements, solutions and advances in business management, as well as employee training and quality of life. Main entities and associations are:

| Entity and Objective | Partners |
|--|----------|
| Sabesp Association - development of leisure, sports, social and cultural activities | 7,189 |
| Association of Retirees and Pensioners of Sabesp - AAPS – defense of retirees and pensioners and active employees eligible for retirement and also the improvement of their quality of life of life | 1,901 |
| Association of University Professionals of Sabesp/APU – it represents employees of all backgrounds, to collaborate and influence the environmental sanitation management, expand the channels of participation in the company management, improve and develop professionals | 488 |
| Association of Sabesp Managers/ADMSABESP – defense of interests and aspirations, promoting the professional recognition, ensuring the strict observance to the professional and employee ethics | 159 |
| Association of Sabesp Engineers/AESABESP – integration and defense of interests nationwide and internationally and promote the technical and cultural development | 1,057 |
| Cooperative of Economy and Mutual Credit of Sabesp Employees/CECRES – it offers lines of credit at more accessible interest rates | 11,232 |
| Social Security Sabesp Foundation – Sabesprev – closed supplementary private pension entity responsible for managing the private pension plans (11,966) and medical insurance (13,067) | 13,067 |
| Brazilian Association of Sanitary and Environmental Engineering/ABES – contribution to the knowledge and improved quality of life of Brazilian society, It participates state and nationwide in CONAMA, National Council of Water Resources – CNRH, CONFEA (Federal Council of Engineering and Agronomy), Environment State Councils etc. | |
| Brazilian Association of Infrastructure and Base Industries/ABDIB – development of Brazilian infrastructure market and base industry, strengthening them according to international standards | |

Staff

G4-10 The Human Resources Superintendence is the body responsible for managing the staff of the entire company, approved by the State Government of São Paulo. In 2015, Sabesp had 14,223 employees, 859 trainees and 510 apprentices.

In the company as a whole, employees are divided as follows:

- 80% male gender
- 82% white ethnic group
- Average of 47.6 years of age,
- Average of 18.8 years of work at the company
- 77.86% in technical and operating categories

Incorporation of new municipalities

In September 2013, Sabesp started the process of incorporating Serviços de Água e Esgotos do Município de Diadema (SANED) and its 226 staff, in accordance with Municipal Law Nº 3.355, and this was completed on November 11, 2015.

Renewal of Staff

Between 2011 and 2015 we recorded a reduction of 1,116 jobs, with 3,616 staff leaving the company and 2,500 admissions, 226 of them as a result of the merger of Diadema.

We should point out that of the leavers, 2,070 (57.2%) refer to compliance with a TAC (Conduct Adjustment Agreement) agreed with the Public Prosecutor's Office, under which we were committed to lay off active retirees gradually, and to ensure that all employees were informed of the procedure.

G4-LA3 The return rate of 62 women who were on maternity leave in 2015 was 66%, with a turnover of 19.8%.

Social inclusion

Sabesp complies with the relevant laws on reserving vacancies offered under public selection processes for disabled people. In 2015, we had 69 job positions occupied under these conditions, 78% of them being physically impaired, 14% hearing impaired and 7% visually impaired. We also maintain agreements with associations, by means of which 111 disabled people work in our services branches, receiving more than 108 hours of advance training.

Service Providers

Sabesp does not work with outsourced workers, hiring specialized companies to provide specific services. The estimated number of service providers is 6,345. Between 2011 and 2014, the number remained stable, with a significant reduction in 2015.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------|-------|-------|-------|-------|-------|
| Service Providers | 7,399 | 7,372 | 7,108 | 7,478 | 6,345 |

Automatic Replacement

In order to provide greater flexibility and agility in people management, until December 31, 2014, Sabesp adopted an Automatic Replacement scheme, hiring candidates approved in public examinations for current or potential job vacancies, without prior authorization for the examinations, subject to the physical and financial limits of the

personnel approved. However, the scheme's continuance was not authorized.

External Selection – Public examination

Recruiting and selection of employees, trainees and apprentices depends entirely on the public examination, thus ensuring competent, qualified, motivated professionals aligned with the company's objectives. Over the past years the following public examinations took place:

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------|-------|------|-------|------|------|
| Employees | 389 | - | 624 | - | - |
| Apprentices | - | 552 | | 565 | - |
| Trainees | 1,060 | - | 1,030 | 748 | 826 |

Employees

Another determining factor in People Management was the State Governor's veto on September 2, 2015 on hiring or admitting new staff, and the requirement for people who had passed public examinations previously, and whose candidature was still valid, public to be taken on by the direct public administration and independent governmental agencies, according to State Decree No. 61.466.

Public Examination No. 01/2013 was held to fill 624 vacancies, but only a few professionals were hired, to meet emergency needs. The remaining 575 will be employed by the end of May 2016.

Trainees and apprentices

G4-LA11 A public examination is held periodically to hire trainees and apprentices who will be trained and qualified, aiming at inserting them into the job market. The programs are established for a fixed term. Details are as follows:

| | Trainee | Apprentice |
|------------------------|--|--|
| Education | Regular high school or technical high school or University | High school |
| Contract | 2 years | 2 years |
| Working hours | 30 hours/week: 6 hours daily | 8 hours daily (SENAI and SABESP) |
| Scholarship assistance | High School: R\$879.35 Technical high school: R\$971.91, University: R\$1,157.02 | 1 minimum wage (R\$788.00) |
| Benefits | Health care, meal ticket, transport vouchers and insurance against accidents | Health care, meal ticket, transport vouchers and insurance against accidents |

In-Company Selection and Opportunities Bank In-house selection is a way of identifying the professional with the most appropriate profile for each vacancy available, besides motivating and offering professional development opportunities. The selection is extended to leadership positions, through the Succession and Career Program. In addition, the company has an Opportunities Bank, accessible to all employees, to receive their expressions of interest for transfers and offer other professional opportunities in the company.

Compensation and Careers

The employees' compensation is composed of a base salary, bonus and all the benefits granted by company.

Salary Policy

G4-11 Sabesp's salary policy has used a single table for the entire company since 2014; previously there were two regional salary tables, with a 20% difference between them. They were brought into line under the 2014-2015 collective bargaining agreement, in two phases, starting in May 2014 and concluded in May 2015. Periodically, specialized consulting firms are hired to prepare salary surveys, and improvements/adjustments to compensation must be approved by the regulatory agencies for implementation at the company.

Profit Sharing – PPR

The Profit Sharing Program (PPR) is an annual strategic tool to stimulate employees' efforts to meet the company's objectives. Below we give the general guidelines set forth by Federal Law No. 10.101/2000 and by State Decree No. 59.598/2013, which are negotiated with the Unions annually.

Distribution of PPR annual average payment

| Professional Category | 2011 Average* (R\$) | 2012 Average* (R\$) | 2013 Average* (R\$) | 2014 Average* (R\$) | 2015 Average* (R\$) |
|-----------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Operations | 2,168 | 2,344 | 2,285 | 2,755 | 2,552 |
| Technical | 2,927 | 3,122 | 3,054 | 3,698 | 3,382 |
| Graduates | 5,086 | 5,416 | 5,262 | 6,533 | 5,958 |
| Managers | 9,370 | 10,849 | 10,870 | 13,161 | 11,435 |
| Sabesp Average | 3,308 | 3,585 | 3,542 | 4,281 | 3,904 |

Benefits and Social Service

G4-LA2 Sabesp adopts a benefits policy to meet employees' demands.

| Benefits | |
|--|--|
| Granted by the Company | |
| Meal Ticket | Monthly credit in two electronic cards, in amount corresponding to 24 meal tickets of R\$29.70 (R\$20.79 and R\$8.91), total of R\$712.80 – average subsidy of 90% |
| Snacks during overtime work | Amount of R\$29.70 for at least, three hours of overtime |
| Staple basket | Monthly credit in electronic card totaling R\$243.02 to employees earning salary of R\$6,576.67. The subsidy is 80% for other employees |
| Christmas basket | Additional credit of R\$243.02 to all employees in Staple basket card, in compliance with 2015 collective bargaining agreement |
| Children Center – CCI | Day-care centers administered by Sabesp with outsourced services in Lapa and Ponte Pequena. Capacity to receive 100 children of up to five years of age |
| Job stability | Job stability to 98% of permanent personnel on April 30, 2015 (except: dismissal for cause, resignation, retirement, decease, expiration of agreement and voluntary redundancy program) |
| Additional sick pay | Payment of difference between the salary amount and the benefit paid by INSS (Brazilian Social Security Institute), sick leave or occupational accident for a period of up to six months |
| Vacation bonus | Fixed amount of R\$1,560.54 + 50% of difference between fixed amount and salary + ATS |
| Health care (Sabesprev Foundation) | Sabesprev Pleno Health Plan– employees' contribution of 3.21%of basic compensation and Sabesp pays the rest. This benefit is extended to dependants without added cost. Sabesp contributes 7.4% of gross payroll |
| Private pension plan (Sabesprev Foundation) | Sabesprev Mais Plan (Defined Contribution): salaries up to R\$4,618.00, contribution of 0.5% or 1%. Above this amount, an additional amount of up to 8% is paid on the difference. Basic Benefit Plan (Defined Benefit) – No more employees may join, and cover is linked to compensation. Formula: Compensation of up to R\$4,618.00 x 1.2396% and for above R\$4,618.00 x 10.5520% - R\$430.05 |
| Legal benefits | |
| Night-shift premium | 20% additional amount over night-shift hour, pursuant to prevailing laws |
| Paid weekly rest | Overtime paid during holidays and paid weekly rests at 100% of regular hour amount, if compensatory day-off cannot be granted in the following week |
| Overtime | Paid at double the regular hourly amount |
| Premium for unhealthy work | Paid to employees exposed to chemical, physical or biological agents (household sewage, noise, humidity, chloride etc.). Additional amount of 10, 20 and 40% of minimum wage |
| Hazardous work pay | Paid to employees exposed to hazardous agents (flammable fuels, explosives, ionizing radiation or electricity). 30% additional amount of employee's base salary |
| Day-care assistance, special day-care assistance | Day-care expense reimbursement for women employees with children: Up to one year of age = R\$904.28; up to six years of age = R\$301.89; and employees with disabled children = R\$603.78 |
| Uniform cleaning | Monthly supply of uniform washing and sterilization products to employees working with risks of contamination by biological agent (sewage) |

| | |
|-------------------|--|
| Remote duty | Additional amount paid at the ratio of 1/3 of regular hourly salary to employees working away from the office |
| Transport voucher | Given to employees who opted for this system. The company subsidizes the expenditures exceeding 6% of employee's base salary, pursuant to the laws |

