

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP

Form 6-K

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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 6-K

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

For April 25, 2013
(Commission File No. 1-31317)

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

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

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

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

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K
in paper as permitted by Regulation S-T Rule 101(b)(1) .

Indicate by check mark if the registrant is submitting the Form 6-K
in paper as permitted by Regulation S-T Rule 101(b)(7) .

Indicate by check mark whether the registrant by furnishing the
information contained in this Form is also thereby furnishing the
information to the Commission pursuant to Rule 12g3-2(b) under
the Securities Exchange Act of 1934.

Yes No

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

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

Companhia de Saneamento Básico do Estado de São Paulo -SABESP

Financial Statements as of and for the Years Ended December 31, 2012 and 2011

**Companhia de Saneamento Básico do Estado de São Paulo -
SABESP**

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MESSAGE FROM THE CEO

In 2012, the tax relief was the mark of the economic policy to stimulate Brazil's growth. Even though it was highly expected by the sector, the benefit did not reach the sanitation industry, which would have allowed for Sabesp to expand its investments. Our management's constant striving for improvement enabled investments of R\$2.5 billion. Our profit was R\$1.9 billion, 56.3% higher than in the previous year. We also paid R\$654 million in PIS/Cofins tax.

Our performance in the stock market was also vigorous, making Sabesp's market cap increase 67% to R\$ 19.8 billion this year. Our stock posted the third highest appreciation of the Ibovespa. In the U.S. market, the company's ADRs gained 50.2%, while the Dow Jones index rose 7.3%. We also had the privilege to celebrate the tenth anniversary of our listing in the Novo Mercado of the BM&FBovespa and on the New York Stock Exchange.

Our operating performance is also worthy of note. We recorded 240,000 new water supply connections, the highest result since 2000. Because we operate in a region where water resources are scarce, we seek new springs to ensure the water supply to 27.7 million customers. We met the commitment of publishing the invitation to bid for the implementation of the São Lourenço production system. Once completed, it will integrate the water supply system of the metropolitan region of São Paulo, where 20 million people live.

Because we already get water to supply the metropolis 80 km away from the city, this year we put into operation one of our strategies to face the effects climate change may have upon the sanitation industry. We have opened the Aquapolo Ambiental water reuse program to supply the Capuava Petrochemical Complex of Mauá, located in São Paulo's ABC region. Sabesp increased by 13 times its water reuse production with this project.

Loss reduction is another focus of action for us to face the low water resources availability. Our Corporate Program for the Reduction of Water Loss received an unprecedented funding of R\$710 million in February 2012 from the Japanese government. Even though we have not reached the expected loss ratio, starting in the second half of 2013, this loan will allow for us to expand our services and seek greater efficiency, in addition to strengthening our actions to prevent losses.

Regarding our sewage operations, in 2012 we had the second best result since 1998 for new sewage connections, and reached the mark of 77% of collected sewage treated. We delivered 23 new sewage treatment stations and started building 38 other stations, which has made our plan for universal access to sanitation services in the inland of the state before 2014 more and more visible.

All our achievements in 2012 allow for us to reaffirm, each year, our commitment to provide universal access to sanitation services before the end of this decade in common areas where we operate, having sustainability and environment preservation as our rules for everyday operations.

Dilma Pena
CEO of Sabesp

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PROFILE

Sabesp was founded in 1973, from the merger of several companies and under the guidelines of the National Sanitation Plan (Planasa). A publicly-held and mixed-capital company, its majority shareholder is the São Paulo State Government, and it is regulated by the principles of both public and private law.

We are the largest sanitation company of the Americas and the world's fifth largest company in terms of population served, according to the 14th edition (2012-2013) of the Pinstent Masons Water Yearbook. We supply water to 27.7 million people (24.2 million directly and 3.5 million in the wholesale basis market), and collect sewage generated by 21 million people. This means that Sabesp provides its services to approximately 67% of the urban population of the State of São Paulo.

Our business structure is divided into five executive boards, in addition to the CEO, two of which are related to operations, accommodating 17 business units distributed throughout the State of São Paulo. We operate 214 water treatment stations and 502 sewage treatment stations. Our water distribution network is 67.6 thousand kilometer long, and our sewage network, 45.8 thousand kilometer long. Today we have 15,019 employees, whose production, measured as connections per employee, and has grown 67% for the past ten years.

The company has operations in 363 municipalities of the State of São Paulo, 193 of which are fully covered for water supply and sanitation services. We also sell water in the wholesale basis market to six municipalities located in the metropolitan region of São Paulo, five of which also use our sewage treatment services.

In three other municipalities, Sabesp provides water supply and sanitation services through partnerships with companies: Águas de Castilho S.A., Águas de Andradina S.A. and Saneaqua Mairinque S.A.. In the city of Mogi Mirim (SP), also through a partnership, with SESAMM –Serviços de Saneamento de Mogi Mirim S.A., we are responsible for the modernization, implementation and management of sewage treatment system.

In a partnership with companies, Sabesp created the Aquapolo Ambiental water reuse project, which started operating in 2012 to produce, supply and sell reused water for the Capuava Petrochemical Complex; and Attend Ambiental, whose purpose is to implement and operate a non-residential effluent pre-treatment and sludge conditioning station in the metropolitan region of São Paulo, among other activities, and it is expected to start operating in September 2013.

We have operations in consulting services on water rational use, business and operating management in Panamá and Honduras and in state sanitation concessionaires in Alagoas (Casal) and Espírito Santo (Cesan), promoting technology interchange in the industry.

We are also allowed to operate in the drainage and city cleaning segments, handling of solid waste, selling energy and executing other services, supplying products and obtaining benefits and rights that directly or indirectly derive from its assets, operations and activities, in Brazil and overseas.

Companhia de Saneamento Básico do Estado de São Paulo -SABESP

Our shares – all common shares – are listed on the Securities, Commodities and Futures Exchange of São Paulo (BM&FBovespa) under ticker code SBSP3, and on the New York Stock Exchange (NYSE), as American Depositary Receipts (Level 3 ADR), under ticker code SBS.

TABLE OF INDICATORS

| Indicators | Unit | 2012 | 2011 | 2010 | 2009 |
|---|------------------------|----------------------------------|---------|---------|---------|
| Service | | | | | |
| Water service indexes | | Tendency to universalization (1) | | | |
| Sewage collection service indexes | % | 83 | 82 | 81 | 80 |
| Collected sewage treatment indexes(2) | % | 77 | 76 | 75 | 74 |
| Resident population serviced with water supply | thousand inhabitants | 24,249 | 23,911 | 23,625 | 23,363 |
| Resident population serviced with sewage collection | thousand inhabitants | 20,992 | 20,498 | 20,024 | 19,600 |
| Operational | | | | | |
| Water connections | thousand units | 7,679 | 7,481 | 7,295 | 7,118 |
| Sewage connections | thousand units | 6,128 | 5,921 | 5,718 | 5,520 |
| Water losses | % | 25.7 | 25.6 | 26.0 | 26.0 |
| Volume of water produced | million m ³ | 3,059 | 2,992 | 2,952 | 2,845 |
| Volume of water billed at wholesale | million m ³ | 298 | 297 | 293 | 288 |
| Volume of water billed at retail | million m ³ | 1,796 | 1,747 | 1,699 | 1,630 |
| Volume of sewage billed | million m ³ | 1,535 | 1,486 | 1,434 | 1,373 |
| Headcount (3) | employees | 15,019 | 14,896 | 15,330 | 15,103 |
| Operational productivity | connec/empl | 919 | 900 | 849 | 837 |
| Financial(4) | | | | | |
| Net revenue | R\$ million | 10,754.4 | 9,941.6 | 9,231.0 | 8,579.5 |
| Adjusted EBITDA(5) | R\$ million | 3,605.2 | 3,213.3 | 3,222.5 | 2,727.0 |
| Adjusted EBITDA Margin | % | 33.5 | 32.3 | 34.9 | 31.8 |
| Adjusted EBITDA Margin, excluding construction revenue and cost | % | 42.9 | 41.1 | 44.7 | 41.2 |
| Results (profit/loss) | R\$ million | 1,911.9 | 1,223.4 | 1,630.4 | 1,507.7 |

(1) 99% or more

(2) Due to methodological reasons, it considers a variation margin of approximately 2 percentage points

(3) Number of the Company's employees, excluding those assigned to other agencies

(4) Consolidated

(5) Earnings before interest, taxes, depreciation and amortization

STRATEGY AND PERSPECTIVES FOR THE FUTURE

At the same time Sabesp executes its main purpose—provide universal access to basic sanitation services in the State of São Paulo—it also participates in important state programs to promote quality of life and preserve the environment, in addition to developing and executing programs to control losses, promote the rational use and reuse of water, and stimulate the technological production for the efficient expansion of services, aiming reasonable tariffs and the appropriation of social gains.

We provide services having in mind the technical and operational peculiarities of each region, and social responsibility permeates all our actions, through our respect for the local characteristics and the engagement of our stakeholders, strongly contributing to shaping the citizen of the future.

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Preserving the environment is part of our daily routine, and the reason why we seek to improve our operation's controls and mitigate the impacts caused by our businesses. We understand that the implementation of educational actions raise awareness about the need to protect the nature.

SUMMARY OF TARGETS

The Company achieved five of the seven performance targets defined in 2012 that guided the concession of salary benefits established in the Profit Sharing Plan (PPR).

Water supply was maintained in a level we may consider as being universalized in our marketplace.

New connections of this service followed the vegetative growth of the areas covered by the company and business, and reached, in 2012, the largest record since 2000.

The sewage collection and treatment continue growing as projected. It is worth mentioning that in 2012, we achieved the second best results since 1998 in relation to the number of new sewage connections, and reached the mark of 77% of treatment of sewage collected.

We have met an important goal—publishing the international invitation to bid for contracting a public-private partnership (PPP) for the implementation of the São Lourenço Production System. The new system will increase water supply in the metropolitan region of São Paulo and ensure safe supply. Another highlight was that we performed better than we had expected with regard to the Adjusted EBITDA margin, which reached 33.5%.

Our loss ratio target was not met. Our ratio is at 25.7%, but we wanted to reach 25.2%. In 2013, however, with the beginning of investments made with the R\$710 million loan obtained from the Japan International Cooperation Agency (Jica), we believe our indicators will improve. The Company could not keep the level of customer's satisfaction at 92% either, even though we were only three points below our target.

Companhia de Saneamento Básico do Estado de São Paulo -SABESP**Summary of Targets**

| Indicators | Unit | Target Accomplished | |
|--|----------------|---------------------------|------------------------|
| Adjusted EBITDA Margin(1) | % | 32.4 | 33.6 |
| Customer satisfaction index | % | 92 | 89 |
| Number of new water connections | thousand units | 175 | 212.8 |
| Number of new sewage connections | thousand units | 217 | 240.7 |
| Water billing loss index | % | 25.2 | 25.7 |
| Collected sewage treatment index | % | 77 | 77 |
| São Lourenço production system (publish invitation to bid) | units | Publish Invitation to Bid | Published on 11/8/2012 |

(1) Earnings before interest, taxes, depreciation and amortization

2012 Realized and Targets 2012-2020 (1)

| | Accomplished | | | | | | |
|--|---|------|------|------|------|------|--------------------|
| | 2012 | 2012 | 2013 | 2014 | 2015 | 2016 | 2020 |
| Water supply | Tendency to universalization (2) | | | | | | |
| Sewage collection (%) | 83 | 83 | 84 | 85 | 86 | 87 | 95 |
| Collected sewage treatment (%) | 77 | 77 | 78 | 80 | 82 | 86 | 95 |
| New water connections (thousand) | 212.8 | 175 | 175 | 176 | 177 | 172 | 644 ⁽³⁾ |
| New sewage connections (thousand) | 240.7 | 217 | 217 | 242 | 246 | 243 | 928 ⁽³⁾ |
| Water losses (%) | 25.7 | 25.2 | 25.2 | 23.4 | 22.7 | 21.9 | 19.0 |

(1) Targets of the 2012/2013 profit sharing plan

(2) 99% or more

(3) Accumulated 2017/2020 target

WATER SUPPLY SECURED IN AN ENVIRONMENT OF SCARCITY

In 2012, we maintained our pace in the expansion of water supply services. A total of 212.8 thousand new connections were made. With this expansion, we maintained the universal access to water supply in the legal areas of the municipalities where we operate and managed to keep in line with the vegetative growth.

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The **Metropolitan Water Program**, which eliminated the water rationing in 1998, continued to progress, with investments estimated at R\$2.7 billion. A total of R\$1.3 billion has been invested up to 2012, R\$95.2 million of which in 2012 alone. Our total capacity in the metropolitan region of São Paulo is currently at 2.0 million m³. The project is under revision to meet the future demand up to the end of the decade.

In November 2012 we published the invitation to bid for the implementation of the **São Lourenço Production System** (SPSL). Once completed, this system will increase the water supply in the metropolitan region of São Paulo by 4.7 m³/s. Investments in this project will be made through a public-private partnership (PPP). The bidding is currently in progress. Nearly 1.5 million people will directly benefit from the new system, which may indirectly reach the whole population served by the company in the metropolis, since the water supply in the metropolitan region of São Paulo is integrated. This system was designed to meet sustainability principles with greater efficiency and economy in the consumption of energy, and to reduce environmental impact.

In Santos coast region, Sabesp started in 2012 the operation of the new Jurubatuba water treatment station (ETA) of Guarujá, and the Mambú-Branco production system installed in Itanhaém. Together, they have capacity to treat 3.6 thousand liters of water per second. These two projects are included in the “**Água no Litoral** (Water on Coast) program, which has already invested R\$569.1 million of a total estimated amount of R\$1.1 billion.

In addition to the metropolitan region of São Paulo and Santos coast region, in 2012 we solved critical water supply problems in several municipalities in the inland of the state. Focusing mainly on highly socially vulnerable regions located in areas that are far from the major cities of the inland of the state, Sabesp started the construction works of the “**Água é Vida** (Water is Life) program. Introduced in late 2011, its purpose is to take water supply and sanitation services to 41 areas in the regions of Alto Paranapanema and Vale do Ribeira. The first actions were executed in 2012, and included the drilling of wells that will supply 12 communities with water by the end of 2013.

Sabesp has also developed actions and technologies to increase the reuse of effluents generated from sewage treatment for industrial purposes, equipment refrigeration and other applications for non-potable water.

In this regard, one of the major achievements of the company in 2012 was the start-up of the **Aquapolo Ambiental** water reuse project, a partnership between Sabesp and Foz do Brasil (Odebrecht Group) to supply the Capuava Petrochemical Complex in the ABC region in São Paulo. It is the largest water reuse plant in Brazil and one of the five-largest in the world. Its full production capacity will be reached in 2016, with the processing of one thousand liters per second, a volume that is enough to supply 300,000 people, further delaying the exploration of new springs and the already limited sources of water. Water is used basically to produce steam for power generation and in refrigeration towers. In 2012, the project won the Brazilian Water Agency award in the “Company” category, for the intelligent use of water resources.

With Aquapolo, Sabesp expanded its water reuse production by 13 times. Today, we have capacity to supply 395,000 m³/month. Also in 2012, we started the conception study to implement a reuse

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water treatment station at the sewage treatment station (ETE) of Parque Novo Mundo, with the purpose of supplying reused water to textile companies.

In addition to investing in water reuse, we also have actions to raise customer awareness about consumption. One of the actions is Pura (Water Rational Use Program), whose goal is to reduce water use in government buildings. Nearly 2,400 buildings were targeted for actions involving both awareness and the replacement of equipment. With the resources saved, we managed to maintain water volume sufficient to supply approximately 26,000 people without the need of using new springs.

Another initiative to ensure supply is the **Corporate Program for the Water Loss Reduction**.

Introduced in 2009, the program received investments of R\$328 million in 2012, and should receive R\$ 4.5 billion in investments from 2013 to the end of the decade, including resources of the Japan International Cooperation Agency (Jica), the Brazilian Federal Savings Bank (Caixa Econômica Federal), and the Brazilian Development Bank (BNDES), in addition to the company's own resources.

Our billing loss ratio is currently at 25.7%. The target for 2012 was 25.2%, but it was not met especially due to the following factors, among others: i) contractual issues in the actions to prevent losses developed in the Santos coast region; ii) difficulty to replace pipes, especially in densely urbanized areas; and iii) reduced uncertainty of macro-metered volumes with the installation, in January 2012, of macro-meters at the exit of the Guaraú Water Treatment Station.

The company's long-term goal for the program has been revised, and we expect to reduce the billing loss to 19% up to the end of this decade with the beginning of the execution of commercial and water network maintenance services deriving from the agreement signed with Jica in 2012. We have already invested R\$ 1 billion in the program.

EXPANSION OF SEWAGE NETWORK AND RECOVERY OF WATER RESOURCES

Aware of its responsibilities regarding the improvement of the life conditions of the population in the state of São Paulo and the preservation of the environment, Sabesp has been implementing structured actions to ensure universal access to basic sanitation in the area where it operates up to the end of the decade.

Today, 193 municipalities are fully covered by our water supply, and sewage collection and treatment in the State of São Paulo. Of those, 47 received universal access in 2012. In 2012, we completed the construction of 23 sewage treatment stations, and made 240.7 thousand new connections. With that result, the sewage collection coverage ratio in our area of operation increased to 83%, and the ratio of treated collected sewage reached 77%. 38 other sewage treatment stations are being built in the inland of the state of São Paulo, and are expected to be completed this year and next year.

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Our 2013-2020 business plan provides for 1.9 million new sewage connections. Sabesp will invest R\$4.1 billion between 2013 and 2015 in the expansion of its sewage collection and treatment system. We have also participated in the program introduced in 2011 by the São Paulo State Government to subsidize, mostly with state Treasury resources, intra-domicile works so that low-income households are able to connect their houses to the public sewage network: the “*Pró-Conexão* (Pro-Connection) program.

Tietê Project is still the company’s key initiative for the expansion of its sewage system and improvement of bodies of water. We are currently executing the third stage of the construction works, with the purpose of raising the sewage collection coverage ratio in the municipalities of the metropolitan region of São Paulo where Sabesp operates from the current 84% to 87%, and the percentage of sewage collected from 70% to 84%.

Investments in this stage will reach R\$2 billion, and rely on resources from the Inter-American Development Bank (IDB), the Brazilian Federal Savings Bank (Caixa Econômica Federal), and Brazilian Development Bank (BNDES). Up to 2016, when the current stage will be completed, more than 1.5 million people will have access to sewage collection, and 3 million inhabitants will be added to the sewage treatment services.

Sabesp has invested R\$698 million in the third stage, R\$328 of which in 2012. The beginning of the implementation of the 2.2 km Pinheiros interceptor stands out among the works of Tietê Project completed in 2012. That interceptor will complete the structure for the intercepting and moving away the sewage generated in the regions on the margins of the Pinheiros River. The whole extension of the river, on both sides, will have appropriate piping to send the effluents to be treated at the sewage treatment station of Barueri, approximately 60 km away from the river.

The Company is structuring the fourth and last phases of Tietê Project, with execution estimated to be carried out between 2014 and 2018 and investments estimated at US\$2 billion.

In the municipality of São Paulo, sewage expansion and water resources recovery actions are supplemented by the “*Córrego Limpo*” program (Clean Stream). This is an initiative carried out together with the capital city government, involving operational and financial resources, to recover bodies of water, prevent the clandestine discharge of sewage in these waters, remove people who live on the riverside and prevent the margins from being irregularly inhabited again, and resettle these families in new homes built in more appropriate places.

The program has been in place since 2007 and in December last year it reached the mark of 116 depolluted streams. The estimate for the third stage of the works was to clean 45 streams in the capital city last year, 19 of which were cleaned up to December, and 33 will be depolluted in the first half of 2013, benefiting a total of 390,000 people in this stage. The total amount invested in this program up to 2012 reached approximately R\$710.3 million, R\$109.6 million of which are Sabesp’s resources.

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To recover the quality of the waters in the springs of the Billings and Guarapiranga reservoirs, areas that are very important for the company's activities, one of our structuring programs, called "**Vida Nova/Mananciais** (New Life/Springs), provides for interventions in 43 shantytowns and precarious lots of land located at the two sub-basins, benefiting 58,000 households up to 2015. The company contributes with R\$355 million to the program, which estimates total investments of R\$1.3 billion, with funds also from the federal, state, municipal governments, Housing and Urban Development Company and the World Bank. In 2012, R\$37.3 million were invested out of the total R\$81.7 million already invested in this program.

