

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP

Form 6-K

April 18, 2017

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, 2017
(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):

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Financial Statements as of

December 31, 2016 and 2015

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Companhia de Saneamento Básico do Estado de São Paulo – SABESP (“the Company”), which comprise the statement of financial position as at December 31, 2016 the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Companhia de Saneamento Básico do Estado de São Paulo – SABESP as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics (“Código de Ética Profissional do Contador”) and in the professional standards issued by the Brazilian Federal Accounting Council (“Conselho Federal de Contabilidade”) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit

evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Valuation of provisions for contingencies

As described in note 19, the Company is exposed to legal proceedings arising from civil and tax environmental matters. The measurement, recognition as provision and the disclosure of provisions and contingent liabilities related to these lawsuits require professional's judgment of SABESP and its legal advisors regarding the completeness of the existing lawsuits, adequacy of provisions made and corresponding disclosure. Due to the relevance, complexity and judgment in the assessment, measurement and disclosure of contingent liabilities and the impact that the amounts involved may have on the Company's results if the potential exposures in these cases are realized, we consider this matter relevant to our audit.

How our audit addressed this matter

We evaluate the design, implementation and effectiveness of existing key internal controls related to the determination of estimates to provide or disclose the amounts in accordance with expected loss of litigation and how to ensure the completeness and accuracy of the likelihood determined by the Company. We evaluated the adequacy of the recognized amounts and the amounts of contingencies disclosed by analyzing the criteria and assumptions used to measure the amounts recognized and/or disclosed and that took into account the assessments prepared by the Company's internal and external legal counsel. We assessed the assumptions used by the Company, obtaining a sample of processes, and, with confirmation of balances with internal and external advisors, analyzed the likelihood of gain or loss evaluating the risk classification considered by the Company based on the merit of the lawsuits and recently decision updates on the progress of cases. In addition, we assess the adequacy of the disclosures made in the financial statements in relation to the accrued litigation and contingent liabilities.

Capitalization of Intangible Assets

As mentioned in note 14, during 2016, significant amounts resulting from commitments related to the concession contracts with the respective granting authorities relating to the maintenance and expansion of infrastructures were capitalized in intangible assets. The commitments linked to the concession agreements have a combination of expansion and maintenance of the infrastructures, and therefore, the Company has to use a judgment to allocate expenditures between capitalized costs in the intangible asset, when the capacity increases and improvement of the network and maintenance expenses incurred to be recognized in profit & loss for the year. For this reason, we consider this matter relevant to our audit.

How our audit addressed this matter

Our audit procedures have included testing the design, implementation and effectiveness of key internal controls in the process of adding intangible assets , as well as assessing whether the cost capitalization policy in the intangible asset is in compliance with the accounting standards. We also tested a sample of the additions to the intangible asset to assess the existence, nature of the expense and proper classification between capitalizable cost or maintenance expenses. Finally, we assess the adequacy of the Company's disclosures about its capitalization policies and other related disclosures.

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Other matters

Statements of value added

The statements of value added (DVA) for the year ended December 31, 2016, prepared under the responsibility of the Company's management, and presented herein as supplementary information for IFRS purposes, have been subject to audit procedures jointly performed with the audit of the Company's financial statements. In order to form our opinion, we assessed whether those statements are reconciled with the financial statements and accounting records, as applicable, and whether their format and contents are in accordance with criteria determined in the Technical Pronouncement 09 (CPC 09) - Statement of Value Added issued by the Committee for Accounting Pronouncements (CPC). In our opinion, the statements of value added have been fairly prepared, in all material respects, in accordance with the criteria determined by the aforementioned Technical Pronouncement, and are consistent with the overall financial statements.

Corresponding values

The amounts corresponding to the year ended December 31, 2015, presented for comparison purposes, were previously audited by other independent auditors who issued a report dated March 24, 2016, which did not contain any modification.

Other information accompanying the financial statements

Management is responsible for the other information comprising the management report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our

knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and international standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.Â We are responsible for the direction, supervision and performance of the group audit.Â We remain solely responsible for our audit opinion.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, March 27, 2017

KPMG Auditores Independentes

CRC 2SP014428/O-6

(Original report in Portuguese signed by)

Marcelo Gavioli

CRC 1SP201409/O-1

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2016 Management Report

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

2016 Management Report

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MESSAGE FROM THE CEO

Overcoming the water crisis, legacies and management improvement

The highlight of 2016 was the end of the most serious water crisis ever recorded in the metropolitan region of São Paulo (RMSP). Today, we are back to normality, with a strong recovery of the reservoirs that supply the metropolis. The total volume of water reserves in early 2017 already surpasses that of 2013, before the severe drought took hold.

The return to normal conditions was possible thanks to a positive combination of three factors: emergency construction and structural works implemented right at the outset of the first signs of the crisis, which avoided a collapse in the water supply; resumption of normal rainfall levels, and the change in habits of the population, which understood the critical nature of the moment and began saving water. Notwithstanding the increase in water availability during 2016, the average consumption in the RMSP was 15% lower than that registered in 2013, before the crisis.

The severe crisis we faced has left us two important legacies. Today we have a more robust and resilient supply system, with capacity to face weather droughts as severe as the one we have experienced in 2014-2015, when three major projects came on stream: The São Lourenço Production System, the Interconnection between the Paraíba do Sul Water Basin and the Cantareira System and the reversal of the Itapanhaú Water Basin to the Alto Tietê System.

An example of operational legacy is the successful experience involving the intake of technical reserves of the Cantareira System through floating pumps, currently on loan to the National Integration Ministry to accelerate the arrival of waters from São Francisco river to the states of Paraíba and Pernambuco, which were on the verge of a collapse in water supply.

The all-out deployment of our professionals has added a significant technological and qualitative enhancement to our operations. From the institutional point of view, we are experiencing a movement towards closer relations between industry players (operators, regulators, specialists and water resource managers) with a view to improving the institutional framework.

The crisis has also spurred an extensive social debate about the need to review concepts of consumption and appreciation the value of water and sanitation, which in 2017 is now leading us toward a more qualified interaction with the regulatory agency (Sanitation and Energy Regulatory Agency of the State of São Paulo – ARSESP) regarding tariff review and restructuring process.

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The regulatory body and the regulated party are required to explain the calculation of tariffs to society. Many opinion makers and individuals still mistakenly assume that they pay for the provision of a universalized service where all sewage is properly collected and treated. But actually the services delivered are not yet universal, particularly in areas of chaotic urbanization, due to Company deficiencies.

However, the reality is different: tariffs are calculated taking into account the investments and operational costs effectively incurred, rather than those that should have been made to provide services with, for example, European standards. SABESP has full technical capacity to advance towards universalization in the areas covered by its services. A proof of that is that the company is already providing full services in all cities of the interior of the State of São Paulo, which have lower urban complexity. This means that all urban properties are connected to the water and sewage network, and the waste collected is correctly treated prior to discharge in some water stream.

Year after year, the municipality of Franca, for example, has ranked first in the classification of the *“Trata Brasil”* Institute regarding the quality of services. Many cities have shown clear improvements in the quality of river waters, as a result of sewage treatment. This is the case, for example, of the Jundiá river and of São Paulo’s stretch of the Paraíba do Sul river. In other words, there are no technical limits to advance towards more elevated and civilized sanitation standards.

We face two key challenges. First, we must combine the pace of investments to society’s capacity and willingness to pay. Since SABESP does not receive subsidies, the investments required for universalization come exclusively from earnings retained or loans, which, obviously, have to be repaid. To make it simple, the earnings received in a given year will make up the funds to be invested in subsequent years.

For this reason, the policy of distribution of dividends to SABESP’s shareholders is very important: in recent years, earnings have been allocated to investments in accordance with the legal limits. This benefits the population in the form of better services, and the shareholders, in the form of increased equity. In other words, contrary to the erroneous

assumption that state-owned companies should not record profit, the excellent results achieved in 2016, of R\$2.9 billion, mean good news for all, and not only for the company's shareholders.

The second challenge is to align the actions of the Company to the municipal governments and the Public Prosecutor's Office in order to reach solutions that may be compatible with the difficult task to provide sanitation services to irregular, yet consolidated, settlements.

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Also, we should not limit the pace of investments to the payment capacity of the less well-off. If, on the one hand, we have to provide economic protection for this section of the population using social tariffs, on the other hand, we have to make all efforts to increase the willingness to pay of social levels that afford to do so. We must convince the middle and high social classes that society can do more and better. And the best way to reach this objective is to continuously increase the Company's productivity in order to improve the quality of services in a manner that can be noticed by consumers.

With the situation normalized and having strengthened the structures and operations, in 2016 we were able to channel our efforts to improving the efficiency of our internal management. Once again we began addressing the phases for setting up the SABESP Integrated Information System– SiiS, in view of the SAP platform having come on stream in April 2017. Regarding the strategic planning, we completed the review of the Company's targets for the next five years (2017-2021).

We gave the first steps towards expanding the Management Excellence Model (MEG) across all areas of the Company in order to promote best practices through exchange of experiences and partnerships, including internationally, for example, establishing technical cooperation arrangements and the Waste to Energy project of the ETE Barueri effluent treatment station. Another highlight was the evolution of risk management and compliance practices.

We have addressed the adjustments required in order to comply with the requirements of the State-owned Companies Law of June 2016, and we have made progress in building technical parameters for establishing an investment hierarchy in which 'e match our limited resources with the urgencies of sanitation. The priorities obey the following order: 1) water quality, 2) water security, including countering losses and 3) sewage collection and treatment.

Countering water losses while providing health to those living in irregular areas, where SABESP is legally prevented from operating, is another task we have managed to address thanks to partnerships with the courts.

Planning is on-going, with partial execution to eliminate a total of 160,000 illegal connections. Being precarious and insalubrious, this “spaghetti junction” of pipes littering the side streets result in huge losses of water due to leakage and unlimited consumption, in addition to directly affecting the public health of the community.

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Seeing the crisis in the rearview mirror, as we do now, does not mean removing the risk of water shortages from the list of priorities. Summarizing, we are now in the phase of enhancing what we have learned from the experience, but with our eyes always on the future of the water supply, but without losing sight of the expansion in sanitation and the efficient and sustainable management of our water resources.

Jerson Kelman, Chief Executive Officer

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THE WORLD'S FOURTH LARGEST SANITATION COMPANY REGARDING POPULATION SERVED

In 2016, Companhia de Saneamento Básico do Estado de São Paulo – SABESP completed 43 years of providing water and sewage services in the State of São Paulo, Brazil, always seeking to adapt to the needs of the different regions in which it operates, while preserving the collective interest that justified its creation.

With its main offices in the capital of the State of São Paulo, it is a publicly-held and government-controlled company. The Government of the State of São Paulo holds 50.3% of the capital stock, with the remainder traded on stock exchanges in Brazil and overseas. On December 31, 2016, 30.3% of the shares were traded on the BM&FBovespa, in São Paulo, with the ticker SBSP3, while the remaining 19.4% were traded in the United States, on the New York Stock Exchange (NYSE) with the ticker SBS. On the BM&FBovespa, the Company's shares continue to be part of the main indices.

Responsibility for controlling, monitoring and regulating SABESP's operations, including tariffs, rests for the most part with the São Paulo State Sanitation and Energy Regulatory Agency - Arsesp.

Since early 2017, with the commencement of operations in the municipality of Santa Branca, SABESP is serving 367 municipalities of the State of São Paulo, providing water supply and sewage collection and treatment services to residential, commercial, government and industrial customers. Furthermore, it provides water on a wholesale basis to five municipalities in the metropolitan region of São Paulo (RMSP), four of whom also benefit from sewage treatment services.

In 2016, the Company provided water to around 27.7 million people (24.7 million directly and 3.0 million residents in the five municipalities served on the wholesale market), representing about 66% of the urban population in the State. The sewage collection service serves approximately 21.2 million people.

According to the Arup in Depth Water Yearbook 2014-2015, SABESP is the largest sanitation company in the Americas and the world's fourth largest in population served.

In 2016, the Company maintained the trend towards the universalization of water supply already noticeable in previous years, reaching the mark of 8.7 million water connections. With regard to sewage services, the 7.1 million connections represent a sewage coverage ratio of 87%, and a collected sewage treatment ratio of 79% of the sewage collected.

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Net revenues in 2016 were approximately R\$14.1 billion, while income of R\$2.9 billion exceeded the figure for the year preceding the water crisis, in current values. Assets amounted to R\$36.7 billion, while market value stood at R\$19.7 billion on December 31, 2016.

Still with regard to its area of operations and market, the Company remains a shareholder in the companies, Águas de Castilho S.A., Águas de Andradina S.A. and Saneaqua Mairinque S.A., companies that provide water and sewage services, while in SESAMM – Serviços de Saneamento de Mogi Mirim S.A., it is in charge of the modernization, implementation and management of the sewage treatment system. In the non-domestic sewage segment, the Company is a shareholder in the company Attend Ambiental.

In synergy with the importance of planning for developing water resources, SABESP continues to promote the use of reused water for non-prime purposes based on the production, supply and commercialization of reused water obtained from some of its sewage treatment plants, and it is also a shareholder in Aquapolo Ambiental.

In the electricity segment, SABESP is a shareholder in the company Paulista Geradora de Energia S.A, whose operations have been rescheduled to begin in the second half of 2018.

In 2016, SABESP injected R\$818.0 thousand in its investees, an amount corresponding to its percentage equity stake in the companies: Saneaqua Mairinque S/A (R\$150.0 thousand), Águas de Andradina S/A (R\$607.0 thousand), and Águas de Castilho S/A (R\$61.0 thousand).

In its mission to “provide sanitation services, thereby contributing to improving the quality of life and of the environment”, SABESP’s operations are aligned with the Ten Principles of the United Nations Global Compact and with the environmental and socioeconomic policies of the government of the State of São Paulo.

This is how the Company adopts an approach to providing services and establishing relations with society and its suppliers, through planning and economic, social and environmental

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responsibility.