- **Transport voucher:** Aimed at optimizing processes and reducing costs, the Company is planning to outsource these services in 2016. With this change, we estimate a 35% reduction of fixed costs over total expenses related to this benefit.
- **Health Care Plan:** The creation of a specific committee to study matters related to the Health Care Plan was agreed at the Regional Labor Court (*Tribunal Regional do Trabalho*, or TRT) in 2015. This committee has discussed improvements in the Comprehensive Plan (*Plano Pleno*) (for active employees) and the creation of a sole plan for active and retired employees, and will be responsible for monitoring, assessing and expressing an opinion on the general conditions of the health care plans and health policies provided to employees, former employees and their families, including any changes or remodeling in the Plans.
- **Private Pension Plan:** The adhesion to this plan is optional and its purpose is to supplement retirement and assure better earnings to the retiree. The company provides two private pension plans: the Benefit Plan (*Plano de Benefícios*, or BD) and SABESPREV MAIS, managed by Sabesprev. Since 2010, employees have been eligible to the private pension plan SABESPREV MAIS only, as the Benefit Plan (BD) has been suspended due to being not profitable. Currently, The Private Pension Plan has 11,966 employees, 7,875 of whom have opted for the Benefit Plan – BD and 4,091 for Sabesprev Mais.

| Other Benefits | |
|----------------------------|--|
| Social Service | PARE – Support to substance-dependent employees: Alcohol, Tobacco and other Drugs, with treatments subsidized at specialized clinics (hospitalization and outpatient care with Social Service) |
| | Financial Support on an exceptional basis: Medication support, donations and loans |
| Group Life Insurance | Through Sabesp Association, it provides a Group Life Insurance plan that assures compensation in the event of death or disability at an amount corresponding to 20.9 base salaries of the employee (without company subsidy) |
| Supermarket/Drugstore Card | Agreements with supermarkets and drugstores, with total deduction of the amount spent from the payroll related to the subsequent month (without company subsidy) |
| Salary Floor – Engineer | According to the collective labor agreement (8.5 minimum wages applicable on the annual pay rise date – May) May 2015 = R\$ 6,698.00 |

In addition to direct benefits, the company, through the Sabesp Corporate University, provides subsidies to courses in the most varied levels of training and formal education, the agreements being extended to family members of all ages. These subsidies involve Graduate Degree Programs, Technical Education at High School Level, Languages, Professional Improvement, Distance Education and Educational Agreement.

Structure of Positions

Positions are broken down into three categories according to the characteristics of the activities developed and school education required.

| Categories | Positions | Characteristics |
|-------------|--|---|
| Operational | Environmental Sanitation Agent; Automotive Equipment Driver Maintenance Employee | Crafts and activities that require manual dexterity or muscular strength, the basic requirement of which is elementary school education. |
| Technical | Support to Clients; Occupational Safety Technician; Occupational Health Nursing; Management Technician; Sanitation Systems Operator; Sanitation Systems Technician | Technical activities of the end areas, management or administrative support. Basic requirements are high school or technical education, in accordance with the area of operation. |
| University | Lawyer, Management Analyst; Sanitation Systems Analyst; Biologist; Occupational Health Nurse; Occupational Physician; Chemist; Associate Degree in Technology; Engineer; Occupational Safety Engineer | Performance of complex activities, such as preparation and analysis of reports and projects. Basic requirement is Higher Education Level. |

The full performance of each position demands minimum specific requirements, such as school education, ability to handle more complex activities and training courses.

Bonus-Eligible Positions

For the purpose of assuring the results of each area, Sabesp counts on a management and leadership/supervision body that enables, monitors and manages the material, financial and human resources required for the achievement of the goals set.

Bonus-eligible positions are referred to as Management or Leadership/Supervision and performed by employees from the three categories of positions, in accordance with the corresponding profile, experience and complexity.

Management positions are defined on the basis of the hierarchical structure and performed by employees holding university degrees.

Leadership/supervision positions engage directly in the relationship between unit management and teams. Employees in the operational category are referred to as Leaders; in the technical category, they are referred to as Foremen; and in the university category, they are referred to as Supervisors, and each position is assigned a specific value.

Y Career

This is adopted for professionals in the university category, and allows the employee to continue his/her specialization in their area of operation, with compensation equivalent to a career in management.

G4-LA12 Composition of groups in charge of governance and breakdown of employees by employee category, according to gender, age group, minorities and other indicators

| | 2011 | | | 2012 | | | 2013 | | | 2014 | | | 2015 | | |
|---------------------------------------|---------------|--------------|---------------|---------------|--------------|---------------|---------------|--------------|---------------|---------------|--------------|---------------|---------------|--------------|---------------|
| | Men | Women | Total |
| Governance Bodies | | | | | | | | | | | | | | | |
| Board of Directors and Fiscal Council | 14 | 1 | 15 | 14 | 1 | 15 | 2 | 11 | 13 | 13 | 2 | 15 | 14 | 1 | 15 |
| Audit Committee | 3 | 0 | 3 | 3 | 0 | 3 | 3 | 0 | 3 | 3 | 0 | 3 | 3 | 0 | 3 |
| Manager | | | | | | | | | | | | | | | |
| Not commissioned | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Commissioned | 479 | 113 | 592 | 485 | 117 | 602 | 485 | 114 | 599 | 493 | 119 | 612 | 474 | 117 | 591 |
| Categoria | | | | | | | | | | | | | | | |
| Gerentes | 479 | 113 | 592 | 485 | 117 | 602 | 485 | 114 | 599 | 493 | 119 | 612 | 474 | 117 | 591 |
| Universitários | 1,678 | 969 | 2,647 | 1,733 | 973 | 2,706 | 1,735 | 983 | 2,718 | 1,702 | 957 | 2,659 | 1,607 | 902 | 2,509 |
| Técnicos | 4,588 | 1,751 | 6,339 | 4,499 | 1,768 | 6,267 | 4,434 | 1,754 | 6,188 | 4,358 | 1,714 | 6,072 | 4,143 | 1,667 | 5,810 |
| Operacionais | 5,183 | 95 | 5,278 | 5,284 | 160 | 5,444 | 5,314 | 196 | 5,510 | 5,223 | 187 | 5,410 | 5,132 | 181 | 5,313 |
| Subtotal | 11,928 | 2,928 | 14,856 | 12,001 | 3,018 | 15,019 | 11,968 | 3,047 | 15,015 | 11,776 | 2,977 | 14,753 | 11,356 | 2,867 | 14,223 |
| Estagiários | 442 | 476 | 918 | 443 | 445 | 888 | 443 | 481 | 924 | 446 | 496 | 942 | 447 | 412 | 859 |
| Aprendizes | 317 | 189 | 506 | 362 | 198 | 560 | 317 | 174 | 491 | 359 | 200 | 559 | 327 | 183 | 510 |
| Total | 12,687 | 3,593 | 16,280 | 12,806 | 3,661 | 16,467 | 12,728 | 3,702 | 16,430 | 12,581 | 3,673 | 16,254 | 12,130 | 3,462 | 15,592 |
| Age | | | | | | | | | | | | | | | |
| Up to 17 years of age | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 18 to 30 years of age | 649 | 289 | 938 | 743 | 327 | 1,070 | 708 | 314 | 1,022 | 576 | 242 | 818 | 497 | 197 | 694 |
| 31 to 40 years of age | 2,775 | 710 | 3,485 | 2,589 | 705 | 3,294 | 2,402 | 679 | 3,081 | 2,109 | 638 | 2,747 | 1,819 | 579 | 2,398 |
| 41 to 50 years of age | 4,434 | 1,164 | 5,598 | 4,498 | 1,137 | 5,635 | 4,429 | 1,129 | 5,558 | 4,310 | 1,080 | 5,390 | 4,222 | 1,075 | 5,297 |
| Above 50 years of age | 4,110 | 765 | 4,875 | 4,171 | 849 | 5,020 | 4,429 | 925 | 5,354 | 4,781 | 1,017 | 5,798 | 4,818 | 1,016 | 5,834 |
| Average Age | 45.8 | 43.8 | 45.5 | 45.9 | 43.9 | 45.5 | 46.5 | 44.5 | 46.1 | 47 | 45 | 47 | 48.0 | 46.1 | 47.6 |
| Length of Service | | | | | | | | | | | | | | | |
| Until 03 years | 1,470 | 399 | 1,869 | 2,028 | 571 | 2,599 | 2,068 | 610 | 2,678 | 1,358 | 461 | 1,819 | 975 | 293 | 1,268 |
| 04 to 10 years | 1,240 | 331 | 1,571 | 764 | 194 | 958 | 546 | 91 | 637 | 950 | 188 | 1,138 | 1,312 | 338 | 1,650 |
| 11 to 20 years | 4,962 | 1,204 | 6,166 | 5,262 | 1,301 | 6,563 | 4,889 | 1,183 | 6,072 | 4,957 | 1,166 | 6,123 | 4,435 | 1,065 | 5,500 |
| Above 20 years | 4,296 | 994 | 5,290 | 3,947 | 952 | 4,899 | 4,465 | 1,163 | 5,628 | 4,511 | 1,162 | 5,673 | 4,634 | 1,171 | 5,805 |
| Average Time | 17.1 | 16.4 | 17.2 | 17 | 16.3 | 16.9 | 17.4 | 16.7 | 17.3 | 18 | 18 | 18 | 18.9 | 18.2 | 18.8 |
| Education | | | | | | | | | | | | | | | |
| Elementary School | 2,179 | 53 | 2,232 | 2,198 | 101 | 2,299 | 1,712 | 58 | 1,770 | 1,589 | 52 | 1,641 | 1,595 | 53 | 1,648 |
| High School | 6,233 | 1,097 | 7,330 | 6,164 | 1,121 | 7,285 | 6,462 | 1,125 | 7,587 | 6,346 | 1,073 | 7,419 | 6,079 | 1,053 | 7,132 |
| University | 3,556 | 1,778 | 5,334 | 3,639 | 1,796 | 5,435 | 3,794 | 1,864 | 5,658 | 3,841 | 1,852 | 5,693 | 3,682 | 1,761 | 5,443 |
| Working Hours | | | | | | | | | | | | | | | |
| Part Time | 1,254 | 266 | 1,520 | 1,224 | 261 | 1,485 | 1,337 | 302 | 1,639 | 1,326 | 296 | 1,622 | 1,301 | 294 | 1,595 |
| Full Time | 10,714 | 2,662 | 13,376 | 10,777 | 2,757 | 13,534 | 10,631 | 2,745 | 13,376 | 10,450 | 2,681 | 13,131 | 10,055 | 2,573 | 12,628 |

