



# SUSTAINABILITY REPORT



Catchment of  
Jaguari-Atibainha  
Interconnection  
in Igaratá  
(Feb/2018)



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# CONTENTS

<b>MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS.....</b>	<b>06</b>
<b>MESSAGE FROM THE CHIEF EXECUTIVE OFFICER.....</b>	<b>08</b>
<b>THE WORLD’S FOURTH LARGEST COMPANY IN REGARDING POPULATION SERVED .....</b>	<b>10</b>
Panel of indicators.....	11
<b>MISSION, VISION AND ETHICAL VALUES.....</b>	<b>13</b>
<b>MODERN, ETHICAL AND TRANSPARENT MANAGEMENT.....</b>	<b>14</b>
Management’s Compensation.....	14
Integrity and transparency.....	15
Code of Ethics and Conduct and Whistleblower Channel.....	16
Internal Controls.....	17
Risk Management.....	17
External Auditors.....	17
Business Model.....	18
Strategy and Vision of the Future.....	18
Balance of Targets.....	19
<b>WATER SECURITY FOR THE PRESENT AND THE FUTURE.....</b>	<b>21</b>
The metropolis and the challenge for supply.....	21
Granting of the Cantareira System: 2017 –2027.....	24
Metropolitan Water Program.....	24
Water at an ever-greater distance.....	27
Protection of biodiversity: the water sources and their green belts.....	28
Water on the coast and in the interior of the State.....	30
Fighting water losses.....	31
Água Legal (Legal Water): expansion into irregular areas.....	33
Rational use, education and reuse.....	33
Quality water as a priority.....	34
<b>HEALTH, QUALITY OF LIFE AND RECOVERY OF WATER RESOURCES.....</b>	<b>35</b>
The challenges of the metropolis.....	35
Treatment of non-domestic sewage.....	37
Recovery of urban rivers and water sources.....	37
Sharing benefits and responsibilities.....	38
The trend towards universalization in the interior.....	39
Clean rivers: source of income and supply.....	40
Sanitation in the State of Sao Paulo’s coastal region.....	41
Greater access for lower income families.....	43
United for the collective well-being.....	43
Education starts inside the home.....	44

<b>RESULTS REVERSED INTO GAINS FOR SOCIETY</b> .....	45
Economic-Financial Performance.....	46
Investments.....	50
Indebtedness.....	50
Fundraising.....	52
Stock Market.....	53
Tariffs and Regulation.....	53
Transactions with Related Parties.....	54
Advances in the debt negotiations with the municipalities served on the wholesale market.....	54
Dividends.....	55
<b>ENVIRONMENTAL MANAGEMENT, INNOVATION AND TECHNOLOGY ON BEHALF OF SUSTAINABILITY</b> .....	56
Environmental Management System and ISO 14001 Certification.....	56
Training multipliers for the protection of the environment.....	57
In defense of the efficient management of water resources.....	57
Climate change and management of greenhouse gas emissions.....	59
New technologies: efficiency, cost and sustainability.....	59
Research and innovation.....	61
Disposal of waste.....	62
<b>RELATIONSHIP ORIENTED BY TRUST, RESPECT AND APPRECIATION OF CITIZENSHIP</b> .....	64
Voluntary adhesions and representativeness.....	64
Programs and institutional partnerships.....	65
Support and sponsorship.....	66
Management of supply chain.....	67
Relationship with customers.....	69
Relationship with the granting authority.....	70
People management.....	70
Relationship with labor entities.....	72
Collective bargaining agreement.....	73
Compensation and Benefits.....	73
Profit sharing – PPR.....	75
Training of leadership – Sabesp’s Corporate University.....	75
Management Succession Program.....	76
Internal / External Selections.....	78
Occupational Health and Safety.....	79
Diversity and equal opportunities.....	80
Quality of Life.....	82
<b>AWARDS 2017</b> .....	83
<b>DETAILED QUANTITATIVE INFORMATION</b> .....	84
<b>SOCIAL BALANCE SHEET</b> .....	90
<b>ABOUT THE REPORT</b> .....	92
<b>CORPORATE INFORMATION / CHANNELS</b> .....	102

## TIME TO GO IN SEARCH OF NEW CHALLENGES

**G4-1; G4-2** With the completion of the Jaguari-Atibainha interconnection and the São Lourenço Production System, in addition to the start of the construction work to transfer the water from the Itapanhaú River, Sabesp and the Government of the State of São Paulo have concluded a cycle of substantial investments in water security. A cycle that was speeded up due to the severe drought that São Paulo faced in 2014/15 and which made it necessary to focus attention and effort on water collection, storage, treatment and distribution fronts.

This proposal was achieved with full success and São Paulo now has a totally different level of water security, with redundancy projects and numerous possibilities for offering water to its inhabitants. We can bring water from different water basins, with varying rainfall patterns, and, by taking into account the interconnected areas of supply systems, ensure a continuous supply even in periods of severe drought. In order to give an idea, we are bringing water from Alto Tietê, Piracicaba-Capivari-Jundiaí (PCJ), Paraíba do Sul, Itapanhaú and Ribeira do Iguape river basins.

Another important item are the construction projects within the concept of redundancy. The Jaguari-Atibainha transposition and the Rio Grande-Taiaçupeba interconnection are pump and pipeline systems that make it possible for water to be brought from relatively distant water sources to ones that may be at a lower level due to a lack of rainfall. They will not be used the entire time, but only when it is necessary, being a type of insurance for the integrated system. The Jaguari-Atibainha interconnection can also go in the opposite direction, carrying water from the Cantareira to the Jaguari River, helping Vale do Paraíba and even the State of Rio de Janeiro.

In addition, the work of reversing the waters of the Itapanhaú river is already under way, making use of its Sertãozinho stream, which will also help reinforce Greater São Paulo's supply. It will bring water from the Serra do Mar region to the Alto Tietê System, with collection only when it is needed. With the most urgent water security objective already successfully achieved, it is now up to all of us to outline other priorities for the future and major challenges lie ahead. These challenges include universal access to sanitation, recovering the Tietê and Pinheiros rivers and reducing water losses.

They are not easy goals, but they are absolutely essential. An important step in the civilization level that the State of São Paulo aims to achieve, maintaining its position as the federation's most developed entity. With water supply close to a 100% level throughout the state, the next step will be to reach this level with sewage collection and, last but not least, sewage treatment. The investments involved are very high and Sabesp is prepared for this, being fully aware of its role. If the supply water means the basic level of life and the possibility of economic and social development, then sanitation represents health and quality of life, and care for human beings and the environment.

Therefore, the Government of the State of São Paulo will continue working to reach rates close to 100% in relation to the collection and treatment of sewage. To do this, it needs the support of society and other spheres of government. For example, it is essential that municipalities have housing policies that preserve water source areas and that they oblige entrepreneurs to deliver properties with regular sewage connections already in place. And that the Federal Government uses its funding agencies for housing programs that help residents escape irregular areas and give them dignity, with the structure and comfort that they need.

And it is necessary that those real estate owners which are classified as feasible, in other words, that have a sewage network running through their street, implement the connection for collection to be

made. It is an obligation both for one's own health as well as for that of the community as a whole. And on this point, the municipalities have one more role, which is to supervise these residents.

Last, but not least, there are two major challenges: to recover our rivers, particularly Tietê and Pinheiros, and to reduce water losses. In relation to the rivers, the above-mentioned actions such as expanding sewage collection and treatment and regularizing the residential areas are fundamental steps. In addition, it is also essential that municipal administrations provide the correct collection and disposal of waste. And, of course, that citizens throw the garbage in the right place.

In terms of losses, the fight against illegal connections (locally known as 'gatos') and frauds, which account for a third of the total, is already very successfully being carried out by Sabesp in partnership with the State of São Paulo's Department of Public Security. And very significant investments have been made to reduce leaks with replacement of pipes and the installation of pressure relief valves, with financial and technological support from the JICA (Japan International Cooperation Agency).

In other words, an important step has been taken, and we can see that we still have a long way to go. Looking at everything that has been done so far and confident that we are on the right path inspires us and gives us the strength to speed up this journey.

**Benedito Braga** – Chairman of the Board of Directors

## DOING MORE FOR SANITATION IN THE STATE OF SÃO PAULO AND DOING IT BETTER

**G4-1; G4-2** – Sabesp is the concessionaire that invests the most in sanitation in Brazil. The average amounts invested over the last few years represent about 30%<sup>1</sup> of the total amount allocated to sanitation in the country, and it was no different in 2017. We maintained a high level of investments that added up to a total sum of R\$3.4 billion for the expansion of the infrastructure for sewage collection and treatment services, supply, process improvements and technological improvements applied to operations and management. This work is reflected in the excellent performance of our shares, which registered an increase of roughly 20% in their value.

Even in a normal year, with satisfactory volumes stored in the reservoirs that serve the São Paulo Metropolitan Region (RMSP), we are still heavily focused on expanding water security in one of the world's largest urban concentrations. As a result, we have made significant progress in the construction of two major works: the São Lourenço Production System and the Jaguari - Atibainha interconnection.

At the same time, we are continuing with the negotiations for the construction of the system that will transfer water from the Itapanhaú River, on the Atlantic side, to the Alto Tietê System. Construction work is expected to get underway in the first half of 2018.

This set of interventions coupled with the actions that were carried out during the years of water crisis give us the peace of mind to face similar situations with confidence in the future. In this scenario, it is important to emphasize the new consolidated pattern of water consumption, which is another key factor for the maintenance of water security. Now that it is more aware of the situation, in 2017 the population maintained the same level of water consumption per capita/day as in 2016, which is 23% lower than that registered before the outbreak of the crisis.

Still on the question of supply, the Água Legal (Legal Water) Program made remarkable progress, with 2017 bringing the installation of networks and more than 74 thousand families from irregular areas becoming connected to the Sabesp network. This initiative, which aims to attend to 160 thousand properties in the RMSP, has two noble objectives: to provide greater health and quality of life to residents in situations of social vulnerability and to reduce losses of endless liters of water that permanently flow from the “spaghetti junction” of pipes that are precariously installed and exposed to contamination.

On another front, we stepped up the pace of the expansion work on the sewage collection and treatment infrastructure in the area of operations. We made 221,800 sewage connections, with this figure reflecting the commendable performance on the part of Sabesp and its partners in relation to convincing those who have the collection structure available, but irresponsibly insist on not being connected to the networks.

The expansion of the treatment capacity at the Barueri sewage treatment station (STS), one of the largest stations in Latin America, inaugurated a new phase of sanitation in the RMSP, with the capacity to attend to another 1.6 million people, benefiting the entire metropolis. In this context, we highlight the achievements of the Se Liga na Rede (Connect To The Network) Program and the “Córrego Limpo” (Clean Stream) Program. In the interior of the state, we inaugurated 11 STSs (sewage treatment stations), positioning the municipalities very close to the universal access target, with repercussions on improving the quality of important rivers in the State of São Paulo.

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<sup>1</sup>Consolidated figures based on the survey of the National Sanitation Information System - SNIS, the 2011, 2012, 2013, 2014, 2015 and 2016 editions.



On the internal front, an important chapter in the ongoing process of management's modernization was achieved with the coming into operation of Sabesp's Integrated Information System (SiIS). In addition to enhancing our processes' performance and agility, the company also gains with the standardization of data and the increased security and reliability of business information for decision making. As was the case during the period of overcoming the crisis, we have witnessed a very marked level of engagement and commitment from the entire team in the face of the complexity of the change.

We have kept up the pace in relation to the work of adapting to the requirements of the State-Owned Companies Law and in improving the compliance and risk management processes. In the same way, we have taken major steps toward implementing the Management Excellence Model (MEG), which will enable the dissemination of best practices and technologies throughout the entire Company. One example of this is the use of a program to rank investments according to the priorities in terms of the service, starting with water quality and water security followed by combating losses and expanding the collection and treatment of sewage.

Among a series of other procedural and technological improvements, this package includes the dissemination of advances aimed at the efficiency of operations with the automation and the energy self-sufficiency of the stations, such as the projects that are already undergoing tests at some of our units.

This activity is guided by the excellence in the provision of services which in 2017 earned Sabesp, Level IV Plus, which is the highest level of the National Quality Award in Sanitation from the Brazilian Association of Sanitary and Environmental Engineering (Abes). In addition, the clarity and reliability of the data reported in the financial statements led to Sabesp being the recipient of the Highlight Trophy of the well-established Anefac Transparency award, in the category of companies with net revenues of more than R\$5 billion.

These are acknowledgments of a trajectory committed to results and positioned at the capital market's highest levels of corporate governance. In São Paulo, in the B3 (Brasil, Bolsa, Balcão) segment and on the New York Stock Exchange (NYSE), where in 2017 we celebrated the 15th anniversary of the company's listing, in the form of level III ADRs.

We have taken an important step with the legislative approval of a possible corporate restructuring of Sabesp, paving the way to do more for sanitation in the State of São Paulo and to do it better. Doing more as a result of the increase in investments aimed at ensuring universal access in the area in which the company operates and the possible incorporation of new municipalities. And doing better with the greater increase in efficiency and innovation, enabling us to move forwards more quickly and with quality in terms of providing the services.

In summary, we are constantly on the lookout for initiatives that help reduce costs, increase efficiency and improve services, with the client and the environment being the main beneficiaries, without losing sight of the Company's economic sustainability.

**Jerson Kelman** – Chief Executive Officer

## PROFILE

# THE WORLD'S FOURTH LARGEST COMPANY IN REGARDING POPULATION SERVED

**G4-3; G4-4; G4-6; G4-8; G4-9; G4-17** - Companhia de Saneamento Básico do Estado de São Paulo – Sabesp is currently responsible for water supply and collection and treatment of sewage for 368 municipalities in the State of São Paulo, including the municipalities of Santa Branca and Pereiras, where operations got underway in 2017.

Sabesp provides water supply and sewage collection and treatment services to residential, commercial, public and industrial customers, in addition to supplying wholesale water to five municipalities in the São Paulo Metropolitan Region (RMSP), four of which also benefit from sewage treatment services. It is regarded as the world's fourth largest sanitation company in terms of population served<sup>2</sup>, with 27.9 million people being supplied with water (24.7 million directly attended plus 3.0 million residents in the municipalities served by the wholesale market) and 21.6 million people being supplied with sewage collection services.

In four other municipalities in the State, Sabesp is present in providing sanitation services as a minority shareholder in the companies Águas de Castilho S.A., Águas de Andrada S.A., Sanequa Mairinque S.A. and SESAMM - Serviços de Saneamento de Mogi Mirim S.A.

In addition, the Company has equity interests in the companies Aquapolo Ambiental, the largest undertaking for the production of water for industrial reuse in South America (the fifth largest in the world), Attend Ambiental, which operates in the non-domestic sewage segment, and in Paulista Geradora de Energia S.A. (which is still in pre-operational phase), in the electricity segment. Sabesp also offers consulting services in relation to rational water use, planning and commercial, financial and operational management in Panama<sup>3</sup>.

Sabesp ended 2017 with a headcount of 13,672 employees, split between its head office, its administrative units and 17 business units, which operate 74.4 thousand km of water distribution networks and 51.0 thousand km of sewage collection networks, offshore pipelines and interceptors; 240 water treatment stations (WTSs) and 557 sewage treatment stations (STSs).

In 2017, it invested R\$3.4 billion to enhance its actions aimed at achieving its future vision of being a worldwide reference in the provision of sanitation services, in a sustainable, competitive and innovative way, with a focus on the customer. Net revenue generated in 2017 was R\$14.6 billion with a profit of R\$2.5 billion. Assets totaled R\$39.5 billion and the company's market value was R\$23.5 billion on December 31.