The preservation of the Guarapiranga reservoir's waters was strengthened with the actions of the "**Nossa Guarapiranga** (Our Guarapiranga) Program. Promoted by Sabesp, the program became fully operational in 2012. It now has ten boats to collect the dirt retained in 11 eco-barriers and one boat to take the dirt collected to regular landfills. Throughout 2012, approximately 4.4 thousand cubic meters of residues that would have otherwise ended up in the reservoir were retained in these eco-barriers. A total of R\$12.2 million have been invested.

The **Onda Limpa** (Clean Wave) program in the Santos coast region and the northern coast of the state of São Paulo aims at providing universal access to the services up to 2016. Started in 2007, the works in the Santos coast region have already raised the percentage of sewage collected in the region from 53% to 71%, and the percentage of sewage treated from 96% to 100%. With resources from the Jica and BNDES, approximately R\$1.7 billion have been invested in the program, R\$135.7 of which in 2012.

Since 2011, when the main works for the collection and treatment system were completed, the company has focused on expanding the number of homes in the Santos coast region that are connected to the public sewage network. Of a total of 123,000 connections estimated in the program, 79,000 have been carried out, including 15,800 in 2012. Sabesp is currently preparing the second stage of the program, to be executed between 2015 and 2020, to provide universal access to sanitation services in the region.

The Onda Limpa program is developed in the north coast, where the target is to increase the sewage collection and treatment ratios to 85% up to 2016—the ratios were 36% in 2008, and are currently at 50%—and cover 600,000 people, including residents and tourists. Total investment in the program will be of approximately R\$ 500 million up to 2018. A total of R\$ 125.9 million has already been invested (R\$24.3 million in 2012), including Sabesp's funds, and resources from BNDES, FGTS, and the Brazilian Savings Bank (CEF).

The São Paulo State Government introduced, in late 2011, the "**Pró-Conexão**" program (Pro-Connection), whose goal is to connect, in eight years, 192,000 homes of families with income of up to three minimum wages to Sabesp's sewage collection system. In this program, the interconnection installation costs are fully paid by the government (80%) and by Sabesp (20%). A total of R\$349.5 million will be invested in the period. In the first year, the program executed nearly 700 connections, in relevant areas for the preservation of our springs, such as the region close to the Billings reservoir. Along the coast, seven municipalities of the Santos coast region have already executed instruments of cooperation to participate in the program.

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Sabesp also has actions that focus on making the population aware of the losses caused by diffuse pollution, which generates additional operating costs and causes setbacks to the execution of sewage collection and treatment services by the company. Diffuse pollution consists of garbage and excrement produced by cats and dogs inadvertently thrown away on the streets, and even the dirt and soot produced by car engines.

MANAGEMENT IN THE CURRENT INDUSTRY SCENARIO

Since 2005, in a joint action with the São Paulo State Government, Sabesp has been negotiating the continued provision of water supply and sewage services to municipalities. These services are operated based on innovative contractual arrangements that provide for the exercise of the regulation and oversight of the services by an external entity, and include the adoption of service and quality targets set in the municipal plans through public consultations and hearings.

The edition of the new basic sanitation regulatory framework (Federal Law 11,445/07), which has introduced several innovations for the contracting, provision, regulation and oversight of basic sanitation services, has proven this corporate strategy is right, improving the company's operations in an environment regulated by several control and oversight bodies and entities, including the Regulatory Agency of Sanitation and Energy of the State of São Paulo (Arseps).

From January 1, 2007 to December 31, 2012, we executed agreements to provide services for 30 more years with 258 municipalities (including the city of São Paulo), which accounted for nearly 70% of the company's total revenues, including construction revenue and for 63.5% of its intangible assets. In the municipalities where the agreements have expired or are about to, the company has been negotiating the new bases for its permanence for at least another 30 years.

In the metropolitan regions, where a judicial discussion was pending a decision by the Federal Supreme Court (STF) about the ownership of the sanitation services, Sabesp and the municipalities in these regions have adopted a specific contract template, which allows for Sabesp to exercise public functions that are of the common interest of the municipalities. This template has continued to be used after the recent decision by the STF, which has attributed the exercise of metropolitan basic sanitation planning, regulation and oversight competencies to an entity to be created by the state governments and municipalities involved. The term to adapt the legislation to the decision expires within two years.

Sabesp also expanded its municipalities base through non-controlling interests in special purpose entities formed with private partners for the rendering of water and/or sewage services in Andradina, Castilho, Mairinque and Mogi Mirim. In 2012, no investment was made in these companies, according to Note 2.1 to the financial statements for the year.

The first works in Mogi Mirim were inaugurated in 2012, raising the percentage of sewage treated in the municipality from 0% to 70%. In Mairinque, water supply has increased from 88% to 97% since 2010, and sewage collection, from 66% to 71%.

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Regarding regulations, Sabesp participates in all public hearings and consultations promoted by the regulatory agency, aiming at discussing the regulation of important matters for the development of its activities and contracts. Arsesp has been publishing resolutions setting the rules for the provision of water and sewage services, which started being gradually implemented in 2009, and that should continue to be implemented in the upcoming years, with impacts mainly on commercial and operational matters, which could even involve legal disputes.

Also responsible for regulating Sabesp's tariffs observing the industry's guidelines and legislation, Arsesp has started a process to revise the criteria and methodology for the calculation of the company's tariffs. Further detail on this matter is presented in the section named "Tariff Revision" of this report.

From 2007 to 2012, Arsesp's overseeing actions have not imposed material penalties regarding the provision of water supply and sewage services in the municipalities.

Anyway, the new regulatory requirements for the basic sanitation industry still imply great challenges, and it is not possible to predict all the effects of Law 11,445/07 and regulatory standards will have on the company's businesses, since there are still uncertainties with regard to their implementation.

Economic-Financial Sustainability

For the past five years, in line with its mission of providing public services of basic sanitation that contribute to improve health, quality of life and the environment, the company has invested on average R\$2.2 billion per year in water supply and sewage services.

In 2012, the company met the investment target for the year, in line with the investments made in 2011, reaching a little more than R\$ 2.5 billion.

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Companhia de Saneamento Básico do Estado de São Paulo -SABESP**CAPEX history(1)**

(1) Excluding the commitments undertaken with program contracts (R\$253 million, R\$18 million, R\$63 million, R\$139 million and R\$155 million, respectively in 2008, 2009, 2010, 2011 and 2012)

Investments made in 2012, broken down by segment and region, are as follows:

(R\$millioncurrent)

| | Water | Sewage | Total |
|--|---------|---------|---------|
| São Paulo Metropolitan Region | 573.1 | 802.4 | 1,375.5 |
| Regional Systems (inland and coast) | 435.8 | 724.3 | 1,160.1 |
| Total | 1,008.9 | 1,526.7 | 2,535.6 |

Obs.: Excluding the commitments undertaken with the program contracts (R\$155 million)

Sabesp estimates its investments will reach R\$9.9 billion for the 2013-2016 period, allocated among the services presented on the chart below. These services are aimed at the actions necessary to meet the goal of being recognized until 2018, as a company that has provided universal access to water supply and sewage services in its area of operations, in a sustainable, competitive manner, with excellence in customer service.

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It is worth mentioning that for the company to have access to the financial resources necessary to meet this goal, it is paramount that Sabesp has a good operating and financial performance. With that in mind, the company strives to develop an efficient management, including actions that aim at reducing costs through efficiency gains and more cost-effective hiring, and actively participates in the tariff revision process with Arsesp, with the purpose of setting tariffs that remunerate in an appropriate manner the services provided by the company.

The effectiveness of the strategy Sabesp has been adopting over the past years, has once again reflected on the upgrade in the Company's 2012 rating by credit risk rating agency Fitch Ratings: the International Scale was upgraded from "BB" to "BB+", and the National Scale rating was upgraded from "A+" to "AA-". Standard & Poors has rated the company "BB+" in International Scale and "AA+" in Brazil National Scale since December 2011.

Sabesp continues to seek funding sources in line with the maturation of investments, which is a characteristic of the sector. In 2012, R\$1.6 billion were raised, as detailed below:

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Loans and Investment financing

Japan International Cooperation Agency (JICA)

Loan agreement for the second phase of Loss Reduction Corporate Program, amounting to ¥ 33.6 billion (corresponding to approximately R\$710 million on the date of signature). This stage has investments estimated at R\$1.1 billion (¥ 52.207 billion) of which R\$390 million (¥18.623 billion) will be the consideration of Sabesp. The loan term is 25 years, with seven years of grace period, with annual interest rates of 1.7%.

Caixa Econômica Federal – CEF (Federal Savings Bank)

58 contracts are included in the Growth Acceleration Plan II, totaling R\$375.4 million, as detailed below:

- 36 contracts to finance studies and projects, water supply and sewage works in several municipalities operated by the company. Total approximate amount is R\$215 million, with interest rates indexed to TR (Reference Rate), plus 6% p.a. and management fee of 1.4% p.a. and risk rate of 0.3% p.a.. Total term is up to nine years for studies and projects and 24 years for water supply and sewage works;
- 22 contracts to finance the water supply and sewage works in several municipalities served by the company. The total amount is approximately R\$160.4 million, with interest of TR plus 6% p.a., plus a 1.4% p.a. management fee, and risk rate of 0.3% p.a.. The total term is of up to 24 years.

Brazilian Development Bank (BNDES)

Loan contract included in the Growth Acceleration Plan II (PAC II), to fund the works for the expansion and optimization of the sewage systems of the municipalities of São Paulo, Itapeverica da Serra, Embu das Artes, Carapicuíba, Osasco, São Bernardo do Campo, and Cotia, and to prepare the Executive Project of the São Lourenço Production System, at the approximate amount of R\$180.7 million and interest of TJLP (long-term interest rate) plus 1,72% p.a.. Total term is 15 years for works and eight years for the executive project.

In February 2013, a loan contract was executed to fund part of the consideration of the project for the execution of the Third Stage of the Program for the Depollution of the Tietê River, funded by the Inter-American Development Bank (IDB). The purpose of the loan contract is the installation of collectors, interceptors, collecting networks, and home sewage connections, and the expansion of the sewage treatment capacity in the metropolitan region of São Paulo, in the amount of R\$1.3 billion, and interest of TJLP plus 1.66% p.a.. The total term is 15 years, with a grace period of three years.

Financing Agreement No. 01.2.619.3.1 and Onlending Agreement No. 10/669.748-6, executed in 2002 with BNDES, have had all their financial obligations settled.

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Capital Markets

In February 2012, Sabesp concluded its 15th issue of debentures, at the total amount of R\$771.1 million, in two series, and 1st series at the amount of R\$ 287.3 million indexed to CDI + 0.99% p.a. and the 2nd series at the amount of R\$483.8 million, with IPCA (Extended Consumer Price Index) and annual interest rates of 6.20%.

Said resources were used to settle financial commitments falling due in 2012, including the 13th issue of debentures, in the amount of R\$ 600 million maturing in August and pre-paid in February.

Resources raised also were allocated to the amortization occurred in March 2012 of 50% of the 2nd series of the 11th issue of debentures, summing up R\$202.5 million.

In December 2012, Sabesp completed the 16th issue of debentures in the total amount of R\$500.0 million, in a single series, remunerated at CDI plus 0.30% in the first six months (the surcharge over CDI changes every six months, up to the maturity in 2015, when it will reach 0.70%). The proceeds of this funding will be used to settle financial commitments in 2012 and 2013.

Additionally, in January 2013, the company conducted the 17th issue of debentures in the total amount of R\$1.0 billion, divided into three series: the first one, in the amount of R\$424.7 million, maturing in January 2018, and paying CDI plus 0.75% p.a.; the second one, in the amount of R\$395.2 million, paying IPCA plus annual interest rates of 4.5% , maturing in January 2020; and the third one, in the amount of R\$180.1 million, maturing in January 2023, paying IPCA plus 4.75% p.a..

The proceeds of the 17th issue will be used to settle financial commitments in 2013. In March, the company settled the 11th issue of debentures issued in April 2010, through the amortization of one third of the first series and the remaining 50% of the second series, and the early redemption of the remaining balance of the first series, which would mature in March 2015.

Indebtedness analysis

Most of the company's debt (54.2%) is taken out with national or international sources, with multilateral agencies and at low cost and long terms. We use the capital markets to raise funds preferably to manage our debt.

By the end of 2012, the company's total indebtedness was R\$9.1 billion. The adjusted total debt-to-adjusted EBITDA ratio was 2.5x, far below the 3.65 cap established in some loan agreements and debt instruments. The net debt-to-adjusted EBITDA ratio was 2.0x, strengthening the positive perception of the company's financial health.

Foreign currency-denominated debt was 35% of the total debt. The amount amortized during the year reached R\$1.5 billion, and the amount raised was R\$1.6 billion.

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Tariff Revision

In order to maintain or expand our investment level and secure the universal access to sanitation services in our area of operations up to the end of the decade, Sabesp's services must be remunerated accordingly.

In ten years, our investments have more than doubled, with no corresponding increase in revenue, a mismatch that has so far been offset by our capacity to generate capital at levels that are still sustainable.

In 2012, we sent to ARSESP the results of surveys of our asset base and Business Plan containing information on revenue, expenses and investments. This allowed for Arsesp to publish in December a Technical Note with the proposed Preliminary Initial Maximum Average Tariff (P0) and the Efficiency Gain Factor (X), which have been submitted to public consultation and hearings.

On January 15, 2013, Sabesp submitted all its contributions to the Technical Note for Arsesp to analyze. The disclosure of the results of this stage, expected to occur on February 22, 2013, has been postponed to March 22, 2013, for the content of the discussion to be clarified by the Management Committee of the Water and Sewage Services of the City of São Paulo, as requested by the local government of São Paulo.

Arsesp's appraisal of the company's assets and the final value of the regulatory remuneration basis will now follow the stages and schedule of events determined by the agency, as follows:

- April – Sabesp submits a tariff structure proposal to ARSESP;
- July – a public hearing is held about the final Maximum Average Tariff (P0), the Tariff Structure, and the tariff amounts for the remainder of the Second Cycle of SABESP;
- September – new tariff is applied.

Additionally, in January 2013, Arsesp published the final version of the Regulatory Accounting Manual and the Regulatory Chart of Accounts to be used by the sanitation companies in the State of São Paulo that are regulated by the agency. One of the main purposes of the manual is to determine the specific regulatory accounting information that will be applied by the regulatory agency to appraise the concession's economic and financial breakeven.

Stock Market

Regarding annual performance, the Company's shares recorded the third highest appreciation at Ibovespa, up 67.0% over 2011. Stocks closed 2012 at R\$86.87, while Ibovespa was up 7.4% only. In the U.S. market, Sabesp's ADRs were up 50.2% versus the 7.3% high in the Dow Jones index. With this performance, Sabesp's market cap increased from R\$11.8 billion in 2011 to R\$19.8 billion in 2012. The number of the Company's shareholders at BM&FBovespa increased by 66.4% in the period.

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The company's shares participated 100% at the trading sessions of BM&FBovespa and had a financial volume of R\$7.7 billion in 2012. In the U.S. market, the Company closed 2012 with 27.8 million ADRs outstanding on the market. The financial volume traded at NYSE in 2012 was US\$6.1 billion, up 64.4% over 2011.

In 2012, the number of financial institutions that follow-up the Company's performance and issue reports on the value of stocks and ADRs remained in line at approximately 20 institutions.

It is worth noting that in early 2013, aiming at improving ADRs liquidity and adjust its price to the levels recommended by NYSE, Sabesp carried out a ratio change when each ADR now corresponds to one share; previously, each ADR corresponded to 2 shares.

Ownership structure on December 31, 2012

Sabesp's shares are traded at BM&FBovespa under the ticker SBSP3 and at the New York Stock Exchange, as Depositary Receipts (ADRs), under the ticker SBS. The Company still composes the main indexes of BM&FBovespa and NYSE, among them the Dow Jones Sustainability Index, to which it adhered in February 2013.

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Dividends

Pursuant to the Company's Bylaws, common shares are entitled to minimum mandatory dividend corresponding to 25% of profit for the year, after deductions determined or accepted by laws which can be paid as interest on shareholders' equity.

In 2012, Sabesp credited dividends as interest on shareholders' equity in the amount of R\$578.7 million, referring to 2011, corresponding to approximately R\$2.54 per common share and dividend yield of 4.9%.

Referring to 2012, the Board of Directors approved the payment of interest on shareholders' equity at the amount of R\$534.3 million, corresponding to R\$2.345 per common share and dividend yield of 2.7%, to be paid within 60 days after the Annual Shareholders' Meeting to approve the 2012 accounts.

Debits of municipalities serviced at wholesale basis

In municipalities serviced at wholesale basis, there are outstanding debits corresponding to the sale of water, with which the Company has been endeavoring efforts to recover due amounts.

When negotiation is not possible, debits are sued at court, likewise occurred with the municipalities of Guarulhos, Mauá, Santo André and Diadema. For the first two municipalities, some certificates of judgment debt have been already issued and await payment. For the municipality of Santo André, the collection suit is in progress to issue the certificates of judgment debt.

Regarding the municipality of Diadema, studies to create a new water supply and sewage service company in Diadema, where Sabesp will hold interest, were concluded and pointed out the feasibility of the operation. However, with the change in the municipal government, negotiations had to resume amending the law authorizing the creation of such company. It is not possible to anticipate when this new company will be created.

In 2012, all the municipalities mentioned above partially paid the monthly invoices issued for the sale of water at wholesale basis. It is worth noting that the municipalities of Mogi das Cruzes and São Caetano fully paid their invoices on the respective maturity dates.

In addition to the debits related to the sale of water at wholesale basis, the municipalities of Diadema and Mauá have debts with SABESP arising from the indemnity of assets due to the early resumption of the concession.

In the municipality of Diadema, the execution shall proceed through the freeze of ICMS (State VAT) product transfers destined to the municipality. Currently, the freeze of these transfers is suspended, due to the supersedeas effect attributed to the municipality's extraordinary appeal. At the same

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time, the weekly pledge of 20% of Saned's revenues has been made, allocating this amount to settle the debt related to fees owed to SABESP's attorneys in the lawsuit.

Referring to the municipality of Mauá, action was granted relief and the municipality and the Basic Sanitation of Mauá Municipality (SAMA) shall payoff the debt. This court decision was upheld by Federal Supreme Court and appeals shall not apply. Sabesp started the execution in October 2012. Summons on the municipality of Mauá and SAMA is awaited for payment, whose amounts still can be discussed.

Consolidated Economic and Financial Performance

Our business' solidity is reflected on our financial results. In 2012, the Company's profit came to R\$1.9 billion, up 58% over 2011.

Gross operating revenue from water supply and sewage collection and treatment services increased by R\$624.6 million, or 7.5%, from R\$8.3 billion in 2011 to R\$8.9 billion in 2012.