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PANEL OF INDICATORS

Indicators	Unit	2016	2015	2014	2013	2012
		Service				
Water coverage ratio		Tends towards universalization ⁽¹⁾				
Sewage collection coverage ratio	%	87	86	85	84	83
Collected sewage treatment coverage ratio ⁽²⁾	%	79	78	77	78	77
Resident population provided with water supply ⁽³⁾	thousand inhabitants	24,689	24,446	24,193		
Resident population provided with sewage collection ⁽³⁾	thousand inhabitants	21,207	20,957	20,637		
Positive perception of customer satisfaction ⁽⁴⁾	%	82	75	80	89	89
		Operational				
Water connections	thousands	8,654	8,420	8,210	7,888	7,679
Sewage connections	thousands	7,091	6,861	6,660	6,340	6,128
Water network extension ⁽⁵⁾	km	73,015	71,705	70,800	69,619	67,647
Sewage network extension ⁽⁵⁾	km	50,097	48,774	47,992	47,103	45,778
WTP – Water treatment plants	units	237	235	235	232	214
Wells	units	1,093	1,085	1,055	1,083	1,079
STP - Sewage treatment plants	units	548	539	524	509	502
Water Billed Loss Index ⁽⁶⁾	%	20.8	16.4	21.3	24.4	25.7
Water Metered Loss Index ⁽⁷⁾	%	31.8	28.5	29.8	31.2	32.1
Water loss per connection ⁽⁸⁾	liters per connection per day	308	258	319	372	392

Water Meter ratio ⁽⁹⁾	%	99.97	99.97	99.97	99.97	99.97
Volume of water produced	millions of m ³	2,696	2,466	2,840	3,053	3,059
Volume of water metered on retail market	millions of m ³	1,465	1,399	1,573	1,629	1,601
Volume of water billed on the wholesale market	millions of m ³	227	216	247	299	298
Volume of water billed on the retail market	millions of m ³	1,763	1,698	1,812	1,835	1,796
Volume of sewage billed	millions of m ³	1,552	1,481	1,562	1,579	1,535
Headcount ⁽¹⁰⁾	units	14,137	14,223	14,753	15,015	15,019
Operating productivity	Connections per employee	1,114	1,074	1,008	948	919
Financial						
Gross revenues	R\$ millions	14,855.1	12,283.5	11,823.4	11,984.8	11,391.2
Net revenues	R\$ millions	14,098.2	11,711.6	11,213.2	11,315.6	10,737.6
Adjusted EBITDA ⁽¹¹⁾	R\$ millions	4,571.5	3,974.3	2,918.7	4,006.6	3,605.0
Adjusted EBITDA Margin	% of net income	32.4	33.9	26.0	35.4	33.6
Adjusted EBITDA Margin before construction revenues and costs	% of net income	43.3	46.6	34.4	44.6	43.0
Operating result ⁽¹²⁾	R\$ millions	3,429.6	3,044.0	1,910.7	3,138.8	2,843.3
Operating Margin ⁽¹²⁾	% of net income	24.3	26.0	17.0	27.7	26.5
Result (net income/loss)	R\$ millions	2,947.1	536.3	903.0	1,923.6	1,911.9
Net Margin	% of net income	20.9	4.6	8.1	17.0	17.8
Net Debt by Adjusted EBITDA ⁽¹³⁾	multiple	2.2	2.9	3.1	1.9	1.9
Net debt to equity ⁽¹³⁾	%	65.4	83.7	68.1	59.3	61.8
Investment ⁽¹⁴⁾	R\$ millions	3,877.7	3,481.8	3,210.6	2,716.0	2,535.6

(1) 99% or more.

(2) For methodological reasons, it includes a variation margin of plus or minus 2 percentage points.

(3) From 2016 on, the demographic data shown herein started to take into account "The Projected Population and Domiciles of the Municipalities of the State of São Paulo: 2010-2050", prepared by the State Data Analysis System Foundation, as well as the new methodology used for determining the service and coverage indicators discussed in the chapter "Strategy and Vision of the Future." Data were not recalculated for the years 2012 and 2013.

(4) Survey carried out in 2016 by Praxian Consultoria Ltda. (5,928 interviewees across the entire operating base with a margin of error of 1.3% and a reliability interval of 95%).

(5) Includes water mains, branch collectors, interceptors and outfalls. Register base updated in December 2016.

(6) Includes real (or physical) loss and apparent (or nonphysical) loss. The percentage of water loss represents the resulting ratio between the (i) Billed Volume Lost and

the (ii) Volume of Water Produced. The Billed Volume Lost corresponds to: Volume of Water Produced MINUS Billed Volume MINUS Volume of uses. The Volume of Uses corresponds to: water used in regular maintenance of pipelines and water reservoirs; water used in municipalities, for example in firefighting; and water supplied to irregular settlements.

(7) Includes real (or physical) loss and apparent (or nonphysical) loss. The percentage of water loss represents the resulting ratio between the (i) Measured Volume Lost and the (ii) Volume of Water Produced. The Measured Volume Lost corresponds to: Volume of Water Produced MINUS Measured Volume MINUS Volume of Uses. The Volume of Uses corresponds to: water used in regular maintenance of pipelines and water reservoirs; water used in municipalities, for example in firefighting; and water supplied to irregular settlements.

(8) Calculated by dividing the Measured Volume Lost a year by the average amount of active water connections, divided by the number of days in the year.

(9) Connections with Water Meter / Total Connections.

(10) Internal headcount. Does not include those assigned to other entities. Employees with permanent disability are no longer considered as from 2016.

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

(12) Does not include financial revenues and expenses.

(13) Net debt encompasses the debt, less cash and cash equivalents.

(14) Does not include financial commitments assumed in program agreements (R\$155 million, R\$65 million, R\$116 million, R\$177 million and R\$6 million, in 2012, 2013, 2014, 2015 and 2016, respectively)

MODERN MANAGEMENT, ETHICS AND INTEGRITY

For state-owned companies, 2016 particularly stands out because of the impact of the opening discussions for adapting to Law No. 13303/16 (The State-Owned Companies Law) and State Decree No. 62349/16. Created to provide greater legal security while enhancing the role of the control bodies, the Law provides for changes in the current management rules, including regulations on tenders and contracts, in addition to mandatory adoption of corporate governance practices.

As a joint-stock corporation listed on the Novo Mercado segment of the BM&FBovespa and shares traded on the New York Stock Exchange since 2002, SABESP benefits from the fact of already having a consolidated corporate governance structure which facilitates its adaptation to the new rules and regulations.

Throughout 2016, the Company sponsored events to study and debate the adaptation measures required in order to be legally compliant. The primary measures involve changes to the bylaws, adjustment to the governance structure, such as setting up a Statutory Appointment Committee, management assessment and the creation of policy for operations with related parties, in addition to drawing up Internal Regulations on Bidding Procedures.

Among the innovations introduced by the State-Owned Companies Law and its provisions, some relate to the **Code of Ethics and Conduct**. SABESP's Code of Ethics and Conduct, launched in 2003 and updated in 2014, represents its key benchmark on principles and values, and applies to the organization as a whole, including the Board of Directors, in accordance with the new legal system. It sets out the bases for the Company's relationship with its various stakeholders, being available at www.sabesp.com.br.

The Ethics and Conduct Committee is responsible for the appropriateness, timeliness, promotion and application of the Code. An important mechanism for its actions is the Internal Whistleblower Channel, which centralizes all complaints received by the Ombudsman, the Customer Service Unit, e-mail, phone, post office box, mail, or personally delivered to the Audit Superintendence, which is the unit that controls the Channel.

In 2016, 154 incidents were recorded, of which 65% were verified, while 35% are still under investigation. Of the total, 17% involved inappropriate behavior, harassment, discrimination, persecution and unfair treatment. In the case of all complaints considered pertinent, penalties were imposed on 64 own and outsourced employees: 6 warnings, 7 suspensions and 51 redundancies. The outcomes of the investigations into the complaints are forwarded to the Audit Committee and the Ethics and Conduct Committee.



The State-owned Companies Law also makes it mandatory to set up a Statutory Audit Committee consisting of an independent majority. The Audit Committee at SABESP has existed for 10 years, consisting of 3 independent directors who meet every fifteen days.

To find out more about the corporate governance structure of SABESP go to www.sabesp.com.br/investidores, “*Governança Corporativa*” section.

Anti-corruption

SABESP launched its Integrity Program in 2015, initially with aim of implementing the set of anticorruption measures, especially those aimed at preventing, detecting and remediating crimes against the government, in compliance with Law 12846/2013 (the Anti-Corruption Law) and the US Foreign Corrupt Practices Act (FCPA).

In 2016, the Integrity Program was reshuffled to ensure compliance with Law 13303/2016, and currently consists of a set of internal integrity mechanisms and procedures involving monitoring and encouraging complaints about irregularities, in addition to the effective application of the codes of ethics and conduct, policies and guidelines for the purpose of detecting and putting right deviations, frauds, irregularities and illegal acts.

The Program is currently structured on seven pillars: Senior Management’s Commitment; Functional Structuring; Values and Conduct and the Whistleblower Channel; Relation with Third Parties; Governance and Internal Controls; Risk Management; Training and Communication.

Also in 2016, the institutional policies on Internal Audits and Compliance were reformulated, based on the “Three Lines of Defense in Effective Risk Management and Control” model recommended by The Institute of Internal Auditors – IIA.

The purpose of the Institutional Policy on Compliance, in addition to setting out the guidelines, principles and competences and disseminating the Program at all levels within the company, is to consolidate the three lines of defense model within the internal control structure and to ensure that the functional compliance area created in 2016 operates independently in carrying out its responsibilities.

In addition to the internal practices, SABESP sits on the Committee on Anti-corruption and Compliance of the Pinheiros/SP Chapter of the Brazilian Bar association (OAB) and integrates the UN Global Compact’s Anti-corruption Working Group and the Instituto Ethos Integrity Committee, having staged in 2016 a gathering of specialists in anti-corruption specialists to debate control measures and ways of working together.

Within the scope of the state government, SABESP is directly involved in the actions of the government's internal affairs department and coordinates a working group consisting of government- controlled (private) from the State Departments of Sanitation and Water Resources and Energy and Mining, and whose purpose is to set up mutual cooperation for planning, developing and implementing compliance programs within the State of São Paulo.

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During the year, the Program mapped 112 actions as compliance practices which were allocated priority following the analysis of corporate corruption and fraud and new legal requirements. The evaluation of these actions showed that, in relation to the 2015 evaluation, there was growth of 20% in compliance.

Internal controls

Internal controls have been evaluated in a structured and systematic manner since 2005, benchmarking with the parameters of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) of 2013 and the Control Objectives for Information and Related Technology (COBIT).

The internal controls evaluation process takes place once a year, taking into account both the occasional existence of risks associated with the preparation and disclosure of financial statements, and possible significant changes to information technology processes and systems. The controls are tested by the Audit Superintendence, an independent unit of the Company, and include the procedures for adapting the accounting ledgers; the preparation of the financial statements in accordance with the official rules; and proper authorization of transactions involving the acquisition, use and disposal of the Company's assets.

Management's assessment of the effectiveness of internal controls did not identify any shortcomings considered material in 2016, as has been the case in previous years.

External Audit

SABESP respects the principles that protect the independence of the external auditors with regard to not auditing their own work, not holding managerial functions and not acting on behalf of their client. Deloitte Touche Tohmatsu Auditores Independentes served as SABESP's auditors from the review of the quarterly information - ITR - of September 30, 2012, until the review of the quarterly information - ITR - of March 31, 2016. During this period, they audited the financial statements and reviewed the quarterly information and finance projects.

KPMG Auditores Independentes has served as SABESP's auditors since the review of the quarterly information - ITR – of June 30, 2016. During this period, they have audited financial statements and reviewed the quarterly information.

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In 2016, the Company paid R\$2.0 million for these services, of which 93.0% refers to auditing of financial statements. Among SABESP's affiliates, KPMG Auditores Independentes audits Águas de Castilho S.A. and Águas de Andradina S.A. During its period of service to the Company, Deloitte Touche Tohmatsu Auditores Independentes audited the company SESAMM – Serviços de Saneamento de Mogi Mirim S.A. During the period of their service to the Company, the auditors did not provide any services not involving external auditing.

Management Compensation

In 2016, the compensation of the directors, members of the fiscal council and officers, in gross values, including benefits and legal charges, was approximately R\$4.4 million. This amount includes around R\$494.2 thousand referring to officers' variable compensation, and it should be remembered that variable compensation is not allowed to directors and members of the fiscal council, pursuant to State Decree 58265/12 ratified by the shareholders' meeting of April 2013.

Under the Brazilian corporate law, the compensation of the directors, members of the fiscal council and officers is fixed, in an aggregate amount, by the shareholders' meeting. In SABESP, the compensation policy for board members and officers is fixed in accordance with the guidelines of the government of São Paulo, always subject to approval by the shareholders' meeting.

STRATEGY AND VISION OF THE FUTURE

SABESP does not view sustainability as mere rhetoric. Instead, it understands it is a prerequisite for a business to exist. It reflects results in the social, environmental and economic areas in the Company, through the universal distribution of quality water and the expansion of sewage collection and treatment, improving the life quality and the health of the population, in addition to contributing to a healthier environment. At the economic level, a sound business in a regulated environment results in profitability which, in turn, leads to greater investments in sanitation and the subsequent economic development of the regions served.

The Company's main market is the Metropolitan Region of São Paulo (RMSP), which has approximately 21 million inhabitants, accounting for nearly half the population of the State of São Paulo and one of the world's largest agglomerations. Located at the furthest edge of the Alto Tietê basin, the RMSP's supply per capita is similar to the semi-arid regions of Northeastern Brazil. While the United Nations (UN) affirms that, ideally, the minimum needed for comfort supply is 1.5 million liters per capita, the RMSP's supply is ten times lower, with an annual average of approximately 150 thousand liters of water per inhabitant.

SABESP's strategies and guidelines consider inputs to be the study of scenarios, risks and opportunities.

Based on international standards and Brazilian technical standards, specifically COSO - ERM - The Committee of Sponsoring Organizations of the Treadway Commission "Enterprise Risk Management - Integrated Framework" and ABNT standard NBR ISO 31.000 – Risk Management – Principles and Guidelines, the risk management process is divided into four categories: strategic, financial, operational and compliance. The key risks to which the Company is exposed are described in section 4.1 of the Reference Form.

To achieve our vision of being a global benchmark in the provision of sustainable, competitive and innovative sanitation services, focused on our customers, we reformulated our strategic guidelines. They are: water security, service excellence, sustainability,

stakeholder engagement, innovation and technology, appreciation of people and expansion of the sewage treatment network. Our future objectives, according to these guidelines, will be to:

Ensure the availability of water in our area of operations and to continue expanding sewage collection and treatment, using good, cost-effective technology, so as to contribute to the goal of universal availability and to provide quality services and products. Our aim is to maintain universal coverage in water supply, with high levels of quality and availability, with some 815,000 new water connections by 2021. The Company also intends to raise sewage collection and coverage, with approximately 1.2 million new connections by the year 2021.

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Improve the Company's management through the introduction of an ERP system expected to go live this year and a CRM system to replace the current commercial and management information systems. In addition, the project to improve the Company's management model based on the Management Excellence Model (MEG) of Fundação Nacional da Qualidade (National Quality Foundation) was initiated at the end of 2016. The benefits expected from these projects include strengthening management, greater support in decision making, increased efficiency of internal processes and operations, and increased productivity.

Promote SABESP's growth with economic and financial balance in an environmentally adequate and social justice; and to apply the principles of financial growth and sustainability to the business, defining goals and responsibilities. One goal to be pursued is to give water its economic value by restructuring the tariff calculation model.