(1) 1,924 professionals hold specialization at graduate/MBA level, and of these, 9% whom hold a Master's or PhD degree

(2) work in operational and customer service areas.

| Região | 2011 | | | 2012 | | | 2013 | | | 2014 | | | 2015 | | |
|--|---------------|--------------|---------------|---------------|--------------|---------------|---------------|--------------|---------------|---------------|--------------|---------------|---------------|--------------|---------------|
| | Men | Women | Total |
| 1 (Metropolitan Region of São Paulo (MRSP), Paraíba Valley and Baixada Santista) | 8.119 | 2.367 | 10.486 | 8.777 | 2.569 | 11.346 | 8.790 | 2.605 | 11.395 | 8.638 | 2.542 | 11.180 | 8.369 | 2.463 | 10.832 |
| 2 (Regional Systems, except for Vale do Paraíba and Baixada Santista) | 3.849 | 561 | 4.410 | 3.224 | 449 | 3.673 | 3.178 | 442 | 3.620 | 3138 | 435 | 3.573 | 2987 | 404 | 3.391 |
| Total | 11.968 | 2.928 | 14.896 | 12.001 | 3.018 | 15.019 | 11.968 | 3.047 | 15.015 | 11.776 | 2.977 | 14.753 | 11.356 | 2.867 | 14.223 |

G4-LA12 Number of Employees per Region

Note 1: Sabesp hires staff by means of competitive service examination, as established in the Federal Constitution of 1988, detailing positions, prerequisites, regions, vacancies and salary. Currently, 78% of our managers work in Region 1 and 22% in Region 2.

Note 2: **G4-EC8** Sabesp does not directly hire outsourced workers. Services agreements are executed with outsourced workers who are allocated according to the needs. Under such conditions, we have approximately 6.3 thousand professionals who are not registered in Sabesp's database.

G4-LA12 Breakdown of employees by gender and ethnic group

| Year | Men | | | | | | Women | | | | | | Total | | | | | |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|-------------|--------------|--------------|--------------|--------------|--------------|-------------|---------------|---------------|---------------|---------------|---------------|-------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | % | 2011 | 2012 | 2013 | 2014 | 2015 | % | 2011 | 2012 | 2013 | 2014 | 2015 | % |
| White | 9,912 | 9,889 | 9,790 | 9,637 | 9,225 | 81% | 2,487 | 2,540 | 2,545 | 2,491 | 2,387 | 83% | 12,399 | 12,429 | 12,335 | 12,128 | 11,612 | 82% |
| Afro Descendants and Mulattos | 1,808 | 1,870 | 1,928 | 1,893 | 1,899 | 17% | 329 | 357 | 379 | 368 | 364 | 13% | 2,137 | 2,227 | 2,307 | 2,261 | 2,263 | 16% |
| Asian | 184 | 202 | 209 | 206 | 187 | 2% | 110 | 116 | 118 | 113 | 111 | 4% | 294 | 318 | 327 | 319 | 298 | 2% |
| Indigenous | 6 | 7 | 7 | 7 | 11 | 0% | 0 | 0 | 0 | 0 | 0 | 0% | 6 | 7 | 7 | 7 | 11 | 0% |
| Not Declared | 18 | 33 | 34 | 33 | 34 | 0% | 2 | 5 | 5 | 5 | 5 | 0% | 20 | 38 | 39 | 38 | 39 | 0% |
| Total | 11,928 | 12,001 | 11,968 | 11,776 | 11,356 | 100% | 2,928 | 3,018 | 3,047 | 2,977 | 2,867 | 100% | 14,856 | 15,019 | 15,015 | 14,753 | 14,223 | 100% |

G4-LA12 Breakdown of employees by position, gender and ethnic category

| Year | Managers | | | | | | | | | | University Students | | | | | | | | | |
|-------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------------|--------------|--------------|--------------|--------------|------------|------------|------------|------------|------------|
| | Men | | | | | Mulher | | | | | Homem | | | | | Mulher | | | | |
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 |
| White | 441 | 450 | 451 | 455 | 436 | 108 | 111 | 108 | 111 | 110 | 1,448 | 1,493 | 1,487 | 1,459 | 1,372 | 824 | 827 | 832 | 810 | 756 |
| Afro Descendants and Mulattos | 19 | 17 | 16 | 19 | 22 | 3 | 4 | 4 | 4 | 4 | 134 | 139 | 143 | 141 | 140 | 86 | 86 | 89 | 89 | 88 |
| Asian | 19 | 18 | 18 | 19 | 16 | 2 | 2 | 2 | 4 | 3 | 92 | 96 | 100 | 97 | 90 | 59 | 60 | 62 | 58 | 58 |
| Indigenous | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Not Declared | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 4 | 4 | 4 | 4 | 0 | 0 | 0 | 0 | 0 |
| Total | 479 | 485 | 485 | 493 | 474 | 113 | 117 | 114 | 119 | 117 | 1,678 | 1,733 | 1,735 | 1,702 | 1,607 | 969 | 973 | 983 | 957 | 902 |

| Ano | Technicians | | | | | | | | | | Operational | | | | | | | | | |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------|------------|------------|------------|------------|
| | Homem | | | | | Mulher | | | | | Homem | | | | | Mulher | | | | |
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 | 2011 | 2012 | 2013 | 2014 | 2015 |
| White | 3,857 | 3,750 | 3,683 | 3,622 | 3,438 | 1,485 | 1,485 | 1,472 | 1,439 | 1,396 | 4,166 | 4,196 | 4,169 | 4,101 | 3,979 | 70 | 117 | 133 | 131 | 125 |
| Afro Descendants and Mulattos | 664 | 671 | 671 | 658 | 634 | 216 | 227 | 226 | 221 | 218 | 991 | 1,043 | 1,098 | 1,075 | 1,103 | 24 | 40 | 60 | 54 | 54 |
| Asian | 60 | 65 | 67 | 66 | 58 | 48 | 52 | 52 | 50 | 49 | 13 | 23 | 24 | 24 | 23 | 1 | 2 | 2 | 1 | 1 |
| Indigenous | 2 | 3 | 3 | 6 | 4 | 0 | 0 | 0 | 0 | 0 | 3 | 3 | 3 | 3 | 6 | 0 | 0 | 0 | 0 | 0 |
| Not Declared | 5 | 10 | 10 | 9 | 9 | 2 | 4 | 4 | 4 | 4 | 10 | 19 | 20 | 20 | 21 | 0 | 1 | 1 | 1 | 1 |
| Total | 4,588 | 4,499 | 4,434 | 4,361 | 4,143 | 1,751 | 1,768 | 1,754 | 1,714 | 1,667 | 5,183 | 5,284 | 5,314 | 5,223 | 5,132 | 95 | 160 | 196 | 187 | 181 |

G4-LA13 Mathematical ratio of salary and compensation between women and men, broken down by employee category and relevant operating units

| Average Salary | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------------|--------|--------|--------|--------|--------|
| Operational | 1,880 | 2,012 | 2,212 | 2,443 | 2,722 |
| Technicians | 2,884 | 3,139 | 3,461 | 3,757 | 4,153 |
| University Students | 5,955 | 6,412 | 7,076 | 7,742 | 8,342 |
| Manager | 13,117 | 15,170 | 16,388 | 17,295 | 19,001 |
| Average | 3,488 | 3,828 | 4,173 | 4,559 | 4,974 |
| Overall (R\$) | 2011 | 2012 | 2013 | 2014 | 2015 |
| Initial Base Salary | 815 | 1,100 | 1,189 | 1,376 | 1,625 |
| Average Salary | 3,488 | 3,828 | 4,173 | 4,559 | 4,974 |
| Minimum Wage | 545 | 622 | 678 | 724 | 788 |
| Percentage (%) | 1.50 | 1.77 | 1.75 | 1.90 | 2.06 |

Percentage between lowest salary and minimum wage – Overall (R\$)

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|------|-------|-------|-------|-------|
| Lowest Salary * | 815 | 1,101 | 1,189 | 1,376 | 1,625 |
| Minimum Wage | 545 | 622 | 678 | 724 | 788 |
| Percentage | 1.50 | 1.77 | 1.75 | 1.90 | 2.06 |
| <i>*Lowest initial salary paid to the Environmental Sanitation Agent I</i> | | | | | |
| <i>There is no difference of base salary between men and women</i> | | | | | |

G4-EC5 Variation of lowest salary percentage, broken down by gender, compared to the local Minimum Wage in relevant operating units

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|------|-------|-------|-------|-------|
| Lowest Salary | | | | | |
| Region 1 | 978 | 1,321 | 1,427 | 1,501 | 1,625 |
| Region 2 | 815 | 1,101 | 1,189 | 1,376 | 1,625 |
| Minimum Wage | 545 | 622 | 678 | 724 | 788 |
| Percentage | | | | | |
| Region 1 | 1.79 | 2.12 | 2.1 | 2.07 | 2.06 |
| Region 2 | 1.5 | 1.77 | 1.75 | 1.9 | 2.06 |
| Note: There is no difference of base salary between men and women | | | | | |

Skill- and Performance-Based Assessment

G4-LA 10/11 At Sabesp, professional growth is based on Assessment of Skills and Performance, annually conducted and directed to 100% of the employees. Used in the company since 2022, the purpose of this instrument is to identify the level of knowledge and development of the skills required for the execution of corporate strategies and achievement of the results established. Their principles are: valuing people; career management; and improvement in skills.

The assessment process is conducted by means of a dialogue between the employee

and his/her manager, and the skills to be assessed are defined and constantly reassessed by taking into account corporate demands and challenges. Thus, expectations include increased contribution to the business management; subsidy to managers with people management instruments; supply of information for decision-making; recognition of human capital; stimulus to competition among professionals; as well as keeping up with corporate progress.

Beginning 2012, the Assessment System has been structured in an objective way and in the format of radars. In each stage, employees and managers define scores according to the concept of each item assessed. In each cycle, career advance may include one, two or up to three salary references, which correspond to 5%, 10% or 15% salary increase, respectively. In accordance with the stage of the skills assessed in the Skill-and Performance-Based Assessment, the manager establishes together with the employee an Individual Development Plan (*Plano Individual de Desenvolvimento*, or PID), which allows the company, at each cycle, to achieve a new level of development of essential skills, in line with the challenges undertaken before society as a whole.