Some of the determining factors for this result were the 2.4% and 3.2% increases in the billed volume of water and sewage, respectively, totaling 2.7% for both services, and the 6.83% and 5.15% tariff adjustments in September 2011 and in September 2012, respectively. The billed volumes of water and sewage, according to the usage category and region, are as follows:

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BILLED VOLUME OF WATER AND SEWAGE (1) PER USAGE CATEGORY million m³

| | Water | | | Sewage | | | Water + Sewage | | |
|---------------------|----------------|----------------|-------------|----------------|----------------|------------|----------------|----------------|------------|
| | 2011 | 2012 | % | 2011 | 2012 | % | 2011 | 2012 | % |
| Residential | 1,488.0 | 1,530.0 | 2.8 | 1,220.7 | 1,262.6 | 3.4 | 2,708.7 | 2,792.6 | 3.1 |
| Commercial | 167.6 | 172.8 | 3.1 | 156.4 | 160.5 | 2.6 | 324.0 | 333.3 | 2.9 |
| Industrial | 38.7 | 38.3 | (1.0) | 40.5 | 41.6 | 2.7 | 79.2 | 79.9 | 0.9 |
| Public | 53.1 | 54.8 | 3.2 | 41.5 | 42.5 | 2.4 | 94.6 | 97.3 | 2.9 |
| Total retail | 1,747.4 | 1,795.9 | 2.8 | 1,459.1 | 1,507.2 | 3.3 | 3,206.5 | 3,303.1 | 3.0 |
| Wholesale | 297.3 | 297.5 | 0.1 | 27.2 | 27.3 | 0.4 | 324.5 | 324.8 | 0.1 |
| Reuse water | 0.3 | 0.4 | 33.3 | | | | 0.3 | 0.4 | 33.3 |
| Total | 2,045.0 | 2,093.8 | 2.4 | 1,486.3 | 1,534.5 | 3.2 | 3,531.3 | 3,628.3 | 2.7 |

(1) Unaudited

BILLED VOLUME OF WATER AND SEWAGE(1) PER REGION million m³

| | Water | | | Sewage | | | Water + Sewage | | |
|----------------------|----------------|----------------|-------------|----------------|----------------|------------|----------------|----------------|------------|
| | 2012 | 2012 | % | 2011 | 2012 | % | 2011 | 2012 | % |
| Metropolitan | 1,150.6 | 1,181.9 | 2.7 | 976.8 | 1,005.7 | 3.0 | 2,127.4 | 2,187.6 | 2.8 |
| Regional Systems (2) | 596.8 | 614.0 | 2.9 | 482.3 | 501.5 | 4.0 | 1,079.1 | 1,115.5 | 3.4 |
| Total retail | 1,747.4 | 1,795.9 | 2.8 | 1,459.1 | 1,507.2 | 3.3 | 3,206.5 | 3,303.1 | 3.0 |
| Wholesale | 297.3 | 297.5 | 0.1 | 27.2 | 27.3 | 0.4 | 324.5 | 324.8 | 0.1 |
| Reuse water | 0.3 | 0.4 | 33.3 | | | | 0.3 | 0.4 | 33.3 |
| Total | 2,045.0 | 2,093.8 | 2.4 | 1,486.3 | 1,534.5 | 3.2 | 3,531.3 | 3,628.3 | 2.7 |

(1) Unaudited

(2) Comprises inland and coast regions

Construction revenue increased by R\$239.8 million, or 10.8%, over 2011, chiefly due to higher investments in 2012.

In 2012, cost of products and services rendered, and administrative, selling and construction expenses were up 5.2% (R\$392.3 million). However, the percentage of costs and expenses over net revenue reduced from 75.4% in 2011 to 73.4% in 2012. Thus, net operating revenue totaled R\$10.8 billion, up 8.2% over 2011.

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Net Operating Revenue Track Record (1)

Adjusted EBITDA increased by 12.2%, from R\$3.2 billion in 2011 to R\$3.6 billion in 2012 and the Adjusted EBITDA margin stood at 33.5%, from the 32.3% recorded in 2011. Excluding revenue effects and construction cost, the Adjusted EBITDA margin came to 42.9% in 2012 (41.1% in 2011).

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Companhia de Saneamento Básico do Estado de São Paulo -SABESP**Adjusted EBITDA and Adjusted EBTIDA Margin Track Record (1)****Adjusted EBITDA Reconciliation (Non-accounting measurements)**

| | (R\$ million current) | | | | |
|--|-----------------------|----------------|----------------|----------------|----------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 |
| Profit | 862.9 | 1,507.7 | 1,630.4 | 1,223.4 | 1,911.9 |
| Financial result | 973.1 | 10.0 | 379.4 | 633.6 | 301.4 |
| Depreciation and amortization | 618.2 | 562.3 | 552.2 | 768.8 | 740.1 |
| Income tax and social contribution | 285.3 | 602.6 | 662.3 | 497.4 | 632.0 |
| Other operating expenses, net | 125.5 | 44.4 | (1.8) | 90.1 | 19.8 |
| Adjusted EBITDA | 2,865.0 | 2,727.0 | 3,222.5 | 3,213.3 | 3,605.2 |
| Adjusted EBITDA Margin | 36.7 | 31.8 | 34.9 | 32.3 | 33.5 |
| Construction revenue | (1,676.9) | (2,039.8) | (2,130.7) | (2,234.8) | (2,474.6) |
| Construction cost | 1,650.5 | 2,009.6 | 2,081.1 | 2,186.3 | 2,423.8 |
| Adjusted EBITDA, excluding construction revenue and cost | 2,838.6 | 2,696.8 | 3,172.9 | 3,164.8 | 3,554.4 |
| Adjusted EBITDA Margin, excluding construction revenue and cost | 46.3 | 41.2 | 44.7 | 41.1 | 42.9 |

The Adjusted EBITDA (“Adjusted EBITDA”) corresponds to profit before: (i) depreciation and amortization expenses; (ii) income tax and social contribution (federal taxes levied on income); (iii) financial result, and (iv) other operating expenses, net. The Adjusted EBITDA is not a financial

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performance measurement according to the accounting practices adopted in Brazil, IFRS (International Financial Reporting Standard) or USGAAP (accounting principles usually accepted in the United States), nor should it be individually taken into account or as alternative to profit, as operating performance measurement, or alternative to operating cash flows, or as liquidity measurement. The Adjusted EBITDA has no standardized meaning and the Company's definition of Adjusted EBITDA cannot be compared to those definitions used by other companies. The Company's Management understands that the Adjusted EBITDA provides a useful measurement for the Company's performance, which is widely used by investors and analysts to assess performance and compare companies. Other companies may calculate Adjusted EBITDA differently from the Company. The Adjusted EBITDA is not part of the financial statements.

The objective of the Adjusted EBITDA is to present an operating economic performance indicator. Sabesp's Adjusted EBITDA corresponds to the profit before net financial expenses, income tax and social contribution (federal taxes levied on income), depreciation and amortization, and other net operating expenses. Adjusted EBITDA is not a financial performance indicator recognized by the Brazilian Corporation Law Method and should not be considered individually or as alternative to profit as operational performance indicator, or as alternative to operating cash flows or as liquidity indicator. Sabesp's Adjusted EBITDA works as a general economic performance indicator and is not affected by debt restructuring, fluctuations in interest rates, changes in the tax burden or depreciation and amortization levels. Consequently, the Adjusted EBITDA works as an appropriate instrument for the regular comparison of operating performance. Additionally, there is another formula to calculate the Adjusted EBITDA which is applied in clauses of certain financial commitments. The Adjusted EBITDA allows a better understanding not only of the operating performance, but also the Company's capacity to comply with its obligations and raise funds to invest in capital goods and working capital. However, the Adjusted EBITDA has some limitations preventing it to be applied as a profitability index, as it does not take into consideration other costs resulting from Sabesp's activities or other costs that may significantly affect its profit, such as financial expenses, taxes, depreciation, capital expenditures and other related charges.

Other net operating expenses mainly refer to the write-offs of property, plant and equipment, allowance for losses with intangible assets, loss with economically unfeasible projects, less revenue from sale of property, plant and equipment, invitation to bid, indemnities and reimbursement of expenses, fines and collaterals, property lease, reuse water, Pura and Aqualog projects and services.

Ten years committed to the best corporate governance practices

Aware that corporate governance is vital to ensure the success of its mission, ten years ago Sabesp adhered to the BM&FBovespa *Novo Mercado*, a listing segment with the highest level of transparency in the relationship with the market and shareholders. Sabesp was the second company to join this segment, the first mixed-capital company, a right decision when assessing its performance in the period.

In the same year, the Company's shares started to be traded at NYSE as Level III ADR, which required the Company to adhere to the most strict corporate governance rules established by the Securities and Exchange Commission and by NYSE.

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The Company's broad inclusion in the capital market contributed to improve the perception of its risk, providing access to cheaper financing rates and allowing the Company to expand its investments in expansion and in the continued improvement of sanitation services in the State of São Paulo. The Company's Management has improved and currently reaches high transparency and efficiency standards.

In ten years, the Company's ADRs appreciated by 633.1% at NYSE, exceeding the Dow Jones performance, which increased by 30.5% in the period, and the U.S. dollar, which posted nominal depreciation of 17.7%. Shares increased by 509.6% at BM&FBovespa, versus the 403.5% and 93.9% posted by Ibovespa and IPCA, respectively. Sabesp's market cap almost tripled in 10 years from R\$6 billion to R\$17.1 billion.

At BM&FBovespa, Sabesp is part of the Differentiated Corporate Governance Index (IGC) and Bovespa Special Tag Along Stock Index (ITAG). Additionally, since 2007 Sabesp has been included in the Corporate Sustainability Index (ISE) and in the Dow Jones Sustainability Index Emerging Markets, since February 2013.

It is worth noting that in 2012, Sabesp was ranked by the IR Global Ranking as the fifth best company in Latin America in financial reporting procedures.

Corporate Governance Structure

Sabesp's corporate governance model reflects its characteristics of a mixed-capital company controlled by the State Government, whose shareholding must exceed 50% of total capital, by force of laws and exclusively comprised by common shares.

In 2012, the Board of Directors maintained the ten members elected at the Shareholders' Meeting held in April 2012, four of them are independent members according to the *Novo Mercado* criteria. However, in December, one member appointed by the controlling shareholder resigned.

Except for the CEO, no other executive officer composes the Board of Directors. It is worth noting that the CEO cannot hold the position of Chairwoman of the Board of Directors. Our Board of Executive Officers also remained the same throughout 2012, but in February 2013, it received the resignation of the IT, Projects and Environment Officer, Mr. João Baptista Comparini. His position was taken by João Paulo Tavares Papa in March 2013.

Our governance structure is represented in the chart below. Additional information about the operation of different levels composing it is available in the "Corporate Governance" section, Investor Relations area at the company's website (which can be accessed through [this link](#)).

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The ethical values guiding Sabesp's actions and its stakeholders are detailed in the Company's Code of Ethics and Conduct and its compliance is monitored by the Ethics and Conduct Committee, which relies on tools, such as the in-house Denunciation Channel, Corporate Procedure of Checking Responsibilities, Ombudsman and Call Center. The in-house channel is prepared to receive anonymous denunciations and results of investigations are sent to the Audit Committee. In 2012, 160 denunciations were recorded, 61% of which were verified and 39% are under investigation. Out of the total, 22% refer to misconduct, such as moral harassment, discrimination, persecution and unfair treatment. During this period, 27 Company's employees or outsourced employees received penalties (1 warning, 2 suspensions and 24 dismissals).

According to materiality criteria, the formal procedure to assess control and identify fraud-related risks considered the most representative business units. The risks assessed allow to improving controls in the entire Company.

To prevent irregularities in relevant processes, the Company is implementing a program to prevent corporate frauds in order to update the fraud risk auditing, adapt policies and procedures, reformulate indicators and disseminate practices to prevent corruption among employees.

Management Compensation

The compensation of members of the Board of Directors and Board of Executive Officers in 2012, including benefits was approximately R\$3.2 million. Approximately R\$1.1 million referring to variable compensation was added to that amount.

It is worth mentioning that in August 2012, the State government enacted the decree n° 58,265 which forbids the remunerated participation of political agents and public servants of direct or indirect State Management in more than two boards of directors or fiscal council of mixed-capital companies, as well as of entities directly or indirectly controlled by the State government and also forbidding the remuneration by results, eventual bonus or profit sharing. Implemented at the Company, the decree affected the compensation of only one member.

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Pursuant to the Brazilian Corporation law, the compensation to be paid to the board of directors, fiscal council members and executive officers is defined globally at the Shareholders' Meeting. At Sabesp, the policy of board member and officer compensation is set out according to the guidelines of the São Paulo State Government, mainly based on the market's performance and competitiveness, always subject to ratification or approval by shareholders at the Shareholders' Meeting, then the decree will be taken to the cognizance and ratification at the Shareholders' Meeting by next April.

External Audit Services

Referring to the relationship with independent auditors, Sabesp and the companies in which it holds non-controlling interest abide by the principles that preserve the external auditor's independence as to not auditing his own work, not perform managerial duties and not advocate on behalf of his client. PriceWaterhouse Coopers was Sabesp's auditor between the third quarter of 2008 and the second quarter of 2012, and Deloitte Touche Tohmatsu Auditores Independentes started auditing the financial statements as of the review of the quarterly financial information –ITR for September 30, 2012.

KPMG Auditores Independentes has been auditing Águas de Andradina and Águas de Castilho as of the third quarter of 2011. PricewaterhouseCoopers Auditores Independentes has been auditing the financial statements of Aquapolo Ambiental and Saneaqua Mairinque as of October 2010 and July 2012, respectively.

Deloitte Brasil Auditores Independentes has been auditing SESAMM since August 2012, while Attend Ambiental has not contracted any audit service or independent auditor since its inception in 2010.

During their performance period at these companies, auditors did not render services not related to external audit.

Internal controls

The evaluation of internal controls has been conducted on a structured and systematic basis since 2005, reference the frameworks of the Committee of Sponsoring Organizations of the Treadway Commission (Coso) and Control Objectives for Information and Related Technology (Cobit).

Yearly, the internal control evaluation process is re-examined considering both any existence of new risks associated with the preparation and disclosure of financial statements and possible significant changes in the processes and computerized systems.

Controls, which are tested by a company's independent unit, comprise procedures ensuring the accuracy of accounting records; the preparation of financial statements according to official rules;

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and proper authorization of transactions related to acquisition, use and disposal of the company's assets.

The revision conducted on the efficacy of internal controls in 2011, in compliance with section 404 of Sarbanes-Oxley Act, was concluded in April 2012 and did not identify any relevant deficiency, as already occurred in previous years. Tests related to 2012 will be concluded in April 2013.

Risk Management

In order to improve the Corporate Governance practices, Sabesp has been improving its risk management process, by continuously improving the procedures to identify, measure and deal with risks, whether internal or external. We point out the in-house approval to create a specific oversight board to deal with risks, in compliance with the independence requirements. This unit will be made official after being approved by governmental authorities.

The risk management activities are in line with market requirements, the U.S. Sarbanes-Oxley Act, the Code of Best Corporate Governance Practices of the Brazilian Institute of Corporate Governance, technical standards, such as ABN NBR ISO 31000 – Risk Management – Principles and Guidelines and other procedures defined by CVM, SEC and BM&FBovespa.

In 2012, relevant investments were made to train new unit's professionals, procedures to identify and measure risks. The Company is committed to improve risk management actions with a structured focus, aligning the strategy to the processes, people, technology and expertise, aiming at managing natural uncertainties faced by organizations as a way to create value.

Public Bodies' access to Information at Sabesp

The federal law n°. 12,527/11 (LAI), regulated by State Decree n° 58.052/12, determines that bodies and entities of the Public Administration must create an unit to make available Citizen Information Services – SIC in order to serve and guide citizens, receive and manage information requests, as well as make available to the citizen information of his/her interest and the requirement to present the motives or reasons of request is forbidden.

Sabesp, in order to comply with LAI, implemented the Citizen Information Service - SIC, structuring the internal flow of information to serve citizen within the terms provided for by laws and is drafting the Table of documents, data and information, defining restrictive information, protecting business strategic information and pursuing the transparent management. Sabesp also made available at its website basic information required by laws and the software to citizen request information, according to the standards of the State Government of São Paulo.

These duties are linked to the Risk Management area whose main assumption is the transparency, quality of information and compliance with strategic rules of a listed company.

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New businesses and environmental solutions

Over the last years, Sabesp has been operating in new markets not only concerned with the *stricto sensu* rendering of water supply and sewage services but expanding its activities beyond frontiers and developing solutions that both optimize production process and contribute to the natural resources preservation.

We maintain consulting services agreements in water rational use, business and operational management in Panamá – where in partnership with Latin Consult, we provide services to 68 cities and we developed a model to be observed in that country by the local concessionaire Idaan and in Honduras, where we provide technical assistance for the water and sewage system modernization which together involve R\$11.5 million.

Sabesp also develops partnerships with two state sanitation concessionaires: Casal, in Alagoas and Cesan, in Espírito Santo. At Casal, the objective is to reduce actual and apparent water losses, helping the company to deal with supply intermittence. With interventions that started in 2009, it was possible to reduce by 50% the losses recorded in Maceió. The agreement involves R\$25 million and is valid until October 2014. The agreement with Cesan aims at installing and customizing the software Aqualog, developed and owned by Sabesp, in the municipality of Nova Venécia (ES), in the amount of R\$1.3 million and is close to be concluded.

Main initiatives of Sabesp Environmental Solutions Platform include the Water Rational Use Program (Pura) and initiatives to the benefit of reuse water production.

Other initiatives concerned with offering environmental solutions are the loyalty contracts signed with large customers and consumers, which ensure annual revenues of R\$275 million to the company, up 18% over 2011. In 2012, 144 new contracts were signed.

In addition, the non-household sewage treatment deriving from Sabesp's customers production processes resulted in sales of R\$180 million. We also expect in 2014 to start the operations of Attend Ambiental, a partnership with Estre Ambiental destined to implement and operate the pre-treatment stations of non-household effluents and sludge conditioning in Barueri, in the metropolitan region of São Paulo (RMSP).

The company works together with the municipalities of Alto Tietê, in the metropolitan region of São Paulo to implement a solid waste treatment unit destined to produce energy. Also concerned with the utilization of gas generated in the sewage treatment processes, the company will prepare jointly with Comgás, a business model which will allow to convert *in natura* biogas generated by Sabesp (especially at ABC and Barueri sewage treatment stations) into biomethane that can be distributed at the concessionaire's pipeline networks.

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Research and innovation

2012 was a special year in terms of investments in research, development and innovation (PD&I). The amount invested reached R\$6.3 million, well above the historical average and practically the double amount invested in previous year. This acceleration results from projects that seek new technologies for a more efficient production, optimization of the use of natural resources available and reduction of the Company's activities impacts on environment.

One of the levers of this expansion is the cooperation agreement signed with Fapesp (Foundation of Research Support of the State of São Paulo), in 2009. Initially, its validity was extended until 2014, but we signed a contractual addendum to renew it until 2019. In 2012, we had a significant increase of disbursements related to these projects. Out of a total of 12 projects already approved, nine are in progress.

Also in 2012, we launched the second call for the arrangement with Fapesp. Among seven lines of investigation and research we seek to promote are the development of alternatives for treatment, disposal and utilization of sludge at water (ETA) and sewage (ETE) treatment stations; monitoring of water quality; new technologies to implement, operate and maintain water distribution and sewage collection systems; and energy efficiency.

In São José dos Campos, Sabesp installed Brazil's first research center concerned with the environmental sanitation. Eight master's degree projects have been developed focusing on the diffuse pollution impact area in Paraíba do Sul river and the development of specific service automation equipment. These projects rely on the partnership with IPEN (Energy and Nuclear Research Institute) and ITA (Technological Institute of Aeronautics).

The company also carries out relevant actions concerned with the utilization of gases generated in the sewage treatment process, with positive impacts to reduce the greenhouse effect and the volume of waste to be discharged in sanitary landfills. In this regard, we will start at the sewage treatment station of Franca until the second half of this year, the production of biogas resulting from sewage treatment to supply 49 our fleet's vehicles in partnership with Fraunhofer Institute in Germany. Once all biomethane production of this unit is utilized as fuel, 1,600 tonnes of greenhouse gases will no longer be released in the atmosphere every year.

Among 2012 achievements, we also point out Sabesp's execution of an extensive technological prospect, pursuing the initiative developed in 2010. Innovative for the sanitation sector in South America, this survey helps to identify promising technologies, as well as indicates business and partnerships opportunities. Thus, the company is able to improve its prospects on the activities developed, in line with the state-of-art of the best practices effective.

As far as the intellectual property rights protection is concerned, we have six patent proceedings and 10 software registered. One of the patents filed refers to the development of a device to wash water reservoirs capable of reducing by up to 90% the water volume spent in these operations, besides

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significantly decreasing the time spent. This invention was awarded with the Innovation Award, granted by our Regional Systems Executive Board.

TAKING CARE OF THE ENVIRONMENT: TODAY AND TOMMORROW

As a sanitation company, Sabesp understands that contributing to environment preservation is an integral part of its management. This commitment is contained our Environment Policy, in force as of 2008, and is monitored by a committee composed of representatives of five executive boards of the company.

We also seek to be recognized as an important sustainable development agent. In this regard, in 2012 we prepared our Sustainability Institutional Policy. We understand that sustainability is the essence of our business. Our activities have a positive impact on public health, social-economic and environmental development and on the improvement of population's life conditions.

Among the guidelines established, Sabesp plans to build up the sustainability principles into the strategic planning, CAPEX programs and in all activities of the company, from the conception to the operation of systems. During 2012, the draft setting forth the concepts, guidelines and competencies of our future policy was submitted to public consultation and awaits the joint committee's resolution to be implemented.

In order to continue growing on a sustainable basis, Sabesp has the Environmental Management System (SGA) at the sewage treatment stations (ETE) and water treatment stations (ETA), associated with ISO 14001 certification in part of operating units, considered strategic. When facilities were selected, Sabesp's geographic extensiveness was considered, as well as different types of treatment processes applied, and different scales in relation to the stations' size.

