BOWER JOSEPH L
Form 4
July 01, 2009

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
BOWER JOSEPH L
(Last) (First) (Middle)
MORGAN 467, SOLDIERS FIELD
(Street)
BOSTON, MA 02163
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
LOEWS CORP [L]

3. Date of Earliest Transaction (Month/Day/Year)
06/30/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount Underlying Securitie (Instr. 3 and 4)

	Derivative Security				(A) or Disposed of (D) (Instr. 3, 4, and 5)						
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amoun or Numbe of Shares
Stock Appreciation Right	$ 27.21	06/30/2009	A		1,500		06/30/2009	06/30/2019	Common Stock	1,500

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BOWER JOSEPH L MORGAN 467, SOLDIERS FIELD BOSTON, MA 02163	X			

Signatures

/s/ Gary W. Garson by power of attorney for Joseph L. Bower	07/01/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The Reporting Person received the Derivative Security pursuant to a grant of stock appreciation rights at no cost.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. >

1,779,529

1,620,852

Repayments of loans

(1,780,673)

(1,518,240)

Payment of interest on shareholders' equity	(498,669)	(578,705)
Public-Private Partnership – PPP	(13,809)	(40,285)
Program Contract Commitments	(116,034)	(56,272)
Net cash used in financing activities	**(629,656)**	**(572,650)**
Decrease in cash and cash equivalents	**(133,973)**	**(226,105)**

Explanation of Responses:

Represented by:

Cash and cash equivalents at beginning of the year	1,915,974	2,142,079
Cash and cash equivalents at end of the year	1,782,001	1,915,974
Decrease in cash and cash equivalents	**(133,973)**	**(226,105)**

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

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Explanation of Responses:

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Statement of Value Added for the

Years ended December 31, 2013 and 2012

Amounts in thousands of reais

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

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

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

1 Operational context

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

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

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

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

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

31, 2012).

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

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

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

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

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

ii. capture, transport and treat of water;

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

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

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

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

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

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

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

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

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

2 Basis of preparation and presentation of the financial statements

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

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

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

3 Summary of Significant Accounting Practices

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

3.1 Cash and cash equivalents

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

3.2 Financial instruments

Classification

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

Financial assets calculated at fair value through profit or loss

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

Loans and receivables

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

3.3 Operating income

(a) Revenue from water and sewage services

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

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

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Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

(b) Construction revenue

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

3.4 Trade accounts receivable and allowance for doubtful accounts

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

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

3.5 Inventories

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

3.6 Investment Properties

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

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

3.7 Property, plant and equipment

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

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

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

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

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

3.8 Intangible assets

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

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

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

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

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

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

(a) Concession arrangements/programs

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

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

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

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

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

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

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

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

(b) Software licenses

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

3.9 Impairment of non-financial assets

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

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

3.10 Trade accounts payable and contractors

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

3.11 Loans and financing

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

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

3.12 Borrowing costs

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

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

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

3.13 Payroll and related charges

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

3.14 Profit sharing

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

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

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

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

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

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

Contingent assets are not recognized in the books.

3.16 Environmental costs

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

3.17 Income taxes – current and deferred

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

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

Current tax

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

Deferred tax

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

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

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

3.18 Taxes on revenues

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

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

3.19 Pension obligations

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

(a) Defined benefit

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

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

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

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

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

(b) Defined contribution

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

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

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3.20 Financial income and expenses

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

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

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

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

3.21 Leases

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

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

3.22 Other current and noncurrent assets and liabilities

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

3.23 Dividends and Interest on Shareholders' Equity

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

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3.24 Present value adjustment

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

3.25 Statements of value added (DVA)

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

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

3.26 Segment reporting

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

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

3.27 Translation into foreign currency

(a) Functional and reporting currency

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

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(b) Foreign currency translation

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

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

4 Changes in accounting practices and disclosures

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

New standards and reviews

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

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

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

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

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

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

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

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

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

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Explanation of Responses:

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

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

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

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

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

January 1, 2012

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

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

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(a) Adoption of CPC 19 (R2)

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

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

(b) Adoption of CPC 33 (R1)

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

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

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

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

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

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

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

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

IFRS 12 Disclosure of interest in other entities

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

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IFRS 13 Fair value measurement

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

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

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

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

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

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

4.3 Financial Risk Management

4.3.1 Financial risk factors

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

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

(a) Market risk

Foreign currency risk

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

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

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

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

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

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

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

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

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

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

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	Scenario I (Probable) (*)	Scenario II (+25%)	Scenario III (+50%)
Net currency exposure on December 31, 2013 (Liabilities) in US$	1,181,256	1,181,256	1,181,256
US$ rate on December 31, 2013	2.34260	2.34260	2.34260
Exchange rate estimated according to the scenario	2.45000	3.06250	3.67500
Difference between the rates	(0.10740)	(0.71990)	(1.33240)
Effect on net financial result R$ - (loss)	(126,867)	(850,386)	(1,573,905)
Net currency exposure on December 31, 2013 (Liabilities) in Yen	41,504,249	41,504,249	41,504,249
Yen rate on December 31, 2013	0.02233	0.02233	0.02233
Exchange rate estimated according to the scenario	0.02322	0.02903	0.03484
Difference between the rates	(0.00089)	(0.00670)	(0.01251)
Effect on net financial result in R$ - (loss)	(36,939)	(278,078)	(519,218)
Total effect on net financial result in R$ - (loss)	(163,806)	(1,128,464)	(2,093,123)

(*)The probable scenario in foreign currency (US dollar and Yen) considered the average exchange rate for the 12-month period after December 31, 2013, according to BM&FBovespa.

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Interest rate risk

This risk arises from the possibility that the Company could incur losses due to fluctuations in interest rates, increasing the financial expenses related to loans and financing.

The Company has not entered into any derivative contract to hedge against this risk; however continually monitors market interest rates, in order to evaluate the possible need to replace its debt.

The table below provides the Company's loans and financing subject to variable interest rate:

	December 31, 2013	**December 31, 2012 Restated**
TR[(i)]	1,646,546	2,019,924
CDI[(ii)]	1,212,010	1,799,830
TJLP[(iii)]	990,273	845,913
IPCA[(iv)]	1,413,629	697,385
LIBOR[(v)]	1,599,815	1,243,058
Interest and charges	120,839	95,475
Total	6,983,112	6,701,585

(i) TR â€“ Interest Benchmark Rate

(ii) CDI (Certificado de DepÃ³sito InterbancÃ¡rio), an interbank deposit certificate

(iii) TJLP (Taxa de Juros a Longo Prazo), a long-term interest rate index

(iv) IPCA (Ã ndice Nacional de PreÃ§os ao Consumidor Amplo), a consumer price index

(v) LIBOR - London Interbank Offered Rate

Another risk to which the Company is exposed, is the mismatch between the inflation adjustment indices of its loans and financing with those of its service revenues. Water supply and sewage services tariffs do not necessarily follow the increases in the interest rates affecting the Company's indebtedness.

As of December 31, 2013, if interest rates on loans and financing denominated in Brazilian *reais* had been 1% higher or lower with all other variables held constant, the effects on profit for the year before taxes would have been R$69,831 (R$67,015 in December 2012) lower or higher, mainly as a result of a lower or higher interest expense on floating rate loans and financing.

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(b) Credit risk

Credit risk arises from cash and cash equivalents, deposits in banks and financial institutions, as well as credit exposures to wholesale basis and retail customers, including outstanding accounts receivable, restricted cash, accounts receivable from related parties and indemnities. The Company is required by law to invest its funds with Banco do Brasil (rating AA+(bra)). Credit risk exposure is mitigated by sales to a dispersed customer base.

The maximum exposure to credit risk at the reporting date are the carrying amounts of instruments classified as cash equivalents, deposits in banks and financial institutions, restricted cash, trade accounts receivable and accounts receivable from related parties in the balance sheet date. (See notes 6, 7, 8 and 9).

Regarding the financial assets held with financial institutions, the credit quality that is not past due or subject to provision for impairment can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The credit quality of counterparties which are banks, such as deposits and financial investments, the Company considers the lower rating of the counterparty published by three main international rating agencies (Moody's, Fitch and S&P), according to internal policy of market risk management:

	December 31, 2013	December 31, 2012 Restated
Cash at bank and short-term bank deposits		
AAA(bra)	1,781,327	1,913,893
Other (*)	674	2,081
	1,782,001	1,915,974

(*) This category includes current accounts and investment funds in banks which have no credit rating information available.

The available credit rating information of the banks in which the Company made transactions during 2013 is as follows:

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Banks	**Fitch**	**Moody's**	**Standard Poor's**
Banco do Brasil S.A.	AAA (bra)	Aaa.br	-
Banco Santander Brasil S.A.	AAA (bra)	Aaa.br	brAAA
Brazilian Federal Savings Bank	AAA (bra)	Aaa.br	-
Banco Bradesco S.A.	AAA (bra)	Aaa.br	brAAA
Itaú Unibanco Holding S.A.	AAA (bra)	Aaa.br	brAAA

(c) Liquidity risk

The Company's liquidity is primarily reliant upon cash provided by operating activities, loans from Brazilian Federal and State governmental financial institutions, and financing in the domestic and international capital markets. The liquidity risk management considers the assessment of its liquidity requirements to ensure it has sufficient cash to meet operational and capital expenditures needs, as well as the payment of debts.

The funds held by the Company are invested in interest-bearing current accounts, time deposits, short-term deposits and securities, selecting instruments with appropriate maturity or liquidity sufficient to provide margin as determined by projections mentioned above.

The table below analyzes the financial assets and liabilities of the Company, by maturities periods, including the installment of principal and interest to be paid according to the agreement.

	2014	**2015**	**2016**	**2017**	**2018**	**2019 onwards**	**Total**
As of December 31, 2013							
Liabilities							

Loans and financing	1,186,907	1,545,451	1,458,618	1,125,401	1,186,483	6,860,587	13,363,447
Accounts payable to suppliers and contractors	275,051	-	-	-	-	-	275,051
Services payable	323,208	-	-	-	-	-	323,208
Public-private partnership (PPP)	43,607	43,607	43,607	43,607	282,673	4,930,579	5,387,680
Program contract commitments	85,277	77,772	3,452	1,110	1,010	22,251	190,872

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As of December 31, 2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018 onwards**	**Total**
Liabilities							
Loans and financing	1,743,344	1,221,613	1,660,890	1,100,013	779,905	5,678,481	12,184,246
Accounts payable to suppliers and contractors	295,392	-	-	-	-	-	295,392
Services payable	389,091	-	-	-	-	-	389,091
Public-private partnership (PPP)	41,925	41,925	41,925	41,925	41,925	305,193	514,818
Program contract commitments	160,784	11,227	66,052	4,222	1,911	37,204	281,400

Future interest

Future interest was calculated based on the contractual clauses for all agreements. For agreements with floating interest rate, the interest rates used correspond to the base dates above.

Cross default

The Company has loan agreements including cross default clauses, i.e., the early maturity of any Company's debt will imply the early maturity of these agreements. The indicators are continuously monitored in order to avoid the execution of this clause.

(d) Sensitivity analysis on interest rate risk

The table below shows the sensitivity analysis of the financial instruments, prepared in accordance with CVM Rule 475/2008 in order to evidence the balances of main financial assets and liabilities, calculated at a rate projected until the final settlement of each contract, considering a probable scenario (scenario I), appreciation of 25% (scenario II) and 50% (scenario III).

The purpose of the sensitivity analysis is measure the changes in the market over the financial instruments of the Company, considering constant all other variables. In the time of settlement the amounts can be different from those presented above, due to the estimates used in the measurement.

	December 31, 2013			
		Scenario I	**Scenario II**	**Scenario III**
Indicators	**Exposure**	**(Probable) (i)**	**(25%)**	**(50%)**
Assets				
CDI	1,592,165	10.4700%(*)	7.8525%(***)	5.2350%(***)
Financial income to be incurred		166,700	125,025	83,350
Liabilities				
CDI	1,212,010	10.4700%(*)	7.8525%(***)	5.2350%(***)
Interest to be incurred		(126,897)	(95,173)	(63,449)
CDI net exposure	380,155	39,803	29,852	19,901
Liabilities				
TR	1,646,546	0.0093%(*)	0.0116%	0.0140%
Expenses to be incurred		(153)	(191)	(230)
IPCA	1,413,629	5.9800%(*)	7.4750%	8.9700%
Expenses to be incurred		(84,535)	(105,669)	(126,803)
TJLP	990,273	5.0000%(*)	6.2500%	7.5000%
Interest to be incurred		(49,514)	(61,892)	(74,270)
LIBOR	1,599,815	0.3048%(**)	0.3810%	0.4572%
Interest to be incurred		(4,876)	(6,095)	(7,314)

Total net expenses to be incurred	(99,275)	(143,995)	(188,716)

(*)Source: Focus Report – BACEN, December 27, 2013
(**) Source: Bloomberg
(***) Scenario with 25% and 50% deterioration, since the Company’s net exposure in CDI is positive.

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(i) Refers to the scenario of interest to be incurred for the 12 months as of December 31, 2013 or until the maturity of the contracts, whichever is shorter.

4.4 Capital management

The Company's objectives when managing capital are ensure its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital based on the leverage ratio. This ratio corresponds to net debt divided by total capital. Net debt corresponds to total loans and financing less cash and cash equivalents. Total capital is calculated as total equity as shown in the statement of financial position plus net debt.

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	December 31, 2013	**December 31, 2012 Restated**
Total loans and financing	9,450,074	8,875,255
Less: cash and cash equivalents	(1,782,001)	(1,915,974)
Net debt	7,668,073	6,959,281
Total equity	12,930,801	11,256,762
Total capital	20,598,874	18,216,043
Leverage ratio	37%	38%

On December 31, 2013 the leverage ratio fell to 37% versus the 38% recorded on December 31, 2012, due to an increase in equity deriving from profit for the year and other comprehensive income.

4.5 Fair value estimates

It is assumed that balances from trade accounts receivable (current) and trade payables to suppliers by carrying amount, less impairment approximate fair values, considering their short maturity. Noncurrent trade accounts receivable also approximate their fair values, as they will be adjusted by inflation and/or will bear contractual interest rates over time.

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4.6 Financial Instruments

On December 31, 2013 and December 31, 2012, the Company did not have financial assets classified into the fair value categories through profit or loss, held to maturity and available for sale. The Company's financial instruments included in the loans and receivables category comprise cash and cash equivalents, restricted cash, trade accounts receivable, accounts receivable from related parties, other accounts receivable, balances receivable from the Water National Agency – ANA, contractors and suppliers, loans and financing, balances payable deriving from the Public Private Partnership-PPP and program contract commitments, which are non-derivative financial assets and liabilities with fixed or determinable payments, not quoted in an active market.

The estimated fair values of financial instruments are as follows:

Financial assets

	December 31, 2013		December 31, 2012 Restated	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	1,782,001	1,782,001	1,915,974	1,915,974
Restricted cash	10,333	10,333	64,977	64,977
Trade accounts receivable	1,515,565	1,515,565	1,374,632	1,374,632
Accounts receivable from related parties	265,312	265,312	262,371	262,371
Water National Agency – ANA	107,003	107,003	108,099	108,099
Other accounts receivable	155,991	155,991	141,027	141,027

Financial liabilities

	December 31, 2013		December 31, 2012 Restated	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and financing	9,450,074	9,439,094	8,875,255	9,201,317
Trade payables and contractors	275,051	275,051	295,392	295,392
Services payable	323,208	323,208	389,091	389,091
Program contract commitments	166,038	166,038	235,627	235,627
Public-private partnership - PPP	342,508	342,508	356,317	356,317

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To obtain fair value of loans and financing, the following criteria have been adopted:

(i) Agreements with Banco do Brasil and CEF (Federal Savings Bank) were projected until final maturity, at contractual rates (projected TR + spread) and discounted at present value by TR x DI, both rates were obtained from BM&FBovespa.

(ii) Debentures were projected up to the final maturity date according to contractual rates (IPCA, DI, TJLP or TR), and discounted to present value considering the future interest rate published by ANBIMA in the secondary market, or by market equivalent rates, or the Company's share traded in the Brazilian market.

(iii) BNDES loans are financial instruments valued at carrying amount plus contractual interest rate till mature date, and are indexed by long term interest rate – TJLP.

These loans have specific characteristics and the terms and conditions defined in the loan agreements with BNDES between independent parties, and reflect the conditions for those types of loan. In Brazil, a consolidated market of long-term debts does not exist with the same characteristics of BNDES loans, the offering of credit to the entities in general, with this long-term characteristic, usually is restricted to BNDES.

(iv) Other financing in local currency are valued at its nominal amount plus contractual interest incurred through maturity, discounted to present value considering a future interest rate published by BM&FBovespa.

(v) Agreements with IDB, IBRD, were projected until final maturity in origin currency, applying interest rates contracted, discounted at present value at Libor futures rate, obtained from Bloomberg. Eurobonds were priced at market value through quotes published by Bloomberg. All the amounts obtained were translated into Brazilian *reais* at the exchange rate as of December 31, 2013.

(vi) Agreements with JICA, were projected until final maturity in origin currency, using interest rates contracted and discounted at present value, at Tibor futures rate obtained from Bloomberg. The amounts obtained were translated into Brazilian reais at the exchange rate as of December 31, 2013.

(vii) Leases are financial instruments valued at their nominal amount plus contractual interests incurred through maturity date, and are indexed to fixed contractual interest rate, which is a specific rate and cannot be compared to any other rate available in the market. The Company considers the fair value the same amount recognized in the financial statements as of December 31, 2013.

Considering the nature of other financial instruments, assets and liabilities of the Company, the balances recognized in the statement of financial position approximate the fair values, taking into account the maturities close to the end of the reporting period, comparison of contractual interest rates with market rates in similar operations at the end of the reporting periods, their nature and maturity terms.

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5 Main accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and on other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Allowance for doubtful accounts

The Company records allowance for doubtful accounts in an amount that management considers sufficient to cover probable losses, based on an analysis of trade accounts receivable, in accordance with the accounting policy stated in Note 3.4.

The methodology for determining the allowance for doubtful accounts receivable requires significant estimates, considering a number of factors including historical receipt experience, current economic trends, estimates of forecast write-offs, the aging of the accounts receivable portfolio and other factors. While the Company believes that the estimates used are reasonable, actual results could differ from those estimates.

(b) Intangible assets arising from concession and program contracts

The Company recognizes as intangible assets arising from concession agreements. The Company estimates the fair value of construction and other work on the infrastructure to recognize the cost of the intangible asset, which is recognized when the infrastructure is built and provided that it will generate future economic benefits. The great majority of the Company's contracts for service concession arrangements entered with each grantor is under service concession agreements in which the Company has the right to receive, at the end of the contract, a payment equivalent to the unamortized asset balance of the concession intangible asset, which in this case, are amortized over the useful life of the underlying physical assets, thus at the end of the contract, the remaining value of the intangible would be equal to the residual value of the related fixed asset.