For the III Assessment Cycle held in November 2014, 1% of the payroll was directed to promotions and to eligible employees in the form of Personal Advantage, effective as of July 01, 2015, and after understandings with the Salary Policy Committee. This assessment also identified the organizational climate, and the issues that recorded the lowest score were Recognition/Valuing (3.38) and Communication (3.97), which will receive proposals for improvement actions in 2016.

| | |
|------------------|--|
| 2012 | Implementation and classification of 14,658 employees in the new PCS |
| 2012-2013 | Assessment and Move of 5,340 employees (2% of the payroll) |
| 2013-2014 | Assessment and Move of 3,640 employees (1% of the payroll) |
| 2015 | Assessment and Personal Advantage for eligible employees (1% of the payroll) |

Sabesp Corporate University

The creation of the Sabesp Corporate University – UES at the end of the year 2000 is a historical hallmark of the policy for strengthening the level of the company’s professionals and increasing the possibilities for career development. Additionally, it conveys the Company’s intent to build and develop a team of professionals that are qualified for their positions, generate results and add value to the business.

In order to make its programs feasible, UES adopted a learning architecture that mixes on-site methods and self-development, knowledge-sharing practices and distance education. In 2015, UES recorded an investment of R\$ 4.7 million in strategic courses and programs, primarily directed to the Development of Leadership, Environment and Occupation Health and Safety.

The Sabesp Corporate University reached a high level of maturity and engagement and has been proving to be the ideal vehicle for professional development. It also contributes to employees' adjustment to the complex scenario of the Brazilian sanitation sector and economy, especially at a time when it is necessary to find timely and effective solutions to handle water shortage.

Development of Leadership

Initiated in 2012, the Management Excellence Program (*Programa Excelência Gerencial*, or PEG) comprises a set of activities that are articulated and based on leadership skills that converge to encourage participants to reflect on and discuss about the current management paradigms, as well as understanding business demands and their implications in the building of a management role aligned with the challenges posed to Sabesp. The PEG offered training to 488 people in 2015, broken down into 4 teams. The high level of attendance, active and inquisitive participation, spontaneous manifestations and responses to the formal active assessments demonstrate evidence wide approval of the PEG. On a scale from 1 to 100, total achieved was 94, which is very positive.

Management Succession Program

The development of leaders and potential successors at Sabesp was also an initiative established under the guideline of "human resources as a competitive differential". Beginning in 2010, the program introduced in the cultural actions for human resources management a model aligned with the current concepts for succession planning and management, in order to provide the best conditions for people and the company to structure their decisions about the future. Between 2010 and 2015, three groups completed the program, totaling 157 professionals with university degree, with different education and professional experiences. The success of the Program is reflected in the promotion of 24 professionals who undertook management positions in the executive boards.

Results of the Leadership Development Program – 2010 to 2015

| Activities | Management Excellence Program - PEG | Management Succession Program | Total number of participants | Hours per individual |
|--|-------------------------------------|-------------------------------|------------------------------|----------------------|
| Management Excellence Course (FUNDAP) | 415 | 73 | 488 | 174 h |
| MBA in Business Administration (FIA and BSP) | 80 | 84 | 164 | 360 h |
| Coaching (FIA/FUNDAP) | 92 | 156 | 248 | 20 h |
| Languages (Cel Lep, Alumni, Berlitz...) | 200 | 84 | 284 | Up to 600 h |
| International Module (Un. Catalunya/ Babson College) | - | 51 | 51 | 40 h |
| Profile Assessment (FIA/FUNDAP) | 415 | 157 | 572 | 6h |

Overall Results Achieved in Training and Development

In 2015, the current context of budget limitations heavily impacted training and development indicators. In order to deal with the water crisis, the strict priorities of UES were training related to the core business of the company, mandatory courses in Occupational Health and Safety and Leadership Development. For other areas, focus was on enabling on-line training with the support of technology, in addition to the use of strategies for internal transfer of knowledge.

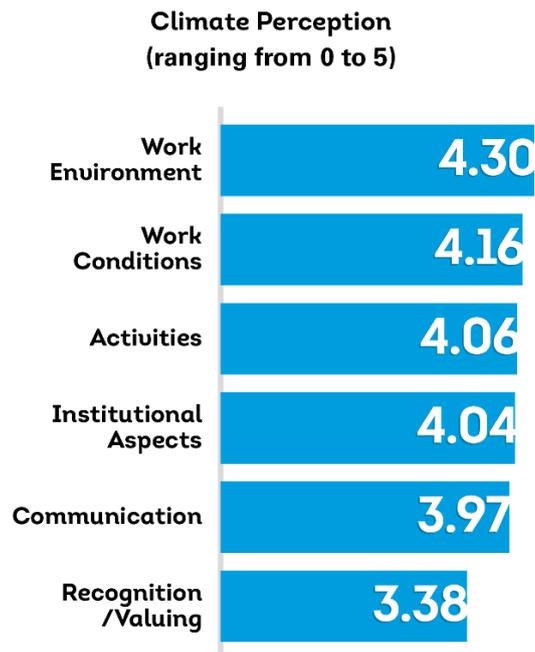
G4-LA9 Average number of training hours per year, per employee broken down by gender and functional category

| Category | Average of hours - 2011 | | | Average of hours - 2012 | | | Average of hours - 2013 | | | Average of hours - 2014 | | | Average of hours - 2015 | | |
|---------------------|-------------------------|-------------|-------------|-------------------------|-------------|-------------|-------------------------|-------------|-----------|-------------------------|-------------|-------------|-------------------------|-------------|-------------|
| | Men | Women | Total | Men | Women | Total | Men | Women | Total | Men | Women | Total | Men | Women | Total |
| Managers | 116.1 | 71.1 | 55.2 | 50.4 | 58.6 | 52 | 86.3 | 94.9 | 87.9 | 58.4 | 72.3 | 61.1 | 19.9 | 33.7 | 22.6 |
| University students | 88.8 | 71 | 66.5 | 61.3 | 82.7 | 69 | 96.6 | 106.4 | 100.1 | 91.1 | 98.5 | 93.8 | 40.9 | 44.5 | 42.2 |
| Technicians | 63.9 | 45.5 | 43.4 | 44.2 | 61.2 | 49 | 58.5 | 60.3 | 59 | 60.5 | 66.6 | 62.2 | 23.4 | 23.1 | 23.3 |
| Operational | 40.2 | 36 | 35.9 | 29.7 | 37 | 29.9 | 44.6 | 58.7 | 45.1 | 37.2 | 55.5 | 37.9 | 19.0 | 26.3 | 19.2 |
| Apprentices | 23.4 | 50.7 | 39.8 | 77.5 | 75.6 | 76.8 | 114.3 | 153.9 | 128.4 | 449.9 | 460.6 | 453.7 | 158.7 | 170.6 | 163.0 |
| Trainees | 63.9 | 56.1 | 68.4 | 77.1 | 83.8 | 80.5 | 109.3 | 102.5 | 105.8 | 64.1 | 62.5 | 63.3 | 89.1 | 86.0 | 87.6 |
| Total | 60.5 | 46.3 | 46.5 | 42.9 | 69.4 | 48.8 | 62.2 | 83.6 | 67 | 66.2 | 94.9 | 72.7 | 29.8 | 44.5 | 33.0 |

| Attendance | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------------------------|---------|--------|---------|---------|--------|
| Attendance | 108,854 | 92,372 | 128,903 | 134,986 | 63,948 |
| Total investment (R\$ thousand) | 9,000 | 8,442 | 10,669 | 11,642 | 4,716 |
| Investment per capita | 546 | 510 | 646 | 708 | 330 |

Organizational Climate Management

This action enables analysis of the internal environment analysis and monitoring of employee satisfaction, allowing identification of employees' motivation in a number of aspects: leadership, relationship, pride, recognition, among others. In 2015, Sabesp used the climate perception identified in the Skills and Performance Assessment, the result of which was:



Based on the results obtained, improvement measures for 2016 will be proposed relating to aspects having the lowest indexes: Recognition/Valuing (3.38) and Communication (3.97).

Occupational Health and Safety

Health and Safety Actions are intended to ensure dissemination and development of the culture of prevention and improvement of the quality of life of employees and service providers. The main actions developed are:

Standardization and Programs

Procedures for Occupational Health and Safety: This establishes a policy, guidelines and specific rules for risk activities involving the Company and service providers. They are reviewed and updated to improve their application and to be in compliance with the legislation.

Environmental Risk Prevention Program (PPRA): this is generated by a computerized system and covers Sabesp's more than 500 establishments, identifying the environmental risks by Exposure Similar Groups – GHE, defining control measures and corrective actions.

Unhealthy and hazardous work environment procedure: The classification of employees in unhealthy and hazardous GHE was reviewed by SESMT and verified by the Superintendences. An additional payment of 30% for hazardous work environment was established for 215 employees who use motorcycles made available by Sabesp, in compliance with Law No. 12997/2014, regulated by Ordinance No. 1565/2014.

Occupational Health Medical Control Program (PCMSO): Enables establishment of a health profile for all employees, apprentices and trainees, and supports the health and life quality programs, in addition to complying with legal aspects.

One of the actions developed is the Immunization Program for effective prevention of infectious diseases. As from 2012, immunization against influenza have been included in the program, covering all employees, apprentices and trainees. In 2015, 13,417 were immunized, with adherence of 85%.

CIPA in Action Program: It defined the 2015-2018 strategic planning to improve the performance in preventive actions and narrow the relationship between CIPA and leaders.

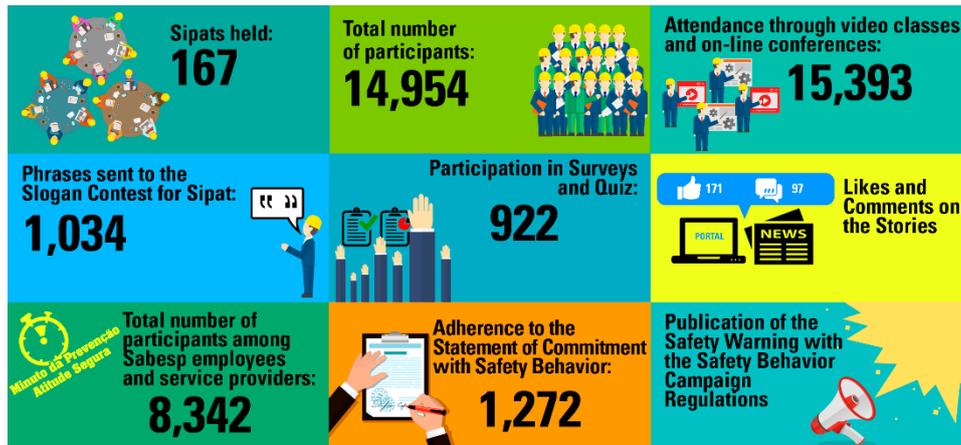
Emergency Brigades: 290 committees present in all the Company's units are liable for identifying, responding to and controlling emergency situations.