SGA is present in 62 ETEs and 3 ETAs, and 50 ETEs are certified by ISO 14001. In 2012, the system implementation started in more than 30 ETEs. We believe that by the end of 2013 SGA will be implemented in 129 stations. Over the upcoming years, the company plans to carry on the SGA implementation at its units to achieve 302 ETEs and ETAs until 2018. Since 2009, Sabesp has already invested approximately R\$15 million to develop the system.

Since 2010, Sabesp has trained 300 multipliers to meet the normative requirements of ISO 14001. With the program still effective, we expect to train other 400 people by December 2013.

Sabesp takes part in the decentralized and integrated management of water resources established in the Water Resources National Policy. Our representation envisages the participation of nearly 150 employees in 21 committees of the state hydrographic basins, in three federal committees within the scope of the State of São Paulo and in the support group to install the Federal Committee of Paranapanema river.

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We also hold a position in the plenary and few technical chambers of the Water Resources National Council, as well as in the Water Resources State Council, in which Sabesp participates in technical chambers as representative of the Sanitation and Water Resources Department of the State of São Paulo.

The charge for the water use – management instrument provided for in the National and State Water Resources policies which aims at promoting the rational use of water and finance programs and actions estimated in the basins plans – is under gradual implementation in the State of São Paulo, where we are the largest individual taxpayer.

In 2012, the company paid approximately R\$26.2 million for the use of water from rivers under federal domain – started in 2003 at the hydrographic basin of Paraíba do Sul – and under state domain, started in 2007 in this same basin and Piracicaba, Capivari and Jundiá rivers. In 2010, the collection started at the basin of Sorocaba and Médio Tietê rivers, and in 2012, at the basin of Santos coast. In 2013, probably collection will start in the following basins: Alto Tietê, Baixo Tietê, Tietê/Batalha, Tietê/Jacaré, Baixo Pardo and Grande, Mogi Guaçu, Pardo, Sapucaí Mirim/Grande, Serra da Mantiqueira, Ribeira do Iguape/Litoral Sul, Pontal do Paranapanema and Turvo/Grande.

In relation to environmental grants and licensing, the operational complex is the purpose of Corporate Program to Obtain and Maintain Grants for the Right to Use Water Resources and Environmental License. As to the grants, the process has been gradually evolved within the prospect of completing 100% of uses filed or granted during 2013. Concerning new projects, the obtainment of licenses and grants is already part of its life cycle.

Climate changes and greenhouse gas emissions management

Attentive to the need of identifying any impacts on its business, Sabesp listed some of the most relevant direct climate change effects and extreme events related thereto in the execution of its mission. These are:

- Change in the water availability;
- Changes in the extraction, production and transport of items necessary for our operations;
- Elevation of the sea level with risk of physical damages and impacts on the operation of sewage facilities and increase in the frequency of extreme events.

As part of the Greenhouse Gases Emissions Management Corporate Program which has been structured, Sabesp achieved its target of concluding in 2012, the company's inventories of 2009 and 2010. Now we have a series with four inventories, starting with the 2007 inventory. Since then, the quantification methodologies have been improved.

Also in line with our Greenhouse Gases Emissions Management Corporate Program which has been structured, our strategy foresees to mitigate emissions, manage and mitigate climate and potential risks, converting them into business opportunities, whether through technological innovations,

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improvement of energy utilization of processes and increase the capacity of the company of being adjusted to the climate changes.

The implementation of a small hydroelectric power plant and the utilization of biogas generated from sewage treatment are examples of initiatives adopted by the company to mitigate risks related to energy security. Concerning the risk of reduced water availability, we point out as examples of actions in progress, the Loss Reduction Corporate Program, the Water Rational Use Program and the expansion of the planned water-reuse for urban and industrial purposes.

The renovation of the vehicle fleet continues as one of the actions we plan to reduce greenhouse gas emissions. In 2012, 105 light vehicles using flex fuel technology were replaced, with the mandatory supply with ethanol; 254 trucks equipped with engines whose technology abides by Euro-5 legislation, which establishes the reduction of emissions; 28 backhoes and 40 motorcycles. Now, the renovation of our light vehicle fleet reached the percentage of 75.3%, while in the truck fleet is 48.3%.

Another initiative is to capture carbon through actions to recover riparian forest at springs. In 2012, 30,000 seedlings were planted. The Verde Vida project stands out, which is developed at the business unit Pardo and Grande: includes environmental education, riparian forest recovery, reforestation and mainly, actions to preserve and recover Canoas river, accounting for 80% of the water supply in Franca, and also Pouso Alegre stream. 92,000 seedlings have already been planted, 12,000 of which in 2012, all of them cultivated in the nursery at ETE Franca.

In 2012, it was not possible to proceed with our partnership plans to implement a carbon revolving fund with resources deriving from the sale of carbon credits in new plantations. The idea can be appropriately resumed.

Sabesp has been participating in the Carbon Disclosure Project – CDP Investors for the last seven years. It refers to disclose greenhouse gas emissions figures based on a questionnaire prepared by this entity, so that to standardize and organize the way how the companies report information about its business as to potential risks and climate change-related opportunities. Combined with this effort, in 2011, we joined the CDP Supply Chain, but we decided to discontinue this participation in 2012, in view of our employees' low adhesion.

In 2012, the Sustainable Public Contract State Program granted the social and environmental seal for 37 purchase specifications of Sabesp, amounting to 208 specifications. We reached 30% of the target – the certification of 700 specifications in view of the need of carrying out technical adjustments in the seal issue process required by the State Environment Department. Enacted by State Decree n° 50,170/05, the seal signals to the supplying market the intention of the State of São Paulo of adjusting its consumer profile to the sustainable development international guidelines.

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Environmental education program

Sabesp also maintains an Environmental Education Corporate Program (PEA), in which measures are developed aiming at building social values, knowledge, skills and attitudes concerned with a sustainable world. Since 2007 more than 1,000 employees were trained to disseminate the environmental sanitation culture. PEA provides guidelines to more than 100 actions and projects, among which we point out:

- Adoption of the Water Rational Use Program (Pura) at schools which in 2012, allowed to reduce by 72 million liters/month the water consumption at educational units of the municipality of São Paulo;
- School visits to ETAs e ETEs, with the participation of students and teachers throughout the state. In 2012, 1,474 visits took place, and 56,456 persons attended;
- Lectures at schools, communities and companies. In 2012, 165,948 persons attended 1,516 events.

We already promoted 31 sustainability hearings, two of them in 2012. We also conducted seven ecomobilizations in 2012, totaling 25 community efforts already made to collect waste and plant seedlings at water body margins in partnership with NGOs, civil associations and community leaderships.

In 2012, we decided to discontinue the installation of eco stations in areas nearby company's main facilities, due to the difficulties to conciliate supply of available areas with surrounding community's demands.

Sabesp 3Rs

Based on the concept "reducing, reusing and recycling", in 2012 the selective collection program sent 372 tonnes of materials for recycling to garbage collection cooperatives. The result is 30% higher than previous year, when 286 tonnes were recorded. During the program's activities created in 2008, approximately 75 sensibilization activities, technical visits, specific training and qualification of representatives at the company's organizational units were conducted, gathering nearly 1,200 employees and outsourced service providers.

Environmental processes

Sabesp is party in few environmental proceedings within the administrative and legal scope, promoted by the Public Prosecution Office, few municipalities and non-governmental organizations. Most of lawsuits refer to the discharge of raw sewage in water bodies, indemnity due to any environmental damages caused and investment in sewage treatment system facilities.

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The company has been establishing commitments and formalizing consent decrees and litigation settlements with the Public Prosecution Office, including the resources destined for this purpose in its budgetary planning.

In October 2012, the Public Prosecution Office of São Paulo filed a public civil action pleading the nullity of the agreement signed between Sabesp and the municipality of São Paulo to provide basic sanitation services; the universal access to sewage collection and treatment in São Paulo by 2018; the reduction of volume of sludge produced at ETEs and ETAs, among other aspects. The company filed a counter-draft to an interlocutory appeal in 2012, was defendant in lawsuit in March 2013 and understands that the chances of losses are remote. The lawsuit amount on December 31, 2012 was R\$11.7 billion.

Green building

The first green building certified by Sabesp should start to operate in July 2013. This is an administrative building of sewage treatment station in the municipality of Bragança Paulista, which will allow to the municipality to have 100% sewage collected and treated.

Works were already concluded, ETE is in its pre-operational system and the green building awaits to complete the certification with the environmental sustainability seal LEED (Leadership in Energy and Environmental Design), granted by USGBC (United States Green Building Council), in view of a set of sustainable solutions adopted.

The new building is located in a 19,000 m² property, with built-up area of 391 m². More than 13,000 m² remaining, i.e., 70% of total, will be occupied by green areas. The construction meets the sustainability requirements in six categories: space, water use rationalization, energy efficiency, supplies and natural resources, indoor air quality, innovation and project. We estimate that the certification of LEED seal will be granted by March 2013.

Reserves inside protected areas

Sabesp owns and maintains areas inside conservation units, carrying out inspection and monitoring works, besides supporting biodiversity studies conducted by universities, such as the University of São Paulo (USP). There are research spaces that can be used, including for fauna late-night observation.

Solutions for sludge generated in water and sewage treatment

The generation of sludge is inherent to sanitation activities. Both water and sewage treatment produce waste requiring an adequate destination, in order to potentialize the beneficial effects to the environment. This is a challenge that Sabesp has been trying to deal with and not only because society rightly claims for that but because taking care of water resources preservation and environment is strictly related to the operations of a company whose raw material is water.

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Currently, the sludge generated in our activities has as main destination the appropriate disposal in sanitary landfills – on the other hand, Sabesp treats leachate generated therein. As these areas have been depleted in big cities with low availability on the coast and inland, we have sought to develop new alternatives aiming at reducing the final volume to be disposed. The most relevant alternatives are incineration, aiming the energy utilization of waste and composting to produce soil conditioners for agricultural use. The most promising prospects lie in the sludge generated in the sewage treatment.

Among the initiatives towards this direction, we have been prepared to transform all the sludge produced at the sewage treatment station (ETE) of Lavapés, in São José dos Campos, into agricultural composite as of 2013. The bidding process to contract composting services of 70 daily tonnes of sludge is under phase of conclusion and will enable the registration of authorization by the Ministry of Agriculture. This composite subject to composting was rated as “class D”, i.e., it refers to soil conditioner produced from organic source that can be used in certain types of culture, such as coffee, fruits and sugar cane. It is worth mentioning that the utilization of sludge to produce fertilizer allows to reducing by 58% the operating costs of treatment and final disposal of sludge in Lavapés. In the next years, we will start to adopt the same procedure at ETE Taubaté, using 100% of sludge generated in the sewage treatment process at that unit, i.e., 30 daily tonnes.

In the metropolitan region of São Paulo, the company plans to implement incineration units at ETE Barueri, our largest treatment station, with capacity for 9.5 thousand liters/second. The energy contained in sludge will be used as fuel in the incineration process, together with an amount of biogas produced by anaerobic digesters. The volume of biogas in excess may be injected at the gas public network.

Through the optimization of treatment process and the application of new technologies, the company also has been gaining significant results at the water treatment stations. In the eight units of the metropolis, the volume of sludge generated was reduced by 32% over the last four years. At the same time, we decreased by 10% the use of chemical products applied in the water treatment process in the metropolitan region of São Paulo, with beneficial effects on the generation of effluents and sludge.

It is also worth mentioning that the company has been sponsoring few lines of research, in an arrangement with Fapesp, aiming at reducing and better utilizing the sludge generated in the water and sewage treatment processes. In 2012, we sought to incentive, among other guidelines, the utilization of sludge of ETAs as input to recover sanitary landfills; the use of sludge withdrawn from stabilization pools in the sewage treatment as input to recover degraded areas; the processing of sand extracted from ETES to be applied in civil construction.

DEVELOPING THE CITIZENS OF THE FUTURE

Every new year, Sabesp seeks to improve its relationship with the public, as it understands that these partners (customers, shareholders, employees, suppliers, governments and community) may help the company to build a more equitable society which promotes inclusion, citizenship and respect for human rights. These are values and practices pursued with the same efforts we seek our financial targets and sustainable growth, guided by our Code of Ethics and Conduct.

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Sabesp has been conducting its businesses according to the UN Global Pact, which gathers companies to the benefit of labor human rights, environmental protection and anti-corruption actions. The Company is partner of Ethos Institute, besides supporting and promoting the UM Millennium Eight Objectives, already integrated with our Corporate Volunteer Program. We also supported the Sustainable Planet project, led by Editora Abril.

Our greatest performance proposal is to promote population's quality of life and strategic commitment to act as a Sustainable Development Agent. Our activities have a positive impact on public health and on the social, economic and environmental development, as basic sanitation is an essential sector of infrastructure and vital for sustainable development. With an articulated work of social and environmental responsibility, Sabesp also considerably gets close to society.

In the social environment, through the Volunteer Program, we carry out campaigns that result in the collection of tonnes of food, clothing, books and magazines, distributed to more than 200 welfare entities. We maintain partnerships with NGOs, local governments, schools, among other segments, which allow us to build a network of more than 1,200 volunteers. In the development of projects concerned with citizenship, this group devotes on average 10,000 hours of work per year in volunteer programs, helping more than 15,000 people.

Inclusion is present in several of our actions. We emphasize childhood, as we believe that good education of these citizens is essential to build a society close to our wishes. The company works in social risky areas in the metropolitan region of São Paulo, through "Instituto Criança Cidadã" ICC or Child Citizenship Institute, which invests in the education of minors of low-income households.

In 2012, our contribution reached R\$2.7 million, allowing nearly 6,500 children and youngsters from 3.5 million households to gain education and assistance.

Sabesp is also recognized as "Empresa Amiga da Criança" (Child Friend Company) by ABRINQ Foundation. It is a formal commitment that expresses, for instance, items of suppliers' agreements that guide the production chain, thus, preventing slave and child labor.

Sabesp has been solidary to families' afflicted search of missing children and youngsters. Every year, at least, 9,000 of these children and youngsters do not return to their home in the State of São Paulo. The first step was to join the São Paulo Program in search of Missing Children and Youngsters, launched by the São Paulo State Government. Thereafter the actions came. Water bills, for instance, now disseminate this program and guide about measures to be taken to deal with this issue. Messages are disseminated through the company's website, at the corporate portal, employees' paychecks and service bureaus.

For youngsters between 14 and 21 years of age, we maintain a partnership with the National Service for Industrial Apprenticeship (Senai-SP), giving them a chance of working for the company to gain professional qualification. This initiative gave opportunities to 2,300 youngsters, of which 560 composed the company's staff in 2012.

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Relationship with customers

The continued improvement of services rendered is part of a new strategic planning (2011-2020) and one of the major components of our success. We understand that transparency of information and the improvement of tools with which we strengthen our relationship with community will base our objective of continuously servicing our customers with excellence.

In 2012, the company implemented the water and/or sewage bill in braille for the blind and visually impaired. This new service results from a partnership with the Department of Impaired People Rights. The bill was developed from 400 interviews with blind people, wherein they pointed out their needs. As of 2013, the clients registered will also receive the braille version of documents, such as the annual report on water quality, the statement of annual settlement of debts and the adhesion contract.

The Virtual Branch, available at the company's website, was also improved to allow the digital inclusion of the blind and visually impaired. Since April, the channel has been fully accessible, allowing users to check debits, request a second copy and check the bill statement, among other functionalities. In 2012, it was not possible to make available at the Virtual Branch 80% of most requested services by customers, but target is expected to be achieved as of the second half of 2013.

The improved relationship with our customers also can be seen in our call center, where 100% of our calls are made with a maximum waiting time of 60 seconds. Sabesp provides on-site services at 391 agencies and service bureaus, 65 in the metropolitan region of São Paulo and 326 in inland and coast of São Paulo. In the metropolitan region of São Paulo, branches' business hours now are different, effective as of August. In compliance with Arsesp's resolution, the business hours were established observing each region's profile.

Another action destined to strengthen customer relationship was to extend to 100% of municipalities operated by Sabesp the services through TACE - Service Technician for External Customer. Currently, municipalities rely on measurement, issue and checking of water and/or sewage services consumption at the customer's domicile. Technicians are also qualified to provide clarifications and guide the customer, who does not need to travel to a service bureau.

Travel can also be avoided with the consolidation of process that refunds or charges automatically in future bills the amounts overpaid or underpaid. Monthly, the company corrects credits or debits in nearly 30,000 bills.

The concern with social inclusion can be seen in the action of making the "social tariff" available, through which the low-income population can have access to sanitation services, with relevant gains in these communities' quality of life. This benefit is regulated by Arsesp and assists households earning up to three minimum wages, besides observing dwelling size criteria and energy consumption. Currently, 280,000 domiciles gain this benefit, compared to 242,000 in 2011. It is worth mentioning that the figure mentioned in the 2011 Sustainability Report was misunderstood.

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Sabesp's social tariff is one of the lowest tariffs practiced by state sanitation companies, with a reduction of approximately 64% in the regular residential tariff.

We maintain in progress the Project to Regularize, Integrate and Transform Irregular Areas (Paritá), implemented in the east zone of the metropolitan region of São Paulo. In 2012, 720 water connections were regularized in ten areas irregularly occupied; between 2008 and 2011, other 51 areas have been regularized. Considering the results of the past five years, approximately 20,000 inhabitants have been assisted. These actions also enable to decrease annual losses of 2.7 million m³ water, which the Company deems strategic, as it operates in areas with strict water scarcity.

Also in order to assist deprived areas, in September, the company signed an arrangement with the local government of São Paulo to install fire hydrants in water distribution networks nearby communities in order to assist firemen in fires. Sabesp had already implemented two hydrants at the Sônia Ribeiro community, in Jardim Aeroporto, which worked as a pilot project. The installation of hydrants is expected in 50 settlements, in four stages. Planning and execution of works will occur according to the actions required by municipality.

Surveys and satisfaction

Sabesp has been annually conducting satisfaction survey with its customers since 2004, always applying same methodology, which enables the comparison between different business units in different periods. Our objective is to improve services rendered to our customers from results obtained. In 2012, the overall satisfaction level in relation to the company stood at 89%, three percentage points lower than previous year. We believe that the maintenance of good results is mainly due to quality and regularity of water supplied by the company: 90% of 5,862 interviewees said they were "satisfied" or "very satisfied" with services.

Sabesp also conducted satisfaction surveys in each of the municipalities with which it maintains the program contract. Surveys are carried out every two-year anniversary. In 2012, surveys were conducted in 198 cities. Results guide the improvement of our services. Surveys are disclosed to the public, reinforcing our commitment to transparency and continued improvement of services rendered.

Ombudsman

Sabesp's Ombudsman expanded its structure and the Call Center staff. This investment enabled to promptly reply almost 100% of phone calls, nearly 99% within one minute – and according to our evaluation, resulted in the significant reduction of customers seeking for services at Sabesp's outdoor institutions, with com notorious quantitative and qualitative gains for the company's image.

After closing 2012 results, we may quote the 45% decrease in total customers who complained through the Regulatory Agency of Sanitation and Energy of the State of São Paulo - Arsesp. We also verified an 18% reduction in the number of customers who sought Procon, consumer defense state agency. We also saw a 3% decrease in the number of customers who sought the Digital Civil Special

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Court (JEC), which reveals the successful partnership between the company and JEC. The pursuit of excellence in servicing our customers may be attested by the fact that this is the third consecutive year that Sabesp is outside the ranking of top 50 companies with the highest number of complaints released by Procon.

The market's recognition occurred through the "2012 Brazil Ombudsmen Award" promoted by *Consumidor Moderno* magazine. This award gathered a jury selected by the Brazilian Association of Company/Customer Relations - Abrarec and by the Brazilian Association of Ombudsmen – ABO. This initiative ratified the quality of the service model announced by Sabesp's Ombudsman area, which won all the categories evaluated by the award: "10 best ombudsmen in Brazil", "Three outstanding ombudsmen" and "Top 3 Ombudsmen in 2012".

Relationship with employees

Sabesp is proud of having in its staff, employees whose qualification is benchmark in the basic sanitation sector. The retention of these professionals in a competitive market and in full ascension, maintains the company in an ongoing pursuit of people management best practices.