Sabesp has been a signatory to the United Nations Global Compact since 2007, reaffirming its mission to "provide sanitation services, contribute to improving the quality of life and of the environment", and its operations are alignment with the Sustainable Development Goals (SDGs), which is a global agenda of the United Nations (UN) made up of 17 global objectives to be achieved by 2030.

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<sup>2</sup>Arup *in-Depth Water Yearbook* 2014-2015. Available at <https://bit.ly/2GisVMV>

<sup>3</sup>More information about the Company's interest in these companies can be found in Note 12 of the Financial Statements.

## PANEL OF INDICATORS

Indicators	Unit	2017	2016	2015	2014	2013
<b>Service</b>						
Water service ratio		Tends towards universalization <sup>(1)</sup>				
Water coverage ratio	%	Tends towards universalization <sup>(1)</sup>				
Sewage collection service ratio <sup>(2)</sup>	%	83	82	83	82	-
Sewage collection coverage ratio <sup>(2)</sup>	%	90	89	90	89	-
Ratio of economies connected to sewage treatment <sup>(3)</sup>	%	75	74	72	71	-
Resident population provided with water supply <sup>(4)</sup>	thousand inhabitants	24,905	24,669	24,429	24,226	-
Resident population provided with sewage collection <sup>(4)</sup>	thousand inhabitants	21,577	21,277	20,932	20,672	-
Positive perception of customer satisfaction <sup>(5)</sup>	%	85	82	75	80	89
<b>OPERATIONAL</b>						
Water connections	thousands	8,863	8,654	8,420	8,210	7,888
Sewage connections	thousands	7,302	7,091	6,861	6,660	6,340
Water economies <sup>(3)</sup>	thousands	12,278	12,000	11,686	11,375	10,910
Sewage economies <sup>(3)</sup>	thousands	10,414	10,123	9,797	9,496	9,024
Water network extension <sup>(6)</sup>	km	74,396	73,015	71,705	70,800	69,619
Sewage network extension <sup>(6)</sup>	km	50,991	50,097	48,774	47,992	47,103
WTSS – Water treatment stations	units	240	237	235	235	232
Wells	units	1,110	1,093	1,085	1,055	1,083
STSS - Sewage treatment stations	units	557	548	539	524	509
Water losses - billings <sup>(7)</sup>	%	20.1	20.8	16.4	21.3	24.4
Water losses – involving micro measurement <sup>(8)</sup>	%	30.7	31.8	28.5	29.8	31.2
Water losses per connection <sup>(9)</sup>	liters per connection per day	302	308	258	319	372
Hydrometer ratio <sup>(10)</sup>	%	99.97	99.97	99.97	99.97	99.97
Volume of water production	millions of m <sup>3</sup>	2,783	2,696	2,466	2,840	3,053
Micro measured volume of water - retail	millions of m <sup>3</sup>	1,524	1,465	1,399	1,573	1,629
Volume of water billed on the wholesale market	millions of m <sup>3</sup>	245	227	216	247	299
Volume of water billed on the retail market	millions of m <sup>3</sup>	1,818	1,763	1,698	1,812	1,835
Sewage volume billed	millions of m <sup>3</sup>	1,606	1,552	1,481	1,562	1,579
Headcount <sup>(13)</sup>	units	13,672	14,137	14,223	14,753	15,015
Operating productivity	connections /employee	1,182	1,114	1,074	1,008	948
<b>FINANCIAL</b>						
Gross Revenues	R\$ millions	15,374.6	14,855.1	12,283.5	11,823.4	11,984.8
Net Revenues	R\$ millions	14,608.2	14,098.2	11,711.6	11,213.2	11,315.6
Adjusted EBITDA <sup>(12)</sup>	R\$ millions	5,269.3	4,571.5	3,974.3	2,918.7	4,006.6
Adjusted EBITDA Margin	% of net income	36.1	32.4	33.9	26.0	35.4
Adjusted EBITDA Margin before construction revenues and costs	% of net income	45.4	43.3	46.6	34.4	44.6
Operating result <sup>(13)</sup>	R\$ millions	3,961.7	3,429.6	3,044.0	1,910.7	3,138.8
Operating Margin <sup>(13)</sup>	% of net income	27.1	24.3	26.0	17.0	27.7
Result (net income/loss)	R\$ millions	2,519.3	2,947.1	536.3	903.0	1,923.6
Net Margin	% of net income	17.2	20.9	4.6	8.1	17.0
Net Debt by Adjusted EBITDA <sup>(14)</sup>	Multiple	1.9	2.2	2.9	3.1	1.9
Net debt to equity <sup>(14)</sup>	%	56.1	65.4	83.7	68.1	59.3
Investment <sup>(15)</sup>	R\$ millions	3,387.9	3,877.7	3,481.8	3,210.6	2,716.0
<b>ENVIRONMENTAL</b>						
G4-EN1 – Chemical products used in treating water and sewage	t	271,396	261,326	279,200	273,418	268,960
G4-EN2 - Percentage of recycled chemical products used in treating water and sewage <sup>(16)</sup>	%	3.49	3.45	3.06	3.56	3.97
G4-EN3 - Total electricity consumption <sup>(17)</sup>	Terajoules (TJ)	8,341	7,895	7,726	8,613	8,309
G4-EN5 - Electricity consumption/m3 of water produced	kWh/m3	0.68	0.67	0.72	0.71	0.63
G4-EN5 - Electricity consumption/m3 of treated sewage	kWh/m3	0.46	0.43	0.47	0.43	0.42
G4-EN6 – Reduction in energy consumption for water produced – J	%	-4.3	-2.0	12.4	-3.2%	-
G4-EN6 – Reduction in energy consumption for treated sewage – J	%	-13.4	-3.0	-0.7	-2.4%	-
G4-EN7 - Reduction in energy requirements/m3 of water produced -kWh/m3	%	-1.5	6.7	-1.4	-12.4	-
G4-EN7 - Reduction in energy requirements/m3 of treated sewage -kWh/m3	%	-7	7.7	-9.3	-4.2	-
G4-EN8 - Total water catchment – Surface	Million m3	2,602	2,539	2,397	2,674	-
G4-EN8 – Total water withdrawal – Underground	Million m3	172	168	168	166	-
G4-EN10 - Percentage of water consumed in treatment at the WTSS <sup>(18)</sup>	%	2.8	3	1.73	0.8	0.5
G4-EN10- Percentage of water recovered from washing the filters and decanters at the STSS <sup>(18)</sup>	%	84.6	84.3%	76.59	87.4	95.5
Direct and indirect greenhouse gas emissions <sup>(19)</sup>	t CO2 e	N/D	1,979,677	2,204,464	2,359,114	2,154,407
G4-EN15 - Direct greenhouse gas (GHG) emissions (Scope 1)	t CO2 e	N/D	1,771,135	1,909,847	2,018,912	1,912,750
G4-EN16 - Indirect greenhouse gas (GHG) emissions from the acquisition of energy (Scope 2)	t CO2 e	N/D	178,724	267,117	322,006	221,212
G4-EN17 - Other indirect greenhouse gas (GHG) emissions (Scope 3)	t CO2 e	N/D	29,818	27,500	18,197	20,445
G4-EN22 - Volume of re-use water supplied <sup>(20)</sup>	thousand m <sup>3</sup>	1579.18	1,683.64	1,851.8	1,214.9	1,679.70
G4-EN22 - Ratio of re-use water sold to sewage treated in STSS with reuse <sup>(20)</sup>	%	0.35	0.4	0.52	0.27	0.35
G4-EN22 - Ratio of re-use water supplied to installed capacity <sup>(20)</sup>	%	36.02	32.19	35.67	28.50	35.42
G4-EN31 - Total investment and expenditure on environmental protection <sup>(22)</sup>	R\$ million	19.9	21.2	18.4	29.8	32.5
Number of STSS and WTSS with Environmental Management Systems (SGA) <sup>(22)</sup>	Units	177	129	95	95	95
Number of STSS and WTSS certified to ISO 14001 <sup>(22)</sup>	Units	35	35	35	51	50

Number of people on monitored sanitary and environmental education visits to the operating units	People	65,266	71,122	77,580	58,018	64,000
Seedlings planted voluntarily	Units	11,358	9,500	12,214	20,702	19,081
Quantity of recyclables collected at the Sabesp 3Rs	T	140	177	268	310	381
Average alcohol fuel consumption	liters/ vehicle	2,470	3143	2827	2861	2,747
Ratio of alcohol consumption to total fuel	%	57	62	57	53	54
Positive public perception of Sabesp's environmental responsibility <sup>(5)</sup>	%	64	57	60	63	69
<b>SOCIAL</b>						
Amount invested in in-house social programs	R\$ million	778	411	664	617	594
Amount invested in external social and environmental programs	% of net income	72	39	16	47	63
Frequency rate of accidents involving medical leave	accidents per million hours worked	6.2	6.7	5.7	6.5	6.7
Positive public perception of Sabesp's social responsibility	%	68	63	64	66	70
Complaints ranked at the Consumer Protection Agency - Procon	Unit	64	41	86	78	61
Position in the ranking of the Consumer Protection Agency - Procon <sup>(23)</sup>	Position	47	-	43	-	-

- (1) Coverage equal to 98% or more. Service equal to 95% or more.
- (2) For methodological reasons, it includes a variation margin of plus or minus 2 percentage points.
- (3) Economies is the term used for the building or subdivision of a building, with occupations that are demonstrably independent of each other, collectively using a single water supply and/or sewage connection.
- (4) The demographic data takes into account the "Projections for the Population and the Households for the Municipalities of the State of São Paulo: 2010-2050", drawn up by the State Data Analysis System Foundation. The data for 2013 has not been recalculated.
- (5) Survey carried out in 2017 by Consulting do Brasil - Consulting & Intelligence in Government Business (6,312 interviews across the entire operating base with a margin of error of 1.23% and a confidence interval of 95%).
- (6) Includes water-mains, branch collectors, interceptors and offshore pipelines.
- (7) Includes actual (or physical) and apparent (or non-physical) losses. The percentage of water loss represents the ratio between the (i) Billed Volume Lost and (ii) the Volume of Water Produced. The Billed Volume Lost corresponds to: The Volume of Water Produced MINUS the Billed Volume MINUS the Volume of Uses. The Volume of Uses corresponds to: water used for periodic maintenance of pipelines and water reservoirs; water provided for use by municipalities, such as firefighting, for example; and water provided to areas of irregular settlements.
- (8) Includes actual (or physical) and apparent (or non-physical) losses. The percentage of water loss represents the ratio between the (i) Micro Measured Volume Lost and (ii) the Volume of Water Produced. The Micro Measured Volume Lost corresponds to: the Volume of Water Produced MINUS the Volume of Uses. The Volume of Uses corresponds to: water used for periodic maintenance of pipelines and water reservoirs; water provided for use by municipalities, such as firefighting, for example; and water provided to areas of irregular settlements.
- (9) Calculated by dividing the Micro Measured Volume Lost during the year, by the annual average number of active water connections, divided by the number of days in the year.
- (10) Connections with hydrometers / Total Connections.
- (11) Internal headcount. Does not include those assigned to other entities. Employees with permanent disability ceased to be taken into account from 2016 onward.
- (12) Adjusted EBITDA corresponds to net income before: (i) depreciation and amortization expenses; (ii) income and social contribution taxes (federal revenue taxes); (iii) financial income and (iv) other net operating expenses.
- (13) Does not include financial revenues and expenses.
- (14) Net debt consists of debt, minus cash and cash equivalents.
- (15) Does not include financial commitments assumed under the program agreements (R\$65 million, R\$116 million, R\$177 million, R\$6 million and R\$121 million, in 2013, 2014, 2015, 2016 and 2017, respectively).
- (16) Refers to the quantity of "fluorosilicate acid" in relation to the total chemical products used in the treatment of water and sewage.
- (17) Of the total electricity consumed, 80.4% was used in the water process (collection, production, transportation via pipelines and treatment), 18.5% in the sewage process (collection, removal and treatment) and 1.1% in the administrative process.
- (18) Refers to the quantity of "fluorosilicate acid" in relation to the total chemical products used in the treatment of water and sewage.
- (19) The 2016 inventory shows that sewage collection and treatment activities are the largest source of GHG emissions, accounting for approximately 89% of the total. Electricity contributes 9% and other activities represent roughly 2%. The annual GHG inventory for 2017 is being drawn up over the course of 2018. In 2016 biomass emissions totaled 73,872 tCO<sub>2</sub>e. The global warming potential adopted for CH<sub>4</sub> is 21 and for N<sub>2</sub>O is 310 (Global Warming Potential (GWP) values from the Second IPCC Assessment Report - SAR).
- (20) Refers to the STSs at Barueri, Jesus Netto, Parque Novo Mundo and São Miguel, which have facilities for producing reuse water. Water supplied corresponds to what was sold. The capacity of the facilities is the nominal capacity. The amounts for 2017 do not take into account the volume of effluent treated and supplied to the Aquapolo Ambiental water reuse project, which was 13.3 million cubic meters.
- (21) This takes into account the investment in and expenditure on environmental protection directly associated with the development and implementation of the key corporate environmental management programs, as well as the Program for the Rational Use of Water – Pura, along with other environmental initiatives at the local level undertaken by the company's business units. Other investments and expenditures associated with environmental protection are taken into account in the total amount of operating expenses and investments shown in this report, given the direct relationship of these environmental activities with the company's core business.
- (22) Since 2015, Sabesp has been working with a mixed model for setting up the Environmental Management System (SGA) at the STSs and WTSS, with the ISO 14001 norm applied to the certified scope while, in the case of the other stations, the company uses its own environmental management program (known as SGA-Sabesp). In light of this strategic realignment, in 2015 there was a decrease in the 14001-certified scope.
- (23) When not informed, this means that Sabesp was not among the 50 companies with the most complaints in the ranking of the Consumer Protection Agency - Procon.

**G4-56 MISSION**

To provide water and sanitation services, contributing to improving the quality of life and the environment.