Encourage the creation, adoption and dissemination of solutions focusing on value creation, seeking to enhance the management of assets and to continue to reduce water losses and operating costs. We can achieve this by investing in technological research and development and automation, integrated planning and improved processes. In 2016, SABESP invested approximately R\$11.9 million in research, development and innovation, both with its own funds or funds raised through fund-raising entities or from third parties. To learn more, see the chapter "Expansion of Infrastructure and Recovery of Water Resources."

Stimulate the growth of our professionals through opportunities and recognition, increasing their job satisfaction and wellbeing, so as to maintain their commitment and productivity. To motivate, retain and attract people by providing opportunities for professional and personal development, continuous access to operational, technological and managerial knowledge applicable to the business.

Balance of Targets

The year 2016 also reflected the realignment of the investments needed to tackle the water crisis, prioritizing actions that minimize its effects.

The collected sewage treatment index reached 79%, compared to the target of 86%. Although lower than the established target, the index achieved is higher than the index registered in 2015 (78%), tending towards the expansion of service provision.

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The sewage collection index reached 87%, slightly below the target of 88% for the period, maintaining the progress in sewage collection service in relation to the previous year (86%).

The pace of implementation of new sewage connections was maintained, with 236.6 thousand new connections, a level very close to the proposed target (242 thousand connections), and which points to the resumption of the planned course, since it exceeds by ten thousand units the connections implemented in 2015. The target of 177 thousand new water connections for 2016 was exceeded, with 200.2 thousand new connections in the period.

With regard to the loss ratio, the end of the water crisis, which until the end of 2015 imposed the management of pressures in water distribution networks, led to an increase in indicators in 2016. This increase is expected to continue in the coming months, since the indicators are calculated using the annual volume moving average.

In 2016, the Company made progress in its strategic planning, completing the revision of its targets for the next five years. In this process, the collected sewage treatment indicator applied until December 2016, which considered the treated volume in relation to the volume of sewage collected, was replaced by the “Index of Economies Connected to Sewage Treatment”, which represents the connection of consumer units to sewage treatment.

Additionally, as of this year, SABESP will begin to disclose coverage and service indicators, considering the concession areas of the services or serviceable areas. A serviceable area is the urbanized area defined by mutual consent with the Municipal Governments for the provision of services. The coverage index represents the availability of the service with public water or sewage networks, and the service index represents the connection of the property to the public network.

The coverage index is calculated as the ratio of homes connected to the public supply or sewage collection networks, plus the homes for which these networks are already available but not yet connected, known as “feasible,” to the total homes existing in the area of provision of services contracted with the municipal governments (servable areas). Within this universe, the service index is calculated as the ratio of homes connected to the networks to

the total homes of serviceable areas.

The principal changes regarding the indicators reported by SABESP until 2016 include the definition of the area that is considered the denominator of the calculation formula, whose classification was changed from “urban area,” as defined by the municipalities, to “serviceable area,” and the introduction of the coverage index. Additionally, the Company now uses the most recent demographic and home estimates released by the State Data Analysis System Foundation – Seade, for the period from 2010 to 2050.

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The following table shows the Company's achievements in 2016, based on the new set of indicators, and the targets for the period 2017-2021, to be supported by investments of R\$13.9 billion. Further details on the planned investments can be seen in the Financial and Economic Management chapter.

Achievements in 2016 and Targets for 2017-2021

	Achieved ⁽¹⁾ 2016	Targets					
		2016	2017	2018	2019	2020	2021
Water supply service (%) ⁽¹⁾	Tends toward universal coverage	-	Tends toward universal coverage				
Sewage collection service (%) ⁽²⁾	82	-	83	84	85	86	87
Water supply coverage (%) ⁽³⁾	Tends toward universal coverage	-	Tends toward universal coverage				
Sewage collection service (%)	89	-	90	91	91	92	93
Index of economies connected to sewage treatment (%)	74	-	75	76	77	80	83
New water connections (thousands)	200.2	172	185	168	164	155	143
New sewage connections (thousands)	236.6	242	200	226	235	240	234
Micro-measured water losses index (%)	31.8	28.4	31.7	31.3	30.6	29.9	29.3

(1) 95% or more

(2) The value realized in 2016 presented herein was calculated in accordance with the new methodology, and it differs from the value presented in the Panel of Indicators.

(3) 98% or more

In addition, the Company defined some indicators that are in line with its organizational strategy, reflecting economic, social and environmental performance, and which are included in the Company's Profit Sharing Program.

INFRASTRUCTURE AND PLANNING FOR THE FUTURE OF SUPPLY

The supply of water, though available to everyone, is a service that demands constant monitoring of demographic and geographic growth of the 367 cities in which SABESP operates. In 2016, the Company provided 200 thousand new connections.

This service aims at the constant expansion of the supply infrastructure, through the structuring of programs directed to the three regions served: the Metropolitan Region of São Paulo (RMSP), the Coastal region and the Interior of the State of São Paulo. At the same time, in regions such as the RMSP and the Coastal region, where the occurrence of irregular areas is high, and where the Company is legally prevented from acting, agreements with the judiciary and the municipal government have allowed for greater supply availability and guarantee of the rights of hundreds of families.

In the RMSP, after facing two years of the most serious water crisis ever recorded, the year 2016 was marked by a period of recovery of the main systems that supply the metropolitan region, where 67% of the population served by the Company are concentrated.

Although the natural contribution (inflow) to the sources was 88% of the historical average throughout 2016, the adoption of rational consumption habits acquired by the population during the water crisis contributed significantly to lower water withdrawal from the supply sources, consequently increasing inventories.

Per capita consumption in 2016 was 129 liters a day, 24% lower than the average of 169 liters per inhabitant/day registered in 2013, before the onset of the water crisis. Another factor likely to influence the decrease in consumption may be related to the Brazilian economic downturn, basically impacting the industrial and commercial sectors.

As a result, the average monthly production in 2016 for the RMSP was 58.5 m³/s. That is: 15% lower compared to the average 69.1 m³/s produced in 2013. In the years of crisis, the averages produced were 52.0 m³/s in 2015 and 62.2 m³/s in 2014.

In March 2016, due to the increase in rainfall and the predictability of the water level in the reservoirs, the Company requested the Sanitation and Energy Regulatory Agency of the State of São Paulo (ARSESP) to cancel the Program for Encouraging Reduction in Water Consumption and Contingency Tariff. ARSESP granted the request, and the Bonus Program and the Contingency Tariff terminated in May 2016. Even with the end of the economic incentives, the population continued to save water.

F-24

In December 2016, the global reservoir index reached 1.2 trillion liters, or 77.6% of the total capacity, if the technical reserve is considered. In February 2017, with increased rainfall, the set of supply sources reached 1.5 trillion liters, surpassing the total volume reached in 2013.

Water intake from the Cantareira System is granted to SABESP by the ANA and the DAEE. The grant in force, renewed in 2004 for ten years, would expire in August 2014. However, due to the water crisis, it was extended to the end of October 2015 and, later on, until May 2017.

In February 2016, the Company was authorized by the National Water Agency (ANA) and the Department of Water and Electricity of the State of São Paulo (DAEE) to extract 23 m³/s from the Cantareira System, a significant increase when compared to 13.5 m³/s authorized during the majority of the months of 2015.

Over the year, the volume authorized to be extracted increased gradually, reaching 31 m³/s for the period between December 2016 and May 2017. Since the beginning of the crisis, the flow of water authorized to be extracted from the Cantareira System started to be granted in accordance with rainfall level, affluence of water, level of water supply sources and requests made by the Company. In February 2017, the ANA and the DAEE disclosed the base document to negotiate the granting that will be effective for the next ten years.

The recovery of water supply sources with the return of rain is no guarantee of a smooth future, given the possibility of new extreme climate events in a complex supply region as the RMSP.

In addition to being located in the spring region of the Alto Tietê basin, the RMSP records one of the highest population densities in the planet – more than 20 million people. The region has been suffering with intense and disorganized occupancy of soil for decades, including environmental protection areas, where the main water supply sources are located, a situation that further compromises the quantity and quality of the already low volume of water supply.

Given this complex scenario for urban supply, SABESP started “importing” water outside the Alto Tietê basin by means of the construction of the Cantareira System more than four decades ago and continues with the planning, execution of works and improvement of programs in order to increase water security in the region.

The robust infrastructure already installed, a result of structuring investments made in the 1995-2014 period by means of the Metropolitan Water Program – PMA, and the set of works and emergency actions allowed, during 2014 and 2015, the transfer of flows between the production systems of more than 10m³/s.

F-25

Since the recent drought period, the new risk scenario imposed by the severe drought has demanded strategic repositioning from the Company in order to strengthen water security in the metropolis. Thus, the long-term planning conducted by SABESP started to take into account the effects of extreme climate events.

During 2016, the Company focused on preparing the Review and Update of the RMSP Master Plan for Water Supply, for a horizon of up to 2045. These reviews and updates occur, on average, at every five years, seeking adjustments as a result of population increase, rearrangement of the population distribution across the territory and consumption behavior of the population.

For this new planning, which is still being prepared, studies and projections of water availability from the production systems that are based on monthly historical series of natural flows of the period from January 1930 to December 2015 enable determining the joint behavior of the production systems in different risk scenarios.

As in the Cantareira System, the search for water at increasingly longer distances, at basis neighboring the Alto Tietê basin, is a reality to be tackled in the RMSP.

Initiated in April 2014, the **São Lourenço Production System** ended 2016 with more than half of the works already executed. It is expected to start operating in the first half of 2018. The new production system will have capacity to provide up to 6 m³/s of drinking water for up to two million people. However, as SABESP's water supply system across the RMSP is integrated, the increased supply will indirectly benefit the entire population served in the metropolis.

The **interconnection of the Jaguarí – Atibainha dams**, which will connect the Paraíba do Sul basin to the Cantareira System, will allow the transfer of an average flow of 5.13 m³/s of raw water. Initiated in February 2016, it is expected to start assisted operation in the second half of 2017. The total investment contracted amounts to R\$555 million.

At the estimated cost of R\$170 million, the **transposition of water of the Itapanhaú River**, in the Serra do Mar mountain range, will allow the reversion of 2 m³/s on average from Ribeirão Sertãozinho (which forms the Itapanhaú River) to the Biritiba reservoir, which is part of the Alto Tietê Production System (SPAT). It is expected to be concluded in 2018.

F-26

Metropolitan Water Program (PMA)

The three major works reported above complement the interventions undertaken during the 2014/2015 crisis and give sequence to the work of strengthening the metropolitan water infrastructure initiated in mid-90's, with the Metropolitan Water Program, which is responsible for the regular supply in all regulated areas of the Great São Paulo region. One of the PMA highlights was the Alto Tietê public-private partnership (PPP), which, in 2011, increased the production of water of this system by 5 m³/s. Additionally, the PMA also enabled increased treatment capacity for the Guarapiranga, Rio Grande, Alto and Baixo Cotia systems. In 2016, the program demanded investments of R\$410 million, in addition to the amounts invested by the São Lourenço PPP. This program is financed with own funds, as well as funds from Caixa Econômica Federal savings bank and the National Bank for Economic and Social Development.

Over the last decades, the water treatment capacity has outpaced the demand in the RMSP. Between 1995 and 2016, while the set of metropolitan urban population increased by nearly 29%, water production capacity increased by 32.5% (from 57.2 m³/s to the current 75.8 m³/s).

Recovery of urban water supply sources

In order to assure the availability of drinking water, structural actions to increase water supply are complemented by initiatives focused on preserving water resources. Since 2009, SABESP, in partnership with the Municipal Government of the Capital City, has been developing the **Water Supply Sources Program**, which is focused on recovering two of the major dams of the Great São Paulo: Billings and Guarapiranga. The actions are funded by the Federal Government, the Government of the State of São Paulo, the Municipal Government and the World Bank. Thus, it has been possible to expand the sewage collection infrastructure and improve precarious allotments and housing complexes installed in sub-basin areas of the two water supply sources. In 2016, the amount invested was R\$39 million.

Pró-Billings is another program that has been expanding the sanitary sewage system, with the installation of an infrastructure that carries sewer from part of the inhabitants of the

Billings basis for treatment. The interventions of this Program are funded by SABESP, JICA (Japan International Cooperation Agency) and BNDES. Due to the water crisis, the program did not advance sufficiently in 2016, but it is expected to gain momentum in 2017 as the works resume.

A third initiative within the scope of the actions taken to recover the metropolitan water supply sources arose with the implementation of the **Nossa Guarapiranga (Our Guarapiranga) Program**, at the end of 2011. The Program is intended to improve the quality of the water in the dam by removing waste and macrophytes, which are water plants that block water catchment. In 2016, nearly 221 m³ of waste and 28 thousand m³ macrophytes were removed from the water supply source, favoring depollution of the water and multiple uses of the dam, which, in addition to being a source for public supply, is used for leisure, fishing and water sports practice purposes.

F-27

Supply to the coastal area and interior of the State

After the RMSP, the **Metropolitan Region of Baixada Santista** (RMBS) is considered the most complex area for water supply. In addition to temperature peaks, during the summer, the region is also visited by a large number of tourists, overloading the supply system.

The increase in supply security in periods of high demand is based on the integration of supply systems, allowing better supply in some regions by transferring water from one city to another. Thus, the structure enables balancing the supply in accordance with the consumption needs of fixed and floating populations of approximately 3 million people.

Drawing on funds from SABESP and Caixa Econômica Federal, in 2016 the Company invested R\$25 million in the region. Among other actions, the integrated system was reinforced by the beginning of operations of the Melvi Treated Water Reservation Center, located in Praia Grande, which increased from 20 million reserved liters to 45 million reserved liters. The structure is part of the Mambu-Branco production system, opened in 2013, in Itanhaém. As it is part of the integrated system, the structure increases water security in the nine municipalities of the RMBS.

SABESP is in charge of serving 329 municipalities in the interior of the State. In 2016, with the regularized supply in the majority of the areas served, the aim of the actions taken was to tackle non-recurring situations. Overall, the Company invested R\$53 million in own funds and funds from Caixa Econômica Federal.

Fighting water loss

The major investments and actions to increase water security, including the search for water at increasingly longer distances, would have been in vain if the Company had not made efforts to reduce the water loss in its distribution network. In Brazil, only 63.3 out of 100 liters produced reach the end consumer, according to data from the 2015 SNIS. In São Paulo, this index of total losses has been gradually reduced over the last years in the cities served by SABESP – from 41% in 2004 to 31.8% in 2016, on average.

As a priority pursued for over two decades, this work gained momentum in 2009 with the implementation of the Corporate Waste Reduction Program executed with the technological partnership of the JICA. In force for eight years, R\$3.3 billion (current amounts) have been invested in the program, of which R\$505 million only in 2016.