Sabesp currently has 15,019 employees ruled by Consolidation of Labor Laws (CLT). Male employees are the majority (80%), who completed secondary school (49%), white ethnic group (83%), over 40 years of age (71%). Average period of services rendered to the company is 17 years. Sabesp relies on service providers when necessary and under these conditions, approximately 7,372 professionals. In addition, we have 888 trainees and 560 young apprentices, who combine the opportunity of working and taking qualification courses.

The building of the fairer and more sustainable society we seek necessarily means valuing diversity and social inclusion. Sabesp complies with Federal Decree n° 3,298 of 1999, which determines to set aside 5% of vacant positions offered in the public selection processes for impaired people. In 2012, we had 64 job positions under these conditions, 69% physically-impaired, 22% hearing-impaired and 9% visually-impaired employees. We also have been maintaining since 2005, an agreement with the Avape – Association Valuing People with a Disability, through which 106 impaired people work in our public service bureaus and they receive over 108 hours of previous training.

Sabesp adopts a set of benefits that contribute to improve quality of life and well-being of its employees, enabling a greater performance and rationalization of benefits management. The benefits package adopted by the company envisages: benefits card – staple basket and arrangements with supermarket and drugstores and meal card. These benefits cover all employees, regardless of working hours system or position, gender or ethnic group. Only the apprentices comply with specific laws. Employees with child custody receive day-care assistance reimbursement or utilization of the company's day care center for children between 6 months and 6 years of age (incomplete). The company provides reimbursement of expenses to those employees having children with special needs for treatment at specialized institutions and twice the amount of day-care assistance, without limit of age. Employees under leave due to sickness allowance or accident whose salary is above the maximum amount paid by INSS (National Institute of Social Security), are automatically granted an addition to salary for a period of up to six months.

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In addition to these benefits, through Fundação Sabesp – Sabesprev, the company subsidizes the health and private pension plans of all its employees. In 2012, the company contributed with 1.8% of the monthly payroll to its private pension plan.

By the end of December 2011, Sabesp signed an agreement with employees’ unions in order to change their pension plans. The proposal foresees other incentives for those who migrate from Defined Benefit Mode (Basic Plan) to Defined Contribution (Sabesprev Mais Plan). It also includes changes in risk benefits. With this agreement, we expected to deal with the technical deficit of the Basic Plan, estimated at R\$557 million. Changes, however, could not be implemented, since the court did not judge the injunction granted in 2010 to a lawsuit that suspended migrations to Sabesprev Mais Plan. In September 2012, the judge in charge of the case ordered an accounting expert examination. An expert was designated in early 2013.

Referring to Sabesprev health plan, in 2012 the National Agency of Supplementary Health issued a Normative Resolution ruling the supply of health insurance plan to former employees and retirees, which suspended the works of the same commission that was working to establish proposals to improve insurance coverage. The studies will resume in 2013.

Aiming at “Building a work environment with productivity, quality of life and well-being, contributing to decrease absenteeism and improve the organizational climate”, the “Programa Viver Feliz” (Living Happy Program) in 2012 carried out actions related to food reeducation and physical activity, since obesity and sedentariness were identified as main risk factors to employees’ health.

Sabesp gave a qualitative leap in achieving one of its corporate guidelines: “Human Capital as competitive strength”. The company was committed to pursue the people management that allows to restructuring the organization according to its needs, qualifying it to new challenges, besides awarding performances. As main people management projects, we point out in 2012, the implementation of the new Career and Salary Plan (PCS), the Evaluation of Competencies and Performance system, the Managerial Excellence Program, besides the automatic replacement of employees. For the company to be competitive and retain its talents, it sought to award the professional development, by establishing the meritocracy, and salaries compatible with the market, with additions in remunerations at the beginning and at the end of careers. Contributions were made to budgetary resources to promotion, which allows us to consider a greater number of employees.

Sabesp also implemented a new Evaluation of Competencies and Performance System developed so that managers may diagnose their units, thus allowing to assessing employees’ performance and competencies and outline development commitments. The company also relied on the immediate hiring of candidates approved in competitive civil-service examination.

We leveraged the development of our leaderships with the implementation of the Managerial Excellence Program, encompassing development activities articulated by the conducting wire of results-oriented management: on-site course with curriculum framework concerned with several business management segments, lectures with renowned professionals, evaluation of managerial

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profile and coaching. During 2012, we developed 240 leaders of five executive boards. Over the next two years, the program will be extended to all employees holding leadership positions.

The Organizational Climate Management perception was evaluated by 14,185 employees in their own competencies and performance evaluation process, who gave grades from zero to five for the following aspects: work environment– 4.27; communication– 3.99; work conditions – 3.91; institutional aspects – 3.99; activities – 3.92 and recognition/appreciation – 3.27.

A more comprehensive census survey will be conducted besides this Climate perception in 2013, firmly aiming at being recognized in a near future as one of the best companies to work for.

Sabesp incentives and supports its employees to participate in professional entities and associations, as a way of fully exercising their rights, besides promoting the personal development and improving the organizational climate. All our employees are free to be members of an association, to be represented by Unions which is covered by collective bargaining agreements. The company conducts negotiation processes with responsibility and transparency and value a health dialogue with Union entities. They also hold meetings at any time to discuss reasonable proposals which aim at meeting employees' expectations and maintaining good organizational climate, observing the limit of its financial capacity and governmental guidelines. In 2012, no situation has been seen that this free right of association and negotiation has been under risk.

Yearly Sabesp holds negotiations with five main Unions that represent the majority (90%) of its employees: Sintaema, Sintius, Seesp, Sasp and Sintec. It is worth mentioning that 80% of our employees are voluntary members of each of these Unions. The collective bargaining process of 2012/2013 took place in May and involved main Unions and resulted in 6.17% adjustment to payroll and benefits and in the establishment of the Profit Sharing Program (PPR). It is worth mentioning that as agreed with Unions in the 2011 collective bargaining agreement, on April 26, 2012 the final payment related to the fulfillment of targets was made. The amount distributed was R\$53 million, including 100% of employees.

In 2012, 11,348 male employees and 2,837 female employees had their performance and competencies evaluated. Other 834 employees were not evaluated due to the following reasons: retirement due to disability, employees hired less than 3 months, or those working for other bodies. 1,873 transfers of personnel were made, including promotions, reallocations, designation and exclusion of job positions.

Sabesp complies with the Brazilian laws, concerned with employees so that changes that affect their work conditions do not occur. In the event of changes in the processes that would impact labor relations, the company previously discuss this issue with employees' representatives.

We know that the sustainability of our business relies on people who will hold leadership positions at the company in the medium and long terms. This is even more fundamental when we know that 35% of our managers will be entitled to retirement in the next five years. In this regard, in 2012 we trained 39 professionals in the Succession and Career Program. We also started the training of other 45 people with essential and potential competencies to become leaders at Sabesp. The development

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process includes MBA, coaching, evaluation, language and improvement courses nationwide and internationally, in business's priority issues.

Sabesp is one of the pioneers in corporate education in Brazil with its Corporate University, implemented in 2001 to qualify leaderships and employees at all levels. The university's investments in training are approximately R\$12.8 million and they privilege courses mainly concerned with sustainability leadership, corporate governance, environment, social responsibility, quality, health and safety.

In 2012, the company strongly invested in training activities related to the hygiene, occupational safety and medicine, including human rights aspects. 25,000 hours were recorded in social responsibility training, with the attendance of over 4,000 employees. In addition, safety and occupational medicine programs, which also contain an issue related to human rights included 42,000 attendances, totaling 134,000 hours. The company also endeavored efforts to improve the qualification of its professionals, subsidizing graduate course, MBA, technical and specialized courses and language courses, through partnerships with renowned institutions on the market. In addition, agreements with over 135 educational institutions providing discounts of up to 40% for employees and legal dependents in undergraduate, graduate courses, primary and secondary schools, technical school, elementary school, language school, high school equivalency education and literacy program.

The objective of the company's occupational health and safety management is to ensure actions that promote the development of the prevention culture at the company, as well as the improvement of work conditions, adding quality of life to employees and service providers.

Sabesp's Occupational Health and Safety Management System is certified by OHSAS 18001, comprising 72 establishments within the scope of services and works including digging and restricted areas executed at public areas, being recertified in 2012 by *Bureau Veritas Certification*.

Out of total employees, 25% of them work in formal health and safety committees and include activities such as: systematization, monitoring and specific programs. In particular, we point out the efforts and commitment of our 4,000 CIPA (Internal Commission of Accident Prevention) members, members of the fire brigade and professionals of Specialized Services in Safety Engineering and Occupational Medicine.

Occupational health and safety programs developed have obtained gradual reduction in frequency and severity of accidents. Most frequent accidents are related to traffic (28%), falls (24%) and crash against moving or fixed objects (18%). The human behavior (68%) is the main factor of accidents due to confidence in excess and the failure to comply with safety procedures. In 2012, we invested nearly R\$12 million in accident prevention. We point out the programs: CIPA in Action (identification of 1,047 unsafe conditions with 75% concluded); Safety Campaign Grade 10 (3,904 inspections carried out); Health and Occupational Safety Qualification (40,000 attendances) and Minute of Prevention (2,460 events with 39,338 attendances); "Campanha Você no Trânsito" (You in the Traffic) Campaign: Motorcyclist accident prevention; Occupational Health Physician Control

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(11,645 physician examination); Immunization Campaign (11,343 employees immunized against influenza).

Corporate management

The year of 2012 was relevant for Sabesp to consolidate its path towards corporate sustainability.

We seek to enhance transparency and reliability of our in-house management. Thus, we created the Sabesp Corporate Integrated System (SIES), to increase the reliability of processes and reduce costs. SIES will combine in the same platform the financial, accounting, human resources, legal, procurement/bidding areas. Known from the Enterprise Resourcing Planning (ERP), the integrated system will increase the efficiency of the company's operations, thus allowing to speeding up the decision-making process.

The implementation of the SIES project has already started and must be concluded within 40 months. The process will occur in two phases. The administrative and financial macro processes must be implemented by the first quarter of 2014; and commercial macro processes by the end of same year.

Supplier relations

Suppliers relations are guided by ethics, transparency and social and environmental criteria, reason that we encourage the companies with which we maintain business relations to adhere to the managerial practices and reduction of greenhouse gases emissions. At our electronic bidding portal, available in our website, the company's bidding procedures are fully disclosed, ensuring suppliers equal participation conditions. We are the first government company to roll out an electronic procurement process in Brazil. Besides reducing costs, this system offers to its suppliers and population a greater transparency, efficiency and agility. During 2012 1,869 electronic trading sessions occurred, totaling R\$1.6 billion, with R\$296 million savings for the company's treasury.

Sabesp promotes the participation and contracting of local suppliers in the regions where it operates. Our business units have their own budget and independence to contract on a decentralized basis.

As part of the compliance with a broad peripheral legislation on contracting, a special treatment is also assured to small-sized companies and cooperatives, also encouraging the participation and contracting of local suppliers. In 2012, this participation, only considering contracting due to exemption of bidding by value and invitation, reached 35%.

Sabesp also discloses to the market as much as possible its procurement planning, aiming at stimulating competition. In this regard, we prepared the manual "Bidding Guidelines in Public Procurements", available on our website (www.sabesp.com.br) where we establish the general guidelines to increase the number of suppliers and promote greater competition. Pursuant to State Decree n° 53,336/08, Sabesp also discloses its Sustainable Public Contract Report, which lists our main social and environmental actions and good practices applied to our supply chain.

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Social and environmental aspects are also included in the public bidding rules and draft agreements, pointing out participation conditions: interdicted companies due to environmental crimes are prohibited from participating in Sabesp's bidding processes pursuant to Article 10 of Law n° 9,605/98; restraints to minor children labor; declaration of non-utilization of workforce similar to forced or compulsory labor, in any of its forms, in its production chain; only wood products and byproducts of exotic or native origin deriving from legal sources will be utilized in the execution of engineering works and services, pursuant to State Decree n° 53.047/08; Normative Guideline for Qualification of Suppliers who are committed to environment and its surrounding. It also requires the compliance with local environmental laws through installation and operation licenses issued by environmental authorities. In addition, it assesses the products toxicological risks, so that to ensure safety of use both at water treatment stations and for end consumer.

Investor relations

Our Investor Relations area acts with transparency to provide clarifications, solve doubts about issues referring to the company, besides making the top management aware of the market's demands. Therefore, we democratize the information so that to allow all stakeholders to have conditions to make decisions with the same level of knowledge.

During 2012 the company participated in 11 conferences and roadshows in Brazil and abroad, besides dozens of individual meetings at our head offices. The quality effect of this relationship was evidenced, for instance, in the debentures offering that took place in January 2013, when demand for debentures reached approximately four times the tendered amount. The tariff revision that has been developed by the Regulatory Agency was one of the great reasons for the meetings held in 2012.

Government relations

We seek the excellence in the dynamics with governments. Our interfaces with the public sector comprise three political and governmental levels (federal government, states and municipalities), their agencies and entities. We cooperate in the process to formulate and implement sector's government policies and others of relevant social interest, towards improvement of quality of life to which the basic sanitations is a determining factor.

Within the federal scope, in 2012, we participated in the public consultation aiming the proposal for the Sanitation National Plan, and also, with entities representing the sanitation sector we sought to reduce the high tax burden incurred on the water and sewage services. In 2012, Sabesp paid R\$1.34 billion as income tax, Pasep, Cofins (taxes on revenue) and CSLL (social contribution on net income), which accounts for nearly 53% of investments made in 2012. Within the state scope, we participated in several programs and definition of guidelines for the sanitation sector, aiming at speeding up the execution of services universalization target. We also set aside resources for actions supported by the state government, such as support to culture and sports, based on tax incentives.

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The dialogue with municipalities is intense taking into account the conditions of our major customers. We seek to be aware and solve local demands, we take part in main discussion forums and we support programs and initiatives in the environmental, health, tourism and cultural areas.

Community relations

Sabesp pursues the support of educational activities concerned with customers, suppliers and communities. We have been standing out in training for the rational use of water and environmental education. In 2012, we technically and financially supported a healthy competition idealized by Sagarana Comunicação. Employees and dwellers of 15 residential buildings in the district of Moema, south area in the city of São Paulo, participated in the “Condominium Competition”, the main challenge of which was to save water. During two months – June and July– the efforts of 15 participating condominiums allowed to save 1,894,822 liters of water, corresponding to nearly 190 tankers of 10,000 liters each. The Ponte di Rialto condominium won the competition, which saved 200,000 liters of water, reducing by 14% the water consumption.

Sabesp also works with communities in partnership with local governments. Programs concerned with low-income population include technical and social works and aim the social, economic and environmental sustainability of projects, which include the community’s participation and the environmental education, observing the characteristics of works and the profile of benefited population.

It is worth mentioning the methodology called Cooperative Governance, developed by the Brazilian Center of Analysis and Planning (Cebap) utilized, for instance, in programs such as “Córrego Limpo” (Clean Stream) by Metropolitan Executive Board. In this approach, social and environmental projects are maintained with the participation of all stakeholders and beneficiaries are monitored and supported by visits of teams related to the company’s social responsibility. In the metropolitan region of São Paulo, Sabesp also develops the program called “Agente da Gente” (People’s Agent) – a Community Participation Program, through which we establish an effective communication channel among our 40 technicians and local community leaders. Together, they work to involve area residents, transforming them into environmental consciousness-raising multipliers.

The company continuously seeks means of approaching professionals of its operational area in the communities operated. One of the issues has been to provide services through its own labor, a model adopted by the Regional Systems Executive Board. Referred to as “Gente que Faz” (People Who Works) also deals with the strategy aiming at valuing the staff and add value to the company’s results.

The company is open and seeks to establish new relationships with stakeholders in several sectors, but adopts criteria to focus these partnerships, aiming at contributing to Sabesp’s business and mission. Thus, the evaluation for sponsorships, institutional support and cooperation agreements is guided by the following criteria: (i) privilege entities/head offices/performance in operated basis; (ii) initiatives related to water and sustainability (example: aquatic sports); (iii) do not exclude and allow full social participation; (iv) credibility, track record of activities and compliance with

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applicable laws for the granting of support by state-owned companies. Agreements are also signed through bidding process with Oscips, NGOs and universities for ecosocial projects, pursuant to Law n° 8,666/93.

Incentive to culture and sports

Sabesp has been making efforts to offering tax incentive to environmental, social, cultural and sports projects, with emphasis on environment, in line with social responsibility principles, incentive to culture and well-being of the community. We believe that practice social and environmental responsibility is to respect life, in its most varied needs.

One of our actions is “Sabesp para quem tem sede de cultura” (Sabesp for those yearning for culture), through which the Company supports projects related to movies, literature, fine arts, music, dance, theater, circus and preservation of cultural heritage. In 2012, R\$13.9 million were invested, R\$4.6 million of which are part of the São Paulo Movies Incentive Program, where 15 movies and documentaries were selected. Movies were selected by the State Department of Culture and receive funds that Sabesp makes available through Audiovisual laws. As required by Sabesp, as of 2012, each production started to make available an adapted copy for those visually and hearing impaired, through subtitles and audio-description, an initiative of which Sabesp is pioneer.

Since 2004, when the company adhered to the program, 141 movies had already been sponsored, which allows the company to be recognized as the company that most invests in movies in the State of São Paulo and one of the three largest sponsors of the throughout the country. Another initiative is the project “Escola no Cinema” (School goes to the Cinema), destined to improve the relationship between students and teachers: 20,000 students already watched commented sessions at “Cine Sabesp”, one of the recent movie streets in the city of São Paulo and currently supported by the company. In 2012, this program received 5,000 children.

We considered relevant to have contributed to launch the “Guia Online de Acessibilidade Cultural” (Online Guide of Cultural Access), which brings information about cultural public equipment available in the capital city of São Paulo. Prepared by Mara Gabrielli Institute in partnership with the Culture State Department, this guide lists 186 establishments, among theaters, museums, cultural centers, house events, libraries and cinemas, amongst them, Cine Sabesp. The guide is available on the link: <http://acessibilidadecultural.com.br>.

Sabesp also sponsored sports projects, setting aside R\$2.8 million as tax incentives in 2012. Among the beneficiaries are the swimming athletes of the team Esporte Clube Pinheiros. Another R\$3 million were remitted by the company to the State Fund of Child and Adolescent Rights, through Condeca.

Lessons we teach and we learn

In 2012, 8,604 people participated in lectures and programs through which Sabesp seeks partners to help it to strengthen its commitment to environment.

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The Educational Learning Program, for instance, is open to schools, universities, NGOs, domestic and international companies, investors, amongst others. It allows visitors to learn about two water treatment systems. The Cantareira system, one of the world's largest water production systems, composed of six reservoirs interconnected by 48 km of tunnels, is liable for the water supply of almost 50% of the metropolitan region of São Paulo (RMSP), where nearly 20 million people live. The other is Alto Cotia system, liable for the supply of west side of RMSP.

In 2012 our facilities received 5,720 people in 164 visits, among representatives of international institutions, such as Franklin TempletonInv-U, Explorador Capital, MiraeAsset Global Investments, CSHG, CreditAgricole/Amundi and J.P.Morgan. Besides showing how water production works in these systems, our technicians discuss relevant issues, such as water scarcity in the planet and the need of rationally using it. Since its inception, the Educational Learning Program has already received more than 900,000 people.

Sabesp also seeks new partners with the Corporate Project. In 2012, 38 lectures were given to 2,884 employees of companies interested in learning more about Sabesp's operations, as for instance, a group of Petrobras. Participants learned about our daily efforts to improve people's quality of life and preserve the environment, besides relevant projects, such as depollution of Tietê river and Aquapolo Ambiental, destined to water reuse.

In January and July, 609 employees' relatives, with ages between 7 and 14 years, took part in the "Um dia na Sabesp" Program (One Day at Sabesp). Children learned how water and sewage are treated at the company where their parents work. They were also received by our chief executive officer, Mrs. Dilma Pena, from whom they were given an hourglass, with capacity to measure five minutes, enough time to bathing without losing water.

Children's reactions have been signaling that the company is in the right path by opening its doors to society, in search of partners to make the highest number of people as possible conscious about the relevance of basic sanitation, preservation of our water courses, besides showing on a transparent way the company's permanent search for excellent services. After participating in one of the visits, Juan Silva Garcia, a 7-year old boy, entered into his father's car and was telling him about what he had learnt on water treatment: "Did you know that water is treated with aluminum sulphate, lime and chloride?"