**VISION**

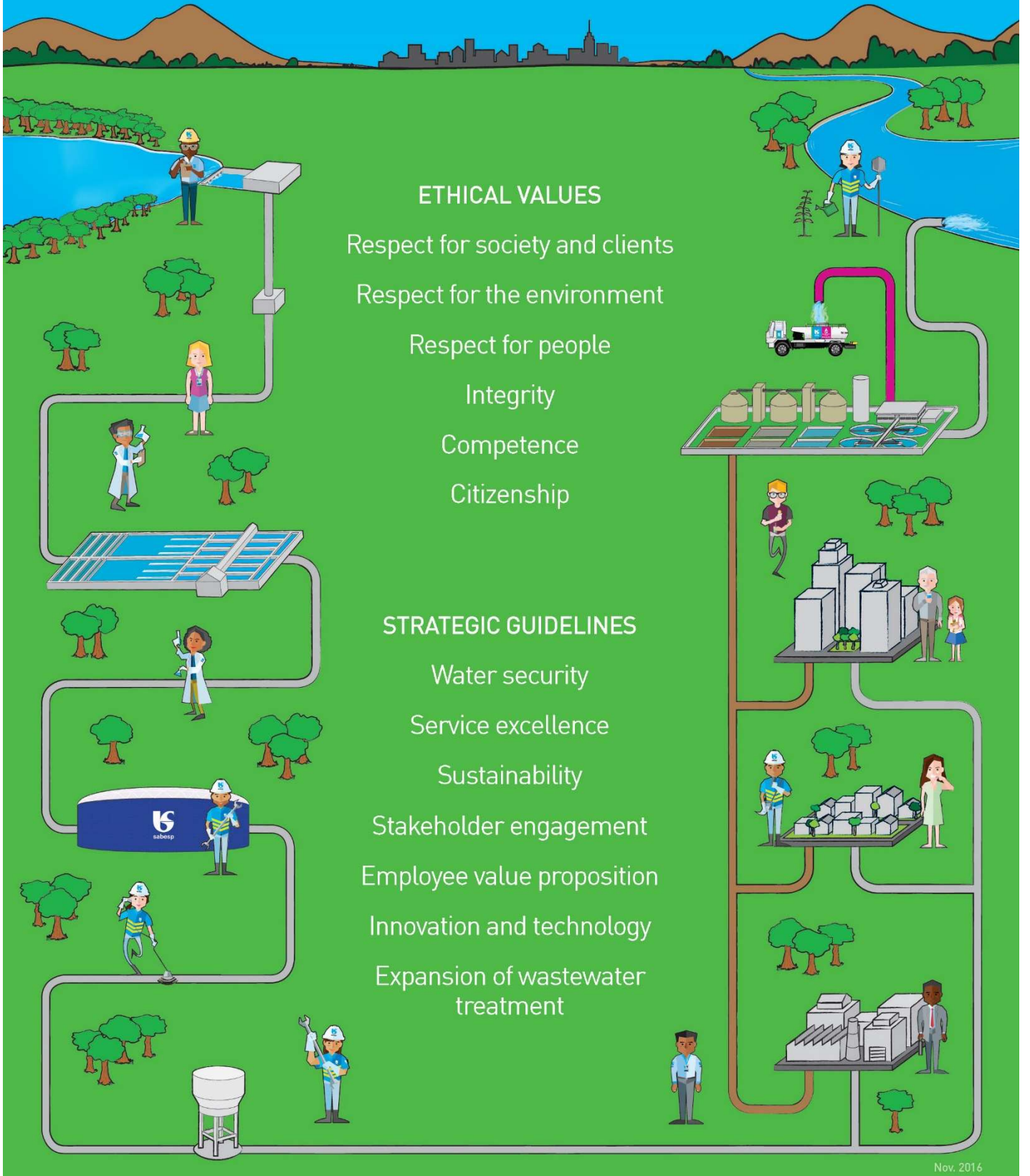
To be a global benchmark in the provision of water and sanitation services in a sustainable, competitive and innovative manner, focused on customers.

**ETHICAL VALUES**

- Respect for society and clients
- Respect for the environment
- Respect for people
- Integrity
- Competence
- Citizenship

**STRATEGIC GUIDELINES**

- Water security
- Service excellence
- Sustainability
- Stakeholder engagement
- Employee value proposition
- Innovation and technology
- Expansion of wastewater treatment



## CORPORATE GOVERNANCE

### MODERN, ETHICAL AND TRANSPARENT MANAGEMENT

As a listed company on B3's *Novo Mercado* segment and on the New York Stock Exchange (Level III American Depositary Shares - ADRs) since 2002, Sabesp has a Corporate Governance structure that is guided by high standards in relation to ethics and conduct, which emphasizes transparency in decision-making and fairness and respect for the stakeholders.

The clarity and reliability of the figures reported in the financial statements, for example, resulted in Sabesp being awarded the outstanding Transparency Trophy among the 10 award-winning companies in the category of those corporations with net revenues in excess of R\$5 billion in 2017.

This award has been given for the last 21 years at the initiative of the National Association of Finance, Administration and Accounting Executives (Associação Nacional dos Executivos de Finanças, Administração e Contabilidade - ANEFAC) in partnership with the Foundation for Accounting, Actuarial and Financial Research (FIECAFI) and Serasa Experian, with Sabesp having been among the best companies of the year in 17 editions of this award.

Also promoted by ANEFAC, the Professional Award of the Year was awarded to Sabesp's Chief Financial and Investor Relations Officer, Rui de Britto Álvares Affonso. The awards are held as a way of showing recognition for executives who have excelled in their areas of activity. The selected professionals are chosen based on the indication of the 1,600 members and the decision is confirmed by the agency's evaluation committee.

Despite already having a consolidated Governance structure, new standards of transparency and good governance, such as Federal Law 13,303/16 and State Decree 62,349/16, have been released, which has resulted in the need for adaptations, the deadline for the implementation of which is June 2018.

In addition, a new version of the B3's *Novo Mercado* Listing Regulations came into force at the start of 2018, requiring the revision of institutional documents and of information disclosure practices. The deadline for adjustment to this new rule is April 2021.

Throughout 2017, the Company focused on the development of the aforementioned adaptive measures, which mainly consist of amendments to the Bylaws and the Code of Ethics, adaption of the governance structure, the implementation of a system for evaluating management, the creation of policies, including among them the policy regarding transactions between related parties, and the drafting of a set of Internal Regulations on Bidding Procedures.

Sabesp's current corporate governance structure, with its functions and responsibilities, can be checked out at the Company's website<sup>4</sup>, Corporate Governance section. [G4-34, G4-38, G4-39, G4-40](#)

#### Management's compensation

In 2017, the compensation of the directors, members of the fiscal council and executive officers, in gross amounts, including benefits and legal charges, totaled approximately R\$4.4 million, of which approximately R\$556 thousand relates to the variable compensation of the executive officers. It is worth remembering that neither the board members nor the fiscal council members are allowed to receive

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<sup>4</sup>Sabesp's corporate governance structure. Available at <https://bit.ly/2DN7Bdi>

variable compensation, as provided for in State Decree 58.265/12 and ratified by the Shareholders' Meeting of April 2013.

Under the terms of Brazilian Corporate Law, the compensation of the directors, members of the fiscal council and executive officers is fixed at an aggregated sum, by the Shareholders' Meeting. At Sabesp, the compensation policy for the directors and executive officers is fixed in accordance with the government of São Paulo's guidelines, always subject to approval by the Shareholders' Meeting.

### **Integrity and transparency** DMA- Combating Corruption

Sabesp's Integrity Program was established in 2015 and follows the recommendations of the Organization for Economic Co-operation and Development (OECD), as well as of the United Nations Office on Drugs and Crime (UNODC) and of the World Bank.

The program covers two distinct scenarios, active corruption and passive corruption, and in 2017, it underwent a new restructuring in order to bring it into line with the recommendations of the Comptroller General's Office (CGU), divided into five pillars: Commitment and Support from Senior Management, Profile and Risk Analysis, Rules and Instruments and Continuous Monitoring.

The Program currently consists of a set of internal integrity mechanisms and procedures for monitoring and encouraging the reporting of irregularities, and for the effective application of the Code of Ethics and Conduct and of the policies and guidelines aimed at preventing fraud and corruption.

As part of the Program, Sabesp has an Institutional Compliance Policy approved by the Board of Directors, which establishes guidelines, principles and competencies that direct its management and employees to work for the company so as to ensure compliance with laws, regulations and organizational instruments, preserving the company's assets, image, integrity and other ethical values. The Compliance Policy is disclosed internally on the Company's corporate portal. **G4-SO4**

In 2017, taking into consideration the Company's risk and corporate governance profile, 59 actions were consolidated as compliance practices. By comparison with the previous year, there was a 13% growth in the adherence to these practices. **G4-SO3**

Among these actions, highlight goes to the adoption of integrity measures among the company's suppliers and service providers, establishing compulsory compliance with ethical standards and a ban on fraudulent and corrupt practices in their contracts.

Sabesp has been taking a series of measures that, adhering to corporate governance actions, enhance its processes in such a way as to always act with transparency and become a reference in models of efficiency in public sector management, such as the Transparency Portal<sup>5</sup>, which was implemented in 2017, and which delivers clear and up-to-date information such as Institutional Policies, contracts with the granting authority and agreements with suppliers, main programs and projects developed.

The stance adopted by the company of full publication of information is also reflected in the results of requests made by the Citizens Information Service (SIC). The 267 requests registered were all answered in an average period of 13 working days, seven days less than the deadline permitted under the law, which is 20 days.

For next year, the company has scheduled training on anti-corruption measures and improvements to due diligence to be conducted to on suppliers and service providers.

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<sup>5</sup> Sabesp's Transparency Portal. Available at <https://bit.ly/1BkRH5B>

Sabesp is committed to improving its processes for combating corruption in its business environment and has expressed its public commitment to ethics, also by means of its adherence to the Instituto Ethos' Business Pact for Integrity and Anti-Corruption and is a member of the UN Global Compact's Anticorruption Working Group and of the Pinheiros/SP chapter of the Brazilian Bar Association's (OAB) Anti-Corruption and Compliance Committee.

### **Code of Ethics and Conduct and Whistleblower Channel**

Sabesp's Code of Ethics and Conduct, which was developed in a collaborative way, was launched in 2006, updated in 2014 and is applied throughout the entire organization. It establishes the ground rules for its management and employees to act in an integrated and coherent way in the conduct of their relations and businesses with different publics: customers, shareholders, investors, suppliers, partners, third parties, government, the community and society in general. The document<sup>6</sup> guides Sabesp's actions in combating all forms of fraud, corruption and acts harmful to the public administration, especially those provided for by domestic and foreign anti-corruption legislation.

The Ethics and Conduct Committee is responsible for encouraging employees' commitment to the Code and for ensuring that it remains relevant, up-to-date and adequate, as well as for guiding and suggesting actions required for the disclosure and dissemination of its precepts at all levels of the Company.

Complaints about incidents of fraud, corruption, unlawful acts, breaches of the Code, or in relation to other matters that may have a negative impact on the principles and interests of Sabesp, its subsidiaries and shareholders, may be made by any interested party by means of the channels provided by the Company:

- E-mail: [canaldedenuncia@sabesp.com.br](mailto:canaldedenuncia@sabesp.com.br)
- Direct phone line: (011) 3388-8100
- Ombudsman:: 0800-0550565 or e-mail: [ouvidoria@sabesp.com.br](mailto:ouvidoria@sabesp.com.br)
- Telephone Call Center: Emergency: 195 or Metropolitan Region SP: 0800-0119911 or the interior of the state and coastal region: 0800-0550195
- Caixa Postal: 61.540 - CEP: 05424-970
- Personally or by letter addressed to the Audit Superintendence: Rua Costa Carvalho, 300 - CEP: 05429-900

It is up to the Audit Committee to monitor the procedures for verifying breaches of the Code of Conduct and Integrity, as well as of events registered on the Whistleblower Channel.

The Audit Superintendence is responsible for processing complaints and should take efforts to ensure the anonymity of the complainant and protect the confidentiality of the information and of those involved, in order to preserve rights and the neutrality of decisions.

In 2017, 144 incidents were recorded, of which 71% were investigated and 29% are under investigation, which represents a 6.5% decrease against 2016. Out of the total, 5% were related to inappropriate behavior, harassment, discrimination, persecution and unfair treatment. **G4-S05**

In the case of all those complaints considered to be relevant, penalties were imposed on 43 employees (including the company's own employees as well as outsourced employees): 18 warnings, 7 suspensions and 18 dismissals. The results of the inquiries of the complaints are forwarded to the Audit Committee.

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<sup>6</sup> Ethics and Conduct Code. Available at: <https://bit.ly/2pxxF7P>



## Internal Controls

Internal controls have been evaluated in a structured and systematic way since 2005, benchmarking with the internal control parameters of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The internal controls assessment process is carried out once a year taking into account both the existence of new risks associated with the drawing up and disclosure of financial statements and possible significant changes in information technology processes and systems.

Internal controls include procedures regarding adjustment of the accounting records, preparation of the financial statements in accordance with official rules and proper authorization of transactions involving the acquisition, use and disposal of the Company's assets.

The internal control tests are carried out by the Audit Superintendence, a unit that is subordinated to the Chief Executive Officer and reports functionally to the Audit Committee, and which since 2016 has held the QA Quality Assessment certificate granted by the Brazilian Institute of Internal Auditors (IIA) Brazil), which is an affiliate of The Institute of Internal Auditors (IIA).

In addition to complying with section 404 of the Sarbanes-Oxley Act (SOX), the internal controls assessment process is in accordance with Law 13,303, dated June 30, 2016.

As was the case in previous years, the review of the effectiveness of the internal control environment in 2016 did not identify any material deficiencies. The tests for the year 2017 will be completed in April 2018.

## Risk Management

Sabesp has a Risk Management and Compliance Superintendence, which is subordinated to the Chief Executive Officer and reports functionally to the Audit Committee. The risk management process is in accordance with international standards and Brazilian technical norms, specifically the COSO - ERM - The Committee of Sponsoring Organizations of the Treadway Commission "Enterprise Risk Management - Integrated Framework" and ABNT NBR ISO 31.000 - Risk Management - Principles and Guidelines, covering the entire organization.

**G4-14, G4-EC2** The Company maintains a risk map and monitors global and national trends in order to foresee scenarios that may have an adverse effect on its operations and in this way ensure that its objectives are achieved. The identified risks are measured at regular intervals with regard to their impact and the likelihood of their occurrence, are given a detailed assessment by the appropriate hierarchical levels in order to define mitigating actions required for each situation. The description of the risk factors can be found in item 4 of the Reference Form<sup>7</sup>, which is available on the Company's Investor Relations website, in the Financial and Operating Information section.

## External Auditors

Sabesp respects the principles that protect the external auditor's independence with regard to not auditing their own work, not performing management functions and not acting on behalf of their client. KPMG Auditores Independentes has been the Company's independent auditor since the review of the quarterly information (ITR) of June 30, 2016. In 2017, the Company paid R\$2.9 million for the audit of

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<sup>7</sup> Reference Form. Available at: <http://bit.ly/2FXM86s>

the financial statements, the review of the quarterly information and of financing projects, among others.

In 2017 Deloitte Touche Tohmatsu Auditores Independentes provided one-off external audit services in the amount of R\$136 thousand, in relation to the reissue of opinions regarding previous years that were audited by it. Among SABESP's affiliated companies, KPMG Auditores Independentes audits the companies Águas de Castilho S.A. and Águas de Andradina S.A. During the period in which they have acted on the Company's behalf, the auditors have not provided any other services that exceeded 5% of the fees paid for the external audit services.

## **Business Model**

**G4-7** - Sabesp is a publicly-held and government controlled company that was founded in Brazil in 1973, by State Law 119/73, with the purpose of planning, executing and operating public basic sanitation services in the State of São Paulo.

At present, its main corporate purpose is to provide basic sanitation services, as established in its Bylaws, with a view to universal access to the aforesaid services in the State of São Paulo, without prejudice to the company's long-term financial sustainability.

The Company is also authorized to plan, operate and maintain systems for the production, storage, conservation and trading of energy, both for itself as well as for third parties, and also to market services, products, benefits and rights that directly or indirectly result from its assets, business ventures and activities. It may also provide services, on a subsidiary basis, in any part of Brazil's territory or abroad.

Sabesp's share capital consists exclusively of common shares (with voting rights) and in compliance with State Law No. 11,454/2003, the Government of the State São Paulo is required to be the controlling shareholder. The Government of the State currently holds 50.3% of the shares.

The rest of the shares are traded on stock exchanges in Brazil and abroad. At the end of 2017, 29.7% of the shares were traded in Brazil, and the remaining 20.0% were traded in the United States in the form of Level III American Depositary Receipts (ADRs).

On September 15, 2017, State Law 16,525 was enacted, which allowed the Government of the State of São Paulo to set up a joint stock company that could exercise share control of Sabesp, but with the State Government retaining the majority of the voting capital of this parent company.