Concession intangible assets under Concession agreements and Program contracts, in which, at the end of the contract, the Company has no right to receive a payment equivalent to the unamortized asset balance of the concession intangible, are amortized on a straight-line basis over the useful life of asset or contract period, which occurs first. Additional information on the accounting for intangible assets arising from concession agreements is described in Note 3.8.

The recognition of fair value for the intangible assets arising on concession agreements is subject to assumptions and estimates, and the use of different assumptions could affect the balances recorded. Different assumptions and estimates and changes in future circumstances, could affect the remaining useful lives of the intangible assets and have a significant impact on the results of operations.

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(c) Provisions

The Company is party to a number of legal proceedings involving significant claims. These legal proceedings include, but are not limited to, tax, labor, civil, environmental, disputes with customers and suppliers and other proceedings. The Company accrues for lawsuits to which it is probable that an outflow will be necessary to settle the liability and the amount of such loss can be reasonably estimated. Judgments regarding future events, the results of which may differ significantly from actual estimates and could exceed the amounts provisioned. Provisions are revised and adjusted to take into consideration changes in circumstances involved. Additional information of these legal proceedings is disclosed in Note 18.

(d) Pension benefits

The Company sponsors the defined benefit plan and the defined contribution plan, as described in Note 19.

The liability recognized in the balance sheet in relation to defined benefit pension plans is the present value of defined benefit obligation on the balance sheet date, less the fair value of plan assets. The defined benefit obligation is calculated yearly by independent actuaries, applying the projected credit unit method. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows, using interest rates compatible with the market, which are denominated in currency in which benefits will be paid and with maturity terms close to those of corresponding pension plan obligation.

(e) Deferred income tax and social contribution

The Company recognizes and settles taxes on income based on the results of operations verified according to the Brazilian Corporation Law, taking into consideration the provisions of the tax laws. Pursuant to CPC 32 (IAS 12), the Company recognizes deferred tax assets and liabilities based on the differences between the accounting balances and the tax bases of assets and liabilities.

The Company regularly reviews the recoverability of deferred tax assets and recognizes a provision for impairment if it is probable that these assets will not be realized, based on the historic taxable income, in the projection of future taxable income and the estimated period of reversing temporary differences. These calculations require the use of estimates and assumptions. The use of different estimates and assumptions could result in provision for impairment of all or a significant amount of deferred tax assets.

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6 Cash and Cash Equivalents

	December 31, 2013	December 31, 2012 Restated
Cash and banks	189,836	119,397
Cash equivalents	1,592,165	1,796,577
	1,782,001	1,915,974

Cash and cash equivalents include cash, bank deposits and high-liquidity short-term financial investments, mainly represented by repurchase agreements (accruing CDI interest rates), deposited at Banco do Brasil, whose original maturities are lower than three months, which are convertible into a cash amount and subject to an insignificant risk of change in value.

The average yield of financial investments corresponds to 100.00% of CDI in December 2013 (100.01% in December 2012).

7 Restricted cash

On December 31, 2013, the Company's restricted cash, under current assets, totaled R$10,333, mainly referring to the agreement in the municipality of São Paulo, where the Company transfers 7.5% of the municipality's revenue to the Municipal Fund (December 2012 – R$64,977).

The variation occurred in the period between January and December 2013 when compared to the Financial Statements as at December 31, 2012, mainly refers to the release of restriction of use of funds by the Municipal Government of São Paulo.

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8 Trade Accounts Receivable

(a) Balance sheet balances

	December 31, 2013	December 31, 2012 Restated
Private sector:		
General and special customers (i) (ii)	1,008,335	949,800
Agreements (iii)	287,662	249,470
	1,295,997	1,199,270
Government entities:		
Municipal	511,967	610,779
Federal	4,292	3,150
Agreements (iii)	167,642	181,271
	683,901	795,200
Wholesale customers – Municipal governments: (iv)		
Guarulhos	661,908	578,314
Mauá	327,451	281,398
Mogi das Cruzes	15,430	15,202
Santo André	700,550	620,276
São Caetano do Sul	2,114	2,072
Diadema	210,406	180,465
Total wholesale customers – Municipal governments	1,917,859	1,677,727
Unbilled supply	474,492	425,843
Subtotal	4,372,249	4,098,040
Allowance for doubtful accounts	(2,856,684)	(2,723,408)
Total	1,515,565	1,374,632

Current	1,120,053	1,038,945
Noncurrent (v)	395,512	335,687
	1,515,565	1,374,632

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(i) General customers - residential and small and mid-sized companies

(ii) Special customers - large consumers, commercial, industries, condominiums and special billing consumers (industrial waste, wells, etc.).

(iii) Agreements - installment payments of past-due receivables, plus monetary restatement and interest.

(iv) Wholesale basis customers - municipal governments - This balance refers to the sale of treated water to municipalities, which are responsible for distributing to, billing and charging final customers. Some of these municipalities are questioning in court the tariffs charged by SABESP, which have full allowance for doubtful accounts. Additionally, the overdue amounts are substantially included in the allowance for doubtful account and are classified in noncurrent assets.

	December 31, 2013	**December 31, 2012 Restated**
Balance at beginning of year	1,677,727	1,486,342
Services provided	424,018	394,922
Receipts – services in the current year	(160,944)	(165,967)
Receipts – services in previous years	(22,942)	(37,570)
Balance at the end of the year	1,917,859	1,677,727
Current	35,662	33,924
Noncurrent	1,882,197	1,643,803

(v) The noncurrent portion consists of trade accounts receivable that are past due and renegotiated with customers and amounts past due related to wholesale basis to municipal governments, and the amounts are net of allowance for doubtful account.

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(b) Aging of trade accounts receivable is as follows:

	December 31, 2013	December 31, 2012 Restated
Current	1,243,156	1,091,834
Past-due:		
Up to 30 days	191,668	197,936
From 31 to 60 days	105,542	97,426
From 61 to 90 days	60,868	61,527
From 91 to 120 days	51,932	50,729
From 121 to 180 days	90,498	89,297
From 181 to 360 days	149,242	139,788
Over 360 days	2,479,343	2,369,503
Total past-due	3,129,093	3,006,206
Total	4,372,249	4,098,040

The increase in the balance overdue is mainly due to accounts receivable at wholesale, where the municipalities are challenging in court the tariffs charged by SABESP. These amounts are fully covered by the allowance for doubtful accounts.

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(c) Allowance for doubtful accounts

	December 31, 2013	December 31, 2012 Restated
Balance at beginning of year	2,723,408	2,436,428
Private sector/government entities	93,272	126,823
Recoveries	(51,654)	(49,183)
Wholesale customers	218,687	209,340
Additions for the year	260,305	286,980
Write-offs in the year referring to the bad debt	(127,029)	-
Balance at end of year	2,856,684	2,723,408
Current	1,182,484	1,242,967
Noncurrent	1,674,200	1,480,441

Reconciliation of provision for losses of income	2013	2012 Restated
Losses (write-off)	63,102	79,454
Provision for state entities (related parties)	(856)	35,142
Provision for private sector/government entities	93,272	126,823
Recoveries	(51,654)	(49,183)

Balance	103,864	192,236

The Company does not have customers representing 10% or more of its revenues.

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9 Related Parties Balances and Transactions

The Company is a party to transactions with its controlling shareholder, the State Government, and companies related to it.

(a) Accounts receivable, interest on shareholders' equity payable, revenue and expenses with the São Paulo State Government

	December 31, 2013	**December 31, 2012 Restated**
Accounts receivable		
Current:		
Water and sewage services (i)	110,615	113,027
Allowance for losses (i)	(46,674)	(47,531)
Reimbursement for pension benefits paid - Gesp Agreement (ii) and (vi)	39,201	35,278
Reimbursement for pension benefits paid - Monthly flow (ii) and (vi)	9,399	8,499
"*Se Liga na Rede*" program (l)	22,314	-
Total current	134,855	109,273
Noncurrent:		
Reimbursement for pension benefits paid - GESP Agreement (ii) and (vi)	130,457	153,098
Total noncurrent	130,457	153,098
Total receivables from shareholder	265,312	262,371

Assets:		
Water and sewage services	63,941	65,496
Reimbursement of additional retirement and pension benefits	179,057	196,875
"Se Liga na Rede" program (l)	22,314	-
Total	265,312	262,371
Liabilities		
Interest on shareholders' equity payable to related parties	229,605	228,214

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	2013	**2012 Restated**
Revenue from water and sewage services		
Water supply	239,513	228,890
Sewage services	209,585	202,094
Payments received from related parties	(453,612)	(481,204)
Receipt of GESP reimbursement referring to Law 4819/58	110,912	104,426

(i) Water and sewage services

The Company provides water supply and sewage collection services to the São Paulo State Government and other companies related to it in accordance with usual market terms and conditions, as considered by management, except for the settlement of credits which can be made according to items (iii), (iv) and (v).

An allowance for losses of amounts past due for more than 360 days has been recorded due to the uncertainty involving these receipts (R$46,674 in 2013 and R$47,531 in 2012).

(ii) Reimbursement for pension benefits paid

Refers to amounts of supplementary retirement and pension benefits provided for in State Law 4819/58 ("Benefits") paid by the Company to former employees and pensioners, referred to as Go.

Under the Agreement referred on item (iii) with the São Paulo State Government ("GESP" or the "State"), GESP recognizes its liability from charges arising from the Benefits, provided that the payment criteria set forth by the State Department of Personnel (DDPE), based on legal guidance of the Legal Consultancy of the Department of Finance and of the State Attorney General's Office (PGE).

As discussed on item (vi), during the assessment of the debt due from GESP to the Company there were certain divergences in the calculation and eligibility criteria of the benefits paid by the Company on behalf of GESP.

See additional information about the Go plan in Note 19 (b) (iii).

In January 2004, the payments of supplement retirement and pension benefits were transferred to the Department of Finance and would be made in accordance with the calculation criteria determined by the PGE. As a result of a court decision, the responsibility for making the payments returned to SABESP, as originally established.

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(iii) GESP Agreement

On December 11, 2001, the Company, the São Paulo State Government (through the State Department of Finance Affairs, currently Department of Finance) and the Water and Electricity Department (DAEE), with the intermediation of the State Department of Sanitation and Energy (former Department of Water Resources, Sanitation and Construction Works), entered into the Obligations, Payment Commitment and Other Covenants Acknowledgement and Consolidation Agreement ("GESP Agreement") for the settlement of outstanding debts between GESP and the Company related to the provision of water supply and sewage services and to the retirement benefits.

In view of the strategic importance of the Taiaçupeba, Jundiaí, Biritiba, Paraitinga and Ponte Nova reservoirs for ensuring and maintaining the Alto Tietê water volume, the Company agreed to receive them as partial repayment of the reimbursement related to the Benefits. The DAEE would transfer the reservoirs to the Company, replacing the amount owed by GESP. However, the São Paulo State Public Prosecution Office challenges the legal validity of this agreement, and its main argument is the lack of bidding and the absence of a specific legislative authorization for disposal of DAEE's assets. There is an unfavorable decision to SABESP not yet unappealable. The Company's legal advisors assess the risk of loss in this lawsuit as probable. See additional information in item (vi) below.

(iv) First Amendment to the GESP Agreement

On March 22, 2004, the Company and the São Paulo State Government amended the terms of the original GESP Agreement, (1) consolidating and recognizing the amounts due by the São Paulo State Government for water supply and sewage collection services provided, monetarily adjusted through February 2004; (2) formally authorizing the offset of amounts due by the São Paulo State Government with interest on shareholders' equity declared by the Company and any other debt owed to the São Paulo State Government as of December 31, 2003, monetarily adjusted through February 2004; and (3) defining the payment conditions of the remaining liabilities of the São Paulo State Government for the receipt of the water supply and sewage services.

(v) Second Amendment to the GESP Agreement

On December 28, 2007, the Company and the São Paulo State Government, represented by the Department of Finance, signed the second amendment to the terms of the original GESP Agreement, agreeing upon the payment in installments of the remaining balance of the First Amendment, amounting to R$133,709 at November 30, 2007, to be paid in 60 monthly and consecutive installments of the same amount, beginning on January 2, 2008. In December 2012 the last installment was paid.

The State and SABESP agreed on immediately resuming their compliance with their mutual obligations under new assumptions: (a) implementation of an electronic bill management system to facilitate and speed up the monitoring of payment processes and budget management procedures; (b) structuring of the Rational Water Use Program (PURA) to rationalize the consumption of water and the amount of the water and sewage bills under the responsibility of the State; (c) establishment, by the State, of criteria for budgeting so as to avoid the reallocation of amounts to a specific water and sewage accounts as from 2008; (d) possibility of registering state bodies and entities in a delinquency system or reference file; (e) possibility of interrupting water supply to state bodies and entities in the case of nonpayment of water and sewage bills.

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(vi) Third Amendment to the GESP Agreement

On November 17, 2008, GESP, SABESP and DAEE signed the third amendment to the GESP Agreement, through which GESP recognized a debt balance payable to SABESP totaling R$915,251, monetarily adjusted up to September 2008 in accordance with the fluctuation of the IPCA-IBGE, corresponding to the Undisputed Reimbursement, determined by FIPECAFI. SABESP accepted on a provisional basis the reservoirs (see item (iii) above) as part of the payment of the Undisputed Reimbursement and offered to GESP a provisional settlement, recognizing a credit totaling R$ 696,283, corresponding to the value of the reservoirs in the Alto Tietê system. The Company did not recognize the reimbursement receivable of R$696,283 related to the reservoirs, as it is not virtually certain that will be transferred by the State. The final settlement will only be effected with the actual transfer of the property with the proper Registry of Deeds Office. The remaining balance totaling R$218,967 is being paid in 114 monthly, consecutive installments, totaling R$1,920 each, including the annual IPCA-IBGE fluctuation, plus interest of 0.5% p.m., the first of which fell due on November 25, 2008.

In addition, the third amendment provides for the regularization of the monthly flow of benefits. While SABESP is liable for the flow of monthly payment of benefits, the State shall reimburse SABESP based on the criteria identical to those applied when determining the Undisputed Reimbursement. Should there be no preventive court decision, the State will assume the flow of monthly payment of benefits portion deemed as undisputed.

(vii) Controversial Amount of Benefits

As mentioned before, on November 17, 2008 the Company and the State signed the third amendment to the GESP Agreement, when the reimbursements called disputed and undisputed were quantified. The amendment established the efforts to calculate the so-called Disputed Reimbursement of the Benefits. Under the fourth clause of the amendment, the Disputed Reimbursement represents the difference between the Undisputable Reimbursement and the amount actually paid by the Company as pension benefits and pensioners set out in Law 4,819/58, for which, the Company understands, the State of São Paulo is originally liable, but paid by SABESP under a court order.

By entering into the third amendment, the State's Legal Representative (PGE) agreed to reassess the differences that gave rise to the disposed reimbursement of benefits set out in Law 4,819/58. At the time, the expectation was based on the willingness of the PGE to reanalyze the issue and the implied right of the Company to the reimbursement, including based on opinions from outside legal advisors.

However, new opinions issued by the PGE and received on September 4 and 22, 2009 and January 4, 2010, refute the reimbursement of previously defined as controversial amount.

Even though the negotiations with the State are still in progress, it is not possible to assure that the Company will recover the controversial receivables without dispute.

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As part of the actions intended to recover the receivables that management considers due by the State, related to discrepancies in the reimbursement of the pension benefits paid by the Company, the Company: (i) on March 24, 2010, reported to the controlling shareholder the official letter approved by the executive committee, proposing that the matter be discussed at the São Paulo Stock Exchange (BM&FBovespa) Arbitration Chamber; (ii) in June 2010, presented to Department of Finance a proposal to solve the outstanding items, such proposal was not accepted; (iii) on November 9, 2010, filed a judicial action against the State of São Paulo pleading the entire reimbursement related to employee benefits set out in Law 4,819/58 to finalize the discussion between the Company and GESP. Despite the legal action the Company will persist to obtain an agreement with GESP since the management believes that it is the better to the Company and to its shareholders than wait until the end of the judicial action.

The Company's management decided to not recognize the reimbursements which were not considered virtually certain that will be reimbursed by the State. As of December 31, 2013 and 2012, the amounts not recorded by the Company, related to the pension benefits paid on behalf of the State by the Company, totaled R$1,412,479 and R$1,351,210, respectively, including the amount of R$696,283 related to the transfer of the reservoirs in the Alto Tietê system. As a result, the Company also recognized the obligation related to the pension benefit obligations maintained with the beneficiaries and pensioners of Plan G0. As of December 31, 2013 and 2012, the pension benefit obligations of Plan G0 totaled R$1,780,268 and R$1,987,718, respectively. For detailed information on the pension benefit obligations refer to Note 19 (b) (iii).

(b) Contingent assets - GESP (not recorded)

As mentioned above, on December 31, 2013 and December 31, 2012, SABESP had contingent assets with GESP, not recorded in assets referring to the additional retirement and pension paid (Law 4,819/58), as follows:

	December 31, 2013	**December 31, 2012**

		Restated
Controversial amounts receivable	716,196	654,927
Undisputed amount referring to the transfer to SABESP of reservoirs at Alto Tietê system (original value)	696,283	696,283
Total	1,412,479	1,351,210

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(c) Use of reservoirs - EMAE

Empresa Metropolitana de Águas e Energia S.A. - EMAE plans to receive for the credit and to obtain financial compensation for the use of water from the Guarapiranga and Billings reservoirs, which SABESP uses in its operations, as well as the reimbursement of damages related to the failure to pay appropriately.

The Company understands that no amounts are due for the use of these reservoirs given the grants already made. Should these reservoirs not be available for use to the Company, there could be the need to collect water in more distant places. There is a risk of not properly rendering services in the region, besides increasing water supply cost.

Several lawsuits were filed by EMAE, among them a lawsuit to create an arbitration clause related to the Guarapiranga reservoir, a proceeding which had already started and another one, equally pleading for financial compensation due to SABESP’s water collect from Billings reservoir for public supply, these two lawsuits alleging that this conduct has been causing permanent and growing loss in the capacity of generating electricity of Henry Borden hydroelectric power plant with financial losses.

SABESP understands that the expectation for all cases is of possible losses, and for the time being, it is not feasible to estimate the amounts involved, since they were not determined.

(d) Agreements with reduced tariffs with State and Municipal Government Entities that joined the Water Rational Use Program (PURA).

The Company has signed agreements with government entities related to the State Government and municipalities where it operates that benefit from a reduction of 25% in the tariff of water supply and sewage services when they are not in default. These agreements provide for the implementation of the rational water use program, which takes into consideration the reduction in the consumption of water.

(e) Guarantees

The State Government provides guarantees for some loans and financing of the Company and does not charge any fee with respect to such guarantees.