F-28

Although the 31.8% losses for 2016 are at a level similar to those seen in 2012¹, progress on this front is evident when we consider the physical loss ratio (leakages) of 20.8% in 2016, which is close to the figure for Barcelona (19%) and lower than in Chicago (24%) or London (28%).

Total losses are the sum of physical losses and apparent losses (billings), which account for the difference of 10% and are the result of the use of illegal connections, fraud and inaccurate measurement by water meters, for which the Company receives no payment.

In the other cities mentioned above, apparent losses are practically non-existent. It is also important to note that since this loss ratio is a percentage of production, it is affected by consumption and can be inaccurate. Since the start of the Program, the ratio was reduced from 34.1%, in 2008, to 31.8% in 2016, which means that total losses have been cut by 3.6m³/s.

Using own funds and funds from Caixa Econômica Federal and JICA, our target is to invest R\$6.3 billion (current values) between 2009 and 2020, by which time we hope to reduce the ratio of physical losses in our area to 19.4% (target under review), a level similar to that of the United Kingdom.

Measures to prevent water theft

In 2016, SABESP uncovered some 26 thousand cases of theft of water in the RMSP and the Bragantina region (located up north of the metropolitan region), representing the loss of approximately 3.8 billion liters, which would be enough to supply about 380 thousand people for a month.

If we compare 2016 with 2014, there was a significant rise in the number of cases of water theft: 66%. This increase is the result of more thorough inspections of properties where irregular water connections are suspected – last year our 70 anti-fraud teams carried out

some 240 thousand inspections. An amount of R\$35.3 million was recovered in 2016 from the frauds the teams found.

The great majority of these frauds were found in private homes. Tampering with water meters (54%) and clandestine connections (41%) were the main types of irregularity. We should emphasize, however, that fraud on commercial premises causes a much greater loss of water, because of the type of consumption. The inspections are undertaken jointly with the State Public Security Department. In 2016, SABESP and the Civil Police carried out 35 joint operations, in cases where the culprits impede our inspectors, or when they sell the water obtained illegally to homes, traders and industries. 552 police reports were filed.

1 It should be noted that the reduction of water pressure in the networks was an essential measure to deal with the water crisis, and was responsible for a large part of the reduction in losses in the two-year period 2014-2015. In 2016, with the recovery of the water sources, the pressure was returned to normal so as to ensure improved supplies for the population. This adjustment resulted in the ratios returning to levels similar to those seen before the crisis broke.

Expansion of access in informal areas

SABESP has been taking steps to increase supplies to informal areas. Although we are prohibited by law from supplying communities of this sort, agreements entered into with the municipality and the courts has enabled us to provide access to water mains to more regions of Greater São Paulo. The aim is to provide good quality water to some 400 thousand people in approximately 160 thousand properties. As well as improving social and health conditions for low-income families, the work helps reduce losses from leakage because clandestine connections, using precariously installed hosepipes, are replaced by the SABESP network.

Rational use, education and reuse

Initiatives aimed at sustainability included measures for the efficient and responsible use of water, spreading the message that water resources are finite. The water crisis of 2014-2015 underlined the importance of these initiatives. Among these actions, we highlight the Rational Water Use Program – PURA, which promotes structural adjustments in public buildings in order to reduce losses and reinforce responsible consumption. The program was initiated 20 years ago, and by 2016 it had been implemented in 6,399 buildings throughout the state, including state schools, prisons and hospitals.

Technology for the reuse of waste treated in ETEs has been adopted by the most advanced systems worldwide. It is one of the most efficient ways of consuming water sustainably, and leads to major savings in the amount of raw water needed to be drawn from natural sources, and to a greater amount of treated water being available to supply the population. Aquapolo Ambiental, a project introduced at the end of 2012 under a partnership between SABESP and Odebrecht Ambiental, is the largest undertaking for the production of water for reuse by industry in South America, and the fifth largest in the world. The plant treats the waste generated in the ABC ETE.

Approximately one million cubic meters per month are supplied to companies in the Capuava Petrochemical Hub, in São Paulo's ABC neighboring region, for use in cooling towers, steam generators and boilers and for other industrial purposes. We expect Aquapolo to reach peak production of 1 m³/s in the next few years. At the same time, SABESP produces water for reuse at the Barueri, Jesus Neto, Parque Novo Mundo and São Miguel ETEs to supply urban requirements, such as washing streets, yards and monuments, unblocking sewage pipes, and so on. In 2016 these four ETEs supplied approximately 1.7 million m³.

F-30

Water quality

A guarantee that the water supplied to the population meets strict safety and potability standards is provided by 16 quality control laboratories, 14 of which have been certified for ISO 17.025 by the National Institute of Metrology, Quality and Technology (Inmetro). Located in various parts of the State, they carry out an average of 64 thousand analyses of samples taken from water at every stage from the source to the point of consumption. Basic control parameters include turbidity, color, chlorine content, coliforms and thermotolerant bacteria.

The results are sent to the Sanitary Surveillance departments of the municipalities served and are printed on customers' water bills, in accordance with Federal Decree No. 5440/05. They are also emailed to the Ministry of Health each month. Customers are sent an annual summary of the analyses. The source, quantity and results of the samples are also available in summary form on the SABESP website.

There was technological progress in the quality analysis procedure in 2016, with X-rays being used for the first time to detect metals such as arsenic, cadmium, chromium, lead, silver, mercury and selenium in coagulants, and other products used to treat water, thus eliminating the risk of contamination. The test for identifying these metals is covered in Ministry of Health Ordinance No. 2.914, and SABESP already has this test in place using a different method. The new technology, however, represents a major advance. Called Total X-Ray Reflection Fluorescence (TXRF), it is more versatile, making the preparation of the samples easier and using equipment that is more sensitive to the presence of these elements.

EXPANSION OF INFRASTRUCTURE AND RECOVERY OF WATER RESOURCES

São Paulo is the state with the lowest percentage of people without adequate water supplies or sewage facilities². This is due largely to the fact that SABESP has maintained its average level of investment in infrastructure.

According to a Report issued in February 2016 by the Ministry of Cities, SABESP accounted for 38% of the total resources used in sanitation by Brazilian state companies between 2011 and 2015.

Of total investment in sanitation in Brazil during the same period, SABESP was responsible for 28%³. After the two-year period 2014-2015, when our efforts and investments were concentrated on handling the water crisis, progress on works for expanding collection, removal and treatment in our area of operations resumed its normal rate. Of the R\$3.9 billion invested by the Company during the year, R\$1.2 billion was allocated to expanding the collection and sewage treatment infrastructure.

In 2016, the average sewage collection ratio in all the municipalities served by the Company was 87%, while 79% of the volume of sewage collected was treated. Although these ratios are not ideal, and there is much still to be done, they are significantly better than in most of the rest of the country, where only 58% of urban sewage is collected, and of this only 74% is properly treated. In round numbers, according to the Ministry of Cities, approximately 100 million Brazilians are without sewage collection.

Metropolitan Region of São Paulo (RMSP)

In view of its size and the complex challenges facing sanitation operations, the RMSP requires concentrated efforts to revitalize the Tietê river over time, and to improve the quality of life of the people who live in the metropolis.

This is the challenge facing the Tietê Project, Brazil's largest environmental sanitation program, involving 34 municipalities in Greater São Paulo in the expansion and improvement of the system for collecting, transporting and treating sewage.

2 Atlas of Social Vulnerability in Brazilian Municipalities (2015). Institute of Applied Economic Research (Ipea)

3 "Diagnosis of Water and Sewage Services", based on data from the National Information System on Sanitation (SNIS) for 2015.

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Starting in 1992, when 70% of sewage was collected and only 24% of that was treated, the Tietê Project is now in its third phase. The goal of collecting 87% of sewage has been reached. Simultaneously, the projects seek to increase the percentage of treatment of sewage collected from current 68% to 84% in RMSP.

After 25 years, in addition to expanding the sewage collection and transport infrastructure, treatment capacity has been more than doubled. As a result, the volume of sewage treated in the RMSP has jumped from 4 m³/s to 16 m³/s: this difference is the equivalent of the sewage generated by 8.5 million people.

For this third stage, the total investment is forecast to be US\$2 billion, with own funds and financing from the Inter-American Development Bank (BID), the National Bank for Economic and Social Development (BNDES) and Caixa Econômica Federal.

Of special note in 2016 were the works for expanding the nominal treatment capacity of the Barueri ETE, which will rise from 9.5 m³/s to 11 m³/s in the first quarter of 2017, and will reach 16 m³/s by the end of the year. Another highlight of the program was the completion of the IPI.8 interceptor, completing the interception system on the Pinheiros river, one of the main tributaries of the Tietê river.

Currently, the fourth stage of the Project is being planned. Its goal is to provide sanitation for the entire RMSP, and it includes works of great complexity in the central region of São Paulo city, and the expansion of networks and trunk collectors into regularized areas on the metropolitan outskirts, where low-income families live. In 2016, the Tietê Project covered actions of the third stage, and priority actions of the fourth stage have been advanced, resulting in investments of approximately R\$342 million.

In accordance with the most recent water monitoring data released by the SOS Mata Atlântica Foundation, collected from August 2015 to July 2016 ⁴, the Tietê river still presents very bad and bad conditions along a distance of 137 km, exactly where one of the world's largest urban concentrations, or the RMSP, is located. In 1993, when the Tietê Project started, these conditions covered a 530-km extension of the river.

The lowest pollution level was recorded in 2014, with 71 km of extension. However, due to the water crisis, river water intake recorded a deep fall, which increased pollution concentration and led SABESP to allocate investments to the water production infrastructure. Accordingly, 2015 measurements indicated that pollution increased, covering an extension of 154.7 km. The last monitoring results, disclosed in 2016, show the return of the downward trend, with a reduction of 17.7 km (11.5%) compared to 2015.

4 Technical report - 25 Anos de Mobilização O retrato da qualidade da água e a evolução dos indicadores de impacto do Projeto Tietê, disclosed in September 2016. www.sosma.org.br

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Please note that the depollution of the Tietê river also depends on the participation of society and the partnership with public authorities for development of policies that may favor connection of the population to the sewage collection network, and inspection of irregularities.

In 2016, the partnership between SABESP and the Court of Appeals of the State of São Paulo enabled the interruption of the illegal discharge of sewage in the Tietê river. SABESP and the Court of Appeals notified 318 properties that produce high waste volumes in RMSP, and are not connected to the collection system, despite having an installed sewage structure available. Of these, only 78 customers signed an agreement to interrupt illegal discharge.

Also, since February 2016, based on the Sanitation Law (11445/07), SABESP only provides new water connections for customers who also connect their properties to the sewage system. This condition is valid for all types of customers, being applicable to those who: i) request new water connections; ii) request reconnections (empty properties, demolition, unification); and iii) intend to change the position of existing connections – as in the case of property renewal.

Thus, the participation of society is essential for raising awareness about the proper disposal of garbage and the connection of homes to the sewage network, as well as for the action of local authorities to keep the cities clean and inspect irregularities.

Revitalization of urban rivers

The improvement of the Tietê river also benefits from actions for depollution of tributary water bodies taken under the Clean Stream (“*Córrego Limpo*”) Program, conducted since 2007 in partnership with São Paulo’s city council. According to this program, SABESP is responsible for sweeping illegal sewage discharge; expanding sewage collection networks and connections; and monitoring and providing maintenance services to existing networks. The city administration, in turn, is responsible for cleaning water streams and checking the conditions of the micro-drainage system (storm drains and rainwater gullies).

Executive municipal authorities are also responsible for removing irregular settlements from valleys and margins of water streams, and resettling families in more adequate places. Municipal authorities also inspect illegal sewage connections, issuing assessments and fines for the owners of properties not correctly connected to the collection system.

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Operating since 2007, the program cleaned 149 water streams and benefited over 2.2 million persons. Some 1,500 l/s of sewage were removed from the water bodies served by the program. The program was suspended by the previous city administration. Despite that, in 2016 SABESP invested R\$4.8 million in the stewardship and monitoring of the water streams benefited by the action.

In 2016, within the process of review of the agreement entered into with the Municipality of São Paulo, a clause was included on the obligation of the Municipality to adhere to the program. As a result, early in 2017, SABESP met with 100 representatives of several executive municipal bodies, including some regional mayors, to resume the program's planning for the coming years. The program is funded by SABESP and Caixa Econômica Federal. The amounts to be invested and the water streams to be treated will be defined in the 1st half of 2017.

The positive experience in São Paulo enabled the expansion of the program to neighboring municipalities.

Treatment of effluents

As a joint venture between SABESP and Estre Ambiental, Attend Ambiental treats non-domestic sewage. Operating since the end of 2014, Attend is located next to Barueri ETE and receives industrial effluents from the RMSP region. According to the environmental legislation, companies must treat their effluents before discharging them for conventional treatment by the ETEs. Attend is a supplier of such services, being a profitable option in outsourcing this process. In 2016, the company processed over 1.87 million m³ of non-domestic sewage, which were subsequently sent for treatment by the Barueri ETE. In 2016, the volume of sewage treated by Attend increased by 75%. The architectural design of the plant (characterized by sustainable functionality) was granted the International Property Awards in the category Public Service Architecture.

Expansion to the interior

For the fourth consecutive year, Franca, a municipality served by SABESP, led the ranking of Brazil's 100 largest cities with the best basic sanitation services in the country. The survey conducted by the Trata Brasil Institute is based on data obtained from the National Sanitation Information System, and it has also included the cities of São José dos Campos and Santos among the 5 cities with the best services. These positions reflect SABESP's endeavor and investments to provide the best quality of services and expand the access to treated water and sewage collection and treatment also in the inland and coastal regions of the State. In the interior, the Company is working to achieve universalization of sewage collection and treatment services.

In 2016, SABESP invested R\$120 million in other works carried out in the coastal region and the interior of the State, as well as in the *Onda Limpa* (Clean Wave) Program.

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Recovery of rivers and water streams in the State of São Paulo

The actions taken in the interior, and the advances made in the metropolitan and coastal regions of the State of São Paulo, directly supported the improvement in the quality of major São Paulo's rivers and many streams used by the communities as supply sources.

São José dos Campos's new sewage system, for example, contributes directly to the conservation of important water streams, which is also reflected in the quality of the water of the Paraíba do Sul river, a major water spring in the country that supplies 15 million people in the states of São Paulo, Rio de Janeiro e Minas Gerais.

A similar situation can be found in the Jundiaí river, in the region of Itupeva. Due to the sanitation investments made, the river, which belongs to the Piracicaba, Capivari and Jundiaí Water Basin (PCJ), saw the quality of its waters reclassified from 4 to 3.

The result is partially due to the implementation of two ETEs: Itupeva and Campo Limpo Paulista/Várzea Paulista.

Onda Limpa (Clean Wave)

The largest environmental sanitation program on the Brazilian coastline, *Onda Limpa*, began in 2007, having increased the average sewage coverage index in the Metropolitan Region of Baixada Santista (RMBS) from 53% to 75%.