The purpose of this measure is to try to obtain more funds in order to expand investments in sanitation and to speed up the process of achieving universal access to water supply, sewage collection and treatment services, in an attempt to add value to Sabesp's business and strengthen its corporate governance.

For more information, see the chapter "Earnings Reversed into Gains for Society" of this report.

## **Strategy and vision of the future**

**G4-56** Sabesp's mission is to provide water and sewage services, contributing to improving the quality of life and of the environment; with the Company's goal being to become a worldwide reference in the provision of sanitation services, in a sustainable, competitive and innovative way, with a focus on the customer.

The definition of Sabesp's strategies and guidelines considers the process of surveying scenarios and risks and opportunities as inputs. Based on international standards and Brazilian technical norms, specifically the COSO - ERM model - The Committee of Sponsoring Organizations of the Treadway Commission "Enterprise Risk Management - Integrated Framework" and ABNT NBR ISO 31.000 - Risk Management - Principles and Guidelines, Sabesp's risk management process is divided into four categories, with these being strategic, financial, operational and compliance. The Company's main risks are described in item 4 of the Reference Form<sup>8</sup>.

Sabesp's main lines of action in pursuit of its vision for the future are as follows:

To ensure the availability of water in the company's area of operations and to make progress in relation to implementing structures for the collection and treatment of sewage, with technical and economic feasibility, contributing to the goal of universal availability and to ensure quality in the management of the services and products provided. The objective is to maintain universal coverage of water supply and services, together with high levels of quality and availability, undertaking 783 thousand new water connections between 2018 and 2022. The Company also intends to increase sewage collection coverage and services as well as the coverage ratio, carrying out roughly 1.1 million new connections during the same period.

To improve the Company's management by means of the SiiS (Sabesp Integrated Information System) operation, the ERP (Enterprise Resource Planning) system, which was implemented in April 2017, and the CRM (Customer Relationship Management) system, with a view to replacing the current commercial information systems. At the same time, 2017 saw the development of the Sabesp Management Model Project, which consists of carrying out the Assisted Self-Assessment based on the National Quality Foundation's Management Excellence Model (MEG).

The project's completion is scheduled for the first half of 2018 and will provide the basis for improving the Company's management model. These projects will help strengthen management, provide greater support in decision making, increased efficiency of internal processes and operations along with greater productivity.

To encourage the creation, adoption and dissemination of solutions focused on value generation, seeking to enhance asset management and energy efficiency, as well as to continuously reduce water losses and operating costs. This is achieved by means of investing in research and technological development projects, in addition to automation, integration of planning and optimization of processes.

In 2017, Sabesp invested roughly R\$10.7 million in research, development and innovation projects, both with its own resources as well as those raised with development entities or even financed by partners. As an additional way of encouraging the search for sustainable and innovative solutions to optimize investments and improve the operational efficiency of sanitation in the Baixada Santista region or in informal areas, at the start of 2018, Sabesp launched the Saturnino Brito Engineer Award. An initiative open to all employees will recognize the best and most innovative sanitary engineering projects proposed for these regions.

### **Balance of Targets**

The targets proposed by the Company for 2017 were achieved, with highlight going to the installation of 207.3 thousand new water connections, which was 12% greater than the target that had been set and the 221.8 thousand new sewage connections, which translates into 11% more connections than had been expected for the period.

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<sup>8</sup>Sabesp Reference Form. Available at <https://bit.ly/2lKN6l2>

The 31.7% target for the losses related to the micro-measurement of water was exceeded and reached 30.7%. In 2017, in an attempt to align itself with technical means, such as the International Water Association (IWA), Sabesp began to use the Water Loss Ratio Per Connection per Day (IPDt) as an indicator for target setting. This ratio was also adopted by Arsesp for the establishment of regulatory loss targets.

2017's achievements and the projections for the coming years can be found in the table below.

### 2017's achievements and Targets for 2018-2022

	Achieved	Targets					
	2017	2017	2018	2019	2020	2021	2022
Water Supply Service	Tends towards universalization <sup>(1)</sup>	Tends towards universalization <sup>(1)</sup>					
Sewage Collection Service (%)	83%	83%	84%	85%	86%	87%	88%
Water Supply Coverage	Tends towards universalization <sup>(1)</sup>	Tends towards universalization <sup>(1)</sup>					
Sewage Collection Coverage (%)	90%	90%	91%	91%	92%	93%	93%
Ratio of economies Connected to Sewage Treatment (%) <sup>(2)</sup>	75%	75%	76%	77%	80%	83%	83%
New Water Connections (thousands)	207.3	185	168	160	155	150	150
New Sewage Connections (thousands)	221.8	200	200	225	236	245	210
IPDt (Liters per connection per day)	302	303	293	283	273	260	258

(1) Coverage equal to 98% or more. Service equal to 95% or more. For methodological reasons, it includes a variation margin of plus or minus 2 percentage points.

(2) Economies is the term used for the building or subdivision of a building, with occupations that are demonstrably independent of each other, collectively using a single water supply and/or sewage connection.

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.

## SUPPLY

# WATER SECURITY FOR THE PRESENT AND FOR THE FUTURE

From small towns, with populations of less than two thousand inhabitants, to the largest urban concentrations on the planet, such as the Metropolitan Region of São Paulo (RMSP), Sabesp is the concessionaire responsible for supplying 368 municipalities in São Paulo. In order to accomplish this task, it has an infrastructure of 240 WTSs that together allow the production of 119 m<sup>3</sup>/s of treated water that reaches the taps of 27.9 million people (including those attended by wholesale) by means of 74.4 thousand km of networks and pipelines, 8.9 million connections in 12.3 million economies.

Although universalized, the supply service requires permanent monitoring of the demographic and geographical growth of the cities, which in 2017 demanded investments of R\$2.2 billion. This work is based on different programs drawn up in accordance with the different characteristics of the regions served: the Metropolitan Water Program (PMA), in the RMSP, and Water on the Coast and Water in the Interior programs. In all of the regions there is a Corporate Loss Reduction Program aimed at combating leaks and frauds in the pipelines.

### The metropolis and the challenge for supply DMA Water

The RMSP is the largest urban agglomeration in Latin America and is one of the world's six largest metropolises. With a population density of 2.6 thousand inhabitants per km<sup>2</sup>, it is fourteen times more populous than the state average, of 181 inhabitants per km<sup>2</sup>. The largest center of national wealth, its GDP accounts for roughly 18% of the Brazil's GDP and more than half of the State of São Paulo's GDP<sup>9</sup>.

Of the 39 municipalities that make up the RMSP, 34 are directly served with another five being indirectly supplied with water by the wholesale market. 20.8 million people are concentrated in this region, which corresponds to 47% of the State of São Paulo's inhabitants.

The combination of factors such as economic activity, high population density, disorderly and irregular occupation of the soil and the geographical location (at the headwaters of the Alto Tietê basin) result in extremely low water availability, in a situation that can be compared to the realities experienced in desert regions. The annual average of 160 to 200 thousand liters per capita represents one-tenth of the amount indicated as critical ("poor") by the United Nations (UN) - which ranges from 1.5 million to 2.5 million liters per inhabitant/year.

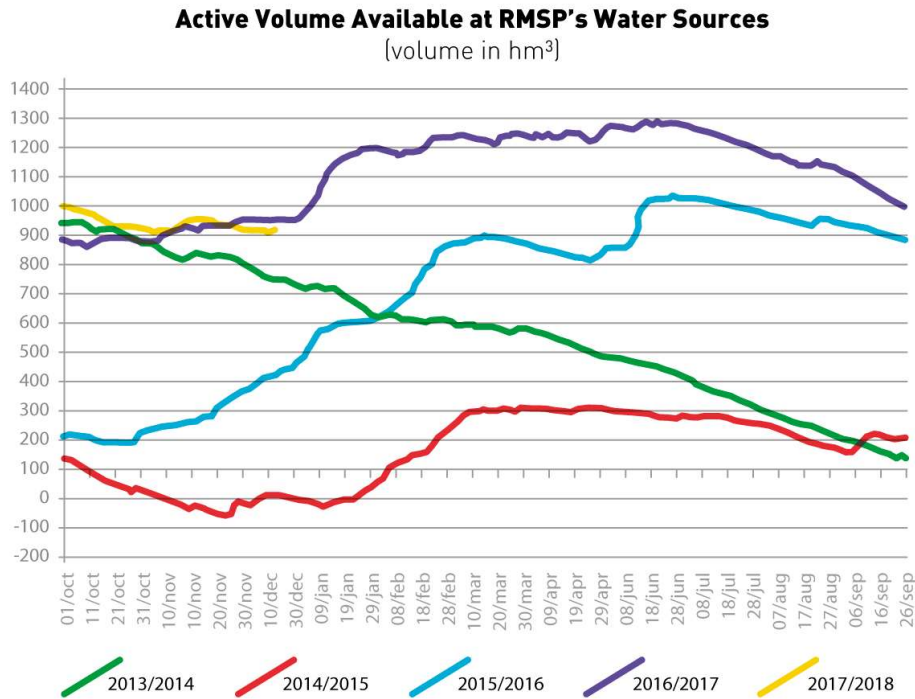
In this environment of permanent scarcity, extreme climatic phenomena such as the one that occurred during the years 2014-2015, with the most severe drought ever recorded in the RMSP, make the task of maintaining water security and ensuring that the population continued to receive the service an even more challenging one. However, a breakdown in the supply was avoided because of a positive set of efforts, starting with the emergency construction works that were implemented right from the very first signs of the crisis, which reinforced the infrastructure and gave the different supply systems more resilience.

The return of the rains to close to normal conditions together with the change in the habits of the population, which realized the critical nature of the moment and began to save water, were also fundamental factors in overcoming the crisis<sup>10</sup>. Once the driest period (2014-2015) was over, the year 2017 saw a continuation of the trend that began in 2016 with a recovery of the main systems that supply the RMSP. The natural contribution (inflow) to the water sources was 71% of the historical average, due to a rainfall equal to 90% of the historical average, with lower precipitation in the second semester when

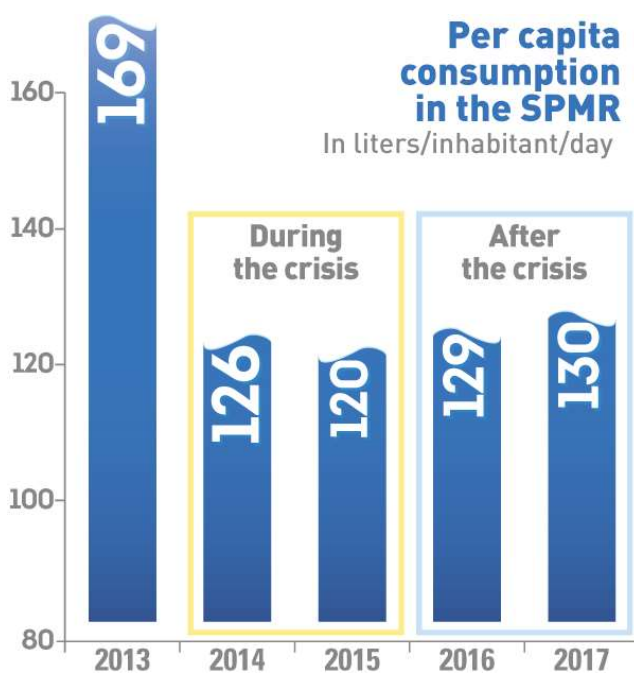
<sup>9</sup>Empresa Paulista de Planejamento Metropolitano S.A. (Emplasa), 2015. Available at <https://bit.ly/2AoITjT>

<sup>10</sup> See Sabesp Sustainability Report - 2015 and 2016 editions. Available at <https://bit.ly/2FU4GFz>

the amount of rainfall was 75% of what had been expected. Nevertheless, on December 31, 2017, the overall volume of the water sources showed a cumulative figure of 916.8 million m<sup>3</sup>, which is just slightly below the amount registered on the same date in 2016 (a difference of 35.6 million m<sup>3</sup> or 1.5%). But an 8.1% increase against than the total volume registered in December 2013, the period immediately prior to the water crisis (chart).



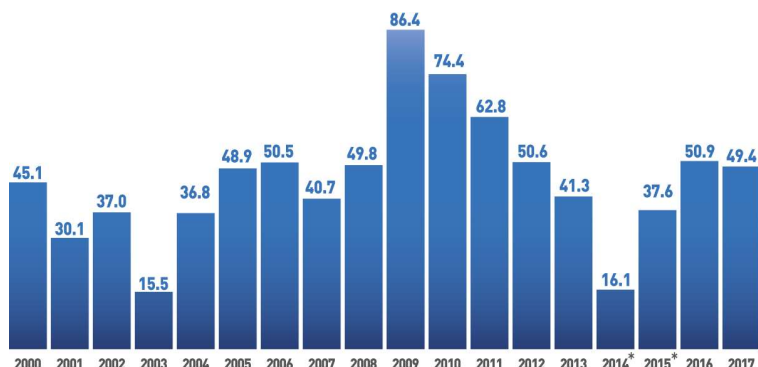
The volume stored in 2017 represents 49.4% of the total capacity of the set of water sources, which is 1.8 billion m<sup>3</sup>



Regarding residential consumers, maintenance of the volume stocked in light of the lower than historical average inflows and rainfall can be explained by the awareness of part of the population, in particular residential consumers, together with the incorporation of rational consumption habits, acquired over the course of the water crisis.

As a result, per capita consumption in 2017 was 130 liters a day, maintaining the same level as in 2016, and one which was 23% lower than the figure of 169 liters per inhabitant/day that was registered in 2013, before the prolonged drought. This behavior can be partially observed in the decrease in the average daily production of treated water in 2017 to supply the Metropolitan Region of São Paulo, which was 60.6 m<sup>3</sup>/s, which is 12% lower than the 69.1 m<sup>3</sup>/s average produced in 2013, immediately prior to the outbreak of the water crisis.

## Total level of water sources (in %)



System	Qn	2016	2017
Cantareira	33.00	21.97	25.05
Guarapiranga	16.00	13.94	13.33
Alto Tietê	15.00	11.73	11.83
Rio Grande	4.00	4.87	4.48
Alto Cotia	1.50	1.24	1.24
Baixo Cotia	0.90	0.89	0.78
Rib. Estiva	0.10	0.08	0.08
<b>Total</b>	<b>75.50</b>	<b>58.49</b>	<b>60.65</b>

**Efficient management:** The transfers between the systems boosted as a result of the construction work that was undertaken during the water crisis enabled the accumulation of 119.8 million m<sup>3</sup> in RMSP's water sources in 2017. Without them, the total reserve would be 6.5 percentage points lower at 42.9%.

Daily average production of treated water in the RMSP was 12% lower in 2017, than it was in 2013, the year prior to the outbreak of the crisis. Four years ago, average daily peaks registered 71.4 m<sup>3</sup>/s, which demonstrates the consolidation of rational consumption habits.

Total water production of the Integrated System (m<sup>3</sup>/s)



Launched in 2017, the Sabesp RMSP Water Sources application provides the user with data regarding the percentage level of the dams and a month-to-month for the last five years. It can be downloaded for free in Android and iOS versions and also makes it possible to check the pluviometry and the characteristics of the metropolis' production systems.

## **Granting of the Cantareira System: 2017 - 2027**

The granting of the Cantareira System was postponed twice as a result of the uncertainties generated by the water crisis. With the return of normal conditions, the rules were finally established by a Joint Resolution between the State of São Paulo's Department of Water and Electricity (DAEE) and the National Water Agency (ANA).