(f) Personnel assignment agreement among entities related to the State Government

The Company has personnel assignment agreements with entities related to the State Government, under which the expenses are fully passed on and monetarily reimbursed. In 2013, the expenses related to personnel assigned by SABESP to other state government entities amounted to R$12,879 (R$12,298 in December 2012).

As of December 31, 2013, expenses related to personnel assigned by other entities to SABESP totaled R$695 (R$689 in December 2012).

(g) Services obtained from state government entities

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As of December 31, 2013 and 2012, SABESP had an outstanding amounts payable of R$1,791 and R$958, respectively, for services rendered by São Paulo State Government entities.

(h) Non-operating assets

As of December 31, 2013 and 2012, the Company had an amount of R$969 related to free land lent to DAEE (Water and Electricity Department).

(i) SABESPREV

The Company sponsors a private defined benefit pension plan, which is operated and administered by Fundação Sabesp de Seguridade Social - SABESPREV. The net actuarial liability recognized as of December 31, 2013 amounted to R$546,748 (R$604,832 in December 2012), according to Note 19 (b).

(j) Compensation of Management Key Personnel

Compensation:

SABESP's compensation policy for the Management and officers is set out according to guidelines of the São Paulo State Government, the CODEC (State Capital protection Board), and are based on performance, market competitiveness, or other indicators related to the Company's business, and is subject to approval by shareholders at an Annual Shareholders' Meeting.

Officers' compensation is limited to the compensation of the State Governor, and the Board of Directors' compensation is equivalent to 30 percent of the executive committee' overall compensation, contingent on attendance of at least one monthly meeting.

The objective of the compensation policy is to set a private sector management paradigm to retain its staff and recruit competent, experienced and motivated professionals, considering the level of management efficiency currently required by the Company.

In addition to monthly fee, the members of the Board of Directors and the Executive Committee receive:

Annual reward:

Equivalent to a monthly fee, calculated on a prorated basis in December of each year.

The purpose of this reward is to correspond to the thirteenth salary paid to Company employees, as officers and directors' relationship with the Company is governed by its bylaws and not the labor code.

Benefits paid only to statutory officers - meal ticket, basket of food staples, medical care, weekly paid rest typified as a paid leave of 30 calendar days, and payment of a premium equivalent to one third of the monthly fee.

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Bonuses:

SABESP pays bonuses for the purposes of compensating directors and officers, as an incentive policy, providing the company records quarterly, semiannual, and yearly profits, and distributes mandatory dividends to shareholders, even if in the form of interest on shareholders' equity. Annual bonuses cannot exceed six times the monthly compensation of the officers/directors or 10 percent of the interest on shareholders' equity paid by the company.

Expenses related to the compensation to the members of its board of directors and officers amounted to R$3,389 and R$3,211 for the years ended December 31, 2013 and 2012, respectively, and they refer to short-term benefits. An additional amount of R$566, related to the bonus program, was recorded in 2013 (R$1,074 in December 2012).

(k) Loan agreement through credit facility

The Company holds interest in certain Special Purpose Entities (SPE), not holding the majority interest but with power of veto in some issues. Therefore, these SPEs are considered for accounting purposes as jointly-owned subsidiaries.

The Company entered into a loan agreement through credit facility with the SPEs Águas de Andradina S.A., Águas de Castilho S.A. Aquapolo Ambiental S.A. to finance the operations of these companies, until the loans and financing requested with financial institutions is cleared.

The contracts signed on January 19, 2012 with Águas de Andradina and Águas de Castilho were settled in July 2012, according to the agreement's provisions. On July 18, 2012, new agreements were signed with both companies, pursuant to the conditions in the table below. The agreement signed with Aquapolo Ambiental on March 30, 2012 remains with the same characteristics, according to the table below:

SPE	Credit limit	Principal disbursed amount	Interest balance	Total	Interest rate	Maturity
Águas de Andradina	3,467	1,427	297	1,724	SELIC + 3.5 % p.a.	(*)
Águas de Castilho	675	403	84	487	SELIC + 3.5 % p.a.	(*)
Aquapolo Ambiental	5,629	5,629	1,429	7,058	CDI + 1.2% p.a.	4/30/2016
Aquapolo Ambiental	19,000	19,000	3,789	22,789	CDI + 1.2% p.a.	4/30/2015
Total	28,771	26,459	5,599	32,058		

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(*) The loan agreements with SPEs Águas de Andradina and Águas de Castilho mature when funds deriving from long-term agreement with the Brazilian Development Bank – BNDES are released, when borrower will settle all and any debt deriving from current opening of loan facility.

The amount disbursed is recognized in Assets under “Other Receivables” and amounts to R$1,830 for principal and R$381 for interest recognized in Current Assets and R$24,629 for principal and R$5,218 for interest in Noncurrent Assets. As of December 31, 2013, the balance of principal and interest rates of these contracts is R$32,058 (R$28,081 as of December 31, 2012). In 2013, financial income recognized was R$3,977 (R$1,672 as of December 31, 2012).

(l) “*Se Liga na Rede*” program

The State Government enacted the State Law nº 14,687/12, creating the pro-connection program, destined to financially subsidize the execution of household branches necessary to connect to the sewage collecting networks, in low income households which agreed to adhere to the program. The program expenditures, except for indirect costs, construction margin and borrowing costs are financed with 80% of funds deriving from the State Government and the remaining 20% invested by SABESP, which is also liable for the execution of works. On December 31, 2013, the program total amount was R$35,513, R$22,314 recorded in balances receivable from related parties, the amount of R$9,896 recorded in the group of intangible assets and R$3,303 reimbursed by GESP.

10 Water National Agency - ANA

Refers to agreements executed within the scope of the Hydrographic Basin Depollution Program (PRODES), also known as "Treated Sewage Purchase Program".

This program does not finance works or equipment, remunerates by results achieved, i.e., by effectively treated sewage. In this program, the Water National Agency (ANA) makes available funds, which are restricted to a specific current account and applied in investment funds at the Caixa Econômica Federal - Federal Savings Banks (CEF), until the fulfillment of treated sewage volume is evidenced, as well as, the reduction of polluting cargoes of each contract.

When resources are made available, liabilities are recorded until funds are released by ANA. After the evidence of targets stipulated in each contract, the revenue deriving from these funds is recognized, but if these targets are not met, funds will return to the National Treasury with the appropriate funds y with duends will return to the National Treasury with dueny records a rearnings. On December 31, 2013, the balances of assets and liabilities were R$107,003 (December 31,2012 – R$108,099), and the liabilities are recorded under "Other liabilities" of noncurrent liabilities.

11 Investments

The Company holds interest in certain Special Purpose Entities (SPE). Although SABESP has no majority shares of its investees, the shareholders' agreement provides for the power of veto in certain management issues, indicating participating shared control (joint venture – CPC 19(R2).

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The Company holds interest valued by the equity accounting in the following investees:

Sesamm

On August 15, 2008, the Company, together with the companies OHL Médio Ambiente, Inima S.A.U. Unipersonal ("Inima"), Técnicas y Gestión Medioambiental S.A.U. ("TGM") and Estudos Técnicos e Projetos ETEP Ltda. ("ETEP") incorporated the company Serviços de Saneamento de Mogi Mirim S.A. - SESAMM ("SESAMM"), for a period of 30 years from the date the concession agreement with the municipality of Mogi Mirim for the purpose of providing complementary services to the sewage diversion system and implementing and operating sewage treatment system in the municipality of Mogi Mirim, including the disposal of solid waste.

Sesamm's capital as of December 31, 2013, totaled R$19,532, and was represented by 19,532,409 registered shares without a par value. SABESP holds 36% of its equity interest and Inima holds another 46% of its equity interest.

The operations started in June 2012.

Águas de Andradina

On September 15, 2010, the Company, together with the company Companhia de Águas do Brasil – Cab Ambiental incorporated the company Águas de Andradina S.A., with indefinite term, for the purpose of providing water supply and sewage services to the municipality of Andradina.

On December 31, 2013, the capital of Águas de Andradina totaled R$3,097, divided into 3,096,866 registered shares without a par value. SABESP holds 30% of its equity interest. The amount of R$12 is recorded under investee's equity, as advance for future capital increase.

The operations started in October 2010.

Águas de Castilho

On October 29, 2010, the Company, together with the company Águas do Brasil – Cab Ambiental, incorporated the company Águas de Castilho, for the purpose of providing water supply and sewage services to the municipality of Castilho.

On December 31, 2013, the company's capital was R$622, and was represented by 622,160 registered share without par value. SABESP holds 30% equity interest.

The operations initiated in January 2011.

Saneaqua Mairinque

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On June 14, 2010, the Company, together with the company Foz do Brasil S.A. incorporated the company Saneaqua Mairinque S.A., with indefinite term, for the purpose of exploring the public service of water supply and sewage services to the municipality of Mairinque.

On December 31, 2013, the capital of Saneaqua Mairinque totaled R$2,000, and was represented by 2,000,000 registered shares without a par value. SABESP holds 30% equity interest.

The operations initiated in October 2010.

<u>Attend Ambiental</u>

On August 23, 2010 Companhia Estre Ambiental S.A, incorporated the company Attend Ambiental S.A, for constructing and operating a pretreatment of non-domestic effluent station, mud transportation and related services in the city of São Paulo as well as implement similar structures in other areas in Brazil and abroad.

On December 31, 2013, the capital totaled R$2,000, and was represented by 2,000,000 registered shares without par value. SABESP holds 45% equity interest. A total of R$11,400 was recorded under the investee's shareholders' equity as advance for future capital increase.

Attend is at pre-operational phase and startup is scheduled for May 2014.

<u>Aquapolo Ambiental S.A.</u>

On October 8, 2009, the Company, together with the company Foz do Brasil S.A. incorporated the company Aquapolo Ambiental S.A., for the purpose of producing, providing and commercializing of reused water for Quattor Química S.A., Quattor Petroquímica S.A., Quattor Participações S.A. and other companies comprising the Petrochemical Complex.

On December 31, 2013, the capital of Aquapolo totaled R$36,412, and was represented by 42,419,045 registered common shares without a par value. SABESP holds 49%of its equity interest.

The operations initiated in October 2012.

See below a summary of financial information of the joint-controlled entities:

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Company	**Investments**		**Equity in the earnings of subsidiaries**		**Interest percentage**		**Equity**		**Profit or (loss) for the year**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Sesamm	8,239	5,760	2,479	674	36%	36%	22,884	15,999	6,885	1,871
Águas de Andradina	1,087	751	336	(32)	30%	30%	3,622	2,503	1,119	(107)
Águas de Castilho	619	474	145	155	30%	30%	2,064	1,580	484	517
Saneaqua Mairinque	931	722	209	235	30%	30%	3,102	2,407	695	783
Attend Ambiental	2,707	4,379	(1,672)	(721)	45%	45%	6,016	9,731	(3,715)	(1,602)
Aquapolo Ambiental	9,506	8,538	968	(6,843)	49%	49%	19,400	17,424	1,976	(13,966)
Total	23,089	20,624	2,465	(6,532)			57,088	49,644	7,444	(12,504)
Other investments	571	202								
Overall total	23,660	20,826								

12 Investment properties

On December 31, 2013, the balances of “Investment properties” are R$54,039 (December/2012 – R$54,046). On December 31, 2013 and 2012, the market value of these properties is R$296,000, approximately.

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13 Intangible Assets

(a) Balance sheet balances

	December 31, 2013			December 31, 2012 Restated		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Intangible right arising from:						
Agreements – equity value (i)	8,578,886	(1,499,096)	7,079,790	8,408,007	(1,511,813)	6,896,194
Concession agreements – economic value (ii)	1,529,096	(342,950)	1,186,146	1,402,854	(292,918)	1,109,936
Program contracts (iii)	6,473,507	(1,804,940)	4,668,567	5,288,541	(1,469,369)	3,819,172
Program contracts – commitments (iv)	693,029	(79,709)	613,320	627,989	(56,898)	571,091
Services contract – São Paulo (v)	11,555,381	(1,430,778)	10,124,603	10,604,942	(1,036,455)	9,568,487
Software licenses	209,156	(35,351)	173,805	55,615	(52,969)	2,646
Total	29,039,055	(5,192,824)	23,846,231	26,387,948	(4,420,422)	21,967,526

(b) Changes

	December 31, 2012 Restated	Additions	Contract renewal	Transfer	Write-offs and disposals	Amortization	D
Intangible assets arising from:							
Agreements – equity value (i)	6,896,194	647,318	(310,844)	(6,690)	(3,458)	(142,730)	7
Concession agreements – economic value (ii)	1,109,936	126,853	-	82	(86)	(50,639)	1

Program contracts (iii)	3,819,172	733,796	310,844	4,789	(2,390)	(197,644)	4
Program contracts – commitments (iv)	571,091	65,040	-	-	-	(22,811)	
Services contract – São Paulo (v)	9,568,487	975,913	-	177	(21,939)	(398,035)	10
Software licenses	2,646	201,399	-	5,155	-	(35,395)	
Total	21,967,526	2,750,319	-	3,513	(27,873)	(847,254)	23

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	December 31, 2011	Additions	Contract renewal	Transfer	Write-offs and disposals	Amortization	Decemb 31, 201 Restate
Intangible assets arising from:							
Agreements – equity value (i)	6,731,822	976,205	(652,973)	(21,602)	(916)	(136,342)	6,896,19
Concession – economic value (ii)	1,004,988	150,963	-	-	(14)	(46,001)	1,109,93
Program contracts (iii)	2,744,559	483,448	652,973	-	(3,095)	(58,713)	3,819,17
Program contracts – commitments (iv)	434,986	154,662	-	-	-	(18,557)	571,09
Services contract – São Paulo (v)	9,190,573	882,868	-	(49,486)	(5,977)	(449,491)	9,568,48
New businesses (vi)	16,477	-	-	(16,477)	-	-	
Software licenses	2,316	2,872	-	-	-	(2,542)	2,64
Total	20,125,721	2,651,018	-	(87,565)	(10,002)	(711,646)	21,967,52

During 2013, the Company renewed the following program contracts:

Quarter	**Municipalities**	**Term**
1st/2013	Presidente Prudente e Embu-Guaçu	30 years
2nd/2013	Ibirá and Glicério	30 years
3rd/2013	Itatiba and Torrinha	30 years
3rd /2013	Mogi das Cruzes (*)	40 years
4th/2013	Ibiúna	30 years

(*) It includes the rendering of sewage collection and treatment services of districts in Mogi das Cruzes boundary to the service already rendered of treated water supply.

(c) Construction services

	2013		
	Water supply	**Sewage services**	**Total**
Construction revenue	1,011,412	1,433,323	2,444,735
Construction costs incurred	988,281	1,406,206	2,394,487
Margin	23,131	27,117	50,248

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	2012		
		Restated	
	Water supply	**Sewage services**	**Total**
Construction revenue	1,053,543	1,410,939	2,464,482
Construction costs incurred	1,035,171	1,379,239	2,414,410
Margin	18,372	31,700	50,072

(d) Intangible arising from concession agreements

The Company operates concession agreements covering the provision of basic and environmental sanitation services, water supply and sewage services. These concession arrangements set out rights and obligations relative to the exploration of assets related to the public service (See Note 3.8 (a)). A general obligation also exists to return the concession infrastructure to the concession grantor in good working condition at the end of the concession.

As of December 31, 2013 and 2012, the Company operates in 363 municipalities in the State of São Paulo. In most of these contracts operations are based on 30-year concession period.

The services provided by the Company are billed at a price regulated and controlled by the Sanitation and Energy Regulatory Agency of the State of São Paulo (ARSESP).

Intangible rights arising on concession agreements include:

(i) Service concession agreements – equity value

These refer to municipalities assumed until 2006, except for the municipalities assumed by economic value through assets valuation report prepared by independent experts. The amortization of assets is calculated according to the straight-line method, which considers the assets useful life.

(ii) Concession agreements – economic value

From 1999 through 2006, the negotiations for new concessions were conducted on the basis of the economic and financial result of the transaction, determined in a valuation report issued by independent appraisers.

The amount determined in the related contract, after the transaction is closed with the municipal authorities, realized through the subscription of the Company's shares or in cash, is recorded as "concession agreements" and amortized over the period of the related concession (usually 30 years). As of December 31, 2013 and 2012 there were no amounts pending related to these payments to the municipalities.

Intangible assets are amortized on a straight line basis over the period of the concession agreements or for the useful lives of the underlying assets, whichever is shorter.

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(iii) Program contracts

These refer to the renewal of contracts previously referred to as concession agreements whose purpose is to provide sanitation services. The amortization of the assets acquired until the dates of signatures of the program contracts is calculated according to the straight-line method, which considers the assets' useful lives. Assets acquired or built after the signature dates of program contracts are amortized during the contracted period (30 years) or during the useful lives of underlying assets, whichever is shorter.

(iv) Program contracts - Commitments

After the enactment of the regulatory framework in 2007, renewals of concessions started to be made through of program contracts. In some of these program contracts, the Company undertook the commitment to financially participate in social and environmental actions. The assets built and financial commitments assumed within the program contracts are recorded as intangible assets and are amortized by the straight-line method in accordance with the duration of the program contract (mostly, 30 years).

On December 31, 2013, amortization expenses related to the commitments of the program contract were R$22,811 (R$18,557 in December 2012).

The amounts not yet disbursed related to commitments under the program contracts are recorded in "Program Contracts – Commitments" in current liabilities (in the amount of R$77,360 and R$148,220 on December 31, 2013 and 2012, respectively) and noncurrent liabilities (in the amount of R$88,678 and R$87,407 on December 31, 2013 and 2012, respectively). In 2013, the annual rate of 8.06% was applied (WACC) to calculate the present value adjustment of these contracts.

(v) Services agreement with the Municipality of São Paulo

On June 23, 2010, the Company entered into an agreement with the State of São Paulo and the Municipality of São Paulo to regulate the provision of water and sewage services in the city of São Paulo for a 30 year period, which is extendable for an another 30 year period.

Also on June 23, 2010, an agreement was signed between the state and municipal government, and SABESP and the Sanitation and Energy Regulatory Agency of the State of São Paulo ("ARSESP") are the consenting and intervening parties, whose main aspects are the following:

1. The State and the Municipality of São Paulo grant to Sabesp the right to explore the sanitation service in the capital of the State of São Paulo, which consists of the obligation to such provide service and charge the respective tariff for this service;

2. The State and the Municipality sets forth ARSESP as the agency responsible for regulating the tariff, controlling and monitoring the services;

3. The evaluation model of the contract was the discounted cash flow which considered the financial and economic sustainability of SABESP's operations in the metropolitan region of São Paulo;

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4. All operational costs, taxes, investments and the opportunity cost of the investees and the creditors of Sabesp's were considered in the cash flow analysis;

5. The agreement provides for investments established in the agreement comply with the minimum of 13% of the gross revenue from the municipality of São Paulo, net of the taxes on revenues. Investment plans referring to Sabesp's execution shall be compatible with the activities and programs foreseen in the state, municipal sanitation plans, and where applicable, the metropolitan plan. The investment plan is not definite and will be revised by Managing Committee every four years, especially as to investments to be made in the following period;

6. The payment related to the Municipal Fund of Environmental Sanitation and Infrastructure to be applied in the sanitation service within the municipality must be recovered through the tariffs charges. Such payment represents 7.5% of the total revenue from the municipality of São Paulo, net of the taxes on revenue and delinquency in the period;

7. The opportunity cost of the investees and the creditors was established by the Weighted Average Cost of Capital (WACC) methodology. The WACC was the interest rate used to discount the cash flow of the operation; and

8. The agreement considers the recovery of net assets in operation, preferably evaluated through equity valuation or carrying amount monetarily restated, as defined by ARSESP. In addition, the agreement provides for the remuneration of investments to be made by SABESP, so that there is no residual value at the end of the agreement.