Training and Awareness – 32,889 persons attended in-person and on-line trainings at UES. The distance trainings have been intensified, in view of the convenience and quickness of access by employees.

Minute of Prevention: This is an action for quick discussions, organized by CIPA, SESMT and official representatives, with employees, and addresses specific subjects. In 2015 47,076 employees attended the sessions, and 14 subjects were made available for the On-line Minute of Prevention, broadcasted by UES with transmission by the Corporate TV.

Internal Week for Occupational Accident Prevention – SIPAT: It became part of Sabesp's 40 years of existence in a different way, at no cost, with lower mobility of employees and greater interaction. SIPAT enabled remote communication, turning employees into receivers, transmitters, producers and consumers of safety messages.

Indicators



Health and Safety Campaigns: They are held by means of newsletters, lectures and preventive actions on the following subjects: Fight against the Aedes aegypti mosquito, Ergonomics, You in the Traffic, Conjunctivitis, Influenza, among others.

Safety Audit and Control

- **Safety Inspections:** They are carried out by SESMT and CIPA with computerized records to improve reliability and enhance information, making it easier to handle management controls.
- **Occupational Health and Safety Module:** Comprises the Computerized Human Resources System, and allows planning, control and management of activities.

Key Indicators

| SST Performance Indicators | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|--------|--------|--------|--------|--------|
| Accidents (Qty.) | 194 | 143 | 170 | 157 | 105 |
| Frequency Rate | 7.2 | 5.5 | 6.8 | 6.39 | 5.9 |
| Severity Rate | 256 | 147 | 785 | 275 | 443 |
| Occupational medical examinations (Qty.) | 14,607 | 12,475 | 15,456 | 15,119 | 14,281 |
| Employees immunized against influenza (Qty.) | - | 11,343 | 12,256 | 13,037 | 13,417 |
| SST training opportunities (Qty.) | 60,501 | 42,033 | 38,363 | 37,606 | 24,662 |
| Participation in the Minute of Prevention (Qty.) | 40,000 | 39,967 | 39,338 | 36,860 | 47,553 |
| Inspections carried out by SESMT and CIPA (Qty.) | 700 | 3,916 | 4,271 | 3,582 | 4,135 |
| Investment (R\$ million) | 10 | 11.8 | 11.9 | 10.3 | 9.9 |
| Investment in prevention per capita (R\$) | 600 | 799 | 799 | 695 | 692 |

It may be noticed that in 2015 there was a reduction in the number and frequency of occupational accidents. However, despite maintenance of investments, there was an increase in the severity rate. Such information will be used to adjust the programs to be developed the next year.

G4-HR7 The professionals working in Specialized Safety Engineering and Occupational Medicine Services – SESMT evidence their effective participation by assisting managers in each business unit to comply with and promote the culture of health and safety prevention at the company. We also rely on the engagement and commitment of 3,700 professionals working as Cipa members, 1,500 at 150 CIPAS and 2,260 members of the fire brigade. The actions of these people makes a clear difference for the results achieved.

G4-LA5 Of the total employees, 25% work in health and safety formal committees, and engage in activities such as systematization, monitoring and specific programs. On the corporate level, over the past years, Sabesp has been improving the Occupational Health and Safety prevention programs in order to ensure and improve labor conditions, adding and incorporating quality of life.

G4-LA6 Types and rates of body injuries, occupational diseases, lost days, absenteeism, and number of work-related casualties by region and gender.

G4-LA7 Employees with high rate or high risk of occupational diseases.

| | 2011 | | | 2012 | | | 2013 | | | 2014 | | | 2015 | | |
|---|------|-------|-------|------|-------|-------|------|-------|-------|------|-------|-------|-------|-------|-------|
| | Men | Women | Total | Men | Women | Total |
| Sabesp | | | | | | | | | | | | | | | |
| Frequency Rate | 8 | 2.9 | 7.1 | 6.2 | 1.7 | 5.4 | 7 | 4.6 | 6.6 | 7.4 | 4.3 | 6.4 | 5.41 | 1.66 | 4.72 |
| Severity Rate | 365 | 189 | 334 | 209 | 20 | 175 | 557 | 182 | 488 | 326 | 40 | 274 | 553 | 35 | 459 |
| Occupational disease | 103 | 16 | 119 | 64 | 15 | 79 | 68 | 5 | 73 | 1 | 0 | 1 | 0 | 0 | 0 |
| Absenteeism (%) | 3% | | | 2% | | | 3% | | | 2% | | | 2% | | |
| Deaths | 0 | 0 | 0 | 1 | 0 | 1 | 3 | 0 | 3 | 1 | 0 | 1 | 2 | 0 | 2 |
| Region 1 (RMSP (Metropolitan Region of São Paulo), Vale do Paraíba and Baixada Santista) | | | | | | | | | | | | | | | |
| Frequency Rate | 8.3 | 3.4 | 7.3 | 5.1 | 2.1 | 4.7 | 6.9 | 4.6 | 6.4 | 7.7 | 2.2 | 6.6 | 5.97 | 1.75 | 4.94 |
| Severity Rate | 298 | 140 | 266 | 150 | 25 | 124 | 674 | 158 | 565 | 318 | 49 | 262 | 641 | 44 | 509 |
| Occupational disease | 81 | 16 | 97 | 34 | 12 | 46 | 35 | 3 | 38 | 1 | 0 | 1 | 0 | 0 | 0 |
| Absenteeism (%) | 3% | | | 3% | | | 3% | | | 2% | | | 2% | | |
| Deaths | 0 | 0 | 0 | 1 | 0 | 1 | 2 | 0 | 2 | 1 | 0 | 1 | 2 | 0 | 2 |
| Region 2 (Regional Systems, except Vale do Paraíba and Baixada Santista) | | | | | | | | | | | | | | | |
| Frequency Rate | 7.3 | 1.1 | 6.6 | 8.6 | 0 | 7.7 | 7.3 | 4.6 | 7 | 6.7 | 1.2 | 5.9 | 4.51 | 2.62 | 4.29 |
| Severity Rate | 506 | 402 | 495 | 335 | 0 | 296 | 311 | 291 | 309 | 343 | 0 | 303 | 386,5 | 28 | 345 |
| Occupational disease | 22 | 0 | 22 | 30 | 3 | 33 | 32 | 2 | 34 | 0 | 0 | 0 | 0 | 0 | 0 |
| Absenteeism (%) | 2% | | | 2% | | | 3% | | | 2% | | | 2% | | |
| Deaths | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |

Definitions: Frequency rate: Number of occupational accidents with body injury and absence per million hours worked /men, per year.

Severity rate: Days lost plus days assigned to occupational accidents per million hours worked /men, per year.

Occupational disease: Number of employees under leave due to disease resulting from, or triggered by work activity. The 2011 to 2013 amounts include cases of common disease converted into occupational disease by INSS (Brazilian Social Security Institute), due to technical and epidemiological nexus defined by such agency.

Absenteeism: Percentage that measures reduction of total hours worked due to absence from work.

Life Quality

Encouraging dissemination of a culture of and commitment to quality of life and occupational health and safety for all the organization, the chain of suppliers and the main partners is a challenge for Sabesp. To this end, actions are regularly taken to promote changes of behavior, style of life and to arouse concern about health, among which we highlight:

- **Calendar of celebration dates:** According to the calendar of commemorative days, issues relating to Life Quality are made available on the intranet.
- **Agreements with gyms:** Agreements are regularly made with several gyms, which offer discounts to employees and their dependents.
- **On-line courses and lectures:** On-line courses and lectures relating to the “Food to a Happy Life” Project are made available to employees, with information on “Food and Health”.
- **Blood Donation campaign:** Under the slogan “Doe sangue, doe vida” (Donate blood is donate life), the blood donation campaigns are a tradition at Sabesp. In 2015, 394 blood bags were collected, helping to save many lives.
- **Pink October and Blue November:** Sabesp again was engaged in the world-wide campaign for awareness on the importance of prevention and early diagnosis of breast and prostate cancer.

In general, we notice that the integration of programs developed and the investments made in Occupational Health and Safety over the last years have contributed to the gradual decrease of 16% in the number of accidents in the period.

Strategic Indicators

All information related to human resources management is generated on a centralized basis, and made available to all managers so as to support the strategic management of the Company. As to Headcount, such indicator has shown a continuous and gradual decrease, mainly because there was an increase in the number of terminations,

which has exceeded the number of new hires.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------|--------|--------|--------|--------|--------|
| Headcount | 14,981 | 15,105 | 15,096 | 14,822 | 14,290 |

As a result, last year the Turnover index was 3.8%, and the percentage of terminations in relation to headcount was 5.4%.

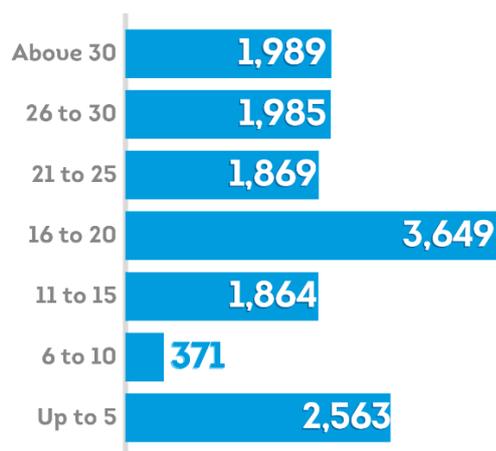
Renewal of Personnel

| Retention of Persons | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------------------------------|-------|------|------|------|------|
| Hires | 723 | 915 | 536 | 26 | 300 |
| Terminations | 1,148 | 791 | 545 | 300 | 832 |
| Hiring/Headcount (%) | 4.8 | 6.1 | 3.6 | 0.2 | 0.5 |
| Termination/Headcount (%) | 7.7 | 5.2 | 3.6 | 2 | 5.4 |
| Voluntary Termination/Headcount (%) | 1.3 | 1.1 | 1.1 | 0.9 | 0.5 |
| Involuntary Termination/Headcount (%) | 6.4 | 4.1 | 2.5 | 1.2 | 5.1 |

Employees Profile

| | Qty. | % | Average (years) | |
|---------------------|--------|-------|-----------------|------------------------------------|
| | | | Age | Length of Service with the Company |
| Managers | 591 | 4.14 | 49.8 | 24 |
| University students | 2,541 | 17.78 | 48.9 | 21.4 |
| Technicians | 5,830 | 40.8 | 46.9 | 19.3 |
| Operational | 5,328 | 37.28 | 47.6 | 16.4 |
| Total | 14,290 | 100 | 47.6 | 18.8 |

In relation to the average length of service with the Company, professionals with the company from 16 to 20 years prevail, followed by an increase in employees with the company for up to 5 years.