In addition to improving health conditions, the works made by SABESP provide benefits regarding the use of over 80 beaches in the region, boosting its economy, tourism, generation

of jobs, and income.

In addition to its own funds, the program has financing by the JICA (Japanese development agency) and BNDES. In the North coast the actions have raised the sewage collection coverage from 53% to 69%. The collected sewage treatment index was maintained at 100%. In 2016 approximately R\$120 million were invested in the region.

The second stage of the *Onda Limpa* Program has been planned for the period between 2022 and 2030. The Company estimates investments amounting to nearly R\$1.8 billion to expand and implement sewage collection and treatment systems and build 57 thousand new connections. The purpose of the second stage is to provide total sewage service coverage in the metropolitan region of Baixada Santista.

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For the effective result of the expansion of the sanitation infrastructure, however, it is necessary that the population become aware of and connect the residences to the collection networks made available by SABESP. It is also a role of the municipality to monitor the irregularities. Because it is a region with many vacation residences, many owners do not make the necessary sanitary adaptations and continue to discharge the sewage inadequately, which results in permanent pollution of the urban environment.

Discharge of residues

The final destination of the solid residues deriving from the water and sewage treatment systems has been one of the areas with most concentration of studies and research, aiming at the search for economically viable and environmentally sustainable solutions. In 2016, SABESP issued a public call notice to attract partners with proposals for generation of electric power from the use of sludge and biogas generated in the Barueri ETE. As the largest sewage treatment plant in Latin America, the ETE accounts for more than half of the entire volume of sewage treated by the Company in the RMSP.

With the title of Waste to Energy Barueri, the project is undergoing public consultation, and is expected to be tendered in the first half of 2017. The contract will have a term of thirty years. By means of drying, 500 tons of sludge are reduced to 140 tons, which give rise to pellets (cylindrical blocks) and are used as a source of fuel for generation of thermal energy (biogas).

The generated energy returns to the cycle and is used to dry the sludge, as well as to operate the ETE itself. In addition to becoming partially sustainable in electric power, the project contributes to the reduction of expenditures with transportation and with the landfills in which the sludge from the ETEs is discharged. The pioneering spirit of the idea has already earned recognition with the 100 Most Influential in 2016 Energy award, in the Sustainability category, awarded by the Grupo Mídia, by means of the Full Energy magazine.

For the interior and coast regions there are initiatives for the implementation of thermo-solar sludge drying systems, associated in some cases with the implementation of composting systems, which use for example tree pruning remains and eucalyptus bark to generate a compound to be applied in agriculture. This process reduces the emission of greenhouse gases, the use of sanitary landfills and, consequently the waste disposal costs, in addition to being an environmentally sustainable alternative due to the beneficial use of the sludge.

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Research and technological innovation in water and sewage

In the last three years SABESP invested approximately R\$37.3 million in research, innovation and development, of which R\$11.9 million in 2016.

The funds allocated to the projects are its own, collected from development entities or even partially or totally funded by partners. An example is the Cooperation Agreement with the Foundation for Support to Research of the State of São Paulo (FAPESP). The agreement provides for non-refundable financing of R\$50 million, divided equally between SABESP and FAPESP. Initiated in 2009, the partnership has already given rise to 17 projects, nine of which already completed, with an investment of R\$5.2 million, and another eight projects were approved and had their Agreements executed in 2015. For these it is expected that there will be investments of R\$7 million and a term of execution of 42 months.

Among the projects under study a highlight is the viability of using the ETA sludge as sanitary landfill cover material and its direct application in compacted soil landfills, enabling the disposal of sludge into Nature, thereby preserving the soil.

By means of the Financing Agreement executed in 2015 with the Brazilian Innovation Agency (FINEP), SABESP is enabling the implementation of its “Technological Innovations Plan for Sanitation”.

With a plan of implementation in 30 months at a cost of R\$60 million, the Plan consists of four projects: System for production of reuse water for urban and industrial use, implemented in the RMSP; Biofiltration units for control of the odors of sewage collection stations, to be also implemented in the RMSP, ETE Sludge Drier by means of Solar Irradiation, in implementation in the city of Franca, and the plasma gasification system for solid waste from sewage treatment stations.

There was also progress in the project executed with the Fraunhofer Institute of Germany, for the use of bio-methane generated in the Franca ETE with clean fuel to supply the fleet of vehicles. The equipment arrived from Germany and the ETE is being adapted for its installation.

The technical cooperation agreements are another way to foster development of technologies in themes that are priorities for SABESP, such as reduction of losses, energy efficiency and alternatives for the treatment and disposal of sludge. In this sense, in 2016 an agreement was executed with a representative of Danish company named Liqtech for evaluation of the technology of ceramic membranes for ultrafiltration of silicon carbide for recovery of residual waters in water treatment stations. The technical and economic viability of the material is

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expected to be tested in 2017 in a number of ETAs.

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Likewise in 2016 SABESP executed a protocol of Intentions with the Government of Denmark with the purpose of developing joint projects of energy efficiency in sewage treatment stations and to combat water losses in the distribution network.

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RESULTS TRANSLATED INTO ADVANCES IN SERVING THE POPULATION

After overcoming the worst drought in more than 80 years, particularly in the RMSP where its largest production system is located, the Cantareira System, SABESP discontinued the measures taken to mitigate the impacts of the water crisis, among which the Incentive Program for Reduction of Water Consumption and the Contingency Tariff, which enabled recovery of revenues and improved financial results.

Economic-Financial Performance

In 2016, the Company recorded net income of R\$2.9 billion, against income of R\$536.3 million shown in 2015.

History of income

Net operational revenue totaled R\$14.1 billion, an increase of 20.4% in relation to the previous year.

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History of net operational revenue

Gross operating revenue related to the performance of water and sewage services showed an increase of R\$2.2 billion or 24.3% when compared to 2015, which is mainly explained by: (i) the tariff adjustment of 15.2% (7.8% of the ordinary tariff readjustment and 6.9% of extraordinary tariff revision) since June 2015; (ii) the tariff readjustment of 8.4% since May 2016; (iii) the 4.4% increase in the total volume billed; and (iv) the lower granting of bonuses in 2016, the total of which was of R\$187.4 million (R\$926.1 million in 2015), within the context of the Water Reduction Incentive Program, ended in April 2016.

The increase caused by the factors described above was mitigated by the end of the application of the Contingency Tariff in April 2016, the amount of which was of R\$224.7 million in 2016 (R\$499.7 million in 2015).

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History of gross operational revenue

Total water and sewage billed (1) by category of use – millions of m³

	Water			Sewage			Water + Sewage		
	2016	2015	%	2016	2015	%	2016	2015	%
Residential	1,527.6	1,465.0	4.3	1,294.0	1,232.1	5.0	2,821.6	2,697.1	4.6
Commercial	162.9	160.0	1.8	155.0	151.9	2.0	317.9	311.9	1.9
Industrial	31.6	32.6	(3.1)	38.3	38.9	(1.5)	69.9	71.5	(2.2)
Public	40.8	40.6	0.5	35.9	33.4	7.5	76.7	74.0	3.6
Total retail	1,762.9	1,698.2	3.8	1,523.2	1,456.3	4.6	3,286.1	3,154.5	4.2
Wholesale ⁽²⁾	227.4	215.5	5.5	29.0	24.4	18.9	256.4	239.9	6.9
Total	1,990.3	1,913.7	4.0	1,552.2	1,480.7	4.8	3,542.5	3,394.4	4.4

(1) Not audited

(2) Wholesale includes the volumes of reuse water and non-domestic sewages

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

	Water			Sewage			Water + Sewage		
	2016	2015	%	2016	2015	%	2016	2015	%
Metropolitan	1,136.7	1,084.3	4.8	987.8	939.1	5.2	2,124.5	2,023.4	5.0
Regional Systems ⁽²⁾	626.2	613.9	2.0	535.4	517.2	3.5	1,161.6	1,131.1	2.7
Total retail	1,765.9	1,698.2	3.8	1,523.2	1,456.3	4.6	3,286.1	3,154.5	4.2
Wholesale ⁽³⁾	227.4	215.5	5.5	29.0	24.4	18.9	256.4	239.9	6.9
Total	1,990.3	1,913.7	4.0	1,552.2	1,480.7	4.8	3,542.5	3,394.4	4.4

(1) Not audited

(2) Consisting of the coast and interior regions

(3) Wholesale includes the volumes of reuse water and non-domestic sewages

In 2016 the costs of products sold and services rendered, administrative, commercial and construction expenses increased by 21.1% (R\$1.9 billion). Disregarding the effects of the costs of construction, the increase was 26.6%. The share of costs and expenses in net revenue rose to 75.7% in 2016, compared to the 75.3% shown in 2015. For further information on the breakdown and the changes in costs and expenses, see the Earnings Release, available on the Company's website at www.sabesp.com.br/investors, item Financial and Operational Information in the top menu.

Adjusted EBITDA showed an increase of 15.0%, going from R\$3,974.3 million in 2015 to R\$4,571.5 million in 2016, and the adjusted EBITDA margin reached 32.4%, while in the previous year it was 33.9%. Excluding the effects of revenue and of construction costs the adjusted EBITDA margin in 2016 is 43.3% (46.6% in 2015).

History of Adjusted EBITDA and Adjusted EBITDA Margin

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Reconciliation of Adjusted EBITDA⁵ (Non-accounting measure)

	R\$ million				
	2016	2015	2014	2013	2012
Income	2,947.1	536.3	903.0	1,923.6	1,923.6
Financial results	(699.4)	2,456.5	635.9	483.2	2,456.5
Depreciation and amortization	1,146.6	1,074.1	1,004.5	871.1	7,146.6
Income and social contribution taxes	1,181.9	51.2	371.8	732.0	6,181.9
Other operating net revenues/ expenses ^[6]	(4.7)	(143.8)	3.5	(3.3)	1,181.9
Adjusted EBITDA	4,571.5	3,974.3	2,918.7	4,006.6	3,600.0
Adjusted EBITDA Margin	32.4	33.9	26.0	35.4	32.4
Revenue from construction	(3,732.9)	(3,336.7)	(2,918.0)	(2,444.8)	(2,460.0)
Cost of construction	3,651.4	3,263.8	2,885.5	2,394.5	2,460.0
Adjusted EBITDA excluding revenue and cost of construction	4,490.0	3,901.4	2,856.2	3,956.3	3,500.0
Adjusted EBITDA Margin excluding revenue and cost of construction	43.3	46.6	34.4	44.6	43.3

⁵ Adjusted EBITDA (“Adjusted EBITDA”) corresponds to net income before: (i) depreciation and amortization expenses; (ii) income and social contribution taxes (federal taxes on income); (iii) the financial results; and (iv) other net operating expenses. Adjusted EBITDA is not a measure of financial performance according to accounting practices adopted in Brazil, IFRS - International Financial Reporting Standard or USGAAP (generally accepted accounting principles in the United States), nor should it be considered in isolation or as an alternative to net income, as a measure of operational performance, or as an alternative to operating cash flows as a measure of liquidity. Adjusted EBITDA has no standardized meaning, and the Company’s definition of Adjusted EBITDA is not comparable with those used by other companies. The Company’s management believes that the Adjusted EBITDA provides a useful measure of its performance, which is widely used by investors and analysts to evaluate performance and compare companies. Other companies may calculate Adjusted EBITDA in a form that is different from that of the Company. Adjusted EBITDA is not a part of the financial statements.

Adjusted EBITDA has the purpose of showing an operational economic performance indicator. SABESP’s Adjusted EBITDA is equivalent to net income before net financial expenses, Income and Social Contribution Taxes (federal taxes on income), depreciation and amortization, and other net operating expenses. Adjusted EBITDA is not an indicator of financial performance recognized under the Corporate Law Method and must not be considered severally or as an alternative to net income as an indicator of operating performance, as an alternative to the operational cash flows or as an indicator of liquidity. SABESP’s Adjusted EBITDA serves as a

general indicator of its economic performance and is not affected by the restructuring of debts, oscillation of the interest rates, alterations of tax burden or levels of depreciation and amortization. As a result, Adjusted EBITDA serves as an adequate instrument for regular comparison of the operational performance. In addition, there is another formula for calculation of Adjusted EBITDA that is adopted in clauses of some of the financial commitments. Adjusted EBITDA enables a better understanding not only of the operational performance but also of the ability of fulfilling the Company's obligations and raising funds for capital investments and working capital. Adjusted EBITDA, however, has limitations that hinder it from being used as an indicator of profitability, inasmuch as it does not take into account other costs resulting from SABESP's activities or certain other costs that may affect its profits significantly, such as financial expenses, taxes, depreciation, capital expenditures and other related charges.

6 Other net operating revenues/expenses, mainly related to write-offs of fixed assets, provision for losses with intangible assets, loss from economically unviable projects, after deducting revenues from sale of fixed assets, sales of invitations to bid, indemnities and reimbursement of expenses, penalty fines and bonds, rental of real estate, reuse of water, projects and Pura and Aqualog services.

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Investments

In 2016, an investment was made in the amount of R\$3.9 billion, including R\$1.3 billion relative to the São Lourenço PPP, still reflecting the prioritization of the water supply infrastructure.

The following table details the investment made, segregated by water, sewage and region:

	R\$ million (current)		
	Water	Sewage	Total
Metropolitan Region of São Paulo	2,373.5	819.4	3,192.9
Regional Systems (interior and coast)	270.1	414.7	684.8
Total	2,643.6	1,234.1	3,877.7

Note: Does not include the commitments assumed under the program agreement (R\$6 million).

For the period from 2017 to 2021 the Company expects to directly invest approximately R\$13.9 billion, of which R\$7.1 billion in water and R\$6.8 billion in collection and treatment of sewage⁷:

Indebtedness

In the course of 2016, as the Company was recovering from the effects of the hydric crisis, this was reflected in its indebtedness metrics. Also contributing to this improvement was the evolution of the country's macroeconomic scenario, particularly the lower volatility of the

foreign exchange rate and the appreciation of the Brazilian Real in relation to foreign currencies.

7 For more information on our investment and emergency works to cope with the water crisis, see the chapters “Infrastructure and Planning for the Future of Supply”, “Expansion of Infrastructure and Recovery of Water Resources”.

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The Company's active management of the debt maintained its conservative, prudent and responsible guidance of not increasing its relative level of indebtedness, as well as maintaining its level of debt in foreign currency (% of the total debt) within the average of the previous years, which was essential to preserve the low cost of third-party capital and administrate the effects of the foreign exchange rate variance on the debt.