Referring to the recovery through tariff, mentioned in item 6 above, of transfer to the Municipal Fund of Environmental Sanitation and Infrastructure, ARSESP issued in April 2013, the Resolution no. 413, postponing the application of Resolution no. 407 until the conclusion of the tariff revision process, the transfer to the bill of services of amounts referring to the municipal charges which were stipulated in Resolution no. 407. The postponement to apply Resolution no. 407 was due to a request by the São Paulo State Government to analyze, among other things, methods to reduce the impact on consumers.

The agreement represents 51.75% of the total revenue of the Company on December 31, 2013, and ensures the judicial and assets security, adequate return to shareholders and quality services to its customers.

The municipality of São Paulo and the Company did not conclude an agreement to equalize financial pending issues existing until the signature date of the Agreement related to the rendering of water supply and sewage collection services to the real properties of the municipality, reason that, the Company filed a suit to collect these accounts, which are accrued for losses.

(e) Disposals of concession intangible underlying assets

In 2013, the Company wrote-off intangible underlying assets items totaling R$27,873 (R$10,002 in December 2012) due to obsolescence, theft, disposals and discontinued works, unproductive wells and projects considered economically unfeasible.

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(f) Capitalization of interest and other financial charges

In 2013, the Company capitalized interest and inflation adjustment, including related foreign currency exchange effects, in concession intangible assets during the construction period for qualifying assets totaling R$205,012 with an average rate of 4.02% (R$283,016 in December 2012, with an average rate of 5.92%), during the period of the construction.

(g) Construction margin

The Company acts as a primary responsible to construct and install the infrastructure related to the concession, using own efforts or hiring outsourcing services, receiving the risks and benefits.

Therefore, the Company recognizes revenue from construction service corresponding to the cost of construction increased by margin. Generally, the constructions related to the concessions are performed by third parties, in such case, the margin of the Company is lower, normally, to cover eventual administration costs, and the responsibility of the primary risk. In 2013 and 2012 the margin was 2.3%.

Construction margin for 2013 was R$50,248 (R$50,072 in December 2012).

(h) Expropriations

As a result of the construction of priority projects related to water and sewage systems, the Company was required to expropriate or establish rights of way in third-parties' properties, and the owners of these properties will be compensated either amicably or through courts.

The assets received as a result of expropriations are recorded as concession intangible assets after the transaction is completed. In 2013, the total amount related to expropriations was R$61,102 (R$34,731 in December 2012).

(i) Assets pledged as guarantee

On December 31, 2012, the Company had underlying physical assets totaling R$249,034 offered as guarantee to the request for the PAES (tax debt refinancing program) (Note 16). Paes-related debt was fully paid in 120 months and the last installment was paid on June 28, 2013.

(j) Public-Private-Partnership (PPP)

Alto Tietê Production System

The Company and the special purpose entity CAB-Sistema Produtor Alto Tietê S/A, formed by Galvão Engenharia S.A. and Companhia Águas do Brasil – Cab Ambiental, signed in June 2008 the contract of public-private-partnership of Alto Tietê production system.

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The contract last 15 years which purpose is to expand the capacity of treated water of Taiaçupeba from 10 thousand to 15 thousand of liters per second, whose operation began in October 2011.

As of December 31, 2013 and 2012, the amounts recognized as intangible asset related to PPP were R$415,619 and R$426,791, respectively.

In relation to the obligations assumed by the Company on December 31, 2013 and 2012, the balances in current liabilities were R$20,241 and R$24,357 and under noncurrent liabilities were R$322,267 and R$331,960, respectively. The annual discount rate of 8.20% was applied in 2013 to calculate the present value adjustment of this contract.

São Lourenço Production System

SABESP and the special purpose entity CAB-Sistema Produtor São Lourenço S/A composed of Construções e Comércio Camargo Corrêa S/A and Construtora Andrade Gutierrez S/A, in August 2013 signed the Public-Private Partnership agreements of São Lourenço Production System.

The services agreement has 25-year term, aiming the rendering of dehydration, drying and sludge final disposal, maintenance services and works of São Lourenço Production System, and the estimated amount of R$6.0 billion, and works are estimated to start in April 2014.

(k) Works in progress

The amount of R$6,498 million is recorded as intangible assets as works in progress on December 31, 2013 (R$5,067 million in December 2012), and the major projects are located in the following municipalities:

	December 31, 2013	**December 31, 2012**
São Paulo	3,201	2,582
Praia Grande	294	279
Peruíbe	267	253
Itanhaém	215	203
Guarujá	196	173
Other	2,325	1,577
Total	6,498	5,067

(l) Amortization of intangible assets

The amortization average rate totaled 3.9% in 2013 and 4.0% in 2012.

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(m) Software license

Software license is capitalized based on the costs incurred to acquire software and make them ready for use. In the first quarter of 2013, the Company started to implement an integrated business management solution (ERP system), where the implementation of administrative/financial module is estimated for July 1, 2014 and the commercial module for March 1, 2015.

14 Property, Plant and Equipment

(a) Balance sheet balances

	December 31, 2013			December 31, 2012 Restated		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	88,332	-	88,332	88,328	-	88,328
Buildings	54,187	(30,233)	23,954	56,339	(30,778)	25,561
Equipment	202,498	(130,665)	71,833	191,202	(121,569)	69,633
Transportation equipment	13,856	(5,961)	7,895	13,882	(7,267)	6,615
Furniture and fixtures	17,060	(10,239)	6,821	16,203	(10,016)	6,187
Other	1,201	(540)	661	1,109	(723)	386
	377,134	(177,638)	199,496	367,063	(170,353)	196,710

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(b) Changes

	December 31, 2012					
	Restated	**Additions**	**Transfer**	**Write-offs and disposals**	**Depreciation**	**December 31**
Land	88,328	-	4	-	-	8
Buildings	25,561	-	(133)	(216)	(1,258)	2
Equipment	69,633	24,678	(1,358)	(350)	(20,770)	7
Transportation equipment	6,615	4,096	(1,795)	-	(1,021)	
Furniture and fixtures	6,187	1,458	(5)	(59)	(760)	
Other	386	511	(226)	-	(10)	
	196,710	30,743	(3,513)	(625)	(23,819)	19

						December 31
	December 31, 2011	**Additions**	**Transfer**	**Write-offs and disposals**	**Depreciation**	**Res**
Land	109,303	-	(20,349)	(626)	-	8
Buildings	9,432	-	18,768	(873)	(1,766)	2
Equipment	60,217	11,829	16,825	(510)	(18,728)	6
Transportation equipment	1,491	4,572	1,427	(7)	(868)	
Furniture and fixtures	97	976	5,429	(41)	(274)	
Other	1,045	-	(498)	-	(161)	
	181,585	17,377	21,602	(2,057)	(21,797)	19

(c) Depreciation

The Company reviews the depreciation rates annually, as follows: buildings - 2%; equipment- 10%; transportation equipment - 10% and furniture, fixture and equipment - 6.7%. Lands are not depreciated.

The depreciation average rate was 11.4%, in 2013 and 9.8% in 2012.

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15 Loans and Financing

Loans and financing outstanding balance	**December 31, 2013**			**December 31, 2012 Restated**		
Financial institution	**Current**	**Noncurrent**	**Total**	**Current**	**Noncurrent**	**Total**
LOCAL CURRENCY						
Banco do Brasil	100,497	-	100,497	380,631	100,306	480,937
10th issue debentures	37,171	220,109	257,280	36,459	252,166	288,625
11th issue debentures	-	-	-	472,500	535,949	1,008,449
12th issue debentures	22,727	476,702	499,429	-	499,511	499,511
14th issue debentures	20,079	269,862	289,941	-	284,649	284,649
15th issue debentures	-	820,887	820,887	-	791,451	791,451
16th issue debentures	-	499,434	499,434	-	499,457	499,457
17 th issue debentures	-	1,027,925	1,027,925	-	-	-
18 th issue debentures	-	160,859	160,859	-	-	-
Brazilian Federal Savings Bank - CEF	83,267	959,853	1,043,120	116,867	918,756	1,035,623
Brazilian Development Bank - BNDES	-	-	-	4,154	-	4,154
Brazilian Development Bank - BNDES BAIXADA SANTISTA	16,309	81,546	97,855	16,309	97,855	114,164
Brazilian Development Bank - BNDES PAC	9,370	79,644	89,014	8,447	80,244	88,691
Brazilian Development Bank - BNDES PAC II 9751	2,308	29,192	31,500	-	6,500	6,500
Brazilian Development Bank - BNDES PAC II 9752	-	20,400	20,400	-	13,000	13,000
Brazilian Development Bank - BNDES ONDA LIMPA	19,230	196,821	216,051	19,230	216,026	235,256
Brazilian Development Bank - BNDES TIETE III	-	98,404	98,404	-	-	-
Leases	-	382,492	382,492	-	215,774	215,774
Others	498	2,431	2,929	763	2,923	3,686
Interest and charges	113,504	-	113,504	89,567	-	89,567
TOTAL IN LOCAL CURRENCY	424,960	5,326,561	5,751,521	1,144,927	4,514,567	5,659,494

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Loans and financing outstanding balance	**December 31, 2013**			**December 31, 2012 Restated**		
Financial institution	**Current**	**Noncurrent**	**Total**	**Current**	**Noncurrent**	**Total**
FOREIGN CURRENCY						
Inter-American Development Bank - IDB 713 US$100,391 thousand (US$125,488 thousand in December 2012)	58,794	176,382	235,176	51,287	205,149	256,436
Inter-American Development Bank -IDB 896 US$8,333 thousand (US$11,111 thousand in December 2012)	6,507	13,014	19,521	5,677	17,029	22,706
Inter-American Development Bank - IDB 1212 US$123,337 thousand (US$133,615 thousand in December 2012)	24,077	264,854	288,931	21,003	252,040	273,043
Inter-American Development Bank - IDB 2202 US$243,687 thousand (US$147,080 thousand in December 2012)	-	564,443	564,443	-	296,276	296,276
International Bank for Reconstruction and Development -IBRD –US$37,335 thousand (US$26,864 thousand in December 2012)	-	87,077	87,077	-	54,492	54,492
Eurobonds - US$140,000 thousand (US$140,000 thousand in December 2012)	-	327,640	327,640	-	285,655	285,655
Eurobonds - US$350,000 thousand (US$350,000 thousand in December 2012)	-	813,650	813,650	-	708,076	708,076
JICA 15– ¥ 18,438,880 thousand (¥ 19,591,310 thousand in December 2012)	25,733	386,007	411,740	27,335	437,371	464,706
JICA 18 – ¥16,578,560 thousand (¥17,614,720 thousand in December 2012)	23,137	346,733	369,870	24,578	392,894	417,472
JICA 17-¥450,484 thousand (¥ 324,213 thousand in December 2012)	-	9,704	9,704	-	7,524	7,524
JICA 19-¥6,036,325 thousand (¥ 5,407 thousand in December 2012)	-	134,010	134,010	-	1	1
BID 1983AB - US$178,173 thousand (US$202,115 thousand in December 2012)	56,087	359,059	415,146	48,926	361,587	410,513
Interest and charges	21,645	-	21,645	18,861	-	18,861
TOTAL IN FOREIGN CURRENCY	215,980	3,482,573	3,698,553	197,667	3,018,094	3,215,761

TOTAL LOANS AND FINANCING	640,940	8,809,134	9,450,074	1,342,594	7,532,661	8,875,255

Exchange rate on December 31, 2013 US$2.34260; ¥0.022330 (US$2.0435; ¥0.023720 on December 31, 2012)

On December 31, 2013, the Company did not record balances of loans and financing raised in 2013 to mature within 12 months.

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	GUARANTEES	MATURITY	ANNUAL INTEREST RATES	FO EXC ADJUS
LOCAL CURRENCY				
Banco do Brasil	SÃO PAULO STATE GOVERNMENT AND OWN FUNDS	2014	8.50%	T
10th issue debentures	OWN FUNDS	2020	TJLP +1.92% (series 1 and 3) and 9.53% (series 2)	IPCA (
12th issue debentures	OWN FUNDS	2025	TR + 9.5%	
14th issue debentures	OWN FUNDS	2022	TJLP +1.92% (series 1 and 3) and 9.19% (series 2)	IPCA (
15th issue debentures	OWN FUNDS	2019	CDI + 0.99% (series 1) and 6.2% (series 2)	IPCA (
16th issue debentures	OWN FUNDS	2015	CDI + 0.30% to 0.70%	
17 th issue debentures	OWN FUNDS	2023	CDI +0.75 (series 1) and 4.5% (series 2) and+4.75% (series 3)	IPCA (an
18 th issue debentures	OWN FUNDS	2024	TJLP + 1.92 % (series 1 and 3)and 8;25% (series 2)	IPCA (
Brazilian Federal Savings Bank	OWN FUNDS	2013/2032	6.8% (weighted)	T
Brazilian Development Bank - BNDES BAIXADA SANTISTA	OWN FUNDS	2019	2.5% + TJLP	
Brazilian Development Bank - BNDES PAC	OWN FUNDS	2023	2.15% + TJLP	
Brazilian Development Bank - BNDES PAC II 9751	OWN FUNDS	2027	1.72%+TJLP	
Brazilian Development Bank - BNDES PAC II 9752	OWN FUNDS	2027	1.72%+TJLP	
Brazilian Development Bank - BNDES ONDA LIMPA	OWN FUNDS	2025	1.92% + TJLP	
Brazilian Development Bank - BNDES TIETE III	OWN FUNDS	2025	1.66% + TJLP	
Leases		2035	7.73% to 10.12%	IF
Others	OWN FUNDS	2018/2025	12%	T

Explanation of Responses:

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

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	GUARANTEES	**MATUR**
FOREIGN CURRENCY		
Inter-American Development Bank - IDB 713 - US$100,391 thousand	FEDERAL GOVERNMENT	
Inter-American Development Bank - IDB 896 - US$8,333 thousand	FEDERAL GOVERNMENT	
Inter-American Development Bank - IDB 1212 - US$123,337 thousand	FEDERAL GOVERNMENT	
Inter-American Development Bank - IDB 2202 - US$243,687 thousand	FEDERAL GOVERNMENT	
International Bank for Reconstruction and Development - IBRD US$37,335 thousand	FEDERAL GOVERNMENT	
Eurobonds – US$140,000 thousand	-	
Eurobonds – US$350,000 thousand	-	
JICA 15 – ¥18,438,880 thousand	FEDERAL GOVERNMENT	
JICA 18– ¥16,578,560 thousand	FEDERAL GOVERNMENT	
JICA 17– ¥450,484 thousand	FEDERAL GOVERNMENT	
JICA 19– ¥6,036,325 thousand	FEDERAL GOVERNMENT	
BID 1983AB – US$178,173 thousand	-	

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(i) Payment schedule – accounting balances

	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020 to 2036**	**TOTAL**
IN LOCAL CURRENCY								
Banco do Brasil	100,497	-	-	-	-	-	-	100,497
Debentures	79,977	713,121	355,437	376,069	550,360	613,341	867,450	3,555,755
Brazilian Federal Savings Bank	83,267	61,953	61,721	64,692	68,345	72,450	630,692	1,043,120
BNDES	47,217	49,386	56,018	58,073	58,073	58,074	226,383	553,224
Leasing	-	-	-	-	-	-	382,492	382,492
Other	498	561	632	713	525	-	-	2,929
Interest and other charges	113,504	-	-	-	-	-	-	113,504
TOTAL IN LOCAL CURRENCY	*424,960*	*825,021*	*473,808*	*499,547*	*677,303*	*743,865*	*2,107,017*	*5,751,521*
IN FOREIGN CURRENCY								
IDB	89,378	89,378	89,378	112,916	54,123	54,123	618,775	1,108,071
IBRD	-	-	-	-	-	2,915	84,162	87,077
Eurobonds	-	-	327,640	-	-	-	813,650	1,141,290
JICA	48,870	48,871	48,871	49,143	49,415	56,701	623,453	925,324
IDB 1983AB	56,087	56,087	56,087	56,087	55,727	41,446	93,625	415,146
Interests and other charges	21,645	-	-	-	-	-	-	21,645
TOTAL IN FOREIGN CURRENCY	*215,980*	*194,336*	*521,976*	*218,146*	*159,265*	*155,185*	*2,233,665*	*3,698,553*
TOTAL LOANS AND FINANCING	*640,940*	*1,019,357*	*995,784*	*717,693*	*836,568*	*899,050*	*4,340,682*	*9,450,074*

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(a) Debentures

Balance is stated net of funding costs in the amount of R$6,402 (2012 – R$8,586), which will be amortized during the same maturity period of each contract.

(i) New loans and financing

Debentures (17th issue)

On January 15, 2013, the Company conducted the 17th issue of unsecured non-convertible debentures, in three series, for tender offer, pursuant to CVM Rule nº 400/2003, in the total amount of R$1,000,000, amount of 100,000 debentures, in three series, unit value of R$ 10, the characteristics of which are the following:

	Number	Adjustment	Interest rates	Payment of interest	Amortization	Maturity
1st series	42,468	-	DI+ 0.75% p.a.	Semiannual (January and July)	Annual (as of January 2016)	January/2018
2nd series	39,523	IPCA	4.50%p.a.	Annual (January)	Annual (as of January 2019)	January/2020
3rd series	18,009	IPCA	4.75%p.a.	Annual (January)	Annual (as of January 2021)	January/2023

Funds deriving from funding by means of the 17th Issue of Debentures were exclusively allocated, as follows: R$500,000 for the settlement of financial commitments falling due in 2013 and R$500,000 for the early redemption of other Company's debts.

Debentures (18th issue)

As of October 15, 2013, the Company issued 100 debentures, subscribed exclusively by the Brazilian Development Bank (BNDES). These debentures were distributed in three nonconvertible series, at the unit value of R$2,753.70, totaling R$275,370. BNDES subscribed and settled the 1st and 2nd series, totaling 58 debentures of 100 estimated, on December 16, 2013, in the amount of R$159,715. The 3rd series of 42 debentures shall be subscribed in 2015.