Also as part of the one-day visit program, children also watched the movie Dr. Seuss' The Lorax at Cine Sabesp, about the relevance of preserving nature. Watching this animation free of charge was not a privilege only granted to employees' relatives. In partnership with School Project at the Cinema, Sabesp made available 5,000 tickets so that primary and secondary school students from public and private schools could have access to this history inspired in the book of the U.S. writer and cartoonist, Dr. Seuss.

Sabesp's actions also raised the interest of our visitors in working for the company. This was the case of the civil engineer, Ana Stela Barcelos Ferreira de Sá, after visiting ETA Guaraú, one of the world's largest water treatment stations. "When I learned about water treatment, I decided to join the team of employees", says Ana Stela. "Water is a finite resource and we need to preserve it". After

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participating in two competitive civil-service examinations, in 2012, the engineer completed one year working at Sabesp's Supplies and Equipment Bidding Department. She is in charge of purchasing inputs for treatment of water that Sabesp distributes to its 27.9 million customers.

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ANNUAL SOCIAL BALANCE SHEET/ 2012

Company: COMPANHIA DE SANEAMENTO BÁSICO DO ESTADO DE SÃO PAULO

| 1) Calculation basis | 2012 (R\$ thousand) | | | 2011 (R\$ thousand) | | |
|--|--|----------------|----------------|--|----------------|----------------|
| Net revenue (NR) | 10,737,631 | | | 9,927,445 | | |
| Operating income (OI) | 2,843,343 | | | 2,354,495 | | |
| Gross payroll (GP) | 1,498,445 | | | 1,395,844 | | |
| 2) Internal social indicators | R\$ thousand | % on GP | % on NR | R\$ thousand | % on GP | % on NR |
| Meals | 118,368 | 7.90 % | 1.10 % | 109,966 | 7.88 % | 1.11 % |
| Taxes | 144,082 | 9.62 % | 1.34 % | 133,908 | 9.59 % | 1.35 % |
| Private pension plans | 51,829 | 3.46 % | 0.48 % | 65,923 | 4.72 % | 0.66 % |
| Healthcare | 124,614 | 8.32 % | 1.16 % | 108,243 | 7.75 % | 1.09 % |
| Occupational health and safety | 10,983 | 0.73 % | 0.10 % | 10,254 | 0.73 % | 0.10 % |
| Education | 997 | 0.07 % | 0.01 % | 688 | 0.05 % | 0.01 % |
| Culture | 848 | 0.06 % | 0.01 % | 970 | 0.07 % | 0.01 % |
| Professional qualification and training | 11,788 | 0.79 % | 0.11 % | 8,779 | 0.63 % | 0.09 % |
| On-site child care and child-care benefits | 1,797 | 0.12 % | 0.02 % | 1,473 | 0.11 % | 0.01 % |
| Employee profit sharing | 52,574 | 3.51 % | 0.49 % | 56,692 | 4.06 % | 0.57 % |
| Other | 4,164 | 0.28 % | 0.04 % | 4,563 | 0.33 % | 0.05 % |
| Total – Internal social indicators | 522,044 | 34.84 % | 4.86 % | 501,459 | 35.93 % | 5.05 % |
| 3) External social indicators | R\$ thousand | % on OI | % on NR | R\$ thousand | % on OI | % on NR |
| Education | 2,700 | 0.09 % | 0.03 % | 0 | 0.00 % | 0.00 % |
| Culture | 15,375 | 0.54 % | 0.14 % | 20,163 | 0.86 % | 0.20 % |
| Health and basic sanitation | 3,048 | 0.11 % | 0.03 % | 2,510 | 0.11 % | 0.03 % |
| Sports | 4,713 | 0.17 % | 0.04 % | 5,943 | 0.25 % | 0.06 % |
| Fight on hunger and food security | 105 | 0.00 % | 0.00 % | 0 | 0.00 % | 0.00 % |
| Other | 12,253 | 0.43 % | 0.11 % | 7,820 | 0.33 % | 0.08 % |
| Total contribution to society | 38,194 | 1.34 % | 0.36 % | 36,436 | 1.55 % | 0.37 % |
| Taxes (excluding social charges) | 1,701,446 | 59.84 % | 15.85 % | 1,466,228 | 62.27 % | 14.77 % |
| Total –External social indicators | 1,739,640 | 61.18 % | 16.20 % | 1,502,664 | 63.82 % | 15.14 % |
| 4) Environmental indicators | R\$ thousand | % on OI | % on NR | R\$ thousand | % on OI | % on NR |
| Investments related to company production/operation | 7,569 | 0.27 % | 0.07 % | 9,304 | 0.40 % | 0.09 % |
| Investments in external programs and/or projects | 20,147 | 0.71 % | 0.19 % | 21,122 | 0.90 % | 0.21 % |
| Total investments in environmental protection | 27,716 | 0.98 % | 0.26 % | 30,426 | 1.29 % | 0.31 % |
| With regards to the establishment of "annual goals" for minimizing waste, general production/operation consumption and increasing the efficient use of natural resources, the company: | (x) has no established goals () complies 0 to 50% () complies 51 to 75% () complies 76 to 100% | | | (x) has no established goals () complies 0 to 50% () complies 51 to 75% () complies 76 to 100% | | |

| 5) Employees indicators | 2012 | 2011 |
|---|-------------|-------------|
| Employees at the end of the period | 15,019 | 14,896 |
| Admissions during the period | 915 | 723 |
| Outsourced employees* | 7,372 | 7,399 |
| Trainees/interns | 888 | 1,424 |
| Employees older than 45 | 8,471 | 7,757 |
| Female employees | 3,018 | 2,928 |
| % of management positions held by women | 19.44 % | 19.09 % |
| Employees of African descent | 2,227 | 2,137 |

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| | | | | | | |
|--|---|---|--|---|---|--|
| % of management positions held by employees of African descent | 3.49% | | | 3.72% | | |
| Employees with disabilities or employees with special needs (including employees and AVAPE partnership) | 170 | | | 163 | | |
| 6) Key information regarding the exercise of business citizenship | 2012 (R\$ thousand) | | | Goals – 2013 | | |
| Ratio between maximum and minimum salary | 20.1 | | | nd | | |
| Total number of occupational accidents | 140 | | | 136 | | |
| The company's social and environmental projects were established by: | <input type="checkbox"/> officers | <input checked="" type="checkbox"/> officers and managers | <input type="checkbox"/> all employees | <input type="checkbox"/> officers | <input checked="" type="checkbox"/> officers and managers | <input type="checkbox"/> all employees |
| Occupational safety and health standards were defined by: | <input checked="" type="checkbox"/> officers and managers | <input type="checkbox"/> all employees | <input type="checkbox"/> all + Cipa | <input checked="" type="checkbox"/> officers and managers | <input type="checkbox"/> all employees | <input type="checkbox"/> all + Cipa |
| With regards to freedom of trade union activities, collective bargaining rights and internal employee representation, the company: | <input type="checkbox"/> does not interfere | <input type="checkbox"/> complies with OIT rules | <input checked="" type="checkbox"/> encourages and complies with OIT | <input type="checkbox"/> does not interfere | <input type="checkbox"/> complies with OIT rules | <input checked="" type="checkbox"/> encourages and complies with OIT |
| Private pension plans are offered to: | <input type="checkbox"/> officers and | <input type="checkbox"/> officers managers | <input checked="" type="checkbox"/> all employees | <input type="checkbox"/> officers | <input type="checkbox"/> officers and managers | <input checked="" type="checkbox"/> all employees |
| The company's profit sharing plan is distributed to: | <input type="checkbox"/> officers | <input type="checkbox"/> officers and managers | <input checked="" type="checkbox"/> all employees | <input type="checkbox"/> officers | <input type="checkbox"/> officers and managers | <input checked="" type="checkbox"/> all employees |
| When selecting suppliers, the ethical, social and environmental responsibility standards adopted by the company: | <input type="checkbox"/> are not considered | <input type="checkbox"/> are suggested | <input checked="" type="checkbox"/> are required | <input type="checkbox"/> are not considered | <input type="checkbox"/> are suggested | <input checked="" type="checkbox"/> are required |
| With regards to the participation of employees in voluntary work programs, the company: | <input type="checkbox"/> does not interfere | <input type="checkbox"/> gives support | <input checked="" type="checkbox"/> organizes and encourages participation | <input type="checkbox"/> does not interfere | <input type="checkbox"/> gives support | <input checked="" type="checkbox"/> organizes and encourages participation |
| Total number of consumer's complaints and criticisms: | In company: 42,174 | At Procon: 1,222 | In court: JEC/Conc.343 | In company: N/A | At Procon: CIP N/A | In court: JEC/Conc |

| | | | | | | |
|---|--|-------------------------|-----------------------------|--|-----------------------|-------------------------------|
| | | | | | | N/A |
| % of complaints and criticisms solved: | In company: 99.99% | At Procon: CIP 88.2% | In court: JEC/Conc.75.5% | In company: Ombd N/A | At Procon: CIP N/A | In court: JEC/Conc. N/A |
| Total value added to be distributed (R\$ thousand): | In 2012: 6,133,683 | | | In 2011: 5,714,179 | | |
| Distribution of value added (DVA): | 27.3% Government, 25.7% Employees 31.3% Shareholders, 15.7% Outsourced labor; 0.0% Retained | | | 25.5% Government, 29.0% Employees 21.4% Shareholders, 24.1% Outsourced Labor, 0.0% Retained | | |

7) Other information

"This Company does neither employ child nor slave labor, it is not involved with prostitution or child/adolescent sexual exploitation, nor with corruption." "The Company appreciates and respects the internal and external diversity."

* The number of outsourced employees is estimated considering the labor allocated to service agreements, as Sabesp does not directly hire outsourced employees.

Companhia de Saneamento Básico do Estado de São Paulo -SABESP

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders, Board of Directors and Management of Companhia de Saneamento Básico do Estado de São Paulo - SABESP São Paulo - SP

We have audited the accompanying individual and consolidated financial statements of Companhia de Saneamento Básico do Estado de São Paulo - SABESP (the "Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheet as of December 31, 2012, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

Companhia de Saneamento Básico do Estado de São Paulo -SABESP

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

Opinion on the individual financial statements

In our opinion, the individual financial statements present fairly, in all material respects, the financial position of Companhia de Saneamento Básico do Estado de São Paulo - SABESP as of December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Companhia de Saneamento Básico do Estado de São Paulo - SABESP as of December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board - IASB and accounting practices adopted in Brazil.

Emphasis of matter

Individual financial statements

We draw attention to Note 2 to the financial statements, which states that the individual financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of Companhia de Saneamento Básico do Estado de São Paulo - SABESP, these accounting practices differ from the IFRS, which is applicable to separate financial statements, only with respect to the measurement of investments in subsidiaries by the equity method of accounting, which, for purposes of IFRS, would be measured at cost or fair value. Our opinion is not qualified due to this matter.

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added (DVA) for the year ended December 31, 2012, prepared under the responsibility of the Company's management, the presentation of which is required by the Brazilian corporate law for public companies and considered as supplemental information for International Financial Reporting Standards - IFRS, which do not require the presentation of DVA. These statements were subject to the same audit procedures described above, and, in our opinion, present fairly, in all material respects, consistently with the financial statements taken as a whole.

Audit of individual and consolidated financial statements for the year ended December 31, 2011

The amounts for the year ended December 31, 2011, presented for purposes of comparison, were previously audited by other independent auditors, whose report thereon, dated March 23, 2012, was unqualified.

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

São Paulo, March 21, 2013

Companhia de Saneamento Básico do Estado de São Paulo -SABESP

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Délio Rocha Leite
Engagement Partner

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP**Balance Sheets as of December 31, 2012 and 2011**

(Amounts in thousands of Brazilian reais – R\$ unless otherwise indicated)

| | Note | Parent (BR GAAP) | | Consolidated (BR GAAP and IFRS) | |
|---|-------|----------------------|---------------------|------------------------------------|------------------------|
| | | December 31, 2012 | December 31 2011 | December 31, 2012 | December 31 2011 |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 6 | 1,915,974 | 2,142,079 | 1,921,178 | 2,149,989 |
| Trade receivables | 8 | 1,038,945 | 1,072,015 | 1,043,166 | 1,072,659 |
| Receivables from related parties | 9 | 109,273 | 185,333 | 109,273 | 185,333 |
| Inventories | | 53,028 | 44,576 | 53,090 | 44,611 |
| Restricted cash | 7 | 64,977 | 99,733 | 64,977 | 99,733 |
| Recoverable taxes | 14 | 118,421 | 117,893 | 129,141 | 118,116 |
| Other receivables | | 29,980 | 43,065 | 16,040 | 55,392 |
| Total current assets | | 3,330,598 | 3,704,694 | 3,336,865 | 3,725,833 |
| Noncurrent assets | | | | | |
| Trade receivables | 8 | 335,687 | 333,713 | 335,687 | 333,713 |
| Receivables from related parties | 9 | 153,098 | 170,288 | 153,098 | 170,288 |
| Indemnities receivable | 10 | - | 60,295 | - | 60,295 |
| Escrow deposits | | 53,158 | 54,178 | 53,158 | 54,178 |
| Deferred income tax and social contribution | 15 | 135,897 | 177,926 | 141,356 | 179,463 |
| Water National Agency – ANA | | 108,099 | 100,551 | 108,099 | 100,551 |
| Other receivables | | 111,047 | 35,034 | 118,179 | 39,933 |
| Investments | | 20,826 | 21,986 | - | - |
| Investment property | 11(m) | 54,046 | 52,585 | 54,046 | 52,585 |
| Intangible assets | 11 | 21,967,526 | 20,125,721 | 21,991,922 | 20,141,677 |
| Property, plant and equipment | 12 | 196,710 | 181,585 | 383,383 | 356,468 |
| Total noncurrent assets | | 23,136,094 | 21,313,862 | 23,338,928 | 21,489,151 |
| Total assets | | 26,466,692 | 25,018,556 | 26,675,793 | 25,214,984 |

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

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP**Balance Sheets as of December 31, 2012 and 2011**

(Amounts in thousands of Brazilian reais – R\$ unless otherwise indicated)

| | Note | Parent (BR GAAP) | | Consolidated (BR GAAP and IFRS) | |
|--|------------------|----------------------|----------------------|------------------------------------|----------------------|
| | | December 31, 2012 | December 31, 2011 | December 31, 2012 | December 31, 2011 |
| Liabilities and equity | | | | | |
| Current liabilities | | | | | |
| Trade payables and contractors | | 295,392 | 244,658 | 297,198 | 255,557 |
| Current portion of long-term loans and financing | 13 | 1,342,594 | 1,629,184 | 1,367,391 | 1,630,010 |
| Accrued payroll and related charges | | 267,332 | 243,502 | 267,863 | 243,876 |
| Taxes payable | 14 | 152,710 | 180,794 | 153,121 | 181,122 |
| Interest on capital payable | | 414,355 | 247,486 | 414,355 | 247,486 |
| Provisions | 16 | 565,083 | 764,070 | 565,083 | 764,070 |
| Services payable | 18 | 389,091 | 383,116 | 389,091 | 383,116 |
| Public-private partnership – PPP | 11 (j) 11 (d) | 24,357 | 12,693 | 24,357 | 12,693 |
| Program contract commitments | (iv) | 148,220 | 62,287 | 148,220 | 62,287 |
| Other liabilities | | 159,055 | 188,356 | 170,691 | 188,451 |
| Total current liabilities | | 3,758,189 | 3,956,146 | 3,797,370 | 3,968,668 |
| Noncurrent liabilities | | | | | |
| Loans and financing | 13 | 7,532,661 | 6,794,148 | 7,701,929 | 6,966,285 |
| Taxes payable | 14 | - | 18,363 | - | 18,363 |
| Deferred Cofins/Pasep | | 123,731 | 114,106 | 125,404 | 114,957 |
| Provisions | 16 | 624,071 | 807,759 | 624,074 | 807,759 |
| Pension obligations | 17(b) | 2,124,330 | 2,050,697 | 2,124,330 | 2,050,697 |
| Public-private partnership – PPP | 11 (j) 11 (d) | 331,960 | 416,105 | 331,960 | 416,105 |
| Program contract commitments | (iv) | 87,407 | 130,978 | 87,407 | 130,978 |
| Other liabilities | | 168,766 | 184,358 | 167,742 | 195,276 |
| Total noncurrent liabilities | | 10,992,926 | 10,516,514 | 11,162,846 | 10,700,420 |
| Total liabilities | | 14,751,115 | 14,472,660 | 14,960,216 | 14,669,088 |

| | | | | | |
|------------------------------|----|------------|------------|------------|------------|
| Equity | 19 | | | | |
| Capital stock | | 6,203,688 | 6,203,688 | 6,203,688 | 6,203,688 |
| Capital reserve | | 124,255 | 124,255 | 124,255 | 124,255 |
| Earnings reserves | | 5,387,634 | 4,217,953 | 5,387,634 | 4,217,953 |
| Total equity | | 11,715,577 | 10,545,896 | 11,715,577 | 10,545,896 |
| Total liabilities and equity | | 26,466,692 | 25,018,556 | 26,675,793 | 25,214,984 |

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

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP**Income Statements for the****Years ended December 31, 2012 and 2011****(Amounts in thousands of Brazilian reais – R\$, unless otherwise indicated)**

| | Note | Parent (BR GAAP) | | Consolidated (BR GAAP and IFRS) | |
|---|------|---------------------|-------------|------------------------------------|-------------|
| | | 2012 | 2011 | 2012 | 2011 |
| Net revenue from sales and services | 22 | 10,737,631 | 9,927,445 | 10,754,435 | 9,941,637 |
| Cost of sales and services | 23 | (6,449,951) | (6,018,732) | (6,465,398) | (6,030,977) |
| Gross profit | | 4,287,680 | 3,908,713 | 4,289,037 | 3,910,660 |
| Selling expenses | 23 | (697,252) | (619,304) | (697,874) | (619,542) |
| Administrative expenses | 23 | (717,377) | (841,077) | (726,128) | (846,593) |
| Other operating income (expenses), net | 25 | (23,175) | (90,253) | (19,775) | (90,138) |
| Equity in the earnings of subsidiaries | | (6,532) | (3,584) | - | - |
| Operating profit | | 2,843,344 | 2,354,495 | 2,845,260 | 2,354,387 |
| Financial expenses | 24 | (578,230) | (701,889) | (582,822) | (702,766) |
| Financial income | 24 | 333,129 | 465,753 | 332,041 | 465,926 |
| Foreign exchange result, net | 24 | (50,571) | (396,882) | (50,575) | (396,801) |
| Financial income (expenses), net | | (295,672) | (633,018) | (301,356) | (633,641) |
| Profit before income tax and social contribution | | 2,547,672 | 1,721,477 | 2,543,904 | 1,720,746 |
| Income tax and social contribution | | | | | |
| Current | 15 | (593,743) | (598,024) | (594,052) | (598,303) |
| Deferred | 15 | (42,029) | 99,966 | (37,952) | 100,976 |
| | | (635,772) | (498,058) | (632,004) | (497,327) |
| Net income for the year | | 1,911,900 | 1,223,419 | 1,911,900 | 1,223,419 |
| Earnings per share - basic and diluted | | | | | |

(in reais)

20

8.39

5.37

8.39

5.37

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

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Statements of Comprehensive Income for the Years ended December 31, 2012 and 2011

(Amounts in thousands of Brazilian reais – R\$, unless otherwise indicated)

| | Note | Parent (BR GAAP) | | Consolidated (BR GAAP and IFRS) | |
|---|------|---------------------|-----------|------------------------------------|-----------|
| | | 2012 | 2011 | 2012 | 2011 |
| Net income for the year | | 1,911,900 | 1,223,419 | 1,911,900 | 1,223,419 |
| Total comprehensive income for the year | | 1,911,900 | 1,223,419 | 1,911,900 | 1,223,419 |

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

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP**Statements of Changes in Equity for the Years ended December 31, 2012 and 2011**