The Real/dollar exchange rate, which ended the year 2015 quoted at R\$3.9048 per dollar, ended the year 2016 at R\$3.2591. As the nominal foreign currency indebtedness remained in line with previous years, this appreciation of the Real translated into a decrease of the amount in Reais of the debt in foreign currency. In relation to total debt, inasmuch as there was no substantial increase in the Company's indebtedness, since new funding was basically allocated to the refinancing of overdue transactions in the period, there was an improvement in the debt metrics, particularly in the "Total Adjusted Debt/Adjusted EBITDA" financial indicator (covenant), which ended the year 2015 by 3.26 times, but which, as a result both of the nominal reduction of the debt and by the gradual recovery of the EBITDA, ended the year 2016 by 2.58 times, very close to the Company's historical levels, around 2.5 times.

In 2016, the Company repaid R\$1,535.3 million of debt and closed the year with total indebtedness of approximately R\$12.0 billion, compared to R\$13.1 billion at the end of 2015, which represents a nominal reduction of 8.07%. The foreign currency debt, which totaled 50.4% of total debt in 2015, represented 47.3% at the end of 2016.

Although SABESP must cope with the effects of the exchange rate fluctuations on its financial statements, the Company does not use hedging instruments, since a major part of the foreign currency debt is contracted with official agencies of foreign and national governments, in addition to multilateral organizations, with very low costs, long maturity terms and diluted repayments.

The management that SABESP has been adopting allowed the Company to show a robust economic-financial performance in the years prior to the hydric crisis, and was fundamental in the absorption its effects in the years 2014 and 2015. Throughout 2016, as explained above, it gradually recovered its credit metrics, showing a solid economic-financial structure, which enabled it to maintain high investments, even in times of crisis.

Despite this improvement in the Company's economic indicators, its credit risk rating has not yet captured this evolution, due to three factors: (i) the Brazilian credit risk rating downgrade in early 2016, which generated immediate downgrade of the credit rating of Brazilian companies, among them SABESP; (ii) the fact that the improvement in the Company's credit indicators has been occurring at a gradual pace since the first half of 2016; and (iii) the non-occurrence of annual credit reviews in the course of the second half of 2016. The Company's credit scores are shown below, including the downgrade that occurred in February 2016 in the Standard & Poor's credit rating due to the downgrade of the rating of the country:

Rating Agency	National Scale	Global Scale
Standard & Poor's	brA+	BB
FitchRatings	AA- (bra)	BB
Moody's	Aa2.br	Ba2

Fundraising

In October 2016 the Company contracted a foreign loan in the amount of US\$150 million, corresponding to R\$469 million, for a term of 3 years, with an interest rate corresponding to the Libor for 3 months plus 4.50% per annum. The interest relative to this loan will be paid on a quarterly basis and the repayment will occur in six-monthly installments as from the 18th month.

The funds raised by this loan were used for settle of the 2016 Eurobond, in the amount of US\$140 million, and other debts falling due in 2016.

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In 2016, no new debts were contracted for investment financing. More information on loans and financing is available in Note 16 to the Financial Statements.

Agreement with the Municipality of São Paulo

In December the first Quadrennial Review of the Agreement with São Paulo was completed, which altered the Service Targets and Service Quality Plan, the Investment Plan and the Investment Compatibility Plan. However, the recovery, by means of a tariff, of the transfer to the Municipal Fund for Environmental Sanitation and Infrastructure, authorized by Arsesp Resolution 407/2013, was not addressed, and the suspension approved by Arsesp Resolution 413/13 and upheld by Resolution 488/14 was maintained. To learn more about the transfer, see Note 14 (d) (v) to the Financial Statements.

Relationship with the Municipalities Served by Wholesale

SABESP provides water by wholesale to five municipalities of the RMSP: São Caetano, Mogi das Cruzes, Guarulhos, Mauá and Santo André. The municipalities of Guarulhos, Mauá and Santo André show a relevant history of default. In 2017, except for Guarulhos, which made the full payment of the consumption bill for January 2017, the other municipalities maintained the default behavior.

From mid-2015 to early 2016 SABESP executed Protocols of Intention with the three municipalities to develop studies and assessments aimed at resolving the existing commercial relations and debts, but all of the Protocols were ended with no success in the negotiations in mid-2016.

In 2016, SABESP included the autonomous municipal agencies in default in the Single Register of Debtors of São Paulo (State CADIN) by which all unpaid amounts are collected judicially. The Company has been successful in the judicial proceedings, whereby some of court-ordered public debt payments are in pay-out phase. For more information on the accounts receivable

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from the municipalities served by wholesale, see Note 9 to the Financial Statements.

In addition, at the request of the Municipal Environmental Sanitation Service of Santo André (SEMASA), the Economic Defense Council (CADE) filed an administrative investigation against SABESP for alleged violation of the economic order in wholesale water supply. Subsequently the municipality of Guarulhos adopted a similar measure, and its request was attached to the same proceeding. As of this date, no administrative proceeding has been filed.

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Transactions with Related Parties

The year was also marked by the execution of an agreement with the Metropolitan Water and Energy Company (EMAE), aiming at the definite dismissal of litigation involving the use of the Guarapiranga and Billings reservoirs. The efficacy of the transaction is still subject to the condition precedent of approval by the pertinent corporate bodies of the EMAE, inasmuch as it has already been approved by the National Electric Power Agency - ANEEL. For more information on the transaction, see Explanatory Note 10 (c).

Stock Market

The behavior of the stock market in 2016 reflected the investors' expectations mainly concerning the recovery of the reservoirs of the Metropolitan Region of São Paulo and of the end of the Incentive Program for the Reduction of Water Consumption.

These events had a positive impact on the Company's shares, which at the end of 2016 reached R\$28.79, a 53.5% appreciation compared to 2015, a result over that of the Ibovespa, which recorded a rise of 38.9%.

The ADRs closed the year with appreciation of 90.7%, quoted at US\$8.68. In the same period, the Dow Jones index recorded a rise of 13.4%, and the S&P 500 of 9.5%.

With this performance, the Company's market value showed significant recovery, going from R\$12.9 billion in 2015 to R\$19.7 billion in 2016. On December 31, 2016 the Company's equity value was of approximately R\$22.56 per share.

SABESP's shares participated in 100% of BM&FBovespa's trading sessions, and the annual financial volume traded more than doubled in comparison with 2015, reaching a figure of R\$13.0 billion. In the US market, the Company closed the year with 132.4 million of outstanding ADRs, and an annual financial volume of US\$4.5 billion, 50% more than in the previous year.

In 2016 SABESP continued to be monitored by the principal financial institutions of the market.

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Dividends

According to the Company's Bylaws, the common shares are entitled to a minimum mandatory dividend, corresponding to 25% of net income for the year, arrived at after certain deductions that determined or admitted by law and that can be paid in the form of interest on own capital. In 2016 SABESP credited dividends in the form of interest on own capital amounting to R\$149.9 million relative to 2015, corresponding to approximately R\$0.2193 per common share and a dividend yield of 1.2%.

As regards the year 2016, the Board of Directors approved the proposal of payment of interest on own capital amounting to R\$823.5 million, corresponding to R\$1.2048 per common share and a dividend yield of 4.2%, to be paid on June 27, 2017.

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SANITATION AND ENVIRONMENT: A RELATIONSHIP ORIENTED BY SUSTAINABILITY

SABESP's environmental management, based on the guidelines proposed in its Environmental Policy, is inherent on the provision of the sanitation services and the essence of the business. Aiming at reaching a new level of operational excellence, the SABESP corporate environmental management planning has as one of its premises to implement a culture of prevention and of best environmental practices, aiming at the continual improvement of the Company's environmental performance.

In order to consolidate the environmental culture, the Company prioritizes the internal and external dissemination of knowledge and experiences related to good environmental practices. These are actions that are present in the corporate programs for environmental management that involve the collaborators, the community and partnerships with non-governmental organizations.

In 2016 there was allocation of approximately R\$21.0 million to investments and expenditures with the environment, directly associated with the development and implementation of the principal corporate environmental management programs, as well as the Program for Rational Use of Pure Water, among other environmental initiatives of a local scope implemented by the Company's Business Units.

Other investments and expenses associated with environmental protection are contemplated in the total amount of operational expenses and investments informed in this report, given the direct relationship of the environmental activities with the end-activity of the Company. As an example, the investments in sewage, effluents monitoring, payment for the use of water from federal and state watercourses, maintenance of reserves in protected areas,

maintenance of forest nurseries, effluents reuse initiatives, environmental education actions, environmental skills development, among other initiatives.

Environmental Management System and ISO 14001 Certification

SABESP has been prioritizing , as part of its Environmental Policy implementation strategy, the continuity of the Corporate Program for progressive implementation of an Environmental Management System (EMS) at the Sewage Treatment Stations and Water Treatment Stations , which was structured in 2009.

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The EMS is currently present in 129 stations, of which 35 are certified in ISO 14001. There are perspectives of implementing the EMS in all stations by 2024, whereby the scope of 14001 certification may be expanded according to the strategy of the Business Units, which scope is evaluated annually by means of outside audits.

This program has fostered and strengthened the Company's culture change process, which inserts environmental management in the business guidelines. It also has the purpose of improving the operational management, aiming at minimizing risks, accidents and generation of environmental liabilities, in addition to stimulating the development of preventive and sustainable actions, with consequent improvement of the environmental performance.

Since 2015 SABESP has been working on the SGA with a mixed model, where the ISO 14001 standard is applied to the certified scope, and for the other stations, it uses its own environmental management model (named SGA-SABESP), with focus on environmental aspects that are more relevant for the operation of the Sewage Treatment Plants and Water Treatment Plants.

Climate change and management of greenhouse gas emissions

Climate conditions and extreme events interfere directly on sanitation activities. Thus, technical capability, the quantification of greenhouse gas emissions and the implementation of actions to mitigate them, as well as adaptation to current climatic conditions are now on the Company's agenda, constituting a set of initiatives intended to enhance their environmental and operating performance.

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

In 2016, SABESP concluded its 2015 corporate GHG inventory, totaling 2,204,464 tCO₂e. This is the 9th edition of the inventory, and it shows the trend observed in previous inventories, in which the collection and treatment of sewage are the largest sources of GHG emissions, accounting for approximately 87% of the total. Electricity contributed with 12%, while the other activities accounted for approximately 1%. Drawn up since 2007, the document follows the principles and requirements of the standard NBR ISO 14064:2007 Part 1 and the Brazilian GHG Protocol Program.

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In line with the opportunities to reduce greenhouse gas emissions resulting from the Company's energy consumption, to identify opportunities to increase the efficiency of energy consumption and to enhance operations, energy efficiency studies are being carried out in several of the Company's operating units, the following actions stand out for 2016:

At the São João da Boa Vista ETE, efficiency studies were carried out involving mechanical aerators for sewage treatment lagoons with depth of more than 4 meters. As a result, alternatives capable of generating demand reductions and energy savings estimated in the order of 40% were identified.

Another initiative was carried out in the Parque Novo Mundo wastewater treatment plant during 2016, to find new technologies in replacement of the existing air blowers. During that study, it was noted that the current air production system can be exchanged for machines offering high energy efficiency and at the same time an increased air production, in order to meet the expected increases in treatment demand. The new equipment proposed – state-of-the-art air blowers – will offer higher control over the treatment process in aeration tanks, thus contributing to the continuing improvement of effluent as well as an estimated reduction of 23% in energy consumption.

The new legislation for the electricity sector permits the application of photovoltaic energy to distributed generation in some places. An early-stage study, is under development for the implementation of photovoltaic energy in some sewage treatment lagoons which permits estimated economies ranging from 10% to 20% in electrical energy consumption.

A study to generate hydro energy in water pipelines, taking advantage of water's kinetic energy, is also under development. The project is underway in two water-pumping stations with an estimated 25% reduction in the energy consumption.

At the Vila Romana water-pumping station, a project to replace the booster pumps electrical engines with natural gas engines is foreseen. The project is included in COMGÁS's R&D program. This change may allow energy savings of more than 50% during peak hours and 10% during the rest of the day. It is a simpler and more reliable pumping system, because it

eliminates a series of components, such as primary cabin and transformer, as well as safety and control panels.

Also in the search for continuing improvement in energy consumption, a protocol of intentions was signed with the Danish Water Forum (DWF) whose objectives include international technological cooperation in energy efficiency projects for sewage treatment stations.

It is also worth pointing out that, in 2016, 4.33% of all electricity consumed by SABESP, measured in GWh, corresponds to energy produced under energy incentive programs. The programs are an initiative of the Brazilian government to foster production of energy from renewable sources, so that the acquisition of this type of energy contributes to the enlargement of the clean source electricity matrix on a nationwide scale and to the reduction of greenhouse gas emissions.

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The use of biogas as a source of energy has also been explored by the Company as an alternative to optimize processes, together with the principles of sustainability, with positive effects on the reduction of greenhouse gas emissions. This is a technical cooperation agreement in an amount of approximately R\$7.3 million between SABESP and the German Fraunhofer Institute, with the purpose of obtaining biomethane (vehicle fuel) for the Company's fleet, from the biogas generated at the Franca sewage treatment unit. The return is estimated at about R\$235 thousand a year, from the reduced consumption in traditional fuels. Equipment imported was received by the end of 2016. Completion of construction works, equipment installation and the beginning of technological tests are expected to take place in 2017. At present, this is the only initiative in Brazil to transform gas generated in sewage treatment in vehicle fuel with this technology. In recognition of its commitment to the environment meant by this project, in 2016 SABESP was awarded the Ethic in Business prize in the sustainability category.

Also at the Franca sewage treatment station, the project of drying sludge through solar irradiation deserves special mention. The reduction in the volume of sludge generated by the project reduces the number of trips necessary to carry sludge to the landfill, thus reducing vehicle fuel consumption and greenhouse gas emissions.

We also contributed to the reduction in greenhouse gas (GHG) emissions with the SABESP Fleet Renewal Program, an action that has been in place since 2011, focusing on the replacement of light vehicles with more than 7 years' use and heavy vehicles with an age of more than 20 years. After the replacement of 1,446 light and 461 heavy vehicles, representing 74% and 72% of the total fleet, respectively, the program has contributed to the reduction of greenhouse gas. Together with this program, SABESP follows government guidelines on the use of ethanol, a renewable fuel, for flex vehicles and Diesel S10 for heavy vehicles.

Water resource management and protection

The participation of Sabesp in the various instances of the National Water Resources Management System occurs through the performance of 158 of its employees, from various

Company units, coordinated corporately.

Within the scope of the System, SABESP holds a position in the Plenary Sessions of the National Council for Water Resources (CNHR) and in three of the latter's technical chambers. It is also represented at the plenary session and in the technical chambers of the four federal committees encompassing the State of São Paulo. At state level, SABESP participates in the seven technical chambers of the State Council for Water Resources and has a seat at the plenary sessions of the 21 state water basin committees and in technical chambers.

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To date, SABESP's priorities include, besides participation in the plenary sessions, work in the chambers dealing with Planning, Sanitation and Charging for the Use of Water. Considering the importance of Environmental Education in the management of water resources, SABESP will include participation in the Environmental Education Chamber among its priorities. The Company is already active in several of those chambers and intends to expand its representation to participate in all of the environmental education chambers now in existence or that may be implemented by the basin committees in the future, since not all committees have this chamber implemented.