The 1st and 3rd series have a total term of 132 months with 36-month grace period and will accrue long-term interest rates (TJLP) + 1.92% p.a. The 2nd series has a total term of 133 months with 37-month grace period, as of October 15, 2014 and will accrue a rate of 8.25% p.a. + IPCA.

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	Amount	Adjustment	Interest	Interest payment	Amortizat
Series 1	28	-	TJLP + 1.92% p.a.	Quarterly to October 2016 and monthly from then on	Monthly (from Nove
Series 2	30	IPCA	8.25% p.a.	Annual	Annual (from Nover
Series 3	42	-	TJLP + 1.92% p.a.	Quarterly to October 2016 and monthly from then on	Monthly (from Nove

The funds will reimburse expenditures in water supply and sewage systems, comprising the following projects: ETA Rio Grande, Litoral Norte, Vale do Paraíba and Mantiqueira and Bacia do Piracicaba - Capivari - Jundiaí (PCJ), in addition to supporting part of SABESP's losses reduction program.

The early amortization, fully or partially, of the subscribed debentures, when authorized by BNDES and/or BNDESPAR, shall always occur jointly, observing the proportionality between the outstanding balances of Series 1, 2 and 3 Debentures of all issues. The agreement does not include a premium due to early amortization.

(ii) Payments

Debentures (11th issue)

On March 1, 2013, the Company fully redeemed the 11th issue of debentures, in the amount of R$1,060,428, R$1,012,500 referring to the principal and R$47,928 referring to interest rates and premium.

(iii) Covenants

For the outstanding contracts, the Company has the following restrictive clauses “covenants”:

Applicable to the 10th issue, 14th issue and 18th issue:

Calculated every quarter, upon the disclosure of interim or annual financial statements:

- Adjusted Ebitda / Adjusted net operating income: equal or higher than 38%.

- Adjusted Ebitda / Adjusted financial expenses: equal to or higher than 2.35.

- Adjusted net debt / Adjusted Ebitda: equal to or lower than 3.65.

For these issues, in the assumption of non-compliance with the levels established in the Financial Commitments, the Company shall within ninety (90) days, as of the debenture holders’ written notice, create additional guarantees, accepted by debenture holders, under the penalty of declaring the early maturity of the agreement.

The agreements also have a cross default clause, i.e., the early maturity of any of the Company’s debts, the amount of which may anyhow compromise the settlement of its obligations provided for in the indenture deed shall imply the early maturity of this agreement.

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Applicable to the 12th issue:

Calculated every quarter upon the disclosure of interim or annual financial statements:

- Adjusted current ratio (current assets divided by current liabilities, excluding from current liabilities the current portion of noncurrent debts incurred by the Company that are recorded in current liabilities) higher than 1.0.

- EBITDA to paid financial expenses ratio equal to or higher than 1.5.

Noncompliance with these obligations only will be characterized when verified in its interim financial statements, during at least, two consecutive quarters, or also two nonconsecutive quarters within a twelve-month period.

In case of noncompliance with the covenants, the trustee should call an extraordinary debenture holders' meeting within 48 hours from the acknowledgement of the noncompliance to resolve on the declaration of early maturity of the debentures.

The agreements have a cross default clause, i.e. the early maturity of any of the Company’s debts, equal to or exceeding R$50 million, adjusted by IPCA variation as of the issue date, due to contractual default, the amount of which may anyhow compromise the settlement of the Company’s monetary obligations arising from the Issue, shall imply the early maturity of this agreement.

Applicable to the 15th issue, 16th issue and 17th issue:

Calculated every quarter upon the disclosure of interim or annual financial statements:

- Adjusted total Debt/Ebitda: lower than or equal to 3.65; and

- Ebitda/Paid financial expenses: equal to or higher than 1.5.

Non-compliance with the covenant clauses, during, at least, two consecutive quarters, or also two nonconsecutive quarters within a twelve-month period shall result in the early maturity of the agreement.

The agreements have a cross default clause, i.e., the early maturity of any of the Company's debts, equal to or exceeding R$90 million adjusted by IPCA variation as of the issue date, due to contractual default, the amount of which may compromise the settlement of the Company's monetary obligations arising from the Issue.

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(b) Brazilian Federal Savings Bank - CEF

The guarantee of the agreements is the partial binding of the collection deriving from the payment of water and sewage tariffs to the debt total amount. For the agreements executed, a reserve account is also recorded with balance not lower than the amount corresponding to the amortization of principal and debt ancillary payment.

(i) Covenants

For the outstanding contracts, the Company has the following restrictive clauses “covenants”:

- AMD – Performance Improvement Agreement (*)
- Cross default clause, i.e., the early maturity of any of the Company’s debts, due to contractual default, the occurrence of which may anyhow compromise the settlement of its monetary obligations deriving from these contracts shall imply the early maturity.

(c) BNDES

Balance is stated net of funding costs in the amount of R$531 (2012 – R$317), which will be amortized during the same maturity period of each contract.

(i) New loans and financing

BNDES TIETÊ III

Contract 12.2.1381. 1 – Entered into in February 2013, totaling R$1,350,000, for the purpose of financing part of the Company's contribution to the Tietê River Pollution Abatement Project - Stage III, financed by the Inter-American Development Bank (IDB). The contract aims at implementing collectors, interceptors, collection networks and residential sewer connections, and expand the sewage treatment capacity in the metropolitan region of São Paulo. Total term is 180 months, with 36-month grace period and the first disbursement occurred on December 27, 2013.

Interest - TJLP limited to 6% p.a., plus a 3% p.a. spread, paid quarterly during the grace period and monthly in the repayment period. The TJLP portion exceeding 6% p.a. will be added to the debt outstanding balance.

Loans are collateralized by part of revenues from the provision of water and sewage services.

(ii) Covenants

For the outstanding contracts, the Company has the following restrictive clauses “covenants”:

Applicable to Baixada Santista, PAC, Onda Limpa, PAC II 9751, PAC II 9752:

- AMD – Performance Improvement Agreement (*)

Applicable to Baixada Santista, PAC, Onda Limpa, PAC II 9751, PAC II 9752, Tietê III and PAC 2012/2013:

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Calculated every quarter upon the disclosure of interim or annual financial statements:

. Adjusted Ebitda / Adjusted net operating income: equal to or higher than 38%.

. Adjusted Ebitda / Adjusted financial expenses: equal to or higher than 2.35.

. Adjusted net debt / Adjusted Ebitda: equal to or lower than 3.65;

In the event the levels set out in the Financial Commitments are not met, the Company within ninety (90) days as of the date of BNDES' written notice, shall create additional guarantees accepted by BNDES, under the penalty of suspending the funds and where applicable, declare the early maturity of the agreement.

Onda Limpa agreement has a cross default clause, i.e., the early maturity of any of the Company's debt, due to contractual default the amount of which may anyhow compromise the settlement of its obligations deriving from this agreement, shall imply the early maturity of this agreement.

(*) AMD - Performance Improvement Agreement, calculated on a quarterly basis, upon the disclosure of the interim or annual financial statements;

According to the Normative Ruling no. 05 of January 22, 2008, the agreements which are purpose of investment funds, having as source of fund, the Government Severance Indemnity Fund for Employees ("FGTS") or Worker Support Fund ("FAT"), which go through a selection process of the Ministry of Cities, shall maintain a valid Performance Improvement Agreement ("AMD") with financial and operational ratios targets, yearly projected for the following 5 years, based on the average of the last two years.

The Performance Improvement Agreement, dated May 28, 2007 and amended in August 2012, was signed between SABESP and the federal government and Federal Savings Banks and BNDES as intervening parties. According to this agreement, the Company shall comply with, at least, four of eight operational and financial ratios, stipulated for the period between 2012 and 2016. If we fail to comply with five of these ratios, the Federal Savings Bank and BNDES may suspend the disbursements and we would be prevented from executing any other credit facility agreement with these institutions, until new targets are negotiated. The possibility of renegotiating the targets, if necessary, is foreseen.

On March 14, 2013, through the Normative Ruling no. 06, the Ministry of Cities revoked the Normative Instruction no. 05 of January 22, 2008, which regulates the Performance Improvement Agreement. Pursuant to Article 2 of the Normative Instruction no. 06, the AMDs signed until March 14, 2013 shall remain valid until the expiration date of their related effectiveness period, not being necessary to execute or renegotiate the AMD in new contracts.

(d) Leasing

The Company has lease agreements signed as Assets Lease. During the construction period, works are capitalized to intangible assets in progress and the lease amount is recorded at the same proportion. Works are estimated to be concluded in 2014 and 2015.

After startup, the lease payment period starts (240 monthly installments), whose amount is periodically restated by contracted price index.

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On August 31, 2013, the operation of SES Campo Limpo Paulista and Várzea Paulista started and the corresponding amount on December 31, 2013 is R$144,384.

(e) Eurobonds

Balance is stated net of funding costs in the amount of R$6,584 (R$7,584 in 2012), which will be amortized during the same maturity period of the contract.

(i) Covenants

For the outstanding contracts, the Company has the following restrictive clauses "covenants":

Calculated every quarter upon the disclosure of interim or annual financial statements:

Restrict the funding of new debts so that:

. adjusted total debt to EBITDA does not exceed 3.65;

. the Company's debt service coverage ratio, determined on the date this debt was incurred, shall not be lower than 2.35.

Noncompliance with covenants will accelerate the maturity of the contract.

The agreement has a cross default clause, i.e., the early maturity of any indebtedness in view of the Company’s loans or any of its Subsidiaries with a total principal amount of US$ 25,000,000.00 or more (or its corresponding amount in other currencies) shall imply this agreement’s early maturity.

(f) Inter-American Development Bank (IDB)

Balance is stated net of funding costs amounting to R$6,418 (R$4,281 in 2012), which will be amortized during the same maturity period of each contract.

(i) Covenants

For the outstanding contracts, the Company has the following restrictive clauses “covenants”:

Calculated every quarter upon the disclosure of interim or annual financial statements:

. Loan agreements 713, 896 and 1212 - Tariffs must: (a) produce revenues sufficient to cover the system's operating expenses, including administrative, operating, maintenance, and depreciation expenses; (b) provide a return on property, plant, and equipment no less than 7%; and (c) during project execution, the balances of current loans must not exceed 8.5% of total equity.

Noncompliance with covenants will accelerate the maturity of the contract.

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The agreement has a cross default clause among IDB agreements (same financial bank), i.e., the early maturity will occur in the event of failure to comply with any obligation therewith or any other agreement signed with IDB related to project finance.

(g) Japan International Cooperation Agency - JICA

Balance is stated net of funding costs amounting to R$1,466 (R$653 in 2012), which will be amortized during the same maturity period of each contract.

(h) AB Loan (IADB 1983AB)

The balance stated is net of funding costs amounting to R$2,243 (R$2,509 in 2012), which will be amortized during the same maturity period of each contract.

(i) Covenants

The Company has the following restrictive clauses “covenants”:

Calculated every quarter upon the disclosure of interim or annual financial statements:

- The Company's ratio of debt service coverage, determined on a consolidated basis, must be higher than or equal to 2.35; and

- Total adjusted debt over Ebitda, determined on a consolidated basis, must be lower than or equal to 3.65.

The agreement has a cross default clause, i.e., if a Default Event occurs and continues (whether voluntarily or involuntarily, whether resulting from the effect of any applicable laws or according to with due to any act or omission to act by any Authority or another one), the IDB through notification to the Borrower may order the early maturity of loan or part of it as specified in the notice (including accrued interest rates) and all other obligations are overdue and shall be promptly payable.

(i) International Bank for Reconstruction and Development - IBRD

Balance is stated net of funding costs amounting to R$384 (R$405 in 2012), which will be amortized during the same maturity period of each contract.

(j) Covenants

As of December 31, 2013 and 2012, the Company had met the requirements set forth by its loan and financing agreement.

(k) Loans and financing – Credit Limited

Brazilian Federal Savings Bank

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On December 2, 2013 SABESP formalized with the Brazilian Federal Savings Bank the taking out of nine credit facility operations under the PAC (Growth Acceleration Program) modality. The funds derive from the Sanitation for All Program, selection of the Ministry of Cities – PAC 2012/2013. Total investment is R$1.31 billion, R$1.23 billion to be financed by the Brazilian Federal Savings Bank and R$ 80 million with SABESP's consideration. Funds will be used in the works of Tietê Project and the Water Metropolitan Program. Total term of up to 24 years, with 4-year grace period, depending on the loan operation and financial charges of TR + 7.7% p.a.

BNDES PAC 2012/2013

Contract 13.2.1060. 1 – On December 5, 2013, SABESP formalized with the Brazilian Development Bank (BNDES) the taking out of a credit facility. Funds derive from FAT – Worker Support Fund, selection of Ministry of Cities for the 2012 and 2013 fiscal years. Total investments are R$462 million, R$415.8 million to be financed by BNDES and R$46.2 million with SABESP's consideration. Funds will be used in the works of the Water Metropolitan Program. Total term of 144 months, 36-month grace period and long-term interest rates (TJLP) financial charges + 1.66% p.a.

SABESP in order to comply with its investment plan prepares on a fund-raising plan.

Financing resources contracted have specific purposes, which have been released for the execution of their respective investments, according to the progress of the works.

Agent	**December 31, 2013** (in millions of reais (*))
Brazilian Federal Savings Bank	2,265
Japan International Cooperation Agency – JICA	744

Inter-American Development Bank – IDB	835
Brazilian Development Bank - BNDES	2,020
International Bank for Reconstruction and Development - IBRD	147
Others	48
TOTAL	**6,059**

(*)Exchange rate as of 12/31/2013. (US$1.00 = R$2.3426; ¥ 1.00 = R$0.02233).

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16 Taxes and contributions

(a) Current assets

	December 31, 2013	December 31, 2012 Restated
Recoverable taxes		
Income tax and social contribution	79,548	100,225
Withholding income tax (IRRF) on financial investments	2,437	14,302
Other federal taxes	4,764	3,238
Other municipal taxes	656	656
Total recoverable taxes	87,405	118,421

The reduction of balance under item “Recoverable Taxes” is mainly due to the lower balance of income tax and social contribution recoverable in 2013 and decrease of IRRF provision on financial investments, due to the concentration of investment funds, where half-yearly (May and November), the taxes on the balance of financial investments shall be collected.

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(b) Current liabilities

		December 31, 2012
Taxes and contributions payable	**December 31, 2013**	**Restated**
Cofins and Pasep	21,797	46,576
Paes (tax debt refinancing program)	-	19,011
INSS (Social Security contribution)	30,822	29,401
IRRF (withholding income tax)	39,330	41,588
Other	23,433	16,134
Total	115,382	152,710

The reduction of taxes payable from current liabilities mainly derives from the recovery of 2012 Cofins and Pasep credit and payment of Paes in the year.

The Company applied for enrollment in PAES on July 15, 2003, in accordance with Law № 10,684 of May 30, 2003, and included in its application the debts related to COFINS and PASEP which were involved in a legal action challenging application of Law 9718/98, and the outstanding balance under the Tax Recovery Program (REFIS). The original amount included in PAES was R$316,953:

The tax debt related to PAES (Special Installment Payment) was fully paid in 120 months, the last installment of which was paid on June 28, 2013. The amounts paid in 2013 and 2012 were R$19,164 and R$37,421, respectively, and financial expenses of R$153 and R$1,353, respectively. There is no outstanding balance as of December 31, 2013. There are no restrictions to the assets offered as guarantee in previous REFIS, totaling R$249,034, which still guaranteed the amounts in the PAES program, pursuant to the Law nº 9532 of December 10, 1997, since tax credits included in referred program were extinguished with the payment of final installment.

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17 Deferred Taxes and Contributions

(a) Balance sheet balances

		December 31, 2012
	December 31, 2013	Restated
Deferred taxes assets		
Provisions	506,568	512,107
Pension obligations – G0 (1)	85,271	85,271
Pension obligations – G1	215,187	193,125
Actuarial gain/loss –G1 Plan	(32,405)	9,405
Donations of underlying assets on concession agreements	43,901	41,312
Allowance for loan losses	172,482	162,670
Other	87,266	97,425
Total deferred tax assets	1,078,270	1,101,315
Deferred taxes liabilities		
Temporary difference on concession intangible assets	(595,285)	(650,093)
Capitalization of borrowing costs	(200,343)	(158,298)
Revenue – government entities	(81,711)	(77,827)
Other	(86,901)	(69,795)
Total deferred tax liabilities	(964,240)	(956,013)
Deferred tax asset, net	114,030	145,302

(1) Refers to the installment of R$250,798 from accounts receivable adjustment (GESP), which was accrued as loss in previous years.

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(b) Realization

	December 31, 2013	December 31, 2012 Restated
Deferred taxes assets		
to be recovered within 12 months	216,515	176,604
to be recovered after one year	861,755	924,711
Total deferred tax asset	1,078,270	1,101,315
Deferred taxes liabilities		
within 12 months	(37,126)	(38,267)
after one year	(927,114)	(917,746)
Total deferred tax liabilities	(964,240)	(956,013)
Deferred tax assets	114,030	145,302

(c) Changes

Deferred taxes assets	**December 31, 2012 Restated**	**Net Variation**	**December 31, 2013**
Provisions	512,107	(5,539)	506,568
Pension obligations – G0	85,271	-	85,271
Pension obligations – G1	193,125	22,062	215,187
Actuarial gain/loss –G1	9,405	(41,810)	(32,405)
Donations of underlying assets on concession agreements	41,312	2,589	43,901
Credit losses	162,670	9,812	172,482
Other	97,425	(10,159)	87,266
Total	1,101,315	(23,045)	1,078,270

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	December 31, 2012		
Deferred taxes liabilities	**Restated**	**Net variation**	**December 31, 2013**
Temporary difference on concession intangible assets	(650,093)	54,808	(595,285)
Capitalization of borrowing costs	(158,298)	(42,045)	(200,343)
Revenue – government entities	(77,827)	(3,884)	(81,711)
Other	(69,795)	(17,106)	(86,901)
Total	(956,013)	(8,227)	(964,240)
Deferred tax asset, net	145,302	(31,272)	114,030

	January 1, 2012		
Deferred taxes assets	**Restated**	**Net variation**	**December 31, 2012**
Provisions	575,473	(63,366)	512,107
Pension obligations – G0	85,271	-	85,271
Pension obligations - G1	180,018	13,107	193,125
Actuarial gains(losses)– G1	(35,323)	44,728	9,405
Donations of underlying assets on concession agreements	38,213	3,099	41,312
Credit losses	135,223	27,447	162,670
Other	77,175	20,250	97,425
Total	1,056,050	45,265	1,101,315

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Deferred taxes liabilities	**January 1, 2012 Restated**	**Net variation**	**December 31, 2012**
Temporary difference on intangible asset concession	(692,210)	42,117	(650,093)
Capitalization of borrowing costs	(101,507)	(56,791)	(158,298)
Profit on supply to governmental agencies	(76,773)	(1,054)	(77,827)
Other	(42,957)	(26,838)	(69,795)
Total	(913,447)	(42,566)	(956,013)
Deferred tax assets, net	142,603	2,699	145,302

	December 31, 2013	**December 31, 2012 Restated**
Opening balance	**145,302**	**142,603**
Net changes in the year:		
- corresponding entry in the statement of income	10,538	(42,029)
- corresponding entry in other comprehensive income	(41,810)	44,728
Total change	(31,272)	2,699
Closing balance	**114,030**	**145,302**

(d) Reconciliation of the effective tax rate

The amounts recorded as income and social contribution tax expenses in the financial statements are reconciled to the statutory rates, as shown below:

	2013	2012 Restated
Profit before income taxes	2,655,599	2,547,672
Statutory rate	34%	34%
Estimated expenses at statutory rate	(902,904)	(866,208)
Tax benefits from interest on shareholders' equity	182,596	252,355
Permanent difference		
Provision Law 4,819/58 (i)	(33,279)	(32,514)
Donations	(12,218)	(11,447)
Other differences	33,765	22,042
Income tax and social contribution	(732,040)	(635,772)
Current income tax and social contribution	(742,578)	(593,743)
Deferred income tax and social contribution	10,538	(42,029)
Effective rate	28%	25%

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(i) Permanent difference related to the provision for actuarial liability (Note 9 (vii)).