Since 2014, the Company has been adopting a single Salary Policy for the entire State of São Paulo, and the ratio between the lowest salary paid by the company to the minimum wage is 2.06, there being no base salary difference between men and women.

| General (R\$) | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|---------|---------|---------|----------|----------|
| Initial Base Salary | 815 | 1,100 | 1,189 | 1,375.70 | 1,625.20 |
| Average Salary | 3,488 | 3,828 | 4,173 | 4,559 | 4,994 |
| Minimum wage | 545 | 622 | 678 | 724 | 788 |
| Minimum x Initial Ratio (%) | 1.49 | 1.67 | 1.64 | 1.9 | 2.06 |
| Benefits (R\$ thousand/year) | 237,086 | 255,236 | 285,832 | 307,550 | 331,077 |
| Benefits/Headcount (R\$ thousand/year) | 15.9 | 16.9 | 19 | 20.7 | 23.5 |

| Average Salary | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------------|--------|--------|--------|--------|--------|
| Operational | 1,880 | 2,012 | 2,212 | 2,443 | 2,723 |
| Technicians | 2,884 | 3,139 | 3,461 | 3,757 | 4,155 |
| University students | 5,955 | 6,412 | 7,076 | 7,742 | 8,424 |
| Managers | 13,117 | 15,170 | 16,388 | 17,295 | 19,001 |
| Average | 3,488 | 3,828 | 4,173 | 4,559 | 4,994 |

The ratio of overtime to normal hours worked has been increasing (14.9%), whereas absenteeism has shown a small reduction.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------------------------------|------|------|------|------|------|
| Overtime/Normal Hours Worked (%) | 13.2 | 15.5 | 15.4 | 16.5 | 14.9 |
| Absenteeism (year average - active %) | 2.9 | 2.5 | 2.6 | 2.2 | 2 |

Considering all human resources management measures adopted by the company, it is verified that the productivity indicator, that is, the ratio of number of connections by employee, has been showing an increasing and continuous curve in recent years.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|------|------|------|------|------|
| | | | | | |

| | | | | | |
|--------------|-----|-----|-----|-------|-------|
| Productivity | 900 | 919 | 948 | 1,009 | 1,074 |
|--------------|-----|-----|-----|-------|-------|

G4-LA1 Total number of new hires and turnover by age group, gender and region

| Turnover | 2011 | | | 2012 | | | 2013 | | | 2014 | | | 2015 | | |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Men | Women | Total |
| Gender | 7.70% | 7.20% | 7.60% | 5.50% | 4.40% | 5.30% | 3.60% | 3.60% | 3.60% | 1.90% | 2.60% | 2.00% | 3.78% | 4.05% | 3.84% |
| Age group | | | | | | | | | | | | | | | |
| 20 to 40 years old | 6.10% | 6.90% | 6.20% | 5.10% | 5.60% | 5.20% | 3.90% | 5.20% | 4.20% | 2.20% | 3.30% | 2.50% | 2.40% | 2.50% | 2.43% |
| 41 to 55 years old | 4.30% | 5.90% | 4.70% | 3.00% | 2.60% | 3.00% | 2.10% | 2.20% | 2.10% | 0.80% | 1.70% | 1.00% | 2.14% | 2.80% | 2.27% |
| Above 55 years old | 24.40% | 17.70% | 23.20% | 15.30% | 10.80% | 14.70% | 8.30% | 6.10% | 8.00% | 4.40% | 4.60% | 4.50% | 9.52% | 11.51% | 9.83% |
| Region | | | | | | | | | | | | | | | |
| MRSP | 8.10% | 6.80% | 9.60% | 5.40% | 4.00% | 5.10% | 4.10% | 3.30% | 3.90% | 1.40% | 1.20% | 1.40% | 4.69% | 4.36% | 4.61% |
| Inland and coast | 7.30% | 8.10% | 5.60% | 5.60% | 5.30% | 5.60% | 3.10% | 4.40% | 3.30% | 2.40% | 5.60% | 2.80% | 2.75% | 3.37% | 2.84% |
| Company total | 7.70% | 7.20% | 7.60% | 5.50% | 4.40% | 5.30% | 3.60% | 3.60% | 3.60% | 1.90% | 2.60% | 2.00% | 3.78% | 4.05% | 3.84% |
| Employees hired | 513 | 210 | 723 | 697 | 218 | 915 | 405 | 131 | 536 | 19 | 7 | 26 | 237 | 63 | 300 |
| % Employees hired | 4.30% | 7.20% | 4.90% | 5.80% | 7.20% | 6.10% | 3.40% | 4.30% | 3.60% | 0.20% | 0.20% | 0.20% | 2.01% | 2.12% | 2.03% |

Assessment of Suppliers

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

Sabesp on-line procurement system offers its suppliers the same competition and participation conditions, regardless of the place where they are located, in addition to a substantial reduction in costs, waste and obsolescence.

G4-LA14 In relation to labor laws, it is worth mentioning that all the requirements to evidence compliance by suppliers with obligations provided for in the bidding law are applied in our processes for acquisition of services and materials.

During the performance of the contract, the supplier, upon each submission of the

Invoice, is required to evidence the payment of Social Charges provided for in the law. The agreement contains labor, occupational safety and environmental requirements. The contractor also undertakes to establish partnerships (sub-contractors or third parties) only with companies with good standing regarding social security, labor and tax obligations, at the municipal, state or federal levels, being solely liable for any irregular acts or events carried out by sub-contractors and/or third parties, on their own behalf, and on the behalf of their employees or representatives.

With respect to environmental liability, Sabesp assesses compliance with local environmental laws by its suppliers and the toxicological risks of the product to be provided, so as to ensure safety both at the water treatment station and for the end consumer.

Sabesp also assesses its suppliers' manufacturing process from raw material to the finished product, as well as aspects related to social responsibility, especially as to child labor, technological development, promotion of fair trade (selection of suppliers with the same quality level) and, within such context, the search for the lowest price. Sabesp's Normative Guidelines for Qualification are reassessed and published on a quarterly basis, aiming at the development of new suppliers. Additionally, Sabesp encourages the development of micro and small companies, encouraging the participation and contracting of local suppliers. Further information on our bidding procedures is available at www.sabesp.com.br

Child labor

G4-LA15/HR5 Sabesp's bidding procedures determine as a requirement for Qualification that the bidder declare its good standing before the Ministry of Labor regarding prohibition of night, hazardous or unhealthy work for those under the age of 18 and work of those under the age of 16. During the bidding phase, failure to comply with such rule will determine the bidder's disqualification and, during contractual performance, any infringement to such rules may also result in contractual termination. In relation to the measures taken to effectively eradicate child labor, for the 12th consecutive year, Fundação Abrinq renewed our certification.

The Company has its own qualification process for suppliers and related products regarding acquisition of strategic materials such as chemical products. In addition, qualification of suppliers includes assessment of several requirements, among them the manufacturing process, from raw material to the finished product, verifying aspects related to social responsibility as to child labor.

⁽²⁾ Law No. 8666/93 – art. 27, item V – in compliance with the provisions of item XXXIII of art. 7 of The Brazilian Federal Constitution. (Included by Law No. 9854 of 1999)

Forced or slave labor

G4-HR6 The measures adopted by Sabesp to remove all forms of forced or slave labor result from a study conducted by the National Pact on the production chain of employers using slave labor. Actions involving the registration of suppliers and participation in bids and contracting were submitted at that time to the Managing Committee of the National Pact for Eradication of Slave Labor. Among such actions, we point out:

a) the systematic search by our registration area of the “black list” issued by the Ministry of Labor and Employment in order to check if Sabesp suppliers are using slave labor;

b) the requirement that bidders interested in participating in bids, or qualifying their products at Sabesp, declare they do not use slave labor in their production chain; and

c) the contractual provision that the contractor will be liable for any use of slave labor in its production chain. In this respect, we point out that the use of forced or compulsory labor constitutes grounds for termination of contract(s) with Sabesp.

AWARDS RECEIVED IN 2015

- **1st place in the Sanitation Ranking 2015**, awarded by *Instituto Trata Brasil* to the city of Franca for achieving the best indexes in the main basic sanitation indicators in cities with more than 100,000 inhabitants.
- **ISO 14001 Recertification granted by Bureau Veritas Certification (BVC)** for 35 sewage and water treatment stations.
- **Anefac Transparency Trophy 2015** – Publicly-Held Companies (turnover in excess of R\$8 billion), awarded by the National Association of Finance, Management and Accounting Executives (Associação Nacional dos Executivos de Finanças, Administração e Contabilidade - Anefac) to Sabesp's financial statements.
- **Mario Covas Award** - East Business Unit - third place in the category 'Innovation in Organizational Processes' with the Case: *A Implantação do Processo de Aprendizado Organizacional para a Conquista do Prêmio Nacional da Qualidade da FNQ* (The implementation of the Organizational Learning Process for Achievement of the National Quality Award granted by FNQ)
- **Mário Covas Award**, in the State Category – Center Business Unit – finalist in the category 'Innovation in Utilities' for the case: *“Maximização da Operação de Válvulas Redutoras de Pressão e de Estações Elevatórias de Água Através do Controle Pelo Ponto Crítico”* (Maximization of the Operation of Pressure Relief Valves and Pumping Stations through the Critical Point Control).
- **Mário Covas Award**, granted by Mário Covas Foundation to the Education Office of the Municipality of Suzano, in partnership with Sabesp - Business Unit of Metropolitana Sewer Treatment, for the winning case in Innovation in Public Administration with the subject “Programa de Combate a Desperdício de Água” (Program for Fight against Water Waste).
- **Mário Covas Award**, granted by Mário Covas Foundation – Honorable Mention to the North Business Unit, for the case “Gestão de Insatisfações” (Management of Dissatisfaction) in the category 'Innovation in State Management'.
- **PPQG/São Paulo Management Quality Award 2015**, organized by the São Paulo Management Quality Institute (IPEG):
 - Level III – State Governor Trophy: Interlagos Regional Management Unit.
 - Finalist in the category “Merit in Management of Knowledge and Innovation in 2015” – Center Business Unit – case *“Maximização da Operação de Válvulas Redutoras de Pressão e de Estações Elevatórias de Água Através do Controle pelo Ponto Crítico”* (Maximization of the Operation of Pressure Relief Valves and Pumping Stations through the Critical Point Control).
- **“The 100 Best Companies in Corporate Citizenship in 2015” Award** - recognition for companies included in the list of the 1,000 Greatest and Best Companies of Brazil (issued by *Exame* magazine) and the Best Companies to work (*Você S/A | FIA - GPTW | Época* magazines).