(Amounts in thousands of Brazilian reais – R\$, unless otherwise indicated)

| | Note | Earnings reserves | | | | | Retained earnings (accumulated losses) | Total |
|---|-------|-------------------|-----------------|---------------|---------------------|------------------------------|---|------------|
| | | Capital stock | Capital reserve | Legal reserve | Investments reserve | Additional proposed dividend | | |
| Balances as of December 31, 2010 | | 6,203,688 | 124,255 | 460,048 | 2,825,048 | 68,761 | - | 9,681,800 |
| Net income for the year | | - | - | - | - | - | 1,223,419 | 1,223,419 |
| Legal reserve | 19(e) | - | - | 61,171 | - | - | (61,171) | - |
| Interest on shareholders' equity (R\$1.27 per share) | 19(c) | - | - | - | - | - | (290,562) | (290,562) |
| 2010 additional dividends, approved (R\$0.30 per share) | | - | - | - | - | (68,761) | - | (68,761) |
| Additional proposed dividends | | - | - | - | - | 288,143 | (288,143) | - |
| Transfer to investments reserve | | - | - | - | 583,543 | - | (583,543) | - |
| Balances as of December 31, 2011 | | 6,203,688 | 124,255 | 521,219 | 3,408,591 | 288,143 | - | 10,545,896 |
| Net income for the year | | - | - | - | - | - | 1,911,900 | 1,911,900 |
| Legal reserve | 19(e) | - | - | 95,595 | - | - | (95,595) | - |
| Interest on shareholders' equity (R\$1.99 per share) | 19(c) | - | - | - | - | - | (454,076) | (454,076) |
| 2011 additional dividends, approved (R\$1.26 per share) | | - | - | - | - | (288,143) | - | (288,143) |
| Additional proposed dividends | | - | - | - | - | 80,201 | (80,201) | - |
| Transfer to investments reserve | | - | - | - | 1,282,028 | - | (1,282,028) | - |
| Balances as of December 31, 2012 | | 6,203,688 | 124,255 | 616,814 | 4,690,619 | 80,201 | - | 11,715,577 |

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

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP**Statements of Cash Flows for the****Years ended December 31, 2012 and 2011****(Amounts in thousands of Brazilian reais – R\$, unless otherwise indicated) (continued)**

| | PARENT (BR GAAP) | | CONSOLIDATED (BRGAAP and IFRS) | |
|---|----------------------|----------------------|-----------------------------------|-------------------------|
| | December 31, 2012 | December 31, 2011 | December 31, 2012 | December 31, 2011 |
| Cash flow from operating activities | | | | |
| Profit before income tax and social contribution | 2,547,672 | 1,721,477 | 2,543,904 | 1,720,746 |
| Adjustments for: | | | | |
| Depreciation and amortization | 738,525 | 768,704 | 740,147 | 768,769 |
| Losses on disposal of property, plant and equipment and Allowance for doubtful accounts and losses due to supply at wholesale | 12,059 | 56,548 | 12,059 | 56,548 |
| Provisions and inflation adjustment | 401,576 | 289,589 | 401,576 | 289,589 |
| Interest on loans and financing | 201,196 | 310,075 | 201,196 | 310,075 |
| Inflation adjustment and exchange gains (losses) on loans and financing | 404,196 | 434,315 | 406,254 | 439,117 |
| Interest and inflation adjustment losses | 85,122 | 442,954 | 85,122 | 442,954 |
| Interest and inflation adjustment gains | 24,553 | 31,422 | 24,553 | 31,422 |
| Financial charges from customers | (12,862) | (33,589) | (12,862) | (33,589) |
| Margin on intangible assets construction related concession contracts | (171,481) | (169,941) | (171,481) | (169,941) |
| Provision for Consent Decree (TAC) | (50,072) | (47,589) | (50,815) | (47,589) |
| Indemnities receivable | 57,332 | 46,991 | 57,332 | 46,991 |
| Equity in the earnings of subsidiaries | 60,295 | 85,918 | 60,295 | 85,918 |
| Provision for São Paulo agreement | 6,532 | 3,584 | - | - |
| Provision for defined contribution plan | 2,466 | 15,386 | 2,466 | 15,386 |
| Pension obligations | 5,728 | (8,746) | 5,728 | (8,746) |
| Other adjustments | 213,747 | 257,927 | 213,747 | 257,927 |
| | 34,772 | 4,833 | 34,772 | 4,833 |
| | 4,561,356 | 4,209,858 | 4,553,993 | 4,210,410 |
| Changes in assets | | | | |
| Trade receivables | (153,337) | (188,202) | (156,914) | (188,575) |
| Receivable from related parties | 60,450 | 20,455 | 60,450 | 20,455 |
| Inventories | (8,858) | (8,490) | (8,885) | (8,519) |
| Recoverable taxes | (29,758) | (61,926) | (40,564) | (62,149) |

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| | | | | |
|---|------------------|------------------|------------------|------------------|
| Escrow deposits | (1,020) | 573 | (1,020) | 573 |
| Other receivables | (77,613) | (41,080) | (53,579) | (43,025) |
| Changes in liabilities | | | | |
| Trade payables and contractors | (16,898) | 135,961 | (25,991) | 145,451 |
| Services received | 5,975 | 87,944 | 5,975 | 87,944 |
| Accrued payroll and related charges | (33,502) | (49,814) | (33,345) | (49,582) |
| Taxes and contributions payable | (47,800) | (14,416) | (47,717) | (14,649) |
| Deferred Cofins/Pasep | 9,625 | 1,144 | 10,602 | 1,995 |
| Provisions | (583,871) | (197,521) | (583,868) | (197,521) |
| Pension obligations | (140,115) | (11,268) | (140,115) | (11,268) |
| Other liabilities | (53,086) | 140,220 | (53,488) | 150,855 |
| Cash generated from operations | 3,493,588 | 4,023,438 | 3,487,574 | 4,042,395 |
| Interest paid | (589,189) | (736,382) | (590,196) | (736,853) |
| Income tax and social contribution paid | (561,158) | (588,484) | (561,158) | (588,484) |
| Cash generated from operating activities | 2,343,241 | 2,698,572 | 2,336,220 | 2,717,058 |

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

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP**Statements of Cash Flows for the****Years ended December 31, 2012 and 2011****(Amounts in thousands of Brazilian reais – R\$, unless otherwise indicated) (continued)**

| | PARENT | | CONSOLIDATED | |
|---|---------------------|---------------------|--------------------------|---------------------|
| | (BR GAAP) | | (BRGAAP and IFRS) | |
| | December 31, | December 31, | December 31, | December 31, |
| | 2012 | 2011 | 2012 | 2011 |
| Cash flows from investing activities | | | | |
| Restricted cash | 34,752 | 202,841 | 34,752 | 202,841 |
| Investment increase | (5,372) | (17,308) | - | - |
| Purchases of property, plant and equipment | (17,377) | (11,995) | (30,647) | (143,684) |
| Purchases of intangible assets | (2,008,699) | (2,056,756) | (2,002,883) | (2,067,435) |
| Cash used in investing activities | (1,996,696) | (1,883,218) | (1,998,778) | (2,008,278) |
| Cash flows from financing activities | | | | |
| Loans and financing | | | | |
| Proceeds from loans | 1,620,852 | 1,685,506 | 1,627,249 | 1,854,052 |
| Repayments of loans | (1,518,240) | (1,923,862) | (1,518,240) | (1,979,099) |
| Payment of interest on shareholders' equity | (578,705) | (422,923) | (578,705) | (422,923) |
| Public-private partnership – PPP | (40,285) | - | (40,285) | - |
| Program Contract Commitments | (56,272) | - | (56,272) | - |
| Cash used in financing activities | (572,650) | (661,279) | (566,253) | (547,970) |
| Increase (decrease) in cash and cash equivalents | | | | |
| Cash and cash equivalents at beginning of year | 2,142,079 | 1,988,004 | 2,149,989 | 1,989,179 |
| Cash and cash equivalents at end of year | 1,915,974 | 2,142,079 | 1,921,178 | 2,149,989 |
| Increase (decrease) in cash and cash equivalents | (226,105) | 154,075 | (228,811) | 160,810 |
| Cash flows from financing activities | | | | |
| Loans and financing | | | | |
| Proceeds from loans | 1,620,852 | 1,685,506 | 1,627,249 | 1,854,052 |
| Repayments of loans | (1,518,240) | (1,923,862) | (1,518,240) | (1,979,099) |
| Payment of interest on shareholders' equity | (578,705) | (422,923) | (578,705) | (422,923) |
| Public-private partnership – PPP | (40,285) | - | (40,285) | - |
| Program Contract Commitments | (56,272) | - | (56,272) | - |

| | | | | |
|---|------------------|------------------|------------------|------------------|
| Cash used in financing activities | (572,650) | (661,279) | (566,253) | (547,970) |
| Increase (decrease) in cash and cash equivalents | | | | |
| Cash and cash equivalents at beginning of year | 2,142,079 | 1,988,004 | 2,149,989 | 1,989,179 |
| Cash and cash equivalents at end of year | 1,915,974 | 2,142,079 | 1,921,178 | 2,149,989 |
| Increase (decrease) in cash and cash equivalents | (226,105) | 154,075 | (228,811) | 160,810 |

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

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP**Statements of Value Added for the Years ended December 31, 2012 and 2011**

(Amounts in thousands of Brazilian reais – R\$, unless otherwise indicated)

| | Note | PARENT | | CONSOLIDATED | |
|--|-------|-------------|-------------|--------------|-------------|
| | | 2012 | 2011 | 2012 | 2011 |
| Revenues | | | | | |
| Sales and services | 22(a) | 8,926,737 | 8,305,043 | 8,934,698 | 8,310,120 |
| Other income | | 75,721 | 80,821 | 79,122 | 80,936 |
| Income related to construction of assets | 22(b) | 2,464,482 | 2,224,633 | 2,474,612 | 2,234,778 |
| Allowance for doubtful accounts | 8(c) | (192,236) | (120,260) | (192,295) | (120,393) |
| | | 11,274,704 | 10,490,237 | 11,296,137 | 10,505,441 |
| Inputs purchased from third parties | | | | | |
| Cost of sales, services and construction costs | | (3,961,486) | (3,624,471) | (3,974,090) | (3,635,920) |
| Materials, electricity, outsourced services, and other | | (676,063) | (667,932) | (680,759) | (670,492) |
| Other operating expenses | 25 | (91,539) | (162,639) | (91,539) | (162,639) |
| | | (4,729,088) | (4,455,042) | (4,746,388) | (4,469,051) |
| Gross value added | | 6,545,616 | 6,035,195 | 6,549,749 | 6,036,390 |
| Retentions | | | | | |
| Depreciation and amortization | 23 | (738,525) | (768,704) | (740,147) | (768,769) |
| Value added generated by the Company | | 5,807,091 | 5,266,491 | 5,809,602 | 5,267,621 |
| Value added received in transfer | | | | | |
| Equity in the earnings of subsidiaries | | (6,532) | (3,584) | - | - |
| Financial income | | 333,124 | 451,272 | 332,045 | 451,526 |
| | | 326,592 | 447,688 | 332,045 | 451,526 |
| Total value added for distribution | | 6,133,683 | 5,714,179 | 6,141,647 | 5,719,147 |
| Value added distribution | | | | | |
| Personnel | | | | | |
| Direct compensation | | 1,051,453 | 992,045 | 1,054,608 | 994,312 |

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

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP**Statements of Value Added for the Years ended December 31, 2012 and 2011**

(Amounts in thousands of Brazilian reais – R\$, unless otherwise indicated)

| | | PARENT | | CONSOLIDATED | |
|--|-------|-----------|-----------|--------------|-----------|
| | Note | 2012 | 2011 | 2012 | 2011 |
| Benefits | | 406,443 | 551,616 | 406,992 | 551,921 |
| Severance pay (FGTS) | | 124,699 | 105,900 | 124,953 | 106,048 |
| | | 1,582,595 | 1,649,561 | 1,586,553 | 1,652,281 |
| Taxes, fees and contributions | | | | | |
| Federal | | 1,596,633 | 1,398,783 | 1,595,049 | 1,399,691 |
| State | | 51,686 | 42,843 | 52,184 | 42,857 |
| Municipal | | 28,333 | 24,602 | 28,495 | 24,738 |
| | | 1,676,652 | 1,466,228 | 1,675,728 | 1,467,286 |
| Lenders and lessors | | | | | |
| Interest, exchange and monetary variations | | 900,151 | 1,336,380 | 904,757 | 1,337,258 |
| Rentals | | 62,385 | 38,591 | 62,709 | 38,903 |
| | | 962,536 | 1,374,971 | 967,466 | 1,376,161 |
| Shareholders | | | | | |
| Interest on shareholders' equity | 19(c) | 454,076 | 290,562 | 454,076 | 290,562 |
| Retained earnings | | 1,457,824 | 932,857 | 1,457,824 | 932,857 |
| | | 1,911,900 | 1,223,419 | 1,911,900 | 1,223,419 |
| Value added distributed | | 6,133,683 | 5,714,179 | 6,141,647 | 5,719,147 |

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

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1 General information

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, focused on the customer, and in a sustainable and competitive manner, with excellence in environmental solutions.

As of December 31, 2012, 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 agreements.

SABESP is temporarily not operating in some municipalities due to judicial orders under ongoing lawsuits: Iperó, Cajobi, Álvares Florense and Macatuba, the carrying amount of these municipalities' intangible assets was R\$16,516 as of December 31, 2012.

As of December 31, 2012, 67 concessions had expired and are being negotiated. From 2013 to 2034, 38 concessions will expire. Management believes that all concessions 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, 2012, 258 program and metropolitan contracts were signed (225 contracts on December 31, 2011).

As of December 31, 2012, the carrying amount of the underlying assets used in the 67 concessions of the municipalities under negotiation totaled R\$5,874 million, accounting for 26.71% of total, and the related gross revenue for the year then ended totaled R\$2,122,759 million, accounting for 18.61% of total.

The Company's operations are concentrated in the municipality of São Paulo, which represents 54.74% of the gross revenues in 2012 (55.11% in December 2011) and 43.51% of intangible assets (45.63% in December 2011).

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.

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:

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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, 2012, the carrying amount of the municipality of Santos' intangible assets was R\$328,693 (R\$175,069 in December 2011) and its gross revenue was R\$202,103 (R\$196,831 in December 2011).

Article 58 of Law 11445/07 establishes 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 12693 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 8987/95 and 11445/07, 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 (the São Paulo Stock Exchange) since April 2002 and on the New York Stock Exchange (NYSE) as American Depositary Receipts ("ADRs") since May 2002.

Since 2008, the Company has been setting up partnerships with other companies, which resulted in the following companies: Sesamm, Águas de Andrädina, 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. For the purposes of accounting classification in the financial statements, these companies are considered joint ventures, under the criteria of CPC 19.

The financial statements were approved by the Board of Directors on March, 21 2013.

2 Basis of Preparation and Presentation of the Financial Statements

The Company is presenting the parent and consolidated financial statements.

The financial statements of the parent company was prepared in accordance with accounting policies accepted in Brazil, in conformity with Pronouncements, Interpretations and Guidelines of the Brazilian Pronouncements Committee (CPC). These accounting policies applied in the financial statements of the parent company are different from the International Financial Reporting Standards (IFRSs) only in the valuation of the joint

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controlled entities by equity method, since in IFRS the valuation should be at cost or fair value.

As there is no difference between the consolidated equity and the consolidated net income attributable to the owners of the Company, disclosed in the consolidated financial statements prepared in accordance with IFRSs and the accounting practices adopted in Brazil, and the Company's equity and net income disclosed in the individual financial statements prepared in accordance with accounting practices adopted in Brazil, the Company opted for presenting these individual and consolidated financial statements in a single set, side by side.

The consolidated 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 CPC.

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 IFRSs and CPCs 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 individual and consolidated financial statements are described in Note 5.

2.1 Consolidated financial statements

The consolidated financial statements include the financial statements of the Company and its investees: Sesamm – Serviços de Saneamento de Mogi Mirim S/A, Águas de Andrada, Águas de Castilho, Sanequa Mairinque, Aquapolo Ambiental and Attend Ambiental, which were proportionately consolidated according to the equity interests held in these investees. The accounting policies of its investees are consistent with the accounting policies adopted by the Company. The Company shares the control of its investees, which have the same fiscal year basis. The consolidation processes of assets, liabilities and income statements add the assets, liabilities, revenues and expenses, according to the nature, by applying the percentage of the Company's interest held in each investee.

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. Therefore, the financial statements were proportionately consolidated.

The following entities were consolidated proportionately:

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

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operating sewage treatment system in the municipality of Mogi Mirim, including the disposal of solid waste.

SESAMM's capital as of December 31, 2012 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 Company concluded that both, SABESP and Inima, have joint control over SESAMM. Accordingly, SABESP records their interest over SESAMM applying the proportional consolidation method, equivalent to the 36% of SESAMM's assets and liabilities, revenues and expenses.

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.

As of December 31, 2012, the capital of Águas de Andradina totaled R\$2,908, and was represented by 2,908,085 registered shares without a par value. SABESP holds 30% of its equity interest.

Operations started in October 2010.

Águas de Castilho

On October 29, 2010, the Company, together with the Companhia de 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.

As of December 31, 2012, the company's capital was R\$622, and was represented by 622,160 registered share without par value. SABESP holds 30% equity interest.

Operations started in January 2011.

Saneaqua Mairinque

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.

As of December 31, 2012, 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.

Operations started in October 2010.

Aquapolo Ambiental S.A.

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

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operating sewage treatment system in the municipality of Mogi Mirim, including the disposal of solid waste.

Petriquímica S.A., Quattor Participações S.A. and other companies comprising the Petrochemical Complex.

As of December 31, 2012, the capital of Aquapolo totaled R\$36,412, and was represented by 42,419,045 registered shares without a par value. SABESP holds 49% of its equity interest.

Operations started in October 2012.

Attend Ambiental

On August 23, 2010 the Company and Companhia Este 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 Metropolitan area of São Paulo city as well as implement similar structures in other areas in Brazil and abroad.

As of December 31, 2012, 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 equity as advance for future capital increase.

Attend is at startup stage and startup is scheduled for September 2013.

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

| | 2012 | | | | | |
|------------------------|---------------|-------------------------------|------------------------------|-------------------------------|-------------------------------|-----------------------------|
| | SESAMM | ÁGUAS DE ANDRADINA | ÁGUAS DE CASTILHO | SANEAQUA MAIRINQUE | AQUAPOLO AMBIENTAL | ATTEND AMBIENTAL |
| | 36% | 30% | 30% | 30% | 49% | 45% |
| Current assets | 875 | 2,199 | 404 | 414 | 15,247 | 1,976 |
| Noncurrent assets | 19,609 | 3,934 | 904 | 858 | 181,749 | 2,570 |
| Current liabilities | 822 | 4,777 | 868 | 272 | 32,304 | 167 |
| Noncurrent liabilities | 13,902 | 555 | 77 | 15 | 157,047 | - |
| Equity | 5,760 | 801 | 363 | 985 | 7,645 | 4,379 |

2011

| | SESAMM | ÁGUAS DE ANDRADINA | ÁGUAS DE CASTILHO | SANEAQUA MAIRINQUE | AQUAPOLO AMBIENTAL | ATTEND AMBIENTAL |
|--|---------------|-------------------------------|------------------------------|-------------------------------|-------------------------------|-----------------------------|
|--|---------------|-------------------------------|------------------------------|-------------------------------|-------------------------------|-----------------------------|

| | 36% | 30% | 30% | 30% | 49% | 45% |
|------------------------|--------|-------|-----|-----|---------|-------|
| Current assets | 2,658 | 360 | 133 | 561 | 12,424 | 5,003 |
| Noncurrent assets | 14,447 | 1,300 | 423 | 164 | 180,717 | 223 |
| Current liabilities | 832 | 815 | 256 | 228 | 10,262 | 127 |
| Noncurrent liabilities | 11,120 | 84 | 47 | 28 | 167,498 | 5,130 |
| Equity | 5,153 | 761 | 253 | 469 | 15,381 | (31) |

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| | 2012 | | | | | |
|--------------------------------|---------------|-------------------------------|------------------------------|-------------------------------|-------------------------------|-----------------------------|
| | SESAMM | ÁGUAS DE ANDRADINA | ÁGUAS DE CASTILHO | SANEAQUA MAIRINQUE | AQUAPOLO AMBIENTAL | ATTEND AMBIENTAL |
| | 36% | 30% | 30% | 30% | 49% | 45% |
| Operating revenue | 9,364 | 4,611 | 1,336 | 2,931 | 3,249 | - |
| Operating expenses | (8,775) | (4,747) | (1,203) | (2,715) | (10,118) | (1,057) |
| Financial income, net | 85 | 104 | 22 | 19 | 26 | 336 |
| Net income (loss) for the year | 674 | (32) | 155 | 235 | (6,843) | (721) |
| | 2011 | | | | | |
| | SESAMM | ÁGUAS DE ANDRADINA | ÁGUAS DE CASTILHO | SANEAQUA MAIRINQUE | AQUAPOLO AMBIENTAL | ATTEND AMBIENTAL |
| | 36% | 30% | 30% | 30% | 49% | 45% |
| Operating revenue | 9,203 | 2,985 | 651 | 2,498 | - | - |
| Operating expenses | (10,494) | (2,954) | (568) | (2,730) | (1,438) | (992) |
| Financial income, net | 115 | 31 | 5 | 44 | - | 60 |
| Net income (loss) for the year | (1,176) | 62 | 88 | (188) | (1,438) | (932) |

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 from the investment date, with an insignificant risk of change 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. As of December 31, 2012 and 2011, the Company did not have financial assets

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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 income statement 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.