Disclosed on May 29, 2017, the new rules are valid for a period of ten years and define the operation by different flow rates withdrawn from the System according to the cumulative useful volume, with the maximum amount being 33 m<sup>3</sup>/s, when the Cantareira has a stock equal to or greater than 60% of its capacity. The document also makes the granting conditional upon operational improvements to be shown by the Company.

There was also the inclusion of the Paiva Castro reservoir in the equivalent volume of the PCJ (Piracicaba, Capivari and Jundiá Basin), as well as new rules for discharges from the system's reservoirs, which allows greater flexibility to meet the demands of the municipalities that depend on the basin, taking into account rainfall and daily inflows from the contributing rivers. This evaluation determines the flow to be discharged at the dams<sup>11</sup>.

## **Metropolitan Water Program**

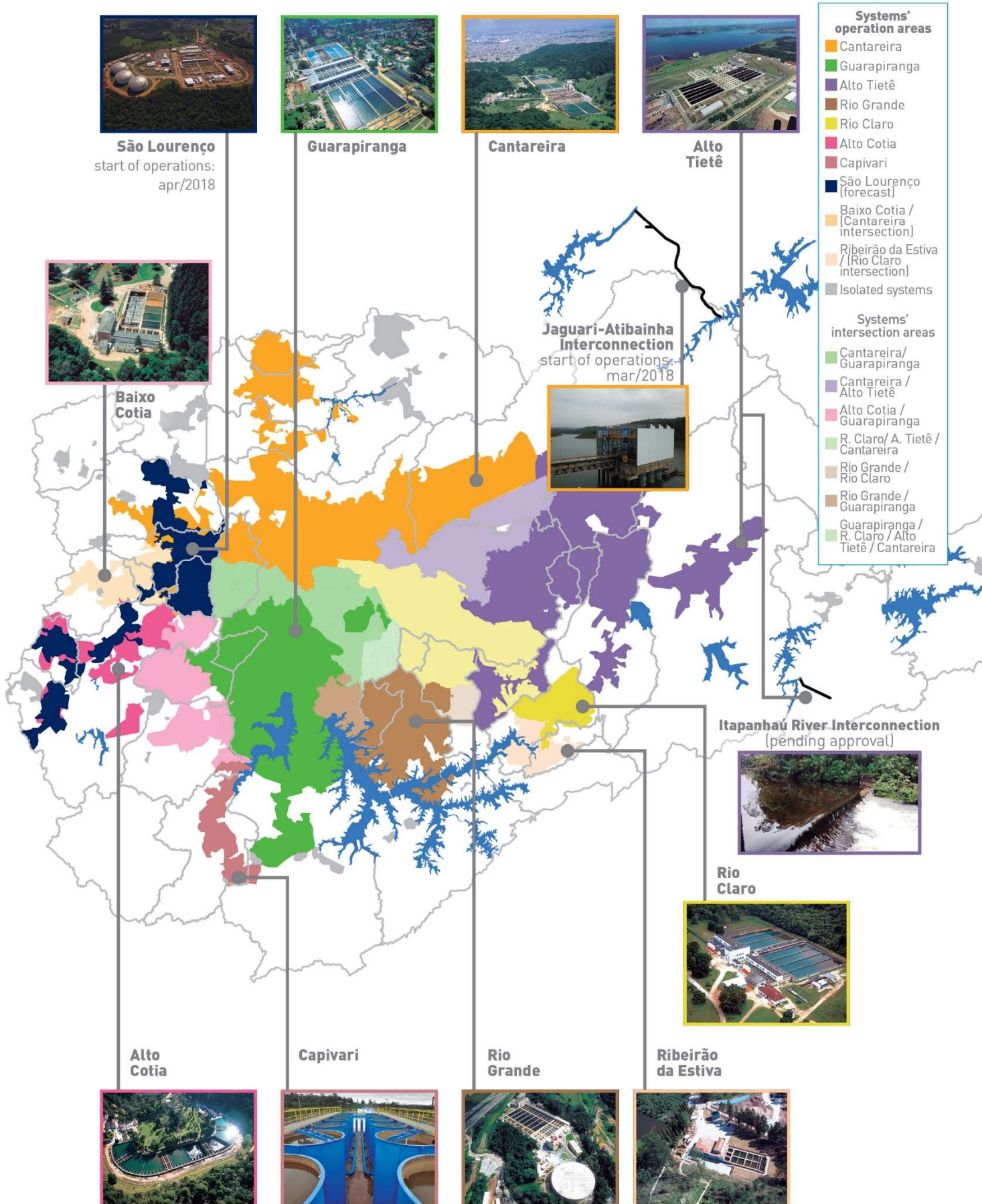
In the RMSP, in addition to the Cantareira System, Sabesp has seven other Water Production Systems - Alto Cotia, Baixo Cotia, Guarapiranga, Rio Grande, Rio Claro, Alto Tietê and Ribeirão da Estiva, which together have a nominal production capacity of 75.8 m<sup>3</sup>/s of water and make up the Metropolitan Integrated System (SIM). These production systems are interconnected by large-sized water mains that make up the Metropolitan Water Mains (SAM), which is responsible for transporting the treated water to the sector reservoirs and, from these points, it is distributed to 5.4 million consumption points in the Greater São Paulo region.

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<sup>11</sup> Granting of the Cantareira System ANA/DAEE-2017. Available at <https://bit.ly/2FWFw9h>



## METROPOLITAN SUPPLY SYSTEM



*Operating in regions with low water availability, which are subject to climatic uncertainties and that are densely populated such as the RMSP, require great efforts in order to ensure security of supply. The work is carried out based on on-going campaigns for rational use of water, a great deal of planning and substantial investments in the catchment, transportation, treatment and preservation of water in fighting water losses in the networks.*

The emergency actions that were carried out during the two year period 2014-2015 in order to strengthen the integrated system were developed on three fronts: 1) increase in the intake capacity of raw water in the reservoirs (7.3 m<sup>3</sup>/s); 2) increased water treatment capacity (2.5 m<sup>3</sup>/s) and 3) greater integration between the Producer Systems with the expansion of the treated water transfer capacity by roughly 6m<sup>3</sup>/s. These interventions allowed the other Producer Systems to come to the aid of the Cantareira and Alto Tietê Systems, which were the ones that were most affected by the crisis<sup>12</sup>.

The implementation of this set of emergency actions was only possible due to the existence of a solid structure, which for more than two decades has been reinforced by the **Metropolitan Water Program (PMA)**, which required investments of around R\$460 million in the PMA in 2017<sup>13</sup>.

The Metropolitan Water Program (PMA), which got underway more than two decades ago, has been focused on increasing the supply of raw water, increasing the reservoir structures, renovating and expanding the transport (pumping) capacity and the production of treated water, the PMA was established in order to fix the problem of a lack of infrastructure that inflicted a situation of water rationing on more than five million people in the RMSP. As a result of this work, service coverage increased from 70% to 100% in the year 2000, and water production capacity in the RMSP was increased from 57.2 m<sup>3</sup>/s to 75.8 m<sup>3</sup>/s, an increase of 32.5% in water production capacity, in line with the growth in the population.

Although fundamental to overcoming the water crisis, the set of emergency construction projects that was carried out in the two-year period 2014-2015 and the resulting recovery of water supply sources with the return of the rainfall is no guarantee that the future will be fully predictable.

In light of the increased likelihood of new extreme weather events, Sabesp proceeded with the implementation of two major water security structuring works, foreseen in the Master Plans for Use of Water Resources for the São Paulo State Macro-Metropolis (Secretariat for Water Resources and DAEE) and in the RMSP Water Supply Master Plan - PDAA (Sabesp). The implementation of the São Lourenço Producer System was speeded up, while that of the Jaguari - Atibainha Interconnection was brought forward. In addition, negotiations are ongoing to start work on the transposition of water from the Itapanhaú river, on the Atlantic side, to the Alto Tietê System.

With the new risk curve generated by the crisis, Sabesp's long-term planning also needed to be repositioned strategically. Therefore, the Company brought forward the updating of the Metropolitan Region of São Paulo's (RMSP's) Water Supply Master Plan (PDAA), with a timeframe up until 2045. These updates occur, on average, every ten years, seeking adjustments as a result of population growth, the population's consumption behavior and rearrangement of the population's distribution across the territory.

Scheduled for completion at the end of 2017, the review of the PDAA took into account studies and projections of the water availability of the production systems based on historical monthly series of tributary flow and rainfall, including the two-year period of the crisis, 2014-2015. In this planning process of the RMSP's Integrated Supply System, we use state-of-the-art hydraulic modeling software technology, coupled with forecasts of demand, water source availability, treatment capacity and treated water transportation. This makes it possible to analyze the integration between the production systems,

<sup>12</sup> See Sabesp Sustainability Report - 2015 and 2016 editions. Available at <https://bit.ly/2FU4GFz>

<sup>13</sup> Investments reported in this chapter, by project or program, are shown on the cash basis.

with a view to reaching a balance between the availability of raw water, treated water and consumption in the RMSP.

In this way, scenarios are projected that make it possible to assess the need to increase capacity in the face of a possible repetition of the water crisis that occurred. For example, it is possible to identify how long a regional pipeline or reservoir will be able to serve a growing region. One can also assess the best position in which to install a pumping station and check that a new systems interconnection is not more an efficient and sustainable option than the cost of pumps and electricity to operate it.

### Water at an ever-greater distance

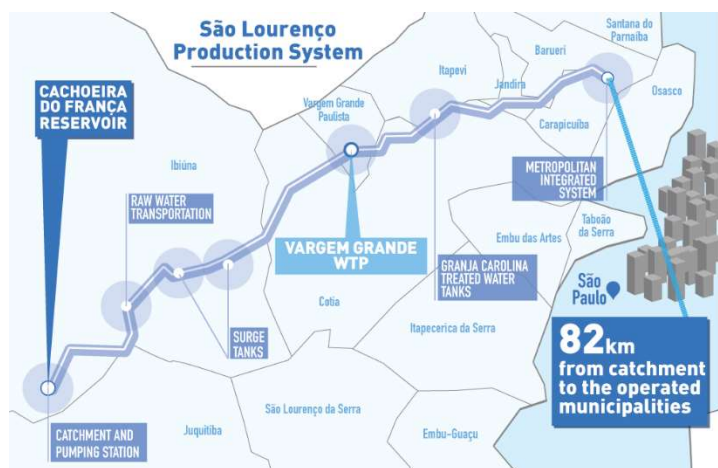
The natural availability of the Alto Tietê river basin, where 70% of the RMSP's territory and 99.5% of its population are located, is unable to meet this population's water needs. Nowadays the demand is twice as great as the basin's natural outflow of 31 m<sup>3</sup>/s (with 95% guarantee)<sup>14</sup>. This restriction forces the Company to look for water in water sources that are at ever greater distances and imposes the need to combat water losses in pipes and to encourage rational consumption actions.

Built more than four decades ago in order to enable the reversal of water from the Piracicaba, Capivari and Jundiá river basins to the RMSP (included in the Alto Tietê Basin), the Cantareira System already predicted that the need to "import" water from ever further away was a reality that had to be faced.

The search for sources outside the Alto Tietê Basin is the common point between Sabesp's three recent major structuring works: the São Lourenço Production System, the interconnection of the Jaguari-Atibainha dams, and the reversal of the Itapanhaú river, which increase the supply of raw water and treated water in the RMSP.

With its construction initiated in April 2014, the São Lourenço Producer System is designed to supply up to 6.4 m<sup>3</sup>/s of water ready for consumption in the Metropolitan Integrated System (SIM). It has a capacity to serve up to two million people from the municipalities of Barueri, Carapicuíba, Cotia, Itapevi, Jandira, Santana de Parnaíba and Vargem Grande Paulista.

At the end of 2017, more than 90% of the System's structure had been built and its inauguration was scheduled for April 2018. By the time it reaches the western region of Greater São Paulo, the water has traveled a distance of 82km, from the collection point at Cachoeira do França dam, on the river Juquiá, in Ibiúna, in the Vale do Ribeira region. In route, the water is treated at the Vargem Grande Paulista WTS and the system also has reservoirs capable of storing 125 million liters.



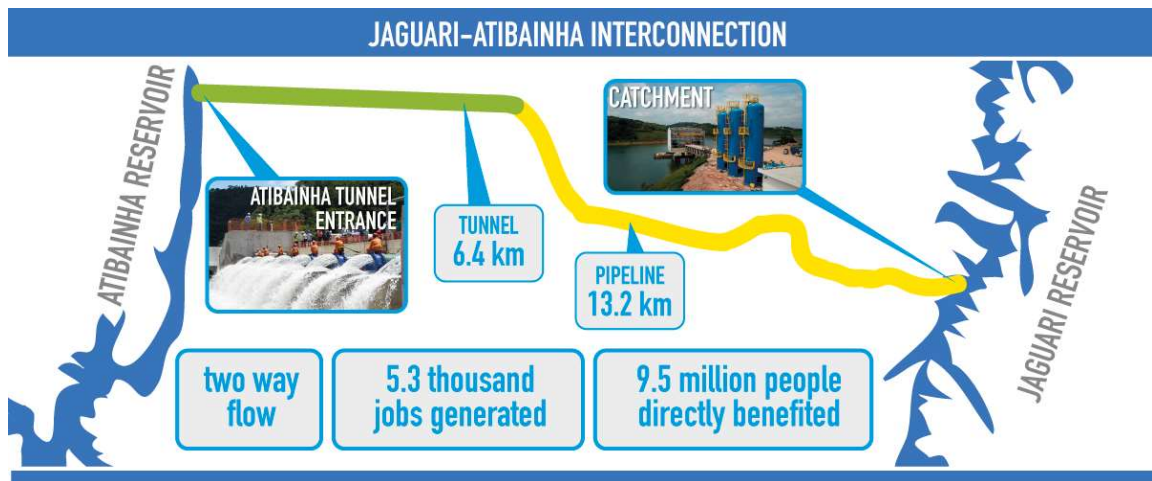
In the long run, the expectation is to meet future demands of the western region, which is the RMSP area with the highest population growth rates. However, since Sabesp's water supply system throughout the entire RMSP is integrated, the increase in supply will indirectly benefit the entire population served in the metropolis. The construction work, an investment of R\$2.2 billion, generated roughly 5 thousand jobs in the region and was made possible by a Public-Private Partnership (PPP) between Sabesp and a private consortium.

<sup>14</sup> Water Sources Status Report – 2016. UGRHI 06 - FABHAT - item 3 - Figure 3 - page 14

The Jaguari-Atibainha Interconnection is another of Sabesp's main interventions aimed at increasing water security for those served in the RMSP and PCJ water basin, as well as for users of the Paraíba do Sul water basin, the Vale do Paraíba and Rio de Janeiro.

Inaugurated in March 2018, the 19.6 km long interconnection (13.2 kilometers of pipeline and 6.4 kilometers of pipeline tunnel) makes it possible to transfer an average flow of 5.13 m<sup>3</sup>/s and a maximum of 8.5 m<sup>3</sup>/s of raw water from the Jaguari dam, in the Paraíba do Sul Basin, to the Atibainha dam, which is one of those that make up the Cantareira System (PCJ Basin).

In the opposite direction (Atibainha - Jaguari), it allows the reversal of up to 12.2 m<sup>3</sup>/s, thus ensuring that the Cantareira System serves as a water tank to supply the population of the Paraíba do Sul basin in periods of greatest need. This means that when the Paraíba river is in a normal state, with the greater part of its waters flowing into the Atlantic in the state of Rio de Janeiro, part of this flow can be stored in the Cantareira System, increasing the reserve and water security for those served by both these water basins.