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

In 2016, the company disbursed approximately R\$43 million as payment for the use of water under federal and state dominion in the water basins of the Paraíba do Sul river, the Piracicaba, Capivari and Jundiá rivers, the Sorocaba and Médio Tietê rivers, the rivers in Baixada Santista region and those of the Alto Tietê river, Baixo Tietê river, Tietê Batalha river, Tietê Jacaré river and Ribeira de Iguape river and Litoral Sul. Charges for the remaining river basins in the State of São Paulo are expected to begin in 2017.

Another debating point in which the company is involved focuses on the classification of water bodies in which the water basin sets up a pact around targets for the quality of the water associated with its predominant uses. These two management and planning instruments are directly related to SABESP's business.

Among the other activities within the scope of the Water Resources Management System in which SABESP representatives participate, the preparation of draft bills on the protection of water sources deserves special mention.

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

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Besides the reserves, since 1990 SABESP maintains two forest nurseries intended for producing seedlings of native species. The objective is to contribute to the projects for restoring and rehabilitating of riparian vegetation surrounding the water sources that supply the metropolitan region of São Paulo (RMSP). One of them is installed at the Jaguari dam of the Cantareira System within the municipality of Vargem, and another one at ETA Alto Cotia, in the municipality of Cotia. It also maintains a nursery in the Jales sewage treatment station which supplies seedlings of tabebuia, cecropia, mahogany, cedar, queen palm, palm, guava tree, bilimbi e moringa, used for reforestation purposes.

In regard to environmental grants and permits, the existing operating complex is the subject matter of the Corporate Programs for Obtaining and Maintaining Grants of Right of Use of Water Resources and Environmental Permits for ETEs, ETAs and Sewage Pumping Stations (EEEs).

SABESP in the development of its activities related to the execution of works and interventions, goes through a process of obtaining permits and environmental licenses, according to the current legislation. As a result of these processes , SABESP undertakes environmental compensation commitments.

To meet the current and future obligations, SABESP developed and is implementing a program that includes the planting and the maintenance of 1 million seedlings in the period of ten years.

The work has already started and is included within the context of the “Programa Nascentes” of the Government of the State of São Paulo, being currently in course the plantation and maintenance of 213 thousand seedlings in the Metropolitan Region of São Paulo, with the prospect to hire immediately 110 thousand more seedlings in the interior of São Paulo.

It is also planned to hire the planting and maintenance of 300 thousand more seedlings in the short and medium terms, integrated to the “Programa Nascentes”. The total expenditure for this program is R\$40 million.

As a result, it is expected not only the improvement in the management and fulfillment of the commitments, but also a greater environmental benefit arising from the coordinated efforts between SABESP and the State Government through the “Program Nascentes”.

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SABESP Environmental Education Program – PEA

To the extent that water and sewage services expand, and also considering the increased global awareness of environmental questions, the need to interact with the population also increases, considering that social participation plays an increasing role in the daily life of sanitation companies' activities.

Within this context, environmental education is a necessary instrument to ensure the effectiveness of sanitation actions. Such education enables increased awareness of the importance of house connections to the sewage system and the adequate use of the sanitation equipment available, of rational use of water, of the 3Rs concept in solid waste and orientation to avoid the misguided connections of rain water to the sewage system, among others, the involvement of the entire population is vital to sanitation. Thus, the enjoyment of the advantages of a healthy and balanced environment requires maintaining an investment in education, the basis that can sustain the transformations and advances required to the evolution of the community.

The goal of the PEA SABESP educational program is environmental awareness, with the insertion of a new vision of the importance of sanitation equipment and service for a healthy environment and society.

Such actions promote:

- (i) Increased perception of the value of sanitation services provided in relation to the water treatment and distribution and of sewage collection and treatment.
- (ii) Development of actions related to hygienic and preventive health habits.
- (iii) Formation of local environmental agents and educators committed to environmental preservation.

At SABESP, the Sanitary and Environmental Education Areas have been under the care of employees of different organizational levels, different backgrounds and different functional and operational areas of the Company, for more than 40 years. For that purpose, PEA SABESP relies on corporate guidance including company procedures, methodology and mechanisms for the planning and management of the hundreds of environmental predication actions and projects developed by the company.

During 2016, a total of 2,200 talks were given in schools communities and companies within the scope of PEA SABESP. The talks were attended by approximately 382 thousand persons, mostly youngsters between 15 and 29 years of age. Also, there were 1.6 thousand monitored visits to SABESP facilities, receiving 71 thousand visitors, mostly from government schools.

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Other activities were also carried out, such as plantation of trees, a sensory garden, vegetable gardens in schools, training of teachers and students, selective collection and recycling of waste. They also involved wide social mobilization in commemorative dates, such as the World Water Day, Environmental Day, Tree Day and Clean River and Beach Day, with the involvement of many other parties, such as local governments, school network, companies, community leaders and Company staff.

Good environmental practices in administrative areas

SABESP implemented the 3Rs program to the adequate destination of solid waste generated by administrative areas. The program was conceived with the purpose of structuring management of those residues and organizing and standardizing a series of selective collection initiatives which were already carried out in different units of the Company.

Using the 3Rs concept of residue management (Reduce, Reuse, Recycle) actions and practices to minimize residue generation were defined. These prioritize reduction of consumption, reuse of materials and recycling and also determine an environmentally responsible destination of solid residues generated in administrative activities. The program includes training employees and providers of outsourced cleaning services to act as multipliers in their work areas and external activities.

Application of the 3Rs concept – Reduce, Reuse, Recycle – stimulated the development of several projects within the Company. An example is the reduction of over 400 thousand sheets of bond paper and other printing resources consumed, through the implementation of electronic forms to evaluate reaction and effectiveness in training sessions, seminars and other employee training and development events.

SABESP, in its training processes concerning materials considered of strategic value, and in agreement with the needs and quality standards required by the Company, looks for suppliers who can offer social responsibility and commitment with the environment and its surroundings. It assesses compliance with environmental legislation and toxicological risks posed by the products, pursuant to regulations in force, in such a way as to guarantee safe use both in the water treatment station and for the final consumer.

All bid notices contemplate the environmental legislations and standards. SABESP's contractual instruments, in turn, have clauses that require compliance with the positions of the Municipality and State and Federal legal provisions that may interfere with the execution of works and services, especially, regarding environmental legislation, CONAMA Resolutions

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SABESP also uses the Outsourced Services Studies of the Government of the State of São Paulo – Social and Environmental Specific Instructions for defining its technical specifications. This study establishes environmental actions, such as the rational use of water and electric power, reduction in the production of solid residues, among other environmental good practices.

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RESPECT FOR CLIENTS AND THE FUTURE GENERATIONS

Given that water, raw material for life, is its core business, SABESP is inextricably committed to sustainability. The Company's actions go far beyond water treatment, water supply, sewage collection and treatment services. It also seeks environmental preservation and social development, including the use of partnerships with communities where it operates, NGOs, State Government, municipalities, schools, orphanages and day care centers, among other segments.

Voluntary adhesions and institutional programs

As a signatory to the UN Global Compact, SABESP aligns its activities with the principles of human rights, labor, environmental protection, and anti-corruption, and supports and encourages UN's 17 Sustainable Development Goals, which aim to stimulate actions for the next 15 years in areas of crucial importance to humanity, the planet, countries and the companies.

In 2016, SABESP renewed, for the 13th consecutive year, the certificate awarded by Abrinq Foundation - Save the Children, continued as a co-supporting entity of Instituto Criança Cidadã (Citizen Child Institute), a partner of Instituto Ethos, and maintained the granting of the Sao Paulo Seal of Diversity, instituted by the State Government, which aims to encourage public, private and civil society organizations to include this issue in their human resource management, and highlights good business practices as a strategic action for equal rights.

In addition, the Company is part of São Paulo's Program in Search of Missing Children and Adolescents, as well as maintains an agreement with Associação Amigos Metroviários dos Excepcionais, through which several people with disabilities work in its public service units.

Aware of the importance of voluntary work, and of its benefits for society, through its Corporate Volunteer Program the Company inspires good practices and brings more dignity to those involved, carrying out campaigns that result annually in the collection of food, clothing, hygiene products, books and magazines, among others. In addition to the campaigns, it

engages in several actions of social inclusion, learning and care for children, the elderly and people with special needs.

In 2016, worthy of note is the Winter Clothing Campaign by the Solidarity and Social and Cultural Development Fund of the State of Sao Paulo – FUSSESP, an action that is already part of SABESP’s calendar as one of the most integrated and best-performing corporate actions. Under the theme “Good clothes are for donation”, the employees collected more than 1,300 pieces of quality that benefited 257 entities.

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Institutional Programs focused on the Social Area

With games and characters, the Company maintains the Clubinho SABESP, accessible on www.clubinhosabesp.com.br, which encourages a closer relationship with children and young people, from six to thirteen years of age. This virtual space is directed primarily to environmental education, focusing on “Learn how to take care of our water with the saving tips from the Team of Clubinho SABESP”.

In addition, aligned with its goal of advancing as a Company, and in compliance with Law No. 10097/2000, SABESP has been developing the Apprentice Program for 10 years, in a partnership with the National Service of Industrial Learning - Senai/Sao Paulo. The program prepares young people for the job market, providing learning that allows them to plan a professional career, and expect a better future for the apprentices, in addition to the opportunity to stimulate the employees to act in the role of tutors, thus exercising citizenship. This initiative has already opened opportunities for 3.3 thousand young people, of whom 429 were part of the Company’s staff in 2016.

Local Communities

The Community Participation Program was created to serve primarily low-income groups or clients through social responsibility practices, including fight against losses, community articulation, and raising awareness about environmental issues, efforts to clean up rivers and streams, plantation of trees, and others. The meetings with communities periodically bring together community leaders for the presentation of SABESP’s actions and investments, survey of the population’s expectations, and alignment of the Company’s actions with local needs. The initiative, which is has been held for 18 years, allows for a strong work of awareness and behavior change related to the rational use of water, and also improvement of services provided in the metropolitan region of São Paulo.

Support and sponsorship

SABESP sponsors, through tax incentives, several projects in the areas of literature, plastic arts, music, dance, theater, circus, cinema, and preservation of cultural heritage. Since 2004, when the Company joined the program *Fomento ao Cinema Paulista* [a program to foster filmmaking in the State of Sao Paulo], more than 150 films have received sponsorship. SABESP is the company that most supports the cinema in the State of São Paulo, and is one of the three biggest promoters of the sector in the whole country.

Sports sponsorship, also through tax incentives, began in 2008. Since then, SABESP has been supporting several projects, both aimed at high performance and sport as an instrument of education. Last year, with support to the project to initiate childhood basketball, with an educational and social inclusion approach, nearly 5,000 students of approximately 80 public schools benefited from basketball initiation classes during their second shift at school.

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Client Relationship

Aware of the importance and of the environmental and social impact of its relationship actions with clients, SABESP has been investing in projects of autonomy, accessibility, reduction of inputs and digital and social inclusion. The clients with total or partial visual impairment can, for example, use a virtual service that is compatible with and adjustable to the specific software used by people with this deficiency, and may also request their bills to be sent in Braille.

In 2016, SABESP's Virtual Agency started to provide the service of payment of bills in installments, saving clients' time and resources required to go to a physical unit, besides offering the clients the facility to honor their debts and keep the regular supply for their property. Currently, more than 80% of the services offered at physical units are also available on the internet.

In addition, SABESP has been investing in improving the quality of customer information, and already distributes 93% of the bills with the name of the holder. Having their names printed on the consumption bill means, for the client, an example of citizenship.

Ombudsman / Procon

Ombudsman is a qualified client relationship channel intended for addressing complaints, suggestions, reports, criticisms and information, through which more than 139 thousand statements were made in 2016. This total refers to statements made before the water crisis, a sign that it is returning to normality.

As a result of the intense and continuously improved work in the provision of a quality service for clients, SABESP was once again not included on the list of the 50 companies with the

highest number of complaints registered in the State of São Paulo as disclosed by Consumer Protection and Defense Foundation (Procon-SP). In 2016, the Company registered only 41 grounded complaints, a decrease of 52% compared to 2015.

Among the five essential service providers with the highest number of complaints, the sanitation company was also out of the ranking.

Satisfaction Survey

Customer satisfaction is annually measured through an extensive customer satisfaction survey. In 2016, almost 6,000 interviews were carried out throughout the State of São Paulo, which allows measuring the results with a margin of error of 1.3%, and a 95% confidence level. The overall satisfaction indicator was 82%.

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Relationship with employees

SABESP has been directing its efforts towards the model of Competency-Based Management, investing in the development of business critical qualifications.

Since its adoption, the current model for people management has been improved with the purpose of offering to SABESP a value proposition for employees, capable of increasing their commitment to, and involvement with, the organization's objectives and strategy, with particular emphasis on integrated processes incorporating continuing education, career management, quality of life, climate management, and human resources services.

The Company seeks to meet the main demands of employees, always respecting the limits of its financial capacity and legal and governmental guidelines.

In 2016, the Collective Negotiations resulted in a Collective Bargaining Agreement providing for a salary adjustment of 10.03%, with no strike movements. Of the total number of employees, approximately 70% are spontaneously unionized, with the representation of the unions in the Company being in the proportion of one union leader to every 405 employees.

In addition, SABESP maintains an uninterrupted and friendly relationship with employees' representation and association entities in the search for improvements, solutions and advances in the Company's management, as well as their qualification and quality of life.

Staff

In 2016, SABESP had a workforce of 14,137 employees, 690 trainees, and 430 apprentices. In the period from 2012 to 2016 there was a reduction of 374 employees, resulting from 2,756 dismissals and 2,382 admissions.

Regarding average time in the Company, the workforce presents a prevalence of professionals with 18 years of work. In 2016, the turnover was 3.8%.

Regarding maternity leave, of the 67 women who enjoyed the benefit, 76% returned to work.

The Company has complied with applicable legislation regarding the right of reservation of job vacancies, offered in the public selective processes for people with disabilities. In 2016, 83 jobs were held by people in these conditions, with 74% of employees having physical disabilities, 12% with hearing loss, and 14% with visual impairment. SABESP also has an agreement with associations, through which 111 persons with disabilities work in its public service units, an activity for which they receive more than 108 hours of previous training.

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SABESP does not work with outsourced professionals. Specialized companies are contracted for the provision of services according to specific demands. At the end of 2016, the estimated number of service providers was 6,418.

The process of recruiting and selecting employees, trainees and apprentices is carried out only by means of a competitive examination. The filling of the 624 job vacancies of Competitive Examination No. 01/2013 was completed in May 2016, with the bank of qualified applicants.

Periodically, there is a Competitive Examination for hiring trainees and apprentices to carry out activities aimed at learning and qualification, targeting their insertion in the labor market.