(e) Transition Tax Regime(RTT)

For the purposes of calculating the income tax and the social contribution related to 2010 and 2009, the Company opted to adopt the Transition Tax Regime (RTT), which allow eliminate the accounting effects of the Law 11,638/07 and the Provisional Measure 449/08, converted into Law No. 11,941/2009, by the registers in the fiscal books – LALUR and auxiliary controls, without any modification in the bookkeeping.

The Company has been adopting the same tax practices since 2008, as RTT started to be mandatory and will be effective until the effectiveness of law ruling the tax effects of new accounting methods, seeking the tax neutrality.

(f) Provisional Measure 627/2013

On November 11, 2013, the Provisional Measure 627 was issued, altering the federal tax laws on the Corporate Income Tax (IRPJ), Social Contribution on Net Income (CSLL), PIS/PASEP Contribution and Contribution of Social Security Financing (Cofins). This Provisional Measure revokes the Transitory Tax Regime (RTT), enacted by Law 11941/09 and also provides for the taxation of legal entity domiciled in Brazil, referring to the equity addition deriving from the profit sharing earned abroad by subsidiaries and associated companies and profit earned by individual residing in Brazil by means of foreign subsidiary. This provisional measure allows the possibility of adopting its effects in the 2014 calendar year.

The Company prepared a study of potential effects of applying the Provisional Measure 627/2013 and the Normative Ruling 1,397/2013 and concluded that they do not result in relevant effects on its operations and its financial statements for the fiscal year ended December 31, 2013, based on the best interpretation of current wording of the Provisional Measure. The eventual conversion of Provisional Measure 627/2013 into Law may result in altering the Company’s conclusion, if the final text results in changes not envisaged in the Provisional Measure and altering current taxation to which the Company is subject. The Company is awaiting the conversion of referred Provisional Measure into Law, so that it may decide on its early adoption or not, as per final wording to be enacted.

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18 Provisions

(a) Lawsuits with probable likelihood of loss

(i) Balance sheet balances

The Company is party to a number of claims and legal proceedings arising in the normal course of business, including civil, tax, labor and environmental matters. Management, recognized provisions at an amount considered sufficient to cover probable losses. These provisions, net of escrow deposits based on the legal right to offset, are as follows:

						December 31, 2012
	Provisions	**Escrow deposits**	**December 31, 2013**	**Provisions**	**Escrow deposits**	**Restated**
Customer claims (i)	621,999	(110,384)	511,615	652,663	(131,408)	521,255
Supplier claims (ii)	340,100	(183,606)	156,494	290,593	(175,437)	115,156
Other civil claims (iii)	129,400	(11,965)	117,435	169,513	(4,978)	164,535
Tax claims (iv)	59,659	(1,956)	57,703	71,141	(3,056)	68,085
Labor claims (v)	156,060	(1,614)	154,446	173,227	(1,529)	171,698
Environmental claims (vi)	182,689	-	182,689	149,061	(636)	148,425
Total	1,489,907	(309,525)	1,180,382	1,506,198	(317,044)	1,189,154
Current	631,374	-	631,374	565,083	-	565,083
Noncurrent	858,533	(309,525)	549,008	941,115	(317,044)	624,071

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(ii) Changes

	December 31, 2012 Restated	Additional provisions	Interest and inflation adjustment	Use of the accrual	Amounts not used (reversal)	December 31, 2013
Customer claims (i)	652,663	109,920	106,094	(101,710)	(144,968)	621,999
Supplier claims (ii)	290,593	17,126	45,328	(2,968)	(9,979)	340,100
Other civil claims (iii)	169,513	31,022	26,517	(9,175)	(88,477)	129,400
Tax claims (iv)	71,141	2,506	7,981	(6,320)	(15,649)	59,659
Labor claims (v)	173,227	75,842	22,284	(80,670)	(34,623)	156,060
Environmental claims (vi)	149,061	44,519	10,360	(660)	(20,591)	182,689
Subtotal	1,506,198	280,935	218,564	(201,503)	(314,287)	1,489,907
Escrow deposits	(317,044)	(34,318)	(17,391)	24,319	34,909	(309,525)
Total	1,189,154	246,617	201,173	(177,184)	(279,378)	1,180,382

(b) Lawsuits with possible likelihood of loss

The Company is party to lawsuits and administrative proceedings relating to environmental, tax, civil and labor claims, which are assessed by Management whose chances of loss are possible and are not recorded as accruals. Liability contingencies, classified as possible loss, are represented as follows:

	December 31, 2013	December 31, 2012 Restated
Customer claims (i)	737,800	862,100
Supplier claims (ii)	1,071,000	775,200

Other civil claims (iii)	422,400	362,000
Tax claims (iv)	570,700	490,900
Labor claims (v)	278,700	190,000
Environmental claims (vi)	163,900	116,300
Total	3,244,500	2,796,500

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(c) Explanation on the nature of main classes of lawsuits

(i) Customer claims

Approximately 1,380 lawsuits were filed by commercial customers, which claim that their tariffs should correspond to other consumer categories, and 720 lawsuits which claim a reduction in the sewage tariff due to losses in the system, consequently requesting the refund of amounts charged by the Company. The Company was granted both favorable and unfavorable final decisions at several court levels and recognized provisions when the chances of losses are probable. The R$9,640 decrease in the lawsuits classified as probable loss (net of escrow deposits) is mainly related to the payments and lawsuits filed during the year and revisions of expectations caused by favorable decisions to the Company in 2013, offset by interest rates, fees and updates of lawsuits in progress. These same revisions of expectations favorable to the Company resulted in a decrease of R$124,300 in the lawsuits with expectation of possible losses.

(ii) Supplier claims

Suppliers' claims include lawsuits filed by some suppliers alleging underpayment of monetary restatements, withholding of amounts related to the understated inflation rates deriving from Real economic plan, and the economic and financial imbalance of the agreements. These lawsuits are in progress at different courts and a provision is recognized when the chances of losses are probable. The R$41,338 increase in lawsuits whose likelihood of loss is considered probable (net of escrow deposits) is mainly related to interest, fees and update of lawsuits in progress. The R$295,800 increase in lawsuits whose likelihood of loss is considered possible is related to an increase in the number of lawsuits filed in 2013, as well as interest rates, fees and update of lawsuits in progress.

(iii) Other civil claims

These mainly refer to indemnities for property damage, pain and suffering, and loss of profits allegedly caused to third parties, filed at different court levels, dully accrued when classified as probable losses. The R$47,100 decrease, for lawsuits with probable chances of loss (net of escrow deposits), was due to payments and lawsuits filed occurred in the year and revisions of expectations caused by favorable decisions to the Company during 2013. The R$60,400 increase in the lawsuits with expectation of possible losses is related to interest rates, fees and update of lawsuits in progress, and an increase in the number of lawsuits filed in 2013.

(iv) Tax claims

Tax claims refer mainly to issues related to tax collections challenged due to differences in the interpretation of legislation by the Company's management, accrued when classified as probable loss. The decrease of R$10,382 in lawsuits with expectation of probable losses (net of escrow deposits) was due to payments and lawsuits filed during the year and revisions of expectations due to favorable decisions to the Company during 2013. The R$79,800 increase in lawsuits with chances of possible losses is related to an increase in the number of lawsuits filed in 2013, and mainly to the remeasurement deriving from lawsuits filed by the municipality of São Paulo, as outlined in item “b” below.

Main lawsuits are the following:

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(a) In 2006, the Federal Revenue Service, by means of a tax execution, assessed the Company referring to the tax obligations related to income tax and social contribution for calendar year 2001, and recognized taxes payable adjusted through December 31, 2013 in the amount of R$411,890 (R$389,505 in December 2012). The Company filed a timely objection and will appeal against the tax assessment at administrative level and in courts. Managements considers that the likelihood of loss of this administrative proceeding is approximately 90% considered remote and 10% possible.

(b) The municipality of São Paulo through law revoked the services tax exemption which until them the company withheld and thereafter issued tax deficiency notices related to the sewage service and ancillary activities, in the updated amount of R$307,817 (R$264,627 in December 2012), which currently are subject-matter of Tax Foreclosures, classified by the Management as possible losses. SABESP filed a writ of mandamus against this revocation, which was rejected, and currently is under phase of appealability of Special and Extraordinary Appeals filed. Writs of prevention and actions for annulment were also filed, aiming the suspension of enforceability of credits and the annulment of tax deficiency notices, as it understands that notwithstanding the exemption revocation, the sewage activities and ancillary activities are not included in the list of activities subject to taxation by municipality. The Company’s Management assessed the risk as possible losses.

(c) The Federal Revenue Service rejected some offset requests made by the Company for the extinction of IRPJ/CSLL payable, using favorable amounts, arising from undue payments of IRPJ/CSLL, which were paid based on monthly estimates. The amount involved was adjusted through December 31, 2013 and is estimated at R$50,065 (R$47,498 in December 2012). Management assessed it as a possible loss.

(d) The Company requested an authorization to offset the Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) of the period of July, August and September 2002 against the amount of IRPJ paid in excess in 1997 and 1998, due to monetary restatement over the financial statements (Law 8.200/91), which was anticipated in 1996 due to an injunction, after excluded by giving up the process and adopted the Provisional Measure 38/02. The Administrative Counsel of Fiscal Resources rejected the credit from 1997. The estimated amount is R$43,689 (R$42,403 in December 2012). The Company’s Management assessed this claim as a possible loss.

(e) On June 23, 2010, the Company and the municipality of São Paulo signed an agreement to provide water supply and sewage services. The negotiation of this agreement led to the extinction of some judicial lawsuits, but others were not part of the referred agreement, and lawsuit proceeds as usual. The remaining judicial lawsuits considered as possible and probable loss are mainly related to taxes and fines. As of December 31, 2013 the amounts of such judicial lawsuits were R$13,696 and R$62,979 (R$23,882 and R$39,063 in December 2012, respectively.)

(f) In 2005, the Federal Revenue Service partially rejected the Company´s request of offsetting tax credits related to the Corporate Income Tax (IRPJ) and the Social Contribution on Net Income (CSLL) in the amount of approximately R$56,118, and R$8,659, respectively, which relate to the period from January to April 2003, for which the Company offset prior year IRPJ and CSLL negative balances. The amounts not ratified by the authority of IRPJ and CSLL are R$11,164 and R$698, totaling R$11,862 million. As the Company obtained a partial favorable decision on this matter, the Company´s legal advisors believe likelihood of loss amounts to R$6,999 (R$6,782 in December 2012) and R$1,194 (R$1,157 in December 2012) are possible and probable, respectively.

(g) SABESP filed two writs of mandamus pleading the declaration of unconstitutional municipal law that levies the collection of taxes deriving from the use of public areas in the water and sewage network installation for the rendering of basic sanitation public utilities. The first writ of mandamus was partially granted relief, but will not have any effect because municipal laws were revoked and the second writ of mandamus awaits judgment on the municipality’s appeal, as this writ of mandamus was granted relief suspending the collection for the use of urban soil and tendering of collateral. The Management assessed the risk as possible loss, but it was not possible to estimate the amount involved, as it would be necessary to know the extension of water and sewage networks and other equipment installed in the municipality’s urban soil (public areas), as well as define the amount of related property based on the length applied.

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(v) Labor claims

The Company is a party to labor lawsuits, involving issues such as overtime, shift schedule, health hazard premium and hazardous duty premium, prior notice, change of function, salary equalization, and other. Part of the amount involved is in provisional or final execution at various court levels, and thus is classified as of probable. The Company recognized a provision for claims which likelihood of loss is considered probable. The R$17,252 decrease in lawsuits with probable chances of losses (net of escrow deposits) is chiefly due to payment and lawsuits filed occurred in 2013. The R$88,700 increase in the lawsuits with possible chances of losses is due to the increased number of suits filed in 2013.

(vi) Environmental claims

Environmental claims refer to several administrative proceedings and lawsuits filed by government entities, including Companhia de Tecnologia de Saneamento Ambiental – Cetesb, Public Prosecution Office of the State of São Paulo and others, that aim affirmative and negative covenants and penalty is estimated due to failure to comply in addition to the imposition of indemnity due to environmental damages allegedly caused by the Company. The amounts accrued represent the best estimate of the Company at this moment, however, may differ from the amount to be disbursed as indemnity to alleged damages, in view of the current stage of referred proceedings. The R$34,264 increase in lawsuits with expectation of probable losses (net of escrow deposits) is mainly related to the complementary estimates of lawsuits in progress. The R$47,600 increase in the lawsuits with possible losses is due to the increase in the number of lawsuits filed in 2013 and the complementary estimates of lawsuits in progress.

Among the main lawsuits the Company is involved, there are four public civil actions the subject-matters of which are: a) sentence SABESP to restrain itself from discharging or releasing sewage without due treatment; b) invest in the water and sewage treatment system of the municipality, under the penalty of paying a fine; c) payment of indemnity due to environmental damages, amongst others. On December 31, 2013, Management classified part of lawsuits as probable chances of losses, in the amount of R$158,135 (R$127,514 in December 2012) and another part as possible losses in the amount of R$124,880 (R$85,081 in December 2012).

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Explanation of Responses:

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(vii) Settlements reached in 2013

During 2013, the Company settled several legal and administrative proceedings, and most of them totaled R$29,460. Out of this amount, R$28,692 refer to works and R$768 refer to environmental compensations, the later, recorded as “other liabilities”, under the Statement of Financial Position. The accumulated balance on December 31, 2013, referring to these environmental liabilities amounted to R$15,363.

(viii) Other concession-related legal proceedings

The Company is party in concessions-related proceedings, cases in which it can lose the right of operating water supply and sewage collection services in few municipalities, among which we point out: a) the municipality of Cajobi filed action to recover possession against SABESP, which was granted relief and maintained the municipality in the possession of water and sewage assets and services, with expected probable losses; b) the municipality of Tarumã filed an ordinary action against SABESP, and the operation is maintained but final decision is pending, with expected possible losses; c) The Company filed an ordinary action against the municipality of Santos, the operation is maintained and there is a final decision at the appellate court favorable to SABESP, with expected remote losses; d) The Company filed a lawsuit to recover possession against the municipality of Álvares Florence, and appellate court decision was unfavorable to SABESP; the operation is not maintained with expected probable losses; e) The Company filed an action to recover possession against the municipality of Macatuba aiming with injunction return to the possession of facilities under concession, the injunction was rejected and the operation is not maintained in the municipality up to this present date, with expected possible losses; f) The Company filed an action to recover possession against the municipality of Iperó, which was deemed groundless at trial and appellate courts. Currently, the Company awaits the acceptance of appeals, with expectation of probable loss; g) The municipality of Embaúba filed a repossession action against SABESP, pleading for injunction to keep it in the possession; the motion was granted relief and complied with on May 20, 2013. The decision was questioned and Sabesp filed an interlocutory appeal against the injunction decision. Both the repossession lawsuit and the injunction decision are pending judgment, with expectation of possible losses.

See information about EMAE lawsuits in Note 9 (c).

19 Employee Benefits

(a) Health benefit plan

The health benefit plan is managed by Fundação SABESP de Seguridade Social - SABESPREV and consists of optional, free choice, health plans sponsored by contributions of SABESP and the active participants, as follows:

. Company: 7.3% (December 31, 2012 – 7.8%) on average, of gross payroll;

. Participating employees - 3.21% of base salary and premiums, equivalent to 2.2% of payroll, on average.

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(b) Pension plan benefits

	December 31, 2013	**December 31, 2012 Restated**
Funded plan – G1 (i)		
Present value of defined benefit obligations	1,988,912	2,262,440
Fair value of the plan assets	(1,442,164)	(1,657,608)
Net liabilities recognized for defined benefit obligations	546,748	604,832

	December 31, 2013	**December 31, 2012 Restated**
Unfunded plan – G0 (iii)		
Present value of defined benefit obligations	1,780,268	1,987,718
Net liabilities recognized for defined benefit obligations	1,780,268	1,987,718
Liability as per statement of financial position – pension obligations	2,327,016	2,592,550

(*) The decrease of liabilities in 2013 is mainly due to increase in the discount rate from 4.10% and 4.00% in 2012 to 6.36% and 6.46% in 2013, respectively, for G1 and G0 plans.

Pursuant to CPC33 (R1) and IAS19, the Company recognizes (gains)/losses under equity, as other comprehensive income, as shown below:

As at December 31, 2013	G1 Plan	G0 Plan	Total
Actuarial gain/(loss) on obligations	432,426	244,121	676,547
Gains/(losses) on financial assets	(312,857)	-	(312,857)
Other	3,404	-	3,404
Total gains/(losses)	122,973	244,121	367,094
Deferred income tax and social contribution – G1 Plan	(41,810)	-	(41,810)
Other comprehensive income	81,163	244,121	325,284

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As at December 31, 2012	**G1 Plan**	**G0 Plan**	**Total**
Actuarial gains/(losses) on obligations	(488,956)	(371,035)	(859,991)
Gains/(losses) on financial assets	357,400	-	357,400
Total gains/(losses)	(131,556)	(371,035)	(502,591)
Deferred income tax and social contribution – G1 Plan	44,729	-	44,729
Other comprehensive income	(86,827)	(371,035)	(457,862)

(i) Plan G1

The Company sponsors a defined benefit pension plan for its employees ("Plan G1"), which is managed by Fundação SABESP de Seguridade Social – SABESPREV, the defined benefit plan is sponsored by similar contributions established in a plan of subsidy of actuarial study of SABESPREV, as follows:

- 1.16% of the portion of the salary of participation up to 20 salaries; and
- 9.88% of the surplus, if any, of the portion of the salary of participation over 20 salaries.