The third major construction project in the set of structuring interventions aimed at increasing water security in the RMSP, the pumping of the waters from the Itapanhaú River will directly benefit about 4.5 million residents who are supplied by the Alto Tietê System and indirectly, via the integrated system, 21 million people in the Greater São Paulo area.

The bidding process that defined the consortium which will implement the project was concluded in 2017. This undertaking will have the capacity to pump an average of 2 m<sup>3</sup>/s (with a maximum of 2.5 m<sup>3</sup>/s) from the Sertãozinho stream, which feeds into the Itapanhaú river, to the Biritiba-Mirim reservoir, which is part of the Alto Tietê System. The investment will be R\$91.7 million and work is scheduled to get underway in the first half of 2018.

#### Protection of biodiversity: the water sources and their green belts DMA Biodiversity

In addition to the expansion of the water infrastructure, preserving and recovering the biodiversity of the areas surrounding the water sources are regarded as fundamental initiatives to maintain the availability and quality of the water that supplies the population. At the same time, they benefit society with the environmental protection of the rare green reserves of an already degraded area such as the Greater São Paulo region. In this sense, Sabesp monitors and preserves an area of more than 44 thousand hectares, consisting of a 9 thousand ha body of water and a 35-thousand-hectare area around these Water Sources. Of these, 94% (33 thousand hectares) are protected areas covered with vegetation, which is the equivalent of 210 Ibirapuera Parks, which are located in the following reserves:

*Rehabilitation of riparian vegetation and general vegetation surrounding the basins that supply the water sources prevents silting and*

Morro Grande, in the Alto Cotia System, Serra do Mar State Park in the Rio Claro System, Capivari-Monos Environmental Protection Area, which is part of the Guarapiranga System and in the Cantareira System. These reserves represent 1.4% of the State of São Paulo's remaining Atlantic Forest São Paulo.

In addition to this protection and conservation initiative, Sabesp is also active in the preservation and recovery of the areas around the Jaguari-Jacareí, Cachoeira, Atibainha and Paiva Castro dams, all of which are included in the Cantareira's Environmental Protection Area. A total of 213 thousand seedlings of native species were planted over the course of 2017 in this region. At the same time as planting, it is also necessary to carry out monitoring in order to ensure the success of the recovery.

The work of preserving the green belts that protect the metropolis' largest "water producers" got a boost in 2016 with the launch of the '**Nascentes' (Headwaters) Program'**, by means of a partnership between Sabesp and the Government of the State of São Paulo. The work is carried out in the Alto Tietê, Paraíba do Sul and Piracicaba-Capivari-Jundiá (PCJ) water basins, and the initial goal is to recover riparian forests with 6.3 million seedlings of native species in a 4.4 hectare area along the waterways.

The project has five plantations under development in the towns of Joanópolis, Piracaia, Jacareí/Igaratá, Salesópolis and Cajati, which add up to a total of 246.31 hectares with more than 410 thousand seedlings already planted. The project's final objective is the restoration of around 20 thousand ha of riparian forests and the protection of 6 thousand km of water courses. These actions are essential to maintaining water quality. By the end of 2017, Sabesp had planted 263 thousand seedlings planned for the Program on the banks of Taiacubeba, a reservoir belonging to the Alto Tietê Production System.

To fulfill part of the reforestation projects, since 1990 Sabesp has maintained **two forest nurseries**, earmarked for the production of seedlings of native species in the RMSP. In 2017, a partnership model was developed and a call for proposals was held in order to select a partner for revitalization and continued seedling production, by means of the establishment of a Technical Cooperation Instrument. As a result, in early 2018, the nurseries began to be managed by the NGO Mata Ciliar.

Together with the basin's riparian protection and general vegetation initiatives, since 2011, Sabesp has developed the **Nossa Guarapiranga (Our Guarapiranga) Program**, which is a system that supplies around 4 million people. As a result of this program, the dam is cleaned with the aid of collecting boats and a number of eco-barriers - metallic screen blocks installed at the mouth of the dam's tributaries, to block the waste arriving through these channels.

For the task, Sabesp, in partnership with Unesp's Foundation for Agricultural and Forestry Research, developed two boats with robotic arms to collect large objects submerged in the water sources, as well as to remove aquatic plants which, when in excessive numbers, hamper water catchment and water use for leisure. In 2017, a new cooperation agreement was signed for the program. Everything from sofas, plastic containers, televisions and vehicle wrecks to the most varied types of waste that contaminate the water and disrupt the water catchment operations. PMSP, which is Sabesp's partner in this Program, disposes of this waste in a sanitary landfill.

On top of this initiative there was also the development and installation of another floating barrier to protect Guarapiranga's water intake, resulting in a decrease in the number of stoppages in water production due to obstruction caused by aquatic plants and other waste, down from 19 stoppages in 2016 to just 3 in 2017. During the year, an average of 1.4 thousand m<sup>3</sup> of waste and macrophytes was collected each month, which is the equivalent of roughly 45 garbage trucks.

## Water on the coast line and in the interior of the State

The investment made in 2017 in order to supply water to the interior of the state and to the coastal region was R\$408.5 million. There, the high temperatures during the summer months together with the high number of tourists who visit the region make it the second most complex area to supply after the RMSP. For example, in the Baixada Santista, in addition to the 1.8 million inhabitants, Sabesp needs to fully serve the tourists who cause the population to double in the high season.

The Baixada Santista region counts on an integrated system that resembles the concept of the RMSP's integrated system, but on a smaller scale. With flexibility and storage capacity, it is possible to redistribute water from one region to another one where there is greater demand, balancing the supply in accordance with the population's consumption needs. This is done by means of collecting the water in 31 rivers and then transporting it to the 13 WTSs, which together have the capacity to treat 11 m<sup>3</sup>/s. Once it has been treated, the water is distributed to the region's nine municipalities in the region. The main focus in 2017 was on the implementation of the Peruíbe and Guaraú WTSs, which will boost the municipality's water availability by 295 liters/s.

On the northern coastline, operational improvements were made to the systems, with highlight going to the partial start-up of the Maranduba WTS, in the municipality of Ubatuba, and the drilling of three wells (two in the municipality of São Sebastião and one in Ubatuba). Also in Ubatuba, the reserve capacity of the Praia Vermelha do Sul system was increased by means of the installation of six reservoirs.

In the interior of the state, in order to increase the water availability of some regions, in 2017 the drilling work was started on 26 deep wells in 23 municipalities, both in the main area and in remote areas, with it being necessary to conclude the supplementary construction projects in order to put them into operation. One of the highlights is the of 1,620-meter deep well drilled in the municipality of Fernandópolis, in order to take advantage of the Guarani Aquifer.

The construction work is continuing in 2018 with the installation of a pipeline, a reservoir, a chemical dosing house, an electromechanical assembly and a cooling system, given that the water comes out at a temperature of 58 °C. In addition to increasing water security, the wells are needed in order to serve new structures installed, such as those built in Florínea, Paulo de Faria and Guareí, to supply newly built prisons. In addition, in 2017, in the interior of the state and in the coastal region, approximately 42 thousand branches and 175 thousand water meters were exchanged, strengthening the fight against water loss in the networks.

Another advance that should be highlighted is in connection with adjustments in the administrative structure. This is because, in the interior, the municipalities served are distributed between ten Business Units (BUs) located in the state's water basins (including the Baixada Santista region and the Northern Coast). However, some municipalities are at a great distance from the BUs' headquarters, where the superintendences are situated, and in one case, are more than 320 km away. This demands a great deal of logistical effort and increased operational costs in order to maintain the services.

In light of this, in 2017 a series of operations got underway to reallocate subordination of 48 municipalities to other BUs with closer headquarters, helping save financial resources, and above all, providing technical and administrative efficiency gains, as well as leveraging the conditions for improvement in the provision of services.

### **Water: ostentation does not go with summer!**

In order to raise public awareness about saving water, in the summer of 2017, Sabesp released the clip "*Água Ostentação*" (Water Ostentation). With a well-known Brazilian rhythm, namely that of funk, the music criticizes everyday situations where water is wasted and encourages conscious use. There were about 6,000 inserts between radio and television, especially in the coastal region, where

pamphlets and water saving equipment for taps were also distributed. The clip was also posted on the internet, achieving a total of almost six million views on Youtube. Over the course of 2017, Sabesp carried out campaigns about the water security construction projects and actions aimed at stressing the value of water, explaining the long journey that it takes before it reaches the taps. They were broadcast on television, radio, in the printed press and on the Internet, in addition to Sabesp's social networks. The "Somos Água" (We are Water) truck, which was launched in 2016, continued its itinerary of visits, visiting 27 towns, between the State Capital and the interior, showing the cycle of water, sewage, water meters as well as new technologies to about 22 thousand people.

### Fighting water losses

Efforts to reduce water losses in the distribution network are supplementary to the actions aimed at increasing the water security infrastructure and help current and postpone the need to look for new water sources at ever greater distances. The losses are directly linked to the conditions of the installed infrastructure and to the operational and commercial efficiency of the supply systems.

#### ***Actions to combat real (or physical) losses***

- *Management of pressures, keeping them stable and at the lowest possible level, as long it is enough to ensure a continuous supply to customers;*
- *Scan for non-visible leaks based on changes identified by the management of minimum nightly flows in Measurement and Control Districts (DMCs), speeding up the location and elimination of leaks, mainly those which are not visible;*
- *Improvement of the infrastructure condition by means of replacing extensions and stretches of networks with higher incidence of leaks, due to aging, fatigue or failures in the execution*
- *Agility and quality in the repairing of leaks and the changing over of extensions*

Technically, water losses are divided into actual (or physical) losses and apparent (or non-physical) losses, with the sum of the two types being called total losses.

The actual losses correspond to the volume of water that is not consumed, due to the fact it is lost via leaks along the route taken by the water from the treatment plants to the points of delivery to the customers. These leaks mainly occur on account of the aging of the pipes and the high pressures. While the apparent losses correspond to the volume of water that is consumed, but which is not registered by the Company, mainly due to frauds (illegal connections which are known locally as 'gatos'), irregularities and inaccurate measurement by the water meters, which in Brazil is exacerbated by the existence of household water tanks.

Another relevant fact in relation to water losses in supply systems is that there is no such thing as "zero loss", in other words, every single water supply system in the world coexists with water losses, as it is impractical to eliminate them, even in the systems of countries where water is scarce (that is to say, where reducing losses is a high priority) and that have abundant financial resources (in other words, where there is the possibility of making large investments in order to reduce these losses).

Fighting water losses is a permanent challenge. If nothing is done, they tend to increase naturally. This is because the pipes, equipment and water meters get old, suffering natural wear and tear over time. And the frauds and irregularities in the connections tend to increase. Therefore, in order to prevent losses from increasing, a minimum level of effort and investment of resources is necessary. And additional effort and resources so they can be reduced.

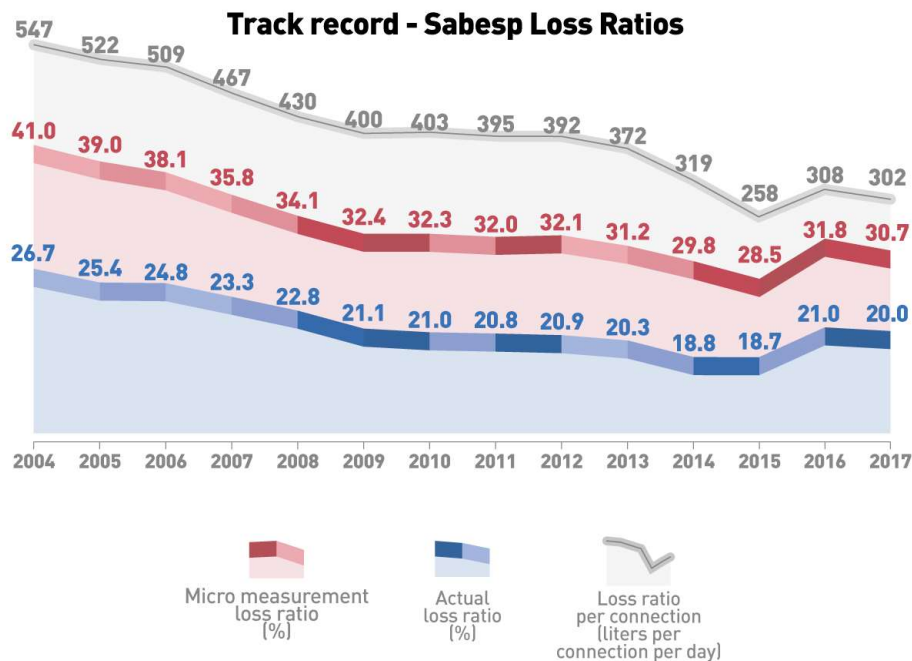
Sabesp has been investing in actions aimed at combating losses for years. Aware of its responsibility regarding the scarcity of water resources and given its focus on greater operational efficiency, the Company intensified these efforts by means of the implementation of the **Corporate Loss Reduction Program**, which got underway in 2009, and in 2012 began to be performed with the JICA (Japan International Cooperation Agency) financial and technological partnership.

In this way, the total loss ratio has gradually fallen, from 41% in 2004 to 30.7% in 2017 (chart). The daily loss in terms of liters per connection, which is regarded as the most appropriate index for measuring losses<sup>15</sup>, was 302 liters/connection/day in 2017, which was 44.8% lower than the result seen in 2004, when the indicator registered 547 liters/connection/day.

The Program foresees the investment of R\$6.3 billion in current values (during the period 2009-2020) in order to achieve the 29% target for the loss ratio related to micro-measurement, which corresponds to a ratio of 273 liters/connection/day and a level of real (or physical) losses of around 18.9% - which is comparable to the best supply systems in the world.

**Actions against apparent (or non-physical) losses**

- Replacement of equipment subject to under-measurement due to wear and tear or the inadequacy of its dimensioning to the customer's consumption profile
- Periodic analysis of variations in consumption and investigation of potential frauds by means of inspections in the field and the regularization of the frauds detected;
- Permanent updating of the commercial register and speed in the registration of new connections.



<sup>15</sup>What are water losses 2018. Available at <https://bit.ly/2FYdiLe>



## **Água Legal (Legal Water) Program: expansion to irregular areas** DMA Local communities

With the success of the pilot project that was carried out at the end of 2015 in Taboão da Serra in a partnership with dioceses in the São Paulo metropolitan area, Sabesp officially launched the **Água Legal (Legal Water) Program** in March 2017. The program's goal is to bring the supply structure to inhabitants of irregular areas, and it has already benefited 274 thousand people.

There are about 74 thousand families, who have had their illegal connections, the infamous so-called "gatos", exchanged for Sabesp's water meters and who began to receive quality water from their taps. The target is to install official connections in 160 thousand properties in the RMSP, serving 600 thousand residents. The total investment will be R\$162 million by the end of 2018.

In addition to benefiting families with better health conditions, the program offers citizenship conditions with the formalization of a proof of address, thus enabling children to be enrolled in day care centers and making it possible to obtain services that require this type of document.

The initiative also helps to reduce water loss, which previously escaped through the cracks in the "spaghetti junction" of pipes precariously installed throughout the alleys. Just the connections made in 2017 prevented three billion liters of water from being wasted. Residential customers connected are automatically included in the social tariff which currently stands at R\$8.19, which is 34% of the normal tariff, for those properties that consume up to 10 m<sup>3</sup> per month.