- **2015 InovaCidade Award granted to the Project for Depollution of Tietê River**, granted to initiatives that contribute for improvement of life quality in the cities, in the areas of sustainability, technological innovation, governance, energy and urban mobility. Sponsored by the Smart City Business Institute.
- **Desafio Estádio Award** – in the category Branded Content, for the campaign of conscientious use of water developed by Sabesp in condominiums.
- **Innovation in Sanitation Management (IGS) ABES. East Business Unit** – winner with the Case: *Metodologia para identificação de trechos críticos de obstrução de rede coletora de esgotos* (Methodology for identification of critical phases for sewage network blocking).
- **Excellence Modern Consumer in Customer Services Award** – in the category utilities, granted by the *Consumidor Moderno* magazine to the Call Center of the Regional Systems Executive Board. Sabesp also received this award in the years 2011, 2012 and 2014.
- **Learning & Performance Brasil Award** – sponsored by the company MicroPower, by ABRH - Associação Brasileira de Recursos Humanos (Brazilian Association of Human Resources), FENADVB – Federação das Associação dos Dirigentes de Vendas e Marketing do Brasil (Brazilian Federation of Associations of Sales and Marketing Managers), FNQ - Fundação Nacional da Qualidade (National Quality Foundation) and ABES – Associação Brasileira das Empresas de Software (Brazilian Association of Software Companies). The award recognizes the work performed by the Sabesp Corporate University as a national benchmark.
- **Datacenter Dynamics AWARDS – Innovation in a Medium Size Data Center** sponsored by DCD Group. Recognizes and encourages leadership, innovation and differentiation of governmental and private companies in projects and construction of data centers.
- **Datacenter Dynamics AWARDS - Leadership in the Public Sector** - recognizes governmental advances in TI public sector, with focus on initiatives, projects and strategies meeting the needs of utilities customers.
- **Datacenter Dynamics AWARDS - Best Cloud Computing Project** - best planning for acquisition of Cloud system having on the criteria of innovation and best adjustment of plan to the company's business targets. Takes in account risk, availability and security.
- **Intranet Portal Award** – by the Intranet Portal Institute. Recognized in the category 'Integration in IT - Winner – highest award in the segment of digital workplace in Latin America.
- **IT Media/PwC Award - the 100 Best innovative IT Companies**– the 12th Place - the most important benchmark for technology application focusing on enterprise innovation.
- **RFID – Journal Awards – Runner – UP, RFID Green Award.** International award directed

to RFDI (Radio Frequency Identification) technology segment, granted to the “System of Integrated Management of Meters”.

- **Benchmarking Brazil Award, sponsored by Mais Institute – 7th place in the ranking with the case “Management of the water shortage”** to the West Business Unit.
- **Young Professional Award in the Sanitation Segment 2015** – recognition to the Superintendence of Research, Technological Development and Innovation in the 26th Technical Meeting - FENASAN.
- **Child Friendly Company Program Seal** granted by Abrinq Foundation to the company for the 12th consecutive time. The seal recognizes social and inclusion projects in favor of childhood and adolescence, in addition to diverse actions in education, health, culture and social assistance for the benefit of children and youths, both for the community and to employees’ children.
- **Justice Friendly Company Seal**, as a result of adhesion of Sabesp to the Court of Justice of São Paulo (TJSP) program. The seal actually means that the company voluntarily and publicly undertakes the commitment to decrease the volume of legal actions as plaintiff or respondent, electing alternative settlements and our-of-court conciliations.

2015 ANNUAL SOCIAL REPORT

| 2015 Annual Social Report | | | | | | |
|---|---|--------------------------------------|--|--------------------------------------|--------------------------------------|---|
| Company: COMPANHIA DE SANEAMENTO BÁSICO DO ESTADO DE SÃO PAULO | | | | | | |
| 1 – Calculation Base | | 2015 Amount (R\$ thousands) | | | 2014 Amount (R\$ thousands) | |
| Net Revenues (RL) | | 11,711,569 | | | 11,213,216 | |
| Operating Income (RO) | | 3,043,991 | | | 1,910,709 | |
| Gross payroll (FPB) | | 2,193,908 | | | 2,123,607 | |
| 2 – Internal Social Indicators | Amount (thousands) | % on FPB | % on RL | Amount (thousands) | % on FPB | % on RL |
| Food | 149,836 | 6.83% | 1.27% | 144,449 | 6.80% | 1.29% |
| Mandatory social charges | 183,295 | 8.35% | 1.56% | 177,969 | 8.38% | 1.59% |
| Private pension | 110,181 | 5.02% | 0.94% | 69,474 | 3.27% | 0.62% |
| Health | 143,424 | 6.54% | 1.22% | 131,353 | 6.19% | 1.17% |
| Occupational safety and health | 11,597 | 0.53% | 0.10% | 11,541 | 0.54% | 0.10% |
| Education | 1,335 | 0.06% | 0.01% | 2,000 | 0.09% | 0.02% |
| Culture | 375 | 0.02% | 0.00% | 457 | 0.02% | 0.00% |
| Training and professional development | 4,402 | 0.20% | 0.04% | 10,501 | 0.49% | 0.09% |
| Day care nursery, or day care nursery assistance | 2,124 | 0.10% | 0.02% | 1,936 | 0.09% | 0.02% |
| Profit-sharing | 54,727 | 2.49% | 0.46% | 63,925 | 3.01% | 0.57% |
| Other | 3,231 | 0.15% | 0.03% | 3,967 | 0.19% | 0.04% |
| Total - Internal social Indicators | 664,527 | 30.29% | 5.64% | 617,572 | 29.08% | 5.51% |
| 3 - External Social Indicators | Amount (thousands) | % on RO | % on RL | Amount (thousands) | % on RO | % on RL |
| Education | 118 | 0.00% | 0.00% | 1,256 | 0.07% | 0.01% |
| Culture | 6,571 | 0.22% | 0.06% | 14,445 | 0.76% | 0.13% |
| Health and sanitation | 81 | 0.00% | 0.00% | 838 | 0.04% | 0.01% |
| Sports | 450 | 0.01% | 0.00% | 2,584 | 0.14% | 0.02% |
| Fighting hunger, and food safety | 0 | 0.00% | 0.00% | 0 | 0.00% | 0.00% |
| Other | 4,009 | 0.13% | 0.03% | 12,979 | 0.68% | 0.12% |
| Total contribution to society | 11,229 | 0.37% | 0.10% | 32,102 | 1.68% | 0.29% |
| Taxes (net of social charges) | 1,103,828 | 36.22% | 9.37% | 1,470,003 | 76.93% | 13.11% |
| Total - External social Indicators | 1,115,057 | 36.60% | 9.47% | 1,502,105 | 78.62% | 13.40% |
| 4 – Environmental Indicators | Amount (thousands) | % on RO | % on RL | Amount (thousands) | % on RO | % on RL |
| Investments related to corporate operations/production | 13,580 | 0.45% | 0.12% | 15,155 | 0.79% | 0.14% |
| Investments in programs and/or external projects | 4,833 | 0.16% | 0.04% | 14,695 | 0.77% | 0.13% |
| Total investments in the environment | 18,413 | 0.60% | 0.16% | 29,850 | 1.56% | 0.27% |
| Regarding the establishment of annual targets to reduce waste; general consumption regarding production/operations; and increasing the efficacy in the use of natural resources, the company: | (X) has no targets () meets 51% to 75% of targets () meets 0% to 50% of targets () meets 76% to 100% of targets | | (X) has no targets () meets 51% to 75% of targets () meets 0% to 50% of targets () meets 76% to 100% of targets | | | |
| 5 – Employees' Indicators | 2015 | | | 2014 | | |
| No. of employees at the end of the period | 14,223 | | | 14,753 | | |
| No. of new hires in the period | 300 | | | 26 | | |
| No. of outsourced employees* | 6,343 | | | 7,478 | | |
| No. of interns | 859 | | | 942 | | |
| No. of employees above 45 years old | 8,649 | | | 8,648 | | |
| No. of women working at the company | 2,867 | | | 2,977 | | |
| % of management positions held by women | 19.80% | | | 19.44% | | |
| No. of afro-descendants working at the company | 2,263 | | | 2,261 | | |
| % of management positions held by afro-descendants | 4.40% | | | 3.76% | | |
| No. of persons with disability or special needs (includes employees and AVAPE/AME partnership) | 180 | | | 219 | | |
| 6 – Material information regarding the exercise of corporate citizenship | 2015 Amount (R\$ thousands) | | | 2016 Targets | | |
| Relation between highest and lowest remuneration at the company | 16.92 | | | n/a | | |
| Total occupational accidents | 141 | | | 128 | | |
| Social and environmental projects developed by the company were defined by: | () the executive board | (X) the executive board and managers | () all employees | () the executive board | (X) the executive board and managers | () all employees |
| Safety and health standards in the workplace were defined by: | (X) the executive board and managers | () all employees | () all + Cipa commission | (X) the executive board and managers | () all employees | () all + Cipa commission |
| Regarding the freedom of association, collective bargaining rights and internal representation of workers, the company: | () has no involvement | () follows ILO standards | (X) encourages and follows ILO standards | () will not be involved | () will follow ILO standards | (X) will encourage and follow ILO standards |
| Private pension plans cover: | () the executive board | () the executive board and managers | (X) all employees | () the executive board | () the executive board and managers | (X) all employees |
| Profit sharing includes: | () the executive board | () the executive board and managers | (X) all employees | () the executive board | () the executive board and managers | (X) all employees |
| In the selection of suppliers, the same ethical, social responsibility and environmental standards adopted by the company: | () are not taken into account | () are suggested | (X) are required | () will not be taken into account | () will be suggested | (X) will be required |
| Regarding the participation of the employees in volunteer work, the company: | () has no involvement | () supports | (X) organizes and encourages | () will not be involved | () will support | (X) will organize and encourage |
| Number of consumer complaints and unfavorable judgments: | the company 78.507 | Procon agency 1.492 | in Court 511 | the company n/a | Procon agency n/a | in Court n/a |
| % of complaints and unfavorable judgments assisted or resolved: | the company 99% | Procon agency 91% | In Court 80% | the company n/a | Procon agency n/a | in Court n/a |
| Total value added to be distributed (in R\$ thousands): | In 2015: 7.108.524 | | | In 2014: 5.731.007 | | |
| Value Added Distribution (DVA): | 16,0% government shareholders | 28,5% employees | 1,8% third parties | 25,7% government shareholders | 34,0% employees | 3,7% third parties |
| 7 - Other Information | <p>* The Number of employees outsourced is estimated considering the workforce allocated to services agreements, since Sabesp does not engage third parties directly.</p> <p>"In 2015, some R\$18.4 million was allocated to environmental protection investments and expenses for development and implementation of corporate environmental management programs, as well as for the "Program for Rational Use of Pure Water," among other initiatives. Other environmental protection-related investments and expenses are included in total operating expenses and investments of the Company, given their direct relationship with the Company's core activity. "This company does not use child or slave labor; it is not involved in prostitution or sexual exploitation of children and adolescents; and it is not involved in corruption." "We value and respect diversity both inside and outside the company."</p> | | | | | |