As of December 31, 2013, SABESP had a net actuarial liability of R$546,748 (R$604,832 on December 31, 2012) representing the difference between the present value of the Company's defined benefit obligations to the participating employees, retired employees, and pensioners; the fair value of the related assets.

	2013	2012 Restated
Defined benefit obligation, beginning of the year	2,262,440	1,638,220
Current service cost	27,947	27,764
Interest cost	206,429	176,762
Actuarial (gains)/losses recorded as other comprehensive income	(432,426)	488,956
Benefits paid	(75,478)	(69,262)
Defined benefit obligation, end of the year	1,988,912	2,262,440

Below, the change of fair value of plan assets during the year:

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	2013	**2012 Restated**
Fair value of plan assets, beginning of year	1,657,608	1,203,493
Expected return on the plan assets	151,139	147,548
Expected Company's contributions	10,876	7,411
Expected participants' contributions	10,876	11,018
Benefits paid	(75,478)	(69,262)
Financial gain (loss) recorded as other comprehensive income	(312,857)	357,400
Fair value of plan assets, end of the year	1,442,164	1,657,608

The amounts recognized in the statement of income are as follows:

	2013
Current service cost	27,947
Interest cost rates	206,429
Expected return on plan assets	(151,139)
Total recognized in the income statement	**83,237**

In 2013, the expenses related to defined pension plan amounting to R$55,781, R$7,977 and R$19,479, were recorded in operating cost, selling expenses and administrative expenses.

Estimated expenses	2014
Current service cost	30,072
Interest cost rates	54,850

Participants contribution	(20,559)
Total additional expense to be recognized	64,363

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Actuarial assumptions:

	2013	**2012**
Discount rate – real (NTN-B)	6.36% p.a.	4.10% p.a.
Inflation rate	5.80% p.a.	5.00% p.a.
Expected rate of return on assets	12.53% p.a.	9.30% p.a.
Future salary increase	7.92% p.a.	7.10% p.a.
Mortality table	AT-2000	AT-2000

The number of active participants as of December 31, 2013 was 8,885 (9,283 as of December 31, 2012), and of inactive participants was 6,597 (6,328 as of December 31, 2012).

The benefit to be paid of G1 pension plan, expected for 2014 is R$117,491.

Sensitivity analysis of the defined benefit pension plan as of December 31, 2013 regarding the changes in the main assumptions are:

Funded plan - G1	**Change in assumption**	**Impact on present value of the defined benefit obligations**
Discount rate	Increase of 1.0%	Decrease of R$192,978
	Decrease of 1.0%	Increase of R$231,785
Wage increase rate	Increase of 1.0%	Increase of R$62,785
	Decrease of 1.0%	Decrease of R$53,478
Life expectation	Increase of 1 year	Increase of R$34,209
	Decrease of 1 year	Decrease of R$37,988

Plan assets

The plan investment policies and strategies are aim at getting consistent returns and reduce the risks associated to the utilization of financial assets available on the Capital Markets through diversification, considering factors, such as the liquidity needs and the long-term nature of the plan liability, types and availability of financial instruments in the local market, general economic conditions and forecasts as well as requirements under the law. The plan's asset allocation management strategies are determined with the support of reports and analysis prepared by SABESPREV and independent financial consultants:

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		December 31, 2013	**December 31, 2012**
Fixed income			
- NTNB's		712,017	772,882
- NTNC's		132,265	214,894
- NTNF's		5,858	6,835
Government bonds in own portfolio	(a)	850,140	994,611
Fixed income fund quotas	(b)	80,931	148,005
Private credit investment fund quotas	(c)	78,034	79,852
Total fixed income		1,009,105	1,222,468
Equities			
Stocks investment fund quotas	(d)	259,717	226,123
Total equities		259,717	226,123
Structured investments			
Equity investment fund quotas	(e)	76,338	67,867
Real estate investment fund quotas	(f)	40,220	77,876
Multimarket investment fund quotas	(g)	25,806	44,590
Total structured investments		142,364	190,333
Other	(h)	30,978	18,684
Fair value of plan assets		1,442,164	1,657,608

(a) Fixed income: it is composed of government bonds issued by the National Treasury, between 2017 and 2050. These instruments are indexed by NTN-b indexed by IPCA (Extended Consumer Price Index), NTN-c indexed by IGPM (General Market Price Index) and NTN-f which has a fixed index.

(b) Fixed Income Fund Quotas: investment funds that seek return on fixed income assets and shall have at least, 80% of the portfolio in directly related assets, summed up via derivatives to the risk factor.

(c) Private Credit Investment Fund Quotas: funds that seek return by means of the acquisition of operations representing corporate debts or disseminated receivables portfolios (rights or bonds), originated and sold by several assignors who anticipate funds and have receivables from several business activities as guarantee.

(d) Equities: equity fund composed of Brazilian companies' stocks listed at BM&FBovespa.

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(e) Equity Investment Fund Quotas: it is composed of a closed-ended investment fund. The assets under its management are destined to the acquisition of stocks, debentures, warrants or other securities convertible or swappable into shares issued by publicly- or closely-held companies.

(f) Real Estate Investment Fund Quotas: Funds investing in real estate projects (commercial buildings, shopping centers, hospitals, etc.). The return on capital invested occurs by sharing the Fund's proceeds or sale of its quotas in the Fund.

(g) Multimarket Investment Fund Quotas: they can be classified as *Multimercados Referenciados DI* or *Multimercado Long & Short*, they seek a basic return of CDI or share arbitration, respectively.

(h) Other: basically composed of loans and real estates.

Restrictions with respect to asset portfolio investments, in the case of federal government securities:

i) papers securitized by the National Treasury will not be permitted;

ii) exposure to fluctuations in exchange rates will not be permitted, in the portfolio and derivatives must be used to hedge existing exposure.

Restrictions with respect to asset portfolio investments, in the case of variable-income securities for internal management, are as follows:

i) day-trade operations will not be permitted;

ii) sale of uncovered share is prohibited;

iii) swap operations without guarantee are prohibited;

iv) leverage will not be permitted, i.e., operations with derivatives representing leverage of asset or selling short, such operations cannot result in losses higher than invested amounts.

SABESPREV does not have in its investment portfolio fixed income securities issued by the Company as of December 31, 2013 and 2012. The real estate held in the portfolio is not used by the Company.

The plan assets had a return of 7.4% in 2013 and 16.7% in 2012. This variation was mainly characterized by difficulties seen in the Brazilian capital market, due to the domestic macroeconomic scenario (combination of low growth and cycle of high basic interest rates) and the foreign macroeconomic scenario (US economy upturn, within a level above expectations and the perception that Eurozone economies are improving), made the prices of assets to have a relevant loss of value.

The contributions of the Company and participants of Plan G1 for the fiscal year ended December 31, 2013 was R$18,348 (December 2012 – R$7,411) and R$18,416 (December 2012 – R$8,935), respectively.

The Company and Sabesprev are in process of negotiation to resolve the actuarial deficit, by continuing changing the Defined Benefit Plan to Sabesprev Mais Plan. Management expects to reduce the actuarial deficit due to the change of the referred plans.

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(ii) Private pension plan benefits – Defined contribution

On December 31, 2013, Sabesprev Mais plan, based on defined contribution, had 5,627 active and assisted participants.

With respect to the Sabesprev Mais plan, the contributions from the sponsor represent 100% over the total basic contribution from the participants.

Regarding the Sabesprev Mais plan, the commitment to all participants who migrated up to December 31, 2013 amounted to R$10,613 (R$12,441 in December 2012) referred to active participants. The Company has made contributions in the amount of R$8,446 in 2013 (R$7,496 in December 2012).

(iii) Plan G0

Pursuant to Law 4,819/58, employees who provided services prior to May 1974 and were retired as an employee of the Company acquired a legal right to receive supplemental pension payments, which rights are referred as "Plan G0". The Company pays these supplemental benefits on behalf of the State Government and makes claims for reimbursements from the State Government, which are recorded as accounts receivable from related parties, limited to the amounts considered virtually certain that will be reimbursed by the State Government. As of December 31, 2013, the Company recorded a defined benefit obligation for Plan G0 of R$1,780,268 (R$1,987,718 in December 2012).

		2012
	2013	**Restated**

Defined benefit obligation, beginning of year	1,987,718	1,581,600
Current interest and service costs	176,766	167,787
Actuarial gains/(losses) recorded as other comprehensive income	(244,121)	371,035
Benefits paid	(140,095)	(132,704)
Defined benefit liability, end of the year	1,780,268	1,987,718

The amounts recognized in the statement of income are as follows:

	2013
Current service cost	296
Interest cost rate	176,470
Total	176,766

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In 2013, the expense related to the defined benefit obligation under Plan G0 was recorded in administrative expenses.

Estimated expenses	**2014**
Interest cost rates	224,931
Total additional expenses to be recognized	224,931

The main actuarial assumptions used:

	2013	**2012**
Discount rate – real (NTN-B)	6.46% p.a.	4.00% p.a.
Inflation rate	5.80% p.a.	5.00% p.a.
Future salary increase	7.92% p.a.	7.10% p.a.
Mortality table	AT-2000	AT-2000

The number of active participants of Plan - Go as of December 31, 2013 was 24 (27 on December 31, 2012). The number of beneficiaries, retirees and survivors as of December 31, 2013 was 2,412 (2,318 on December 31, 2012).

The benefit payable from the Go pension plan expected for 2014 is R$149,728.

The sensitivity analysis of defined benefit pension plan on December 31, 2013 to the changes in the main assumptions is:

Plan – G0	**Change in assumption**	**Impact on present value of the defined benefit obligations**
Discount rate	Increase of 1.0%	Decrease of R$145,899
	Decrease of 1.0%	Increase of R$170,444
Wages growth rate	Increase of 1.0%	Increase of R$176,960
	Decrease of 1.0%	Decrease of R$152,934
Life expectation	Increase of 1 year	Increase of R$59,817
	Decrease of 1 year	Decrease of R$62,843

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(c) Profit sharing

The Company has a profit sharing program in accordance with an agreement with labor union and Sabesp. The period covered represents the Company fiscal year, commence in January to December. The limit of the profit sharing is one month salary for each employee, depending on performance goals reached. As of December 31, 2013 the profit sharing accrued amounted to R$68,495 (R$60,479 in December 2012).

20 Services payable

The services account records the balances payable, mainly from services received from third parties, such as supply of electric power, reading of hydrometers and delivery of water and sewage bills, cleaning, surveillance and security services, collection, legal counsel services, audit, marketing and advertising and consulting services, among others. This account also records the amounts payable from the percentage in the revenues of São Paulo local government (Note 13 (v)). The balances on December 31, 2013 and 2012 were R$323,208 and R$389,091, respectively.

21 Equity

(a) Authorized capital

The Company is authorized to increase capital by up to R$10,000,000 (R$10,000,000 in December 2012), based on a Board of Directors' resolution, after submission to the Fiscal Council.

In the event of capital increase, issue of convertible debentures and/or warrants by means of private subscription, shareholders will have preemptive right in the proportion of number of shares held, pursuant to Article 171 of Law 6.404/76.

(b) Subscribed and paid-in capital

Subscribed and paid-in capital is represented by 683,509,869 registered, book-entry common shares without par value as of December 31, 2013 (683,509,869 in December 2012, after the share split described below) held as follows:

There was a share increase due to the split on April 22, 2013.

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	December 31, 2013		December 31, 201
	Number of shares	%	Number of shares (**)
State Department of Finance	343,524,258	50.26%	343,524,258
Companhia Brasileira de Liquidação e Custódia	174,076,755	25.47%	172,570,122
The Bank Of New York ADR Department (equivalent in shares) (*)	165,291,202	24.18%	166,806,858
Other	617,654	0.09%	608,631
	683,509,869	100.00%	683,509,869

(*) Each ADR corresponds to 1 share.

(**) Amount restated due to split occurred on April 22, 2013.

(c) Distribution of earnings

Shareholders are entitled to a minimum mandatory dividend of 25% of the adjusted net income under Brazilian GAAP, calculated according to the Brazilian corporate law. The dividends do not bear interest and the amounts not claimed within three years from the date of the Shareholders' Meeting that approved them mature in favor of the Company.

	2013
Profit for the year	1,923,559
(-) Legal reserve - 5%	(96,178)
	1,827,381
Minimum mandatory dividend – 25% (R$0.6684 per share)	456,845

On April 22, 2013, the Shareholders’ General Meeting approved the distribution of dividends as interest on shareholders’ equity amounting to R$534,277, for the 2012 fiscal year. Therefore, the amount of R$80,201, related to the surplus minimum mandatory dividends of 25%, set forth in the Bylaws, recorded in the 2012 equity under “Additional proposed dividends” was transferred to current liabilities, and these amounts were paid in 2013. The R$498,684 interest, net of withholding income tax of R$35,593, totaled R$534,277.

The Company proposed dividends as interest on shareholders' equity in the amount of R$456,845, corresponding to R$0.6684 per common share, net of income tax of R$37,758, to be resolved on the Shareholders’ Meeting to be held on April 30, 2014.

The Company declared dividends payable as interest on shareholders’ equity in the amount of R$456,845, which

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considers the minimum dividend amount set forth in the Bylaws. The amount exceeding the minimum mandatory dividend due in the year of R$80,620 was reclassified in equity to the “Additional proposed dividends” account, this amount includes the withholding income tax of R$37,758.

Pursuant to CVM Resolution nº 207/1996, the Company imputed interest on shareholders’ equity to the minimum dividend by its net value of withholding income tax. The amount of R$37,758 referring to the withholding income tax was recognized in current liabilities, in order to comply with tax liabilities related to the credit of interest on shareholders’ equity.

The balance payable as of December 31, 2013 was R$456,845, net of withholding income tax.

(d) Capital reserve

The capital reserve includes tax incentives and donations received by the company and may only be used for future capital increases.

(e) Legal reserve

Earnings reserve - legal reserve is a requirement for all Brazilian corporations and represents accrual of 5% of annual net income determined based on Brazilian law, up to 20% of capital. However, we are not required to make any allocations to our legal reserve in a year in which the legal reserve, when added to our other established capital and earnings reserves, exceeds 30% of our capital stock. The amounts allocated to such reserve may only be used to increase our capital stock or to offset losses. Therefore, they are not available for the payment of dividends.

(f) Investments reserve

Earnings reserve - investments reserve is specifically formed by the portion corresponding to own funds assigned to the expansion of the water supply and sewage treatment systems, based on capital budget approved by the Management.

As of December 31, 2013 and 2012, the balance of investment reserve totaled R$5,980,535 and R$4,690,619, respectively.

Pursuant to Paragraph four of Article 28 of the by-laws, the Board of Directors may propose to the Shareholders' Meeting that the remaining balance of net income for the year, after deducting the legal reserve and minimum mandatory dividends, be allocated to an investment reserve that will comply with the following criteria:

I- its balance, jointly with the balance of the other earnings reserves, except for reserves for contingencies and realizable profits, may not exceed the capital stock;

II- the reserve is intended to guarantee the investment plan and its balance may be used:

a) to absorb losses, whenever necessary;

b) to distribute dividends, at any moment;

c) in share redemption, reimbursement or purchase transactions authorized by law;

d) in incorporation to the capital stock.

(g) Allocation of profit for the year

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

		2013
Profit		
(+)	Profit for the year	1,923,559
(-)	Legal reserve – 5%	96,178
(-)	Minimum mandatory dividends	456,845
(-)	Additional proposed dividends	80,620
Investment reserve recorded in 2013		1,289,916

The Management will send for approval at the shareholders' meeting, a proposal to transfer the retained earnings balance, in the amount of R$1,289,916 to the Investment Reserve account, in order to meet the investment needs foreseen in the Capital Budget. In addition, it will send a proposal to increase capital stock with part of earnings reserves, in the amount of R$ 3,672,057, as this reserve exceeds the capital stock amount on December 31, 2013. In addition, it will propose to fully capitalize the capital reserve by increasing capital stock, in the amount of R$124,255.

After capitalizing part of the earnings reserve and total capital reserve by increasing capital stock, yet to be approved at the Shareholders' Meeting, the capital stock will be R$10,000,000.

(h) Retained earnings (accumulated losses)

Retained earnings (accumulated losses): the statutory balance of this account is zero as all retained earnings must be distributed or allocated to an earnings reserve at year end.

(i) Other comprehensive income

Gains and losses arising from changes in the actuarial assumptions are accounted for as other comprehensive income, net of income tax and social contribution effects. See Note 19 (b), the breakdown of amounts recorded in 2013 and 2012.

22 Earnings per Share

Basic and diluted

Basic earnings per share is calculated by dividing the income attributable to the Company's shareholders by the weighted average number of outstanding common shares during the year. The Company does not have potentially dilutive common shares outstanding or debts convertible into common shares. Accordingly, basic and diluted earnings per share are equal.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

	2013	**2012 Restated**
Income attributable to the Company's shareholders	1,923,559	1,911,900
Weighted average number of common shares issued	683,509,869	683,509,869(*)
Basic and diluted earnings per share (*reais* per share)	2.81	2.80

(*) Amount restated due to the split occurred on April, 22, 2013.

23 Segment information

Management, comprised by the Board of Directors and the Board of Executive Officers, has determined the operating segments used to make strategic decisions, as water supply and sewage services.

(i) Result

	2013		
	Water	**Sewage**	**Reconciliation to the financial statements**
Gross operating income from external customers	5,276,056	4,263,965	2,444,735
Gross sales deductions	(370,091)	(299,098)	-
Net operating income from external customers	4,905,965	3,964,867	2,444,735

Costs, selling and administrative expenses	(3,512,559)	(2,275,437)	(2,394,487)
Income from operations before other operating expenses, net and equity accounting	1,393,406	1,689,430	50,248
Other operating income (expenses), net			
Equity accounting			
Financial result, net			
Income from operations before taxes			
Depreciation and amortization	461,426	409,647	[illegible]

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

			2012
			Restate Reco
	Water	**Sewage**	**s**
Gross operating income from external customers	4,944,257	3,982,480	
Gross sales deductions	(362,003)	(291,585)	
Net operating income from external customers	4,582,254	3,690,895	
Costs, selling and administrative expenses	(3,406,588)	(2,043,582)	(2
Income from operations before other operating income (expenses), net and equity accounting	1,175,666	1,647,313	
Other operating expenses, net			
Equity accounting			
Financial result, net			
Income from operations before taxes			
Depreciation and amortization	403,980	334,545	

Explanation on the reconciliation items for the Financial Statements: the impacts on gross operating income and in costs are as follows:

	2013	2012 Restated
Gross revenue from construction recognized under ICPC 1 (R1) (a)	2,444,735	2,464,482
Construction costs recognized under ICPC 1 (R1) (a)	2,394,487	2,414,410
Construction margin	50,248	50,072

(a) Revenue from concession construction contracts is recognized in accordance with CPC 17 (R1), Construction Contracts (IAS 11), using the percentage-of-completion method. See Note 13 (c) and (g).