The initiative is based on an innovative bidding model, the performance contract, which transfers the costs with investment and infrastructure to the private partner. The contracted party installs the networks, connections, measurement boxes and water meters, but only receives from Sabesp when the residents are connected - thus avoiding the loss of treated water. The greater the number of households that are connected, the greater the volume of water recovered.

Another highlight under this model is the fact that the companies that perform the services of network implementation, water connection and registration of new clients, hire residents from the communities themselves. In order to enter these communities, Sabesp negotiates individual authorizations with the city halls, due to the fact that there is a federal law which prevents the installation of sanitation systems in areas without any urban infrastructure, with environmental protection areas and private lands being prohibited.

### **Rational use, awareness and reuse**

Like the fight against losses, the development of actions aimed at the conscientious use of water has been part of Sabesp's sustainable management guidelines for more than two decades. Since 1996, Sabesp has been organizing structural improvements in public buildings, in order to reduce water losses by means of the Rational Water Use Program (PURA), which has already been implemented in 8,914 thousand properties throughout the State.

Following signing up for the program, public administration buildings (municipal, state or federal), such as schools, hospitals, prisons and day care centers, receive interventions in order to reduce waste. The main ones are: 1) surveying and correcting of leaks in building branches, reservoirs and points of consumption; 2) redeployment of building branches (if necessary); 3) replacing hydraulic and sanitation equipment with other low consumption equivalents; and 4) educational campaigns to train multipliers and manage water consumption by telemetry.

At the same time, Sabesp has sought to develop actions and technologies to increase the reuse of effluents generated by sewage treatment for industrial use and other non-drinking water applications. This is a way of saving water intended for human use that would be used for other purposes.

*Sabesp has different processes for the production of reuse water. For urban purposes, the technology employed is that of tertiary filtration followed by disinfection. With this method other types of treatment can be incorporated in order to increase the degree of purity. Aquapolo utilizes ultrafiltration and reverse osmosis technologies, meeting the requirements of the industries that use this*

Inaugurated in 2012, Aquapolo Ambiental, a partnership between Sabesp and BRK Ambiental, is regarded as the largest project for the production of industrial reuse water in South America, and the fifth largest one in the world. With a current supply capacity of 650 l/s, which is expected to rise to 1m<sup>3</sup>/s, the plant supplies the Capuava Petrochemical Complex in Greater São Paulo's ABC region, along with three other major industries in the region.

The 418 l/s volume supplied in 2017 is equivalent to the drinking water consumption of approximately 210 thousand residents - a town the size of Cotia. In addition to Aquapolo, Sabesp produces 131 million liters of reuse water per month at the Barueri, Parque Novo Mundo, São Miguel Paulista and Jesus Neto sewage treatment stations (STSS), which are mainly used for urban cleaning purposes such as cleaning of the

streets and the irrigation of parks and gardens.

### Quality water as a priority

The quality of the water distributed complies with the parameters required by Health Ministry Ordinance 2914/11, which governs the procedures for controlling and monitoring the quality of water for human consumption. At the WTSs, the water is treated, making it drinkable. The control of the drinking water conditions is carried out right from the moment of catchment, and including both the treatment and distribution stages, with a total of 90 types of tests. On a monthly basis, more than 60 thousand analyzes are carried out, with the control parameters including turbidity, color, chlorine content, coliforms and thermotolerant bacteria.

Sabesp has 16 sanitary control laboratories installed in the RMSP, in the interior of the state and in the coastal region for this purpose. Most of the laboratories are accredited by the National Institute of Metrology, Quality and Technology (Inmetro). Reports on the Water Quality are sent on a monthly basis to SIS Água, which is the Ministry of Health's data storage system. These reports are available to all Health Surveillance departments in the respective Municipalities in which Sabesp operates.

The customers are notified of the results in their bills, which provide a summary of the parameters evaluated. In addition to this, Sabesp also has a team of tasters: trained specialists including chemists, biologists and technicians who are responsible for analyzing variables in the liquid's taste, aroma and density. This tasting activity, which has been used by Sabesp since 1996, became a requirement of the Ministry of Health in 2011. The results are sent to the water treatment stations in order to guide the treatment of the water and any possible preventive or corrective adjustments.

## SANITARY SEWAGE

# HEALTH, QUALITY OF LIFE AND RECOVERY OF WATER RESOURCES

Both UNICEF and the World Health Organization<sup>16</sup> affirm in their studies that almost all cases of diarrhea and deaths as a result of this type of contamination in the world are related to the lack of access to quality water and to precarious or non-existent sanitation. Without the expansion of the sanitation infrastructure there is no way forward in the process of civilization.

In addition to reducing infant mortality and hospitalizations on account of waterborne diseases, basic sanitation helps decontaminate rivers, create jobs, improve school performance, and enhance tourism and increase real estate values. Therefore, it is one of the sectors with the greatest potential for causing socioeconomic development and environmental sustainability in the region served.

Published in 2017, a survey undertaken by the Instituto Trata Brasil in partnership with Sabesp<sup>17</sup> shows that universal access to sanitation would generate economic and social benefits for the country of the order of R\$537 billion over the space of 20 years. This sum would be the result of a reduction in hospitalizations, reduced time away from work for workers due to water-borne diseases, improving educational performance and job creation.

According to the survey, the investments made in the RMSP, a region in which Sabesp operates, generated 25,000 jobs with construction projects between 2004 and 2014, in addition to another 11,000 job positions for the operation of the water supply and sewage collection and treatment systems.

In general terms, for years now the country's most populous state has presented a continuous progression in the main service indicators. In this scenario, Sabesp's figures are even more significant. The State of São Paulo is home to ten of the country's 20 best cities with more than 300 thousand inhabitants, in terms of sanitation, according to Trata Brasil<sup>18</sup>, six of which are operated by Sabesp.

In 2017, actions to expand sewage collection and treatment required investments of R\$1.2 billion and registered significant results. Over the course of the year, new STSs came into operation and 221,800 connections were made. On average, the 368 municipalities operated by Sabesp registered rates of 90% for sewage collection coverage, 83% for sewage collection and 75% for economies connected to sewage treatment.

### The challenges of the metropolis **DMA Effluents and waste**

Rapid and disorderly growth, irregular occupations, illegal discharge of residential and industrial sewage, environmental degradation of preservation areas, scarce oversight on the part of the executive authorities and a high population concentration make the Metropolitan Region of São Paulo (RMSP) an extremely complex area for the expansion of sanitary services. The scale of the problems and the challenges of operating in one of the world's largest urban centers is proportional to the initiatives on a grand scale large developed by Sabesp, such as the Tietê Project, which is the country's largest environmental sanitation program.

First begun in 1992, the **Tietê Project** seeks to contribute to the progressive revitalization of the Tietê river and its tributaries, and consequently, to improve the population's quality of life, by means of the

<sup>16</sup> Why children are still dying and what can be done. ONU/OMS 2009. Available at: <https://uni.cf/2pz9SEp>

<sup>15</sup> Benefits from the Expansion of Sanitation in Brazil - Instituto Trata Brasil 2017. Pages 51 and 53. Available at <https://bit.ly/2Git7vu>

<sup>16</sup>Sanitation ranking- Instituto Trata Brasil 2017. Pg 81. Available at <https://bit.ly/2sf6cHW>

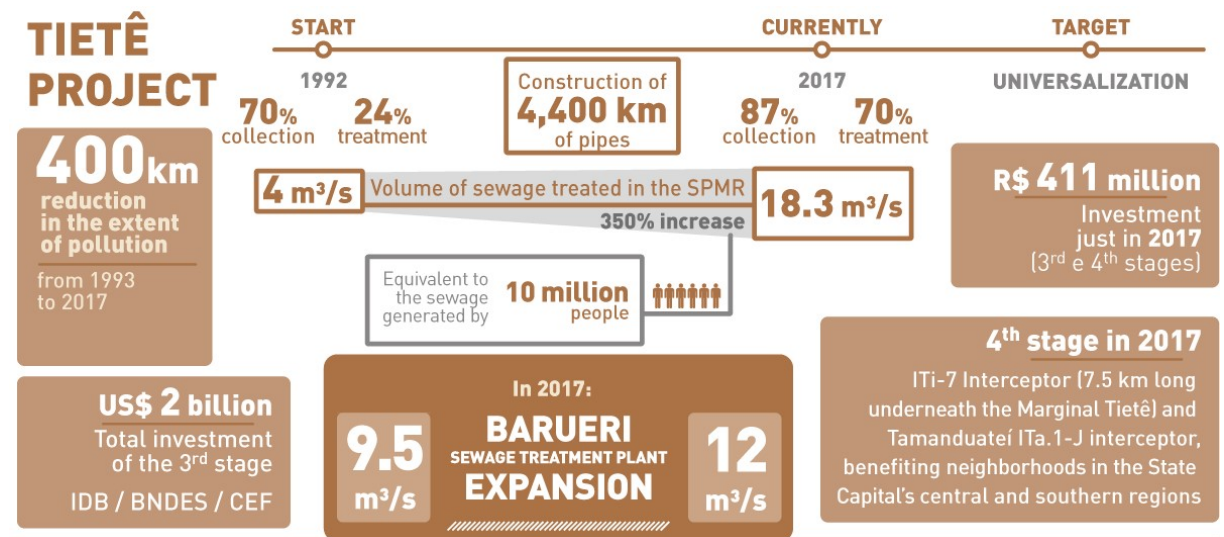
expansion and optimization of the system for the collection, transportation and treatment of sewage in the RMSP. Since it was initiated up until the present time, important advances have been made in expanding the sanitary infrastructure with interventions in 29 metropolitan municipalities.

Over the course of the last 25 years, approximately 4,400 km of trunk collectors, interceptors and sewage collection networks were installed, pipelines buried for the purpose of collecting the sewage generated and transporting it to the treatment plants. The volume of treated sewage leapt from 4m<sup>3</sup>/s to the current 18.3m<sup>3</sup>/s, which is equivalent to the sewage generated by roughly 10 million people - a number similar to the population of Sweden. During these two and a half decades, Sabesp has invested US\$2.8 billion, with R\$411 million of this just in 2017<sup>19</sup>, expanding the percentage of sewage collected from 70% to 87% and the percentage of collected sewage treated from 24% to 70%.

In 2017, the highlight of the Tietê Project, which is currently in its third stage, was the completion of the first phase of the construction work for the expansion of the Barueri STS, which is one of the largest sewage treatment plants in Latin America. The STS's capacity rose from 9.5 m<sup>3</sup>/s to 12 m<sup>3</sup>/s, thus being able to handle the sewage of an additional 1.6 million people. As a result of this, the installed capacity of the RMSP's treatment system increased to 20.5 m<sup>3</sup>/s.

With investments of approximately US\$2 billion, the third stage, which is currently underway with 64% of the work completed, supplements the actions undertaken in the first and second stages, which were carried out between 1992 and 2010. Once the third stage is complete, it will enable a further leap in the levels of sewage collection and treatment, with the collection of sewage equivalent to that generated by a population of more than 5 million people.

In 2017, apart from the Barueri STS, there was also progress in the construction work on trunk collectors in the northern, western and eastern regions of the RMSP, as well as the launching of bidding processes for the installation of major pipelines and pumping stations that will benefit the capital's eastern, northern and western districts, in addition to the towns of Barueri, Cotia, Itaquaquecetuba, Osasco and Suzano.



The fourth stage of the Project was structured so as to continue with the expansion and optimization actions of the sewage systems in the RMSP, contributing to the gradual recovery of the Tietê river.

Some actions were brought forward and are in the implementation phase of the construction work, with highlight going to the construction of the 7.5 km long ITi-7 sewage interceptor underneath Marginal Tietê, the installation of the trunk collectors in the Vale do Anhangabaú area and the Tamanduateí

<sup>19</sup> Investments per project or program reported in this chapter are not accounting values.

interceptor (ITa.1-J). When it is ready, the system will transport the sewage to the Barueri STS. The project will benefit districts in the capital's central and southern areas, which are places with a very significant degree of verticalization with collecting pipelines operating close to the limit.

All the interventions foreseen and carried out under this program have a positive impact on the rivers that run through the metropolitan region, such as the Tietê River, where there has been a significant, progressive decrease in the pollution spot over the course of 25 years.

Since it first began to be measured at the initiative of the NGO SOS Mata Atlântica in the early 1990's, the same time that the Tietê Project was started, the extent of the pollution exhibited a 400 km decrease by 2017. Initially the pollution spot extended down the river over a distance of roughly 530 km, between Mogi das Cruzes (RMSP) and Barra Bonita, in the interior. In 2017, the pollution extended a total of 130 km between Itaquaquecetuba (RMSP) and Cabreúva, in the interior, according to SOS Mata Atlântica's monitoring. This means a 75.5% shrinkage in the extent of the Tietê river's pollution<sup>20</sup>.

However, it is important to stress that for the effective revitalization of the State of São Paulo's longest river, including the metropolitan stretch, it is important that all the social players involved do their part with actions that supplement the sanitation, such as land regularization and urbanization, correct disposal of solid waste, urban cleaning and increasing environmental awareness.

#### Treatment of non-domestic sewage

The result of a partnership between Sabesp and Estre Ambiental, **Attend Ambiental** has been operating since 2014 in the treatment of the Metropolitan Region of Sao Paulo's non-domestic sewage and is situated alongside the Barueri STS. The company offers pre-treatment of sewage, as required by the environmental legislation, making it advantageous to outsource this process. In 2017, the company treated 1.94 million m<sup>3</sup> of non-domestic sewage, which was later forwarded to the Barueri STS for conventional treatment. This volume is 3% higher than that received in 2016, on account of the growth in the customer portfolio, as well as due to the increase in rainfall, which affects the volume of slurry from landfills

#### Recovery of urban rivers and water sources

In addition to the expansion of the sanitation infrastructure in the Greater São Paulo area and in the interior of the state, the decontamination of the Tietê river and the improvement of the RMSP's water sources are also a reflection of the actions that have been carried out since 2007 on its urban tributaries under the "**Córrego Limpo**" (Clean Stream) Program. In 2017, the Uberaba stream, which flows into the Pinheiros River, and the Parque M'Boi Mirim stream, which is a tributary of the Guarapiranga dam, were both cleaned up. This means that 135 liters/s of sewage is no longer being dumped, which benefits roughly 270 thousand residents in the area of the streams. Also the partial delivery of the Pacaembu stream was carried out.

Over the course of a ten-year period, the Program has helped depollute 151 streams, benefiting some 2.5 million people. Sabesp has invested in excess of R\$250 million, with R\$8 million just in 2017<sup>21</sup>. Under the Clean Stream program, Sabesp is responsible for diagnosing illegal sewage discharge, implementing extensions of sewage networks, collectors and connections, monitoring the water quality of the depolluted streams, and undertaking maintenance work and adjustments to the existing networks when anomalies are detected. The city administration, in turn, takes action in relation to the evacuation of irregular areas, carries out the registration of families in housing programs and imposes fines on properties that are not connected to the networks.