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 receivables, receivables from related parties, other receivables, indemnities receivable, receivables from the Water National Agency – ANA, contractors and suppliers, loans and financing, interest on shareholders' equity payable, 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 Revenue from sales and services

(a) Revenue from sales and 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 receivables based on monthly estimates of the services provided.

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.

(b) Construction revenue

Revenue from concession construction contracts is recognized in accordance with CPC 17 and IAS 11 (Construction Contracts), using the percentage-of-completion method, provided

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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 receivables and allowance for doubtful accounts

Trade receivables 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 property

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

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 income statement during the financial period in which they were incurred.

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Depreciation is calculated using the straight-line method to allocate their cost and is described in Note 12(a). Land is not depreciated.

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

Gain and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other operating income (expenses) in the income statements.

3.8 Intangible assets

Valued 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.

The amortization is calculated when the intangible assets are available for use in the necessary condition established by the Company.

The amortization reflects the period over the expected future economic benefits generated by the intangible asset and can be the period of the contract, depending on the contract or the useful life of the asset.

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

Infrastructure to which the operator is given access by the concession grantor or donations received from third parties is not recognized in the consolidated balance sheet, since such donations are controlled by the concession grantor.

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

(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

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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, at 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 "Revenue from sales and services."

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 is shorter.

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 over the useful life of asset.

Law 11445/07 prescribes that, whenever possible, basic sanitation public utilities shall have their economic and financial sustainability ensured through the consideration received from 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 over 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 licenses of computer programs and business management systems acquired are capitalized and amortized over their useful lives, and the expenses associated with maintaining these are recognized as expenses when incurred.

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 or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Company does not have assets with indefinite useful lives and concluded that there are no indications of impairment losses.

3.10 Payables to suppliers 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 non-current liabilities and are initially measured at fair value, which generally correspond to the bill and subsequently at amortized cost.

3.11 Loans and financing

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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 13. 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 Loan costs

The cost of loans 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 domestic 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.

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 general targets of the Company as a whole, and based on the performance of each business units. 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 as cost of sales and services rendered.

3.15 Provisions, legal liabilities, judicial deposits, escrow 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

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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 16.

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

Contingent assets are not recognized.

3.16 Environmental costs

Costs related to ongoing environmental programs are expensed in the income statement.

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

In order to calculate the income tax and social contribution, since 2008, the Company has been adopting the Transition Tax Regime (RTT), as provided for by Law 11941/09, i.e., in the calculation of taxable income considered the accounting criteria of Law 6404/76 preceding the amendments to Law 11638/07.

The RTT will be effective until the enactment of the law ruling the tax effects from new accounting methods, seeking tax neutrality.

This regime was optional in the 2008 and 2009 calendar years and mandatory as of 2010.

The Company opted for adopting RTT in 2009, referring to the calendar years 2008 and 2009. In order to calculate the income tax and social contribution for the years ended December 31, 2011 and 2010, the Company adopted the prerogatives defined by RTT.

The tax expense for the period comprises current and deferred tax.

Current tax

The provision for income tax and social contribution is based on the taxable income for the year. Income tax was calculated at the rate of 15%, plus a 10% surtax on annual taxable income exceeding R\$240. Social contribution was calculated at the rate of 9% on adjusted net income. Taxable income differs from the profit disclosed in the income statement because it excludes income or expenses taxable or deductible in other years, as well as permanently nontaxable or nondeductible items. The provision for income tax and social contribution is calculated individually (by each jointly controlled entity) based on the tax rates in effect at the end of the reporting period. Management periodically reviews the positions assumed by the Company in the income tax returns in cases where the applicable tax regulation gives rise to different interpretations. Management recognizes provisions, when applicable, based on the estimated amounts payable to tax authorities.

Deferred taxes

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Deferred income tax and social contribution are recognized on the differences between the tax bases and the accounting balances of assets and liabilities, as prescribed by CPC 32 and IAS 12 - Taxes on Income; however, they are not recognized if generated in the first-time recording of assets and liabilities in transactions that do not affect the tax bases, except for business combinations. Deferred income tax and social contribution are determined based on the tax rates and laws enacted or substantially enacted at the end of the reporting period and applicable when the respective income tax and social contribution will be paid.

Deferred income tax and social contribution assets are recognized only to the extent that it is probable that there will be a positive tax base for which temporary differences can be used and tax loss carryforwards can be offset.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when deferred tax assets and liabilities are related to the taxes imposed by the same tax authorities over the same taxable entity.

3.18 Taxes on revenues

Revenues from sales and services are recognized on accrual basis for PASEP and Cofins. 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

(a) Defined benefit

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, and adjusted by unrecognized actuarial gains or losses. 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 the Brazilian National Government bonds with maturities that approximate the maturity of the related liability.

The Company adopts the corridor method to recognize actuarial gains and losses. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are in excess of the greater of 10% of the fair value of plan assets or 10% of the present value of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. The higher the number of plan retirees the smaller is the average remaining working period of plan participants. For plans substantially composed of retirees and pensioners, the Company immediately records all actuarial gains and losses in excess of the limits of the corridor, i.e. on the first day of the subsequent year after the calculation of the referred actuarial gains or losses. The expenses related to pension plan are recognized in profit and loss of the year as cost of sales and services, selling expenses or administrative expenses, according to employee's allocation.

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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 previously unrecognized 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.

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 close-end pension entity. The regular contributions are recognized in the income statement of the period.

(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 close-end pension 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 does not have sufficient funds to pay to all employees the benefits related to employee's services in current and previous period.

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 operating leases, recognized as expenses in the income statement on a straight-line basis during the lease period.

Financial lease agreements are measured based on the lower of the present value of minimum lease payments or the fair value of leased asset at the start of the lease. The

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amounts payable deriving from considerations of financial lease agreements are recognized and allocated between financial expenses and amortization of financial lease payables so as to obtain a constant interest rate. The corresponding liability is recorded as short- and long-term 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 bylaws are recognized when approved by the shareholders in the general meeting. The tax effects of the interest on shareholders' equity are recognized in the income statement for the year, under the same recognition basis.

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 Brazilian corporate law. The statement of value added is part of the individual financial statements and as supplementary information for the consolidated financial statements since it is not required by 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

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Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, for taking decision, for allocating resources and assessing performance of the operating segments.

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 21.

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.

(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 income statement, except for loans and financing related to property, plant and equipment or intangible assets in progress, where foreign exchange gains and losses are recognized as contra entry to the asset while construction is in progress.

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4 Changes in accounting practices and disclosures

4.1 New and revised standards and interpretations effective for periods beginning on or after January 1, 2012

New and revised standards

| Standard | Key requirements | Effectiveness date |
|--|---|--------------------|
| Deferred taxes: recovery of underlying assets (amendments to IAS 12) | <p>It amends IAS 12 – Income Tax to provide the assumption that the recovery of the carrying amount of an asset measured based on the fair value model of IAS 40 – Investment Property will usually occur through sale.</p> <p>Due to this amendment, SIC 21 – Income Taxes – Recovery of Revalued Non-Depreciable Assets would no longer be applicable to investment property carried at fair value. The amendments also include in IAS 12 a remaining guidance previously included in SIC 21, which was duly removed.</p> | January 1, 2012 |

4.2 New and revised standards and interpretations that are not yet effective

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

| | |
|---------------------|--|
| IFRS 9 | Financial Instruments ⁴ |
| IFRS 10 | Consolidated Financial Statements ² |
| IFRS 11 | Joint Arrangements ² |
| IFRS 12 | Disclosure of Interests in Other Entities ² |
| IFRS 13 | Fair Value Measurement ² |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income ¹ |

| | |
|----------------------------------|--|
| Amendments to IFRS 7 | Disclosure – Offsetting Financial Assets and Financial Liabilities ² |
| Amendments to IFRS 9 and IFRS 7 | Effective Date of IFRS 9 and Transition Disclosures ⁴ |
| Amendments to IFRS 10, 11 and 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guide ² |
| IAS 19 (revised in 2011) | Employee Benefits ² |
| IAS 27 (revised in 2011) | Separate Financial Statements ² |

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IAS 28 (revised in 2011) Investments in Associates and Joint Ventures² Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities³ Amendments to IFRSs 2009-2011 Annual Improved Cycle IFRIC 20 Stripping Costs in the Production Phase in a Surface Mine²

1 Effective for annual periods beginning on or after July 1, 2012.

2 Effective for annual periods beginning on or after January 1, 2013. 3 Effective for annual periods beginning on or after January 1, 2014. 4 Effective for annual periods beginning on or after January 1, 2015.

The new standards, amendments and interpretations that may affect the Company are as follows:

IFRS 11 supersedes IAS 31 *Interest in Joint Ventures*. IFRS 11 addresses how a joint arrangement with two or more parties holding joint control should be classified. SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers will be removed with the issue of IFRS 11. According to IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the contractual parties. On the other hand, according to IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets, and jointly controlled operations. In addition, according to IFRS 11, joint ventures must be recognized by the equity method, while jointly controlled entities may be recorded by the equity method or by the proportionate accounting method, according to IAS 31.

The adoption of IFRS 11 will result in changes in the accounting for investments held by the Company in Sesamm – Serviços de Saneamento de Mogi Mirim S/A, Águas de Andradina S.A., Águas de Castilho, Saneagua Mairinque S.A., Aquapolo Ambiental S.A. and Attend Ambiental S/A, jointly controlled entities according to IAS 31, currently accounted for the proportionate consolidation method. According to IFRS 11, these jointly controlled entities will be classified as joint ventures and recorded by the equity method, resulting in the recognition of the Company's proportionate interest in net assets, net income for the year, and other comprehensive income in a single account which will be reported in the consolidated statement of financial position, as well as in the consolidated income statement or comprehensive income as "investment in joint venture" and "equity in earnings of joint venture", respectively. Therefore, the consolidated balances as of December 31, 2012 are shown below:

| | December 31, 2012 | | |
|-------------------------------|--------------------------|----------------------------|---------------------------------------|
| | Original | IFRS 11 Effects | After applying IFRS 11 |
| Assets | | | |
| Total current assets | 3,336,865 | (6,267) | 3,330,598 |
| 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 |

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| | December 31, 2012 | | |
|-------------------------|--------------------------|----------------------------|---------------------------------------|
| | Original | IFRS 11 Effects | After applying IFRS 11 |
| Total noncurrent assets | 23,338,928 | (202,834) | 23,136,094 |
| Total assets | 26,675,793 | (209,101) | 26,466,692 |

| | December 31, 2012 | | |
|-------------------------------|--------------------------|----------------------------|---|
| | Original | IFRS 11 Effects | After application of IFRS 11 |
| 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 |
| Total noncurrent liabilities | 11,162,846 | (169,920) | 11,992,926 |
| Total liabilities | 14,960,216 | (209,101) | 14,751,115 |
| Total equity | 11,715,577 | - | 11,715,577 |
| Total liabilities and equity | 26,675,793 | (209,101) | 26,466,692 |

| | 2012 | | |
|---|-----------------|----------------------------|---------------------------------------|
| | Original | IFRS 11 Effects | After applying IFRS 11 |
| Net revenue from sales and services | 10,754,435 | (16,804) | 10,737,631 |
| Gross profit | 4,289,037 | (1,357) | 4,287,680 |
| equity in earnings of joint venture of subsidiaries | - | (6,532) | (6,532) |
| Operating profit | 2,845,260 | (1,916) | 2,843,344 |
| Income before income tax and social | | | |

| | | | |
|--|-----------|-------|-----------|
| contribution | 2,543,904 | 3,768 | 2,547,672 |
| Net income for the year | 1,911,900 | - | 1,911,900 |
| Basic and diluted earnings per share (in reais) | 8.39 | - | 8.39 |

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IAS 19 Employee Benefit

The amendments to IAS 19 change the accounting for both defined benefit plans and severance pay benefits. The most significant change refers to the accounting for changes in defined benefit obligations and plan assets. These amendments require the recognition of changes in defined benefit obligations and in the fair value of the plan assets as they occur, and, therefore, the elimination of the corridor approach allowed in the previous version of IAS 19 and the early recognition of past cost of services. In addition, the amendments require all actuarial gains and losses to be immediately recognized through other comprehensive income so that the net asset or liability of the pension plan is recognized in the consolidated statement of financial position so that to reflect the full amount of the plan's deficit or surplus. Additionally, interest expenses and the return expected on the plan assets used in previous version of IAS 19 were replaced by a "net interest" amount, calculated based on the discount rate of the asset or liability of the net defined benefit.

The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 and require retrospective adoption. Based on Management's preliminary evaluation, the impact of the Company's early adoption of the amendments to IAS 19 in the year ending December 31, 2013, would be a reduction of in the Company's equity on January 1, 2013 in the amount of R\$468,220 (R\$34,370 increase in equity on January 1, 2012).

This effect represents the full recognition of actuarial gains and losses through other comprehensive income.

Annual improvements to the 2009-2011 IFRS cycle (May 2012)

The annual improvements to the 2009-2011 IFRS cycle include several amendments to several IFRSs. The amendments to IFRSs are effective to annual periods beginning on or after January 1, 2013 and include:

- amendments to IAS 16 – Property, Plant and Equipment; and
- amendments to IAS 32 – Financial Instruments: Presentation.

Amendments to IAS 16

The amendments to IAS 16 clarify that spare parts, stand-by equipment and service equipment are classified as property, plant and equipment when they meet the definition of property, plant and equipment set out in IAS 16, or otherwise as inventory. The Company does not expect significant impacts on its financial statements.

Amendments to IAS 32

The amendments to IAS 32 clarify that the income tax related to distributions to holders of equity instruments and equity transaction costs should be accounted pursuant to IAS 12 -Income Taxes. The Company does not expect relevant impacts on its financial statements.

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4.3 Financial Risk Management

4.3.1 Financial risk factors

The Company's activities are exposed to Brazilian economic environment, exposing it 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 the financial markets and aims at minimizing adverse impacts on its financial performance.

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

(a)Market risk Foreign currency risk

SABESP's foreign exchange exposure entails market risks associated with Brazilian *real* currency fluctuations against the US dollar and the 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.

SABESP's specific foreign currency risks are related to exposures caused by its short and long-term 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 of the Company incurring losses due to foreign exchange fluctuations that would affect the balances of market foreign currency-denominated loans and financing 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 replace expensive debt for cheaper debt, reducing the cost through accelerated 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\$3,215.8 million on December 31, 2012 (R\$3,053.4 million in December 2011). Below, the Company's exposure to foreign currency risk:

| | PARENT AND CONSOLIDATED | | | |
|---|-------------------------|-----------|---------------------|-----------|
| | December 31, 2012 | | December 31, 2011 | |
| | Foreign currency | R\$ | Foreign currency | R\$ |
| Loans and financing – US\$ | 1,136,274 | 2,321,976 | 1,113,236 | 2,088,208 |
| Loans and financing – Yen | 37,535,650 | 890,346 | 39,456,912 | 959,198 |
| Interest and charges from loans and financing – US\$ | | 12,487 | | 13,025 |
| Interest and charges from loans and financing – Yen | | 6,374 | | 6,646 |

TOTAL

3,231,183

3,067,077

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The table above shows the foreign currency-denominated loans and financing, emphasizing that the balance is gross of loans costs of R\$15,422 on December 31, 2012 (R\$13,656 in December 2011).

As of December 31, 2012, had the Brazilian real appreciated or depreciated by 10% against the US dollar and the yen with all other variables remaining constant, the effect on pre-tax profit for the year would have been R\$323,118 (R\$306,708 in December 2011) 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 for the next 12 months, considering the projected rates of the U.S. dollar and the yen. Considering that 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.

| | PARENT AND CONSOLIDATED | | |
|--|---------------------------------|-----------------------|------------------------|
| | Scenario I (Probable) (*) | Scenario II (+25%) | Scenario III (+50%) |
| Net currency exposure at December 31, 2012 | | | |
| (Liabilities) in US\$ | 1,136,274 | 1,136,274 | 1,136,274 |
| US\$ rate at December 31, 2012 | 2.0435 | 2.0435 | 2.0435 |
| Exchange rate estimated according to the scenario | 2.0900 | 2.6125 | 3.1350 |
| Difference between the rates | (0.0465) | (0.5690) | (1.0915) |
| Effect on net financial result R\$ - (loss) | (52,837) | (646,540) | (1,240,243) |
| Net currency exposure at December 31, 2012 | | | |
| (Liabilities) in Yen | 37,535,650 | 37,535,650 | 37,535,650 |
| Yen rate at December 31, 2012 | 0.02372 | 0.02372 | 0.02372 |
| Exchange rate estimated according to the scenario | 0.02443 | 0.03054 | 0.03664 |
| Difference between the rates | (0.00071) | (0.00682) | (0.01292) |
| Effect on net financial result in R\$ - (loss) | (26,650) | (255,993) | (484,960) |
| Total effect on net financial result in R\$ - (loss) | (79,487) | (902,533) | (1,725,203) |

(*) The probable scenario in US\$ considered the average exchange rate for the 12-month period after December 31, 2012, according to BM&FBovespa. The Yen used an average rate for the next 12 months as of December 31, 2012, according to BM&FBovespa.

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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:

| | Parent | |
|----------------------|---------------------|---------------------|
| | December 31, | December 31, |
| | 2012 | 2011 |
| UPR(i) | 2,019,924 | 2,350,919 |
| CDI(ii) | 1,799,830 | 1,815,000 |
| TJLP(iii) | 845,913 | 881,861 |
| IPCA(iv) | 697,385 | 180,759 |
| LIBOR(v) | 1,243,058 | 1,123,662 |
| Interest and charges | 95,475 | 108,053 |
| Total | 6,701,585 | 6,460,254 |

| | Consolidated | |
|----------------------|---------------------|---------------------|
| | December 31, | December 31, |
| | 2012 | 2011 |
| UPR(i) | 2,192,684 | 2,520,936 |
| CDI(ii) | 1,799,830 | 1,815,000 |
| TJLP(iii) | 845,913 | 881,861 |
| IPCA(iv) | 697,385 | 180,759 |
| LIBOR(v) | 1,243,058 | 1,123,662 |
| Interest and charges | 114,421 | 110,999 |

| | | |
|-------|-----------|-----------|
| Total | 6,893,291 | 6,633,217 |
|-------|-----------|-----------|

(i) UPR (*Unidade Padrão de Referência*), a standard benchmark unit, which is equal to the TR, a managed prime rate.

(ii) CDI (*Certificado de Depósito Interbancário*), interbank deposit certificate rate (iii) TJLP (*Taxa de Juros a Longo Prazo*), long-term interest rate (iv) IPCA (*Índice Nacional de Preços ao Consumidor Amplo*), a consumer price index (v) LIBOR - London Interbank Offered Rate

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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 receivables. Water supply and sewage services tariffs do not necessarily follow the increases in the inflation adjustment and interest rates affecting the Company's debt.

As of December 31, 2012, 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 pre-tax profit for the year before taxes would have been R\$67,015 (R\$64,602 in December 2011) lower or higher, mainly as a result of a lower or higher interest expense on floating rate loans and financing. The effect on the consolidated pre-tax profit for the year would have been R\$68,932 (R\$66,332 in December 2011) lower or higher.

(b) Credit risk

Credit risk arises from cash and cash equivalents, deposits in banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding accounts receivable, restricted cash, receivables from related parties and indemnities. The Company is required by law to invest its funds exclusively 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, trade receivables, restricted cash, receivables from related parties and indemnities in the balance sheet. (See notes 6, 7, 8, 9 and 10.)

(c) Liquidity risk

The Company's liquidity relies mainly on cash generated by operating activities, loans from state and Brazilian federal government financial institutions and funding in the local and international markets. Management of the liquidity risk considers the assessment of liquidity requirements to ensure that the Company has enough cash to meet its operating and capital expenditure needs, and debt repayment.

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, into relevant maturities, including the installment of principal and interest to be paid according to the agreement.

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CONSOLIDATED

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