(ii) Intangible assets

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

Reportable segment's intangible assets are reconciled to total assets as follows:

	December 31, 2013	December 31, 2012 Restated
Intangible asset:		
Water supply	9,741,582	9,126,097
Sewage services	12,298,412	11,199,727
Segment assets for reportable segments	22,039,994	20,325,824
Other intangible assets	1,806,237	1,641,702
Total intangible assets	23,846,231	21,967,526

There are no liabilities allocated to the reportable segments.

24 Operating Revenue

(a) Revenue from water and sewage services:

	2013	2012 Restated
Metropolitan region of São Paulo	6,984,364	6,625,041
Regional Systems (i)	2,555,657	2,301,696
Total (ii)	9,540,021	8,926,737

(i) Including the municipalities operated in inland and at the coast of the State of São Paulo.

(ii) Revenue from water and sewage services increased by 6.9% as of December 31, 2013 over 2012. The billed volume was up 2.8% as of December 31, 2013 and the impact of tariff adjustment in 2013 over 2012 was 5.65% .

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

(b) Reconciliation between gross operating income and net operating income:

	2013	**2012 Restated**
Revenue from water and sewage services	9,540,021	8,926,737
Construction revenue (Nota 13 (c))	2,444,735	2,464,482
Sales tax	(669,189)	(653,588)
Net revenues	11,315,567	10,737,631

25 Operating Costs and Expenses

	2013	**2012 Restated**
Operating costs		
Salaries and payroll charges	1,348,933	1,224,335
Pension obligations	59,237	36,480
Construction costs (Note 13 (c))	2,394,487	2,414,410
General supplies	179,771	169,096
Treatment supplies	240,730	177,453
Outsourced services	786,515	724,478
Electricity	551,630	588,183
General expenses	444,663	400,446
Depreciation and amortization	810,297	715,070

	6,816,263	6,449,951
Selling expenses		
Salaries and payroll charges	215,083	198,762
Pension obligations	8,470	6,054
General supplies	6,995	8,313
Outsourced services	208,943	205,393
Electricity	557	629
General expenses	82,470	77,848
Depreciation and amortization	10,721	8,017
Allowance for doubtful accounts, net of recoveries (Note 8(c))	103,864	192,236
	637,103	697,252
Administrative expenses		
Salaries and payroll charges	176,845	168,514
Pension plan	118,600	104,717
General supplies	6,700	4,374
Outsourced services	116,735	145,673
Electricity	694	1,175
General expenses	183,874	209,191
Depreciation and amortization	50,055	15,438
Tax expenses	75,614	68,295
	729,117	717,377
Operating costs and expenses		
Salaries and payroll charges	1,740,861	1,591,611
Pension plan	186,307	147,251
Construction costs (Note 13 (c))	2,394,487	2,414,410
General supplies	193,466	181,783
Treatment supplies	240,730	177,453
Outsourced services	1,112,193	1,075,544
Electricity	552,881	589,987
General expenses	711,007	687,485
Depreciation and amortization	871,073	738,525
Tax expenses	75,614	68,295
Allowance for doubtful accounts, net of recoveries (Note 8(c))	103,864	192,236
	8,182,483	7,864,580

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

26 Financial Expenses and Income

	2013	**2012 Restated**
Financial expenses		
Interest and charges on loans and financing – local currency	(294,729)	(304,736)
Interest and charges on loans and financing – foreign currency	(84,648)	(87,800)
Other financial expenses (i)	(62,882)	(33,860)
Income tax over international remittance	(10,662)	(11,660)
Inflation adjustment on loans and financing (ii)	(72,657)	(34,599)
Inflation adjustment on Sabesprev Mais deficit (iii)	(1,334)	(1,525)
Other inflation adjustments (iv)	(5,731)	(6,657)
Interest and inflation adjustments on provisions	(70,267)	(97,393)
Total financial expenses	(602,910)	(578,230)
Financial income		
Inflation adjustment gains (v)	85,245	66,497
Income on short-term investments	151,106	162,928
Interest and other income (vi)	149,759	103,704
Total financial income	386,110	333,129
Financial, net before foreign exchange variations	(216,800)	(245,101)
Net foreign exchange gains (losses)		
Foreign exchange variation on loans and financing (vii)	(267,835)	(50,523)
Other foreign exchange variations	(6)	(43)
Foreign exchange gains	1,395	(5)
Foreign exchange variations, net	(266,446)	(50,571)
Financial, net	**(483,246)**	**(295,672)**

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Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

(i) This variation is mainly due to interest rates of the Public-Private Partnership agreement of Alto Tietê Production System – CAB – Sistema Produtor Alto Tietê S/A, in the amount of R$32,198 in 2013.

(ii) The account variation mainly derives from an increase in debt inventory indexed to IPCA in view of the 17th Issue of Debentures. This inflation adjustment derives from changes in the indexes defined in loan agreements, such as, UPR, IPCA, CDI and TJLP, corresponding to 0.2%, 5.9%, 9.8% and 5.0%, respectively, in 2013. (0.3%, 5.8%, 6.9% and 5.5%, respectively, in 2012). The exposures to these rates are shown in Note 4.3.1.

(iii) This inflation adjustment derives from the change in the National Consumer Price Index (INPC) rate of 5.6% in 2013 (6.2% in 2012), which is used to adjust the balance of SABESP's commitment in relation to the deficit of the Sabesprev mais pension plan.

(iv) Other expenses related to inflation adjustment mainly arises from the adjustment of liabilities referring to investment commitments required by the public-private partnerships and mainly from program contracts indexed by the IPC and IPCA of 3.9% and 5.9% in 2013 and 5.1% and 5.8% in 2012, respectively.

(v) These inflation adjustments arise from accounts/bills of overdue accounts receivable, which are restated depending on the payment date, by IPCA (5.9% in 2013 and 5.8% in 2012) or IPC-FIPE (Consumer Price Index, 3.9% in 2013 and 5.1% in 2012), and escrow deposits, which are adjusted by the index defined by the Judiciary Branch, which varied between 5.6% in 2013 and 6.0% in 2012.

(vi) The variation is mainly due to interest rates on agreements and installment payments.

(vii) The increase in foreign exchange variation on loans and financing mainly arises from the 14.6% U.S. dollar appreciation against the Brazilian Real in 2013, when compared to the 8.9% appreciation in 2012.

27 Other Operating Income (expenses), net

	2013	2012 Restated
Other net operating income, net	57,382	68,364
Other operating expenses (i)	(54,086)	(91,539)
Other net operating income (expenses)	3,296	(23,175)

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

Other operating income is comprised of sale of property, plant and equipment, sale of contracts awarded in public bids, and indemnities and reimbursement of expenses, fines and collaterals, property leases, reuse water, and PURA projects and services.

Other operating expenses consist mainly of write-off of property, plant and equipment due to obsolescence, discontinued construction works, unproductive wells, projects considered economically unfeasible, losses on property, plant and equipment.

(i) Variation mainly refers to the allowance for losses of the municipality of Diadema and recognized in 2012, totaling R$60.295. In 2013, it refers to the registration of asset write-off, due to replacement of old water and sewage connections by new ones, in the amount of R$17,851.

28 Commitments

The Company has agreements to manage and maintain its activities, as well as agreements to build new projects aiming at achieving the objectives proposed in its target plan. Below, main committed amounts as of December 31, 2013 are as follows:

	1 year	1-3 year	3-5 year	More than 5 years	Total
Contractual obligations - Expenses	1,211,431	882,827	50,658	3,785,112	5,930,028

Contractual obligations – Investments	1,407,541	1,616,823	124,561	2,186,389	5,335,314
Total	2,618,972	2,499,650	175,219	5,971,501	11,265,342

The main commitment refers to São Lourenço PPP, see Note 13 (j).

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

29 Additional information on cash flows

	2013	2012 Restated
Total additions of intangible assets as per Note 13	2,750,319	2,651,018
Items not affecting cash (see breakdown below)	(445,288)	(642,319)
Total additions to intangible assets as per statement of cash flows	2,305,031	2,008,699
Investments and financing operations affecting intangible assets but not cash:		
Interest capitalized in the period	205,012	283,016
Contractors	(4,887)	67,631
Program contract commitments	28,197	75,434
Leasing	166,718	166,166
Construction margin	50,248	50,072
Total	445,288	642,319

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

30 Events after the reporting period

(a) Sabesp's Incentive Program to Reduce Water Consumption

After being approved by ARSESP on an emergency basis through Resolution 469/2014, SABESP adopted an economic incentive to stimulate households of the Greater São Paulo to reduce water consumption. This measure was adopted due to the record heat and the inedited rainless in the Cantareira System, which is in a critical level and which supplies almost 10 million people.

The clients who reduced by, at least, 20% the average consumption of a 12-month period: February 2013 to January 2014, will have a 30% discount in their bill. This deduction shall apply over a lower amount, since decrease in consumption will result in cheaper bill to apply the benefit.

This measure applies to households, commerce and industries supplied by Cantareira System: the entire north area and São Paulo downtown, part of east and west areas of the capital city, Barueri, Caieiras, Carapicuíba, Francisco Morato, Franco da Rocha, Itapevi, Jandira, Osasco and Santana de Parnaíba. In Guarulhos and São Caetano do Sul, also served by Cantareira System, the distribution is under the local governments' responsibilities, which buy water from SABESP. The municipal services shall decide about the decision of granting this incentive.

This benefit will be valid for the bills in the reference months from February to August and consumers will receive the bill from March to September. In Santana de Parnaíba, this measure shall apply in the reference months from March to August and bill is delivered between April and September.

(b) ARSESP Tariff Revision

ARSESP – Sanitation and Energy Regulatory Agency of the State of São Paulo, by means of its Resolution nº 463 of January 9, 2014, altered the schedule for development of phases D2, D3, D4 and D5 of ARSESP Resolution nº 434 of 10/31/2013, referring to SABESP's first Tariff Revision and defined as April 10, 2014 as the date to publish the Initial Maximum Price (P0) and the definitive Efficiency Factor (X Factor) for the tariff cycle initiated on August 11, 2012, establishing the following dates for remaining phases:

i. Phase D2 - ARSESP releases the proposals for Initial Maximum Price (P0) and definitive Efficiency Factor (X Factor) and the opening of a public consultation, summoning for public hearing on 2/11/2014;

ii. Phase D3 – Public hearing was held on 3/12/2014 and closure of Public Consultation postponed for 3/19/2014, as notified at its website;

iii. Phase D4 – Publication of results related to the Initial Maximum Price (P0) and definitive Efficiency Factor (X Factor) and a substantiated report on contributions to the public consultation on 4/10/2014; and

iv. Phase D5 – Publication of schedule to define and implement the new Tariff Structure of SABESP on 4/10/2014.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

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Amounts in thousands of reais, unless otherwise indicated

(c) Signature of services agreement with the municipality of Diadema.

On March 18, 2014 were signed (i) judicial settlements in lawsuits filed by Sabesp against the municipality of Diadema and Saned – a municipal company, and (ii) a services agreement for water supply and sewage public utility services in the municipality of Diadema, 30-year effectiveness period as of the agreement's signature date. This agreement can be extended for another 30 years, upon execution of appropriate amendments, under the terms of law.

ARSESP will authorize the tariffs and will ratify the price table proposed by SABESP, as well as it will define the tariff structure, pursuant to the guidelines of Law 11.445/07 and State Decree 41.446/96 of the standards to replace them and related legislation. As of the date of the assumption of services by SABESP scheduled to March 31, 2014, the municipality's tariffs will be levelled to those practiced by SABESP in the Metropolitan region of São Paulo, through five annual real and consecutive adjustments, starting in a period not less than 12 months as of the agreement's signature.

Sabesp shall pay the amount of R$95,000 to the municipality of Diadema to implement actions related to the environmental sanitation in the municipality, necessary to comply with the universalization targets. These amounts will be paid in two installments of R$47,500, the first one 30 days after the agreement's signature and the final installment, 12 months after the payment of the 1st installment, and this installment shall be adjusted by IPC-IBGE. These amounts will be deposited in a specific account, indicated by municipality, which shall be liable for the execution of these actions, as well as for the regular accountability, and on a half-yearly basis, shall provide a list of actions and related amounts. The amounts, while not used, shall be kept in financial investments and related proceeds only may be used in the execution of the aforementioned actions. These amounts shall be computed by ARSESP for the purposes of determining the agreement's financial and economic breakeven.

The agreement is subject to ARSESP's regulations, including referring to the economic and financial breakeven.

(d) Program Contracts

On March 24, 2014, the Company renewed its Program Contract of Water Supply and Sewage Services with the municipalities of Itapevi, Piedade, Rosana, Lucélia, Parapuã and Jaborandi. These agreements have a 30-year term.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

Executive Officers' Statement on the Financial Statements

STATEMENT

The executive officers of Companhia de Saneamento Básico do Estado de São Paulo - SABESP, with Corporate Taxpayer's ID (CNPJ/MF): 43.776.517/0001-80, with headquarters located at Rua Costa Carvalho, nº 300, Pinheiros, São Paulo, declare that, in compliance with Paragraph 1 of Article 25, items V and VI of CVM Rule 480 of December 7, 2009 that:

They revised, discussed and agreed with the financial statements for the year ended December 31, 2013.

São Paulo, March 27, 2014.

Companhia de Saneamento Básico do Estado de São Paulo – SABESP

/s/ Dilma Seli Pena

Chief Executive Officer

/s/ Rui de Britto Álvares Affonso

Chief Financial and Investor Relations Officer

/s/ Manuelito Pereira Magalhães Junior

Corporate Management Officer

/s/ João Paulo Tavares Papa

Technology, Project and Environment Officer

/s/ Paulo Massato Yoshimoto

Metropolitan Officer

/s/ Luiz Paulo de Almeida Neto

Regional Systems Officer

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Notes to the Financial Statements

Years Ended December 31, 2013 and 2012

Amounts in thousands of reais, unless otherwise indicated

Executive Officers' Statement on the Report of Independent Registered Public Accounting Firm

STATEMENT

The executive officers of Companhia de Saneamento Básico do Estado de São Paulo - SABESP, with Corporate Taxpayer's ID (CNPJ/MF): 43.776.517/0001-80, with headquarters located at Rua Costa Carvalho, nº 300, Pinheiros, São Paulo, declare that, in compliance with Paragraph 1 of Article 25, items V and VI of CVM Rule 480 of December 7, 2009:

They revised, discussed and agreed with the Report of Independent Registered Public Accounting Firm on the financial statements for the year ended December 31, 2013.

São Paulo, March 27, 2014.

Companhia de Saneamento Básico do Estado de São Paulo – SABESP

/s/ Dilma Seli Pena

Chief Executive Officer

/s/ Rui de Britto Álvares Affonso

Chief Financial and Investor Relations Officer

/s/ Manuelito Pereira Magalhães Junior

Corporate Management Officer

/s/ João Paulo Tavares Papa

Technology, Project and Environment Officer

/s/ Paulo Massato Yoshimoto

Metropolitan Officer

/s/ Luiz Paulo de Almeida Neto

Regional Systems Officer

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Companhia de Saneamento Básico do Estado de São Paulo - SABESP

FISCAL COUNCIL REPORT

The members of the Fiscal Council of COMPANHIA DE SANEAMENTO BÁSICO DO ESTADO DE SÃO PAULO – SABESP, undersigned here in below, within its duties and legal responsibilities, hereby present their report on the following matters:

1. The members of the Fiscal Council examined the Financial Statements, the Annual Management Report and the Management Proposal For the Allocation of Income for the fiscal year ended December 31, 2013, and based on analysis conducted, additional clarifications rendered by Management and the Audit Committee, also considering the Report of Independent Registered Public Accounting Firm of Deloitte Touche Tohmatsu, dated March 27, 2014, concluded that these are fairly presented, reason that they recommend to be sent for approval at the Shareholders' Meeting; and

2. The members of the Fiscal Council examined the Company’s Management proposal to increase capital [without issuing new shares], by means of capitalization of capital reserve, in the amount of one hundred, twenty-four million, two hundred, fifty-four thousand, eight hundred, fifty-one reais and fifty-one centavos (R$124,254,851.51) and part of the Company’s earnings reserve balance, in the amount of three billion, six hundred, seventy-two million, fifty-six thousand, five hundred, eighty-three reais and twenty-six centavos (R$3,672,056,583.26), pursuant to Article 169, Paragraph 1 and Article 199 of Federal Law 6.404/1976. They recommend it to be sent for approval at the Shareholders' Meeting.

São Paulo, March 27, 2014.

Humberto Macedo Puccinelli

José Antonio Xavier

Horácio José Ferragino

Massao Fábio Oya

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Companhia de Saneamento Básico do Estado de São Paulo - SABESP

AUDIT COMMITTEE REPORT

The Audit Committee, duly considering its responsibilities and the natural limitations arising from the scope of its performance, based on its works, including information received by the Company's Management, Accounting and Legal Superintendence, Internal Audit and Independent Registered Public Accounting Firm (Deloitte Touche Tohmatsu Auditores Independentes), considers that all relevant issues it took cognizance were properly reported in the Financial Statements for the year ended December 31, 2013, accompanied by the Independent Auditor's Report with unqualified opinion. As a result, the Audit Committee advises the Board of Directors to approve referred audited financial statements for the year ended December 31, 2013.

São Paulo, March 27, 2014.

Jerônimo Antunes	**Reinaldo Guerreiro**	**Francisco Vidal Luna**
Coordinator	*Member*	*Member*

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Companhia de Saneamento Básico do Estado de São Paulo - SABESP

CAPITAL BUDGET

Department of Planning and Regional Development of the State of São Paulo-SPDR

Cia. Saneamento Básico do Estado de São Paulo - SABESP

Chart III - Loan Structure - 2014

2014 Company Proposal (Budget Approved by Executive Board and Board of Directors)

R$ thousand

Sources / **Investments**	**LOAN OPERATION** FINANCING FOREIGN	DOMESTIC	FOR.+DOM.	**OWN FUNDS**	**STATE TREASURY**	**TOTAL**
INVESTMENTS	**465.874**	**507.880**	**973.754**	**1.668.346**	**1**	**2.642.101**
Water Supply	116.267	193.529	309.796	829.018	1	1.138.815
Sewage Collection	227.703	252.902	480.605	611.523	0	1.092.128
Collected Sewage Treatment	121.904	61.449	183.353	227.805	0	411.158

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Companhia de Saneamento Básico do Estado de São Paulo - SABESP

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city São Paulo, Brazil.
Date: April 15, 2014

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

By: /s/ Rui de Britto Álvares Affonso

Name: Rui de Britto Álvares Affonso
Title: Chief Financial Officer and Investor Relations Officer

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.