<sup>20</sup> Survey by SOS Mata Atlântica. Published on 09/22/2017. Available at <https://bit.ly/2IK1cTR>

<sup>21</sup> Non-accounting value

## Sharing benefits and responsibilities DMA - Local Communities

Under the Clean Stream Program, maintaining the quality of the water body depends on the awareness of the local community, denouncing the disposal of garbage and debris and illegal dumping of sewage. This awareness is built on the basis of meetings between Sabesp's representatives and residents and social organizations of the river basins of the benefited streams. On these occasions, the representatives are chosen and the agenda of local priorities is defined, as well as functioning as a space for debate in relation to social and environmental issues that are of common interest. The work uses social approach techniques based on a **Collaborative Governance** methodology put together by Sabesp in partnership with Cebrap (the Brazilian Analysis and Planning Center). 65 meetings were held with communities in the RMSP over the course of 2017. It is estimated that the population affected by this program comes to roughly 691 thousand residents of the river basins of the 33 streams where this work is being developed.

The Observing the Rivers 2017 report, from the NGO SOS Mata Atlântica, acknowledges the positive results of this partnership: "in the 31 streams that have local community engagement, the quality indexes have improved, as shown by the figures obtained from the Cintra and José Gladiador streams". The actions are in line with work that has been carried out for nearly two decades by means of the **Community Participation Program**, which was implemented in the late 1990s primarily to serve the low-income groups or customers with the dissemination of socio-environmental practices, including combating losses, joint clean-up efforts of rivers and streams, the planting of trees and others. The meetings with the communities bring the community leaders together at regular intervals in order to present Sabesp's actions and investments, carry out surveys of the population's expectations and align the Company's activities with the needs of the different regions.

In addition to the expansion of the water infrastructure, the preservation and environmental recovery of the areas surrounding the water sources are initiatives that are key to ensuring the continued availability and quality of the water that supplies the population. This is a complex undertaking that requires public sector participation by means of efficient housing policies, avoiding the growth of the so-called "informal city", particularly in areas of environmental protection, hillsides, valley bottoms, streams and floodplains.

In this context, Sabesp and the São Paulo city administration joined forces to create the **Mananciais (Water Sources) Program**, with a view to recovering the river basins of two of the RMSP's main "water tanks", namely the Billings and Guarapiranga dams. Begun in 2009, the program establishes different responsibilities. While the city and state administrations are responsible for resettling families or land regularization and urbanization of the areas already consolidated, Sabesp takes care of the installation of water and sewage collection networks and takes care of the cleaning of the dams. In 2017, the sum of R\$20 million<sup>22</sup> was invested in the Program.

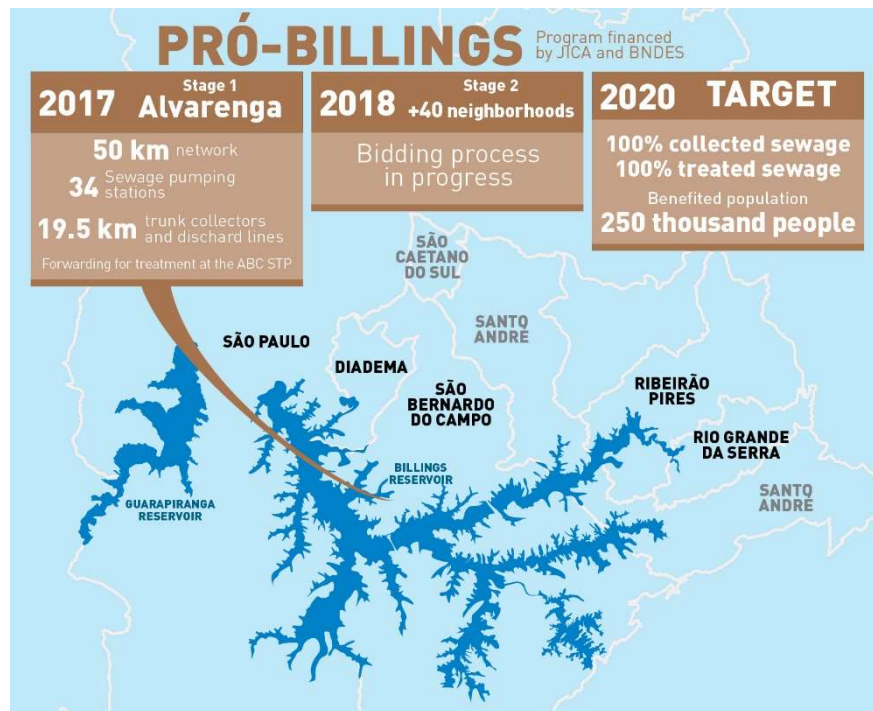
Since 2011, actions in the water basin of the Billings dam have been reinforced by the **Pró-Billings Program** which directly benefits the dam and approximately 250,000 residents of the municipality of São Bernardo do Campo with the expansion of the collection and forwarding of sewage to the ABC STS for treatment. Secondary connections have already been established along with part of the Couros Trunk Collector, the main stretch of pipeline that will take the sewage to the ABC Sewage Treatment Station, on the border between the city of São Paulo and the municipality of São Caetano do Sul.

After a stoppage on account of the water crisis, the Program was resumed in 2017 with the contracting of the construction work for the Alvarenga neighborhood. In this first package, called "AF Areas", which got underway in January 2018, 34 sewage pumping stations are being installed, together

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<sup>22</sup> Non-accounting value.

with 50 km of collecting networks, 19.9 km of trunk collectors and discharge lines, as well as about six thousand residential connections.



Another package, known as “Alvarenga-Lavras,” is undergoing a bidding process and the construction work is scheduled to get underway before the end of 2018, with a view to serving 40 more neighborhoods in the municipality, and includes five more pumping stations, 37 km of collection networks, 11 km of trunk collectors and lift pump pipelines, and approximately six thousand household connections. The total investment, which continues until 2020, is US\$123 million, with funds from Sabesp’s own resources plus financing from JICA (Japan International Cooperation Agency) and BNDES.

**The trend towards universalization in the interior**

In the interior of the state, Sabesp is the concessionaire responsible for 314 municipalities, which represent a total of 7.2 million people. In this universe, there is a very wide range of realities - from small districts and municipalities such Borá, which is considered to be the second smallest town in Brazil, to large urban and industrial concentrations, such as São José dos Campos, which is the seventh most populous municipality in the State, with 630 thousand inhabitants.

As part of the Company’s ongoing efforts **to universalize the collection and treatment of sewage in the interior of the state**, 98 STSs were delivered over the course of the last seven years, which is an average of 14 a year. Just in 2017, interventions for universalization in the interior of the state resulted, among other actions, in the delivery of 11 STSs (headquarters and districts) in the municipalities of Sarapuí, Miracatu (2), Presidente Prudente, Agudos, Alumínio, Anhembi, Botucatu, São Roque, Nova Canaã Paulista and Onda Verde. There are also 13 stations under construction, which are scheduled to be delivered before the end of 2018.

From the small localities to the large municipalities served, the result of this work can clearly be seen in the urban streams rich in fish and in the low registrations of hospitalization due to contamination by water transmission. One example is São José dos Campos which, with more than 600 thousand inhabitants, is positioned among the large cities with the best service levels in the country.

At an event that was held in July 2017, Sabesp's officers together with students of the municipal network organized the release of six thousand fish into the Vidoca stream, a tributary of Paraíba do Sul River that crosses a densely populated urban area of the municipality. The act marked the universalization of sanitation in the municipality. This achievement was made possible by the delivery, in 2016, of the Pararangaba STS, which is part of a package of more than R\$280 million that invested in São José dos Campos over the last seven years.

Taubaté, which is the second largest municipality in Vale do Paraíba, with more than 300 thousand inhabitants, has the lowest rate of hospitalizations for Diseases Related to Inadequate Environmental Sanitation (DRSAI) in the country<sup>23</sup>, according to the Sanitation Universalization ranking of the Brazilian Association of Sanitary and Environmental Engineering (Abes), which was released at the start of 2018<sup>24</sup>.

Franca, in the state's Northeast region, is another example that is highlighted in the sector rankings. For the fourth year in a row the city appears in first place in 2017 in the Instituto Trata Brasil's report. When Sabesp first assumed the service in 1977, the supply was not regular and only reached 70% of the properties. Half of the population did not sewage collection and there was no treatment of the sewage that was collected.

Along with Taubaté, São José dos Campos, Franca, Santos, Presidente Prudente, Botucatu and other municipalities served by Sabesp, which are highlighted in the sector rankings, there are more than two hundred towns operated under similar conditions in terms of excellence in indicators that do not appear in the surveys. This is because the aforementioned surveys only take into account larger municipalities, such as the two studies cited in this topic, which only focus on the country's most populous towns in the face of the 5,570 that exist. Most of the towns served by Sabesp in the interior of São Paulo have less than 100 thousand inhabitants and are therefore outside the scope of the evaluations.

### **Clean rivers: source of income and supply**

The cities of São José dos Campos and Taubaté are part of the Metropolitan Region of Vale do Paraíba, where Sabesp operates in 24 out of the 35 municipalities. Investments made by Sabesp in recent years have had a direct impact on the improvements in the quality of the water of the Paraíba do Sul River and its tributaries.

A source of income for many families and of supply for the country's 12th most populous metropolitan region (2.2 million inhabitants, Seade), the Paraíba do Sul River is also the main supplier of water to the State of Rio de Janeiro. And in 2018, it also contributed to the water security of the RMSP, with the conclusion of the interconnection of the Jaguari and Atibainha dams, the latter of which is part of the Cantareira System (see chapter *Water Security for the Present and Future*).

Cetesb's most recent Quality Report of the Waters in the Interior of the state, from 2016, classified the water of the Paraíba do Sul River as being optimal or good at 90% of the points analyzed. The experience of Vale do Paraíba symbolizes the recent changes that have taken place in all the State's regions, the rivers in which have benefited from the expansion of the sanitary infrastructure, reflecting, to a large extent, the improvement in the waters of the Tietê river, which is the state's longest river.

With an investment of R\$44.6 million, August 2017 saw the completion of the work on the collection and sewage treatment stations of the municipality of São Roque, in the Médio Tietê Basin. Along with the benefits for the 88 thousand inhabitants, the system began to contribute to the improvement of the

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<sup>23</sup> The DRSAI concept was created by the National Health Foundation and takes into account "typical diseases of precarious environments where there is no basic sanitation, or when there is, it is inadequate".

<sup>24</sup> Abes Ranking of Universalization of Sanitation– 2018. Page 8. Available at <https://bit.ly/2udaQv4>



Guaçu and Mombaça streams, which are both direct tributaries of the Tietê, in addition to the Aracaí, Carambeí and Marmeleiro streams, that cut through the central part of the city.

The Jundiá River, the waters of which bathe one of the State of São Paulo's most industrialized areas, in the early 1980s used to be one of its most polluted rivers. With the delivery of new sanitation facilities in the region - the Campo Limpo and Várzea STSs in 2013, and the Itupeva STS, in 2014 - its waters began to be used for the supply, after conventional treatment, of 250 thousand people in the municipalities of Itupeva and Indaiatuba, the last of which is not served by Sabesp. In this sense, in March 2017, Sabesp inaugurated a new collection station in Jundiá to serve the 117 thousand inhabitants of Várzea Paulista. All these towns are located in the State's lowest water availability region, with a mere 104 m<sup>3</sup> per inhabitant per year.

The progressive improvement of the Jundiá waters was again recognized with the expansion, at the end of 2016, of the river's reclassification from class 4 to class 3, in the more than 60 km long stretch between the Pinheirinho stream, in Várzea Paulista, and the mouth of the Tietê river in Salto. The lower the class of the river basin, the better the quality of the water. The same thing occurred with the Lavapés Stream, in Botucatu, which had a stretch reclassified from class 4 to class 3.

The same picture can be seen in the Vale do Ribeira region, where Sabesp has carried out 15 construction projects in relation to sewage collection and treatment, worth more than R\$70 million, over the course of the last seven years. And in the Paranapanema River basin, in the 48 municipalities served by Sabesp in this region, the construction projects have allowed the average sewage collection rate to jump from 88% in 2011 to the current figure of 95%, a result which puts the Paranapanema river, a river that separates the States of São Paulo and Paraná, in one of the best water quality classifications in the country. The Paranapanema River which separates the states of São Paulo and Paraná, has one of the best water quality classifications in the country.

Although it is well-known that sanitation actions play a fundamental role in improving bodies of water, it should be stressed that the origin of the pollution of rivers and streams also lies in the industrial effluent discarded in an irregular way, in the garbage thrown into the streets that ends up being carried by the rain into the rivers (diffuse pollution), in the disorderly occupation of the soil, particularly in areas of environmental protection, as well as in the clandestine discharging of sewage in water streams.

In order to curb such situations, it is vital that society be aware of the correct ways to dispose of waste and that homes are properly connected to the sewage network. And also that the local executive authority ensures that the towns are efficiently cleaned and, with the help of the judiciary authorities, inspect and combat irregularities.

#### **The rebirth of the Jundiá river**

After more than three decades, the Jundiá river is once again home to the fish that gave it its name: the Jundiá. The species has become a symbol of the recovery of the 123 km-long river, the source of which is in Mairiporã, in the Serra da Cantareira, and which flows into the Tietê river, in Salto. In celebration of the river's rebirth, in 2017, Sabesp left an aquarium full of jundiás in the lobby of São Paulo's Aquarium for six months, in front of the box office, with free access for visitors.

#### **Sanitation in the State of São Paulo's coastal region**

The largest environmental sanitation program of Brazil's coastal region, the Onda Limpa (Clean Wave) Program commemorated its 10th anniversary with important advances in public health and the quality of life of the residents of the Baixada Santista. Since the program first got underway, in 2007, the

coverage with sewage collection has jumped from 53% to 77%, and sewage treatment has already reached the 100% level.

Since the outset in 2007, between projects and work on expanding sewage networks and connections, trunk collectors, pumping stations and treatment stations, the construction work has required very substantial investments. In the first phase, which was completed in 2013, the nine municipalities of the Baixada were benefited with seven STSs, two Sewage Preconditioning Stations (EPCs), 4.5 km of offshore pipelines and the installation of 915 km of networks and collectors, as well as 84,138 sewage connections.

Starting in 2013, a new phase of the Program got underway. The objective of this new phase, which is called Complementary Works, was to expand the area of the sanitary sewage collection and removal service in the municipalities of Bertioga, Cubatão, Guarujá, Praia Grande, Mongaguá and Itanhaém. The sum of R\$350 million was invested in the installation of 257 km of collection networks, 27 pumping stations and 26 thousand residential sewage connections.

The Complementary Works phase was concluded in 2017, when R\$71 million<sup>25</sup> was invested, and this made it possible to inaugurate the expansion of sanitary sewage systems in the cities of Praia Grande, Mongaguá and Itanhaém. Roughly 56 thousand people, taking into account both fixed and floating population, were benefited. In addition to the Onda Limpa (Clean Wave) Program, R\$10.5 million was invested in sanitary sewage construction projects, making it possible to carry out two thousand residential connections.

The next phase of the Onda Limpa (Clean Wave) Program is being planned for the period between 2019 and 2030, during which R\$1.8 billion should be invested. Some 670 km of collecting networks, 56 thousand residential connections, two pre-conditioning stations and the expansion and improvement of 11 STSs will be carried out.

In the state's Northern Coastal region, 71% of the formal area has a sewage network and 100% of the sewage collected is treated. Ten years ago, when the Clean Wave program was initiated, sewage collection stood at a mere 36%. For example, in 2010 Ilhabela only had a 4% coverage level, but this index now stands at 52%. It is worth stressing that the company treats 100% of the sewage collected in the region's four cities. Operational improvements were made to the STSs in 2017, with the installation of aerators and a telemetry system, resulting in an improvement in the quality of the sewage treated.

#### Engagement that produces results DMA Local Communities

When bringing the sewage collection system into a new area, especially in low-income areas, Sabesp carries out