ABOUT THE REPORT

G4-17/18/19/24/25/26/28/29/30/31/32/33 For nine years, Sabesp has been releasing its Annual Sustainability Report. This is the fifth edition published simultaneously with the Company's Management Report, in line with our Joint Committee's decision to comply with the best market practices. This initiative is also in line with the principle of transparency in accountability to the stakeholders involved in the business.

This material addresses the Company's performance from January 1, 2015 to December 31, 2015, providing information on the Company's operational, economic and socio-environmental activities and results during this period. Growth opportunities strategically built from the challenges encountered in the Company's daily management activities are also reported herein.

The overview of 2015 provided by this document also follows the evolution of the work performed by Sabesp presented in the previous report, which was released on March 31, 2015. In addition, these data are also used to evidence the progress made by the Company in relation to the 10 principles established by the Global Compact, to which Sabesp has been a signatory since 2006. The Global Compact, which is an initiative created by the United Nations (UN), brings together companies to promote sustainable development based on guidelines addressing human rights and a sustainable relationship with the environment.

This report presents the standard content of the Global Reporting Initiative (GRI), which consists of the most complete and widely accepted guidelines for sustainability reports available at present. For the second year, we have maintained the guidelines from version G4 of the GRI, which became mandatory from 2015. The GRI indicators are highlighted throughout the text, alongside the issue reported. A reference list describing each of these indicators is available on the final pages hereof. This report has not been subjected to external review.

As occurred in the previous reports, the preparation of this report was monitored by the executive boards and reviewed by the Board of Directors. In addition, we applied the standards issued by the Brazilian Securities and Exchange Commission (CVM), as well as the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) for financial statements, pursuant to the accounting practices adopted in Brazil, which follow the pronouncements of the Brazilian Accounting Pronouncements Committee (CPC).

The financial statements were audited by Deloitte Touch Tomatsu Auditores Independentes. In order to prepare the Social Balance Sheet, we used the Brazilian Institute for Social and Economic Analyses (Ibase) Guide and the model recommended by the Ethos Institute.

A team made up of two members from each of the Company's five executive boards, all directly appointed by the officers, took part in the data survey and text preparation, together with other strategic departments that formed part of the work group.

Successive meetings were held, either individually or at the work group level, to make adjustments to the data collection process and align themes, with a view to ensuring the accuracy and clarity of the information disclosed herein.

The electronic version of this report is available for consultation on our website www.sabesp.com.br/RS2015, on this date exclusively in Portuguese, and subsequently also in English. Additional information, suggestions and comments regarding this report must be sent to sustentabilidade@sabesp.com.br.

Materiality Matrix

The indicators addressed were prioritized according to their importance to Sabesp and the stakeholders with whom the Company periodically engages: employees, customers (municipal governments), customers (consumers), investors, suppliers, experts and the third sector/associations.

Considering the re-occurrence of the water shortage crisis in 2015, we decided to use the result of the online consultation made to stakeholders for the 2014 edition, in which 201 persons expressed their opinions on "Very relevant", "Relevant" and "Irrelevant" aspects that comprise the GRI methodology.

From the online consultation data, we updated the aspects which are important to the organization, i.e., those which reflect economic and socio-environmental impacts or significantly influence the evaluations and decisions of stakeholders, by comparing them to the themes discussed by the press (analysis of the 2015 news clipping) and the results already obtained during Strategic Planning development.

The planning, albeit still in progress, reflects the perceptions of Sabesp itself regarding the importance and applicability of these themes to its businesses and industry. This process gave rise to the material themes classified as "highly relevant", presented in the list below, addressed herein.

| Aspects to be reported | |
|------------------------|-----------------------|
| ◆ | Economic performance |
| ◆ | Procurement practices |

| | |
|---|---|
| ◆ | Water |
| ◆ | Energy |
| ◆ | Emissions |
| ◆ | Effluents and waste |
| ◆ | Products and services |
| ◆ | Compliance |
| ◆ | Environmental protection investments and expenses |
| ◆ | Anti-corruption actions |
| ◆ | Customer health and safety |

Location of GRI Indicators

G4-32 This report presents the standard content of the Global Reporting Initiative (GRI) Guidelines for Sustainability Reports. The location of the GRI indicators addressed in the report is presented in the tables below.

| Overall Standard Contents | Page |
|-------------------------------|--------|
| STRATEGY AND ANALYSIS | |
| G4-1 | 5 - 7 |
| ORGANIZATIONAL PROFILE | |
| G4-3 | 9 - 10 |
| G4-4 | 9 - 10 |
| G4-5 | 9 - 10 |
| G4-6 | 9 - 10 |
| G4-7 | 9 - 10 |
| G4-8 | 9 - 10 |
| G4-9 | 9 - 10 |

| | |
|---|--|
| G4-10 | 74 |
| G4-11 | 83 |
| G4-13 | No significant changes to be reported. |
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| G4-22 | No significant changes to be reported. |
| G4-23 | No significant changes to be reported. |
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| Labor Practices and Decent Work | |
| Employment | |
| G4-LA1 - Total number and rate of new employee hires and employee turnover by age group, gender and region | 100 |
| G4-LA2 - Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operations | 84 |
| G4-LA3 - Return to work and retention rates after parental leave, by gender. | 81 |
| Labor Relationships | |
| G4-LA4 - Minimum notice periods regarding operational changes, including whether these are specified in collective agreements. | The collective agreements do not specify a minimum notice period regarding operational changes. Any changes are notified in advance, and the term varies according to the situation. |
| Workplace Health and Safety | |
| G4-LA5 - Percentage of workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs | 96 |
| G4-LA6 - Types and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and gender. | 96 |
| G4-LA7 - Employees with high level or high risk of occupational diseases | 96 |
| G4-LA8 - Topics related to health and safety covered by formal agreements with unions | The collective agreements entered into between Sabesp and Unions do not address specific issues related to health and safety. |

| | |
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| Training and Education | |
| G4-LA9 - Average number of training hours per year per employee, by gender and by employee category | 92 |
| G4-LA10 - Programs for skill management and lifelong learning that support the continued employability of employees and assist them in managing their career ending. | 89 |
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| Diversity and Equal Opportunities | |
| G4-LA12 - Composition of governance bodies and breakdown of employees per employee category according to gender, age, minority membership, and other indicators of diversity | 87 - 88 |
| Equal Remuneration for Men and Women | |
| G4-LA13 - Ratio of basic salary and remuneration of women to men, by employee category and significant locations of operation | 89 |
| Supplier Assessment for Labor Practices | |
| G4-LA14 - Percentage of new suppliers that were screened using criteria related to labor practices | 100 |
| G4-LA15 - Significant actual and potential negative impacts for labor practices in the supply chain and actions taken. | 101 |
| Human Rights | |
| Non-discrimination | |
| G4-HR3 - Total number of incidents of discrimination and corrective actions taken | 14 |
| Freedom of Association and Collective Bargaining | |
| G4-HR4 - Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights | 79 |
| Child Labor | |
| G4-HR5 - Operations and suppliers identified as having significant risk for incidents of child labor and measures taken to contribute to the effective abolition of child labor | 101 |
| Forced or Compulsory Labor | |
| G4-HR6 - Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor | 102 |
| Security Practices | |
| G4-HR7 - Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations | 96 |
| Indigenous Rights | |
| G4-HR8 - Total number of incidents of violations involving rights of indigenous peoples and actions taken to address them | In 2015, no incidents of this nature were recorded. |
| Society | |
| Local Communities | |
| G4-SO1 - Percentage of operations with implemented local community engagement, impact assessments, and development programs. | 76 |
| Public Policy | |
| G4-SO6 - Total value of financial contributions to political parties and politicians, by country and recipient/beneficiary | Sabesp does not follow this practice. |
| Anti-competitive Behavior | |
| G4-SO7 - Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes | Adverse judgment claiming that Sabesp. The federal regional court (TRF) reversed the adverse judgment against Sabesp (which claimed that the company had no legitimacy to file a class action), stating that legitimacy exists and the lawsuit should have its regular course in the trial court. An appeal against the decision rendered by the TRF has been filed with the Brazilian Superior Court of Justice and is pending judgment. |

Global Compact Principles

| Principles | Pages |
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| 1 - Business should support and respect the protection of internationally proclaimed human rights | 73 - 100 |
| 2 - Make sure that they are not complicit with human rights abuse | 14 - 74 |
| 3 - Business should uphold the freedom of association and the effective recognition of the right to collective bargaining | 78 |
| 4 - The elimination of all forms of forced and compulsory labor | 100 |
| 5 - The effective abolition of child labor | 100 |
| 6 - The elimination of discrimination in respect of employment and occupation | 14 - 86 |
| 7 - Business should support a precautionary approach to environmental challenges | 45 |
| 8 - Undertake initiatives to promote greater environmental responsibility | 12 - 100 |
| 9 - Encourage environmentally friendly technologies. | 5 - 6 - 25 - 30 - 51 - 66 - 103 |
| 10 - Businesses should work against corruption in all its forms, including extortion and bribery | 8 - 14 - 15 - 16 |

SUSTAINABILITY
REPORT



sabesp