The Company also holds Internal Selections to identify the professional with the most appropriate profile to the managerial vacancies available. In addition to motivating the internal professional, it offers development opportunities. This internal selection also contemplates participants in the Succession and Career Program. In addition, it has a Bank of Opportunities, accessible to all employees, which receives statements of interest for transfers and other professional opportunities in the company.

Compensation and Career

SABESP adopts a single Salary Policy for the entire State of São Paulo. Employees' pay is composed of a basic salary, profit sharing, function bonus and benefits. The ratio between the lowest salary paid in the Company and the minimum wage is 2.0, with no difference in the base salary for men and women.

The Profit Sharing Program (PPR) is a strategic tool used annually to stimulate the efforts of employees adhering to organizational goals. It follows the general guidelines established by

Federal Law No. 10101/2000, and by State Decree No. 59598/2013, being negotiated annually with the Unions.

In addition to the benefits established by law, SABESP adopts an additional benefits policy that aims to meet the employees' demand, including: meal and food vouchers, snacks during overtime work, Christmas baskets, childcare centers, employment guarantees, supplementation of sickness benefits, vacation bonuses, medical care and private pensions.

With regard to Medical Assistance, in 2016 the commission created in 2015 focused on studying opportunities for improvement in Healthcare Management, as well as in the Health Policies developed by the Company. The final purpose of this study is to obtain a diagnosis of the current products, highlighting the points to be improved, at operational levels, with respect to the services provided and forms of financing of the costs involved.

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SABESP also offers the option to participate in a Private Pension Plan, whose purpose is to supplement retirement. There are two pension plans in the Company managed by Sabesprev: Benefit Plan – G1 and Defined Contribution Plan - Sabesprev Mais. Since 2010, the employee has been able to opt only for the Sabesprev Mais private pension plan, since the Benefit Plan (G1) was suspended due to its deficit characteristics. Currently, the Pension Plans have 20,896 members, of which 11,443 are from Benefit Plan - G1 and 9,453 from Sabesprev Mais.

In addition to the direct benefits, the Company, through the SABESP's Corporate University, offers subsidies for courses at the most varied levels of training and formal education, with the agreements being extended to family members of all ages. These subsidies cover graduate degree programs, technical education, languages, professional development, distance education, and educational agreement.

To hold each position, employees must meet specific minimum requirements, such as school education, ability to handle more complex activities, and improvement courses that support SABESP's career structure, which is based on positions of trust (management body and leadership/supervision) and Y career. By the end of 2016, the Company had 1,931 professionals with graduate /MBA degrees, of whom 9.4% are masters and/or PhDs.

Professional growth occurs from Competency and Performance Assessments conducted annually and directed to 100% of employees. For the IV Assessment Cycle that occurred in November/2016, 1% of the payroll was allocated to promotions and applied to eligible employees in February 2017.

In this assessment, the organizational climate was also identified, and the dimensions that presented the lowest index were Recognition/Appreciation and Communication, which will receive proposals for improvement actions in 2017.

In 2016, the ratio of overtime to normal hours worked totaled 13.2%, and absenteeism 1.8%.

SABESP's Corporate University (UES)

In 2016, SABESP's Corporate University provided courses and strategic programs related to Sustainability, Corporate Governance, Environment, Social Responsibility, Occupational Safety and Health and the essential business skills, totaling an investment of R\$6.2 million.

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SABESP, consistent with its corporate and prospective strategy in relation to future scenarios, defined in its Strategic Plan, among the business guidelines, the value of people as a competitive differential.

The evolution to a new level of achievement requires that its leaders have a clear understanding of the changing context of the current world, and the ability to deal insistently with the duality of public management under the aegis of results, and to act on the principles and values of the organizational culture.

Reflection on these demands has led SABESP to invest in programs focused especially on developing its leadership, promoting the improvement of the managers who are now leaders and, while preparing potential successors for the current managers.

With the establishment of partnerships with renowned educational institutions and specialized consultancies, the UES started the Management Excellence Program in 2012, with the objective of broadening the integrated vision of management, developing the management body based on the primary leadership competences for the transformation of SABESP of the future.

In addition, SABESP also implemented the Management Succession Program, a pioneering initiative in the Company, which introduced a model in the cultural practices of people management that is aligned with the modern concepts of planning and management of the succession process.

The Program's differential is the process structure based on the model of assessment and training of potential successors in a cycle of diversified and integrated activities. The identification of professionals, different types of assessment, training and career guidance were articulated in order to provide the best conditions so that people and the Company could structure their decisions about the future.

In 2016 the UES had its budget impacted by the restrictions imposed by the water crisis, with impact on the indicators of capacity building and development. Priority was given to training related to the Company's activity, mandatory courses in Health and Safety at Work and Leadership Development. For the other areas, we tried to make virtual training feasible, with the support of technology, as well as the use of strategies for internal transfer of knowledge.

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Occupational Health and Safety

The Health and Safety actions seek to promote the development of the culture of prevention with employees and service providers, aiming to ensure the improvement of working conditions and quality of life. The main actions are developed in order to standardize the rules and develop prevention programs, to train and sensitize employees, and control and audit the processes.

By 2016, the following results should be highlighted:

- (i) review and updating of Occupational Health and Safety Procedures;
- (ii) application of 16,264 doses of influenza vaccine for employees, apprentices and trainees, and 1,872 doses of typhoid vaccine for all employees with potential for exposure to sewage;
- (iii) more than 49 thousand participations in face-to-face and virtual training;
- (iv) more than 45 thousand participations in the program *Minuto da Prevenção Virtual* (Minute for Virtual Prevention), broadcasted by UES, with a broadcast by TV Corporativa; and
- (v) approximately 5,000 safety inspections.

Internal Week for Occupational Accident Prevention – SIPAT

Using the Olympic games spirit, this year's innovation was due to the 2016 Sipat Olympics, which divided SIPAT's actions into modalities that rewarded employees in the categories of Gold, Silver and Bronze Medals. The virtual activities were intensified, allowing a great adhesion and decreased the movement of employees.

There was a division of modalities, which presented representative numbers: (i) more than 8 thousand in-person actions; (ii) more than 700 phrases sent to the Slogan Contest; (iii) 37 video-lessons with internal knowledge attended by almost 12 thousand people; and (iv) 25 photos for the Image Contest for Wallpaper.

Health and Safety Campaigns

These campaigns take place through newsletters, lectures and preventive actions with varied themes such as: fight against *Aedes aegypti* mosquito, Ergonomics, You in the Traffic - Safe riding for motorcyclists, Conjunctivitis, Influenza, among others.

The actions against the *Aedes aegypti* mosquito were intensified with the Campaign *Xô Mosquito* (Go away, mosquito!), which developed activities such as D-Day, with weekly inspections carried out by the CIPAs throughout the Company, the creation of promotional images released as wallpaper on microcomputers, among others.

SABESP counts on the commitment and involvement of 3,874 professionals acting as CIPA and brigade people, with 1,444 being in 144 CIPAS, and 2,430 brigade people. Of the total number of employees, about 25% work in formal safety and health committees, and engage in activities such as systematization, monitoring and specific programs.

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Quality of life

The main objective of SABESP's Quality of Life Program is "To create a work environment with productivity, quality of life and well-being, contributing to the reduction of absenteeism and the improvement of the organizational climate".

Several actions are carried out with the objective of promoting behavioral changes, lifestyle, and arousing concern about health. In addition to the Blood Donation Campaign, the Pink October and Blue November campaigns were highlighted in 2016, which are awareness and prevention campaigns regarding breast and prostate cancer. As was the case throughout the world, several SABESP sites were lit with the respective colors, and on October Fridays the employees dressed in pink, and in November in blue. Actions were also carried out, such as informative lectures, videos and testimonies on the importance of prevention and early diagnosis.

Suppliers Evaluation

Suppliers contracting respects the Labor, Occupational Safety and Environmental requirements, extending the commitment to the contracted company, which is liable for any irregular acts or facts performed by the subcontracted and/or outsourced in its own name, of its employees and agents.

Regarding environmental liability, SABESP evaluates compliance with the local legislation of its suppliers, and the toxicological risks of the product, in order to guarantee the safety of use in both the Company's premises and the final consumer.

The Company has its own suppliers qualification process, and its respective production process. The evaluation involves several requirements, including the production process,

when aspects related to social responsibility and the employment of child labor are checked. It should be noted that, even during the contractual implementation, any disclosure of breakage of the rule on the employment of child labor may lead to contractual termination.

Among the measures adopted by SABESP to eliminate all forms of forced or slave labor, the following stand out:

(i) consultation of the “dirty list” of the Ministry of Labor and Employment;

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(ii) the obligation that those interested in participating in bids, or in qualifying their respective products in SABESP, declare that they do not use labor analogous to slavery in their productive chain and;

(iii) the contracted company will be liable for any use of labor analogous to slavery in its productive chain, which also constitutes reason for the termination of contract.

The purchasing processes carried out by the Company are widely disclosed in the electronic bidding site, available on the internet site, guaranteeing equal conditions for suppliers, regardless of size or location, in addition to significant cost reduction, waste and obsolescence

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AWARDS RECEIVED IN 2016

- **Anefa Transparency Trophy 2016 – Category of Publicly-Held Companies** granted by the **National** Association of Finance Businessmen (Anefac), due to the transparent and trustworthy way it presented its financial statements
- **QA Quality Assessment Certificate**, granted by the Institute of Internal Auditors in Brazil (IIA Brazil), a branch of The Institute of Internal Auditors (IIA), to the Audit Superintendence
- **Friend of Justice Company Certificate**, created by the Court of Appeals of the State of São Paulo with the purpose of stimulating the organizations to add practices that contribute to the improvement of client service and, consequently, to the reduction of the number of judicial disputes
- **“The 100 more influent of Energy” Award – category sustainability**, granted by Grupo Mídia, through the magazine Full Energy, for the project Waste to Energy Barueri, intended to transform sludge and biogas from sewage treatment in raw material for the production of electricity
- **Ethics in Business Award, category Sustainability**, granted by the Brazilian Institute of Ethics in Business to the project “Processing of Biogas Generated in ETEs for Car Use (case Franca)”
- **“The 100+ Innovative companies in the Use of IT” Award**, held by IT Midia (consulting PwC). The study is recognized by the market as the most important indicator of technology application focusing on business innovation, pointing to companies that use IT as a strategic element
- **“The best and the Biggest” Award, category Infrastructure**, granted by Exame Magazine, which places the company in the leadership of the sector and on the list of the leading companies in the country
- **“Companies that Best Communicate with Journalists” Award**, The Center for Communication Studies and the magazine Negócios da Comunicação, for maintaining a good relationship with the press
- **Valor 1000 Award, in the category “water and sanitation”**, granted for the 8th time by the Newspaper *Valor Econômico*. SABESP is one of the top winners of this award

- **National Award of Quality® (PNQ)**, granted by the National Foundation of Quality (FNQ), for the South business Unit, level world class
- **1st Place in the Ranking of Sanitation for the 100 Biggest Cities in Brazil**, granted by the Institute Trata Brasil to the city of Franca for having the best indices in the main indicators of basic sanitation
- **Modern Consumer of Excellence in Services to the Customer Award**, category 'public services', granted by *Consumidor Moderno* Magazine to the Service Center of the Regional Systems Department
- **National Award of Sanitation Quality (PNQS) 2016**, granted by the Brazilian Association of Sanitation and Environmental Engineering (Abes)

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- **Datacenter Dynamics Awards – Best Datacenter Design in the category ‘Enterprise’**, granted by DatacenterDynamics (DCD), for the design of IT innovations in basic sanitation 2016

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ANNUAL SOCIAL BALANCE 2016

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Companhia de Saneamento Básico do Estado de São Paulo - SABESP**Statement of Financial Position as of December 31, 2016 and 2015****Amounts in thousands of reais**

Assets	Note	December 31, 2016	December 31, 2015
Current assets			
Cash and cash equivalents	7	1,886,221	1,639,214
Trade receivables	9 (a)	1,557,472	1,326,972
Accounts receivable from related parties	10 (a)	202,553	156,155
Inventories		58,002	64,066
Restricted cash	8	24,078	29,156
Recoverable taxes	17 (a)	42,633	77,828
Other receivables		52,676	156,942
Total current assets		3,823,635	3,450,333
Noncurrent assets			
Trade receivables	9 (a)	153,834	182,616
Accounts receivable from related parties	10 (a)	669,156	715,952
Escrow deposits		77,915	76,663
Deferred income tax and social contribution	18	186,345	128,242
Water National Agency – ANA	11	81,221	88,368
Other receivables		114,693	140,676
Investments	12	31,096	28,105
Investment properties	13	57,968	56,957
Intangible assets	14	31,246,788	28,513,626
Property, plant and equipment	15	302,383	325,076
Total noncurrent assets		32,921,399	30,256,281
Total assets		36,745,034	33,706,614

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

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Companhia de Saneamento Básico do Estado de São Paulo - SABESP**Statement of Financial Position as of December 31, 2016 and 2015****Amounts in thousands of reais**

Liabilities and equity	Note	December 31, 2016	December 31, 2015
Current assets			
Trade payables and contractors		311,960	248,158
Current portion of long-term borrowings and financing	16	1,246,567	1,526,262
Accrued payroll and related taxes		458,299	347,976
Taxes and contributions	17 (b)	168,757	107,295
Interest on capital	22 (c)	700,034	127,441
Provisions	19 (a)	730,334	631,890
Services payable	21	460,054	387,279
Public-Private Partnership - PPP	14 (h)	31,898	33,255
Program Contract Commitments	14 (d) (iv)	109,042	228,659
Other liabilities		85,563	102,101
Total current liabilities		4,302,508	3,740,316
Noncurrent liabilities			
Borrowings and financing	16	10,717,576	11,595,338
Deferred Cofins and PASEP		138,071	132,921
Provisions	19 (a)	442,741	450,324
Pension obligations	20 (b)	3,265,250	2,832,216
Public-Private Partnership - PPP	14 (h)	2,217,520	1,001,778
Program Contract Commitments	14 (d) (iv)	69,051	92,055
Other liabilities		173,106	145,060
Total noncurrent liabilities		17,023,315	16,249,692
Total liabilities		21,325,823	19,990,008
Equity	22		
Capital stock		10,000,000	10,000,000
Earnings reserves		6,244,859	4,069,988
Other comprehensive loss		(825,648)	(353,382)
Total equity		15,419,211	13,716,606
Total equity and liabilities		36,745,034	33,706,614

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Income Statements for the

Years ended December 31, 2016 and 2015

Amounts in thousands of reais, unless otherwise indicated

	Note	2016	2015
Net operating income	26 (b)	14,098,208	11,711,569
Operating cost	27	(9,013,120)	(8,260,763)
Gross profit		5,085,088	3,450,806
Selling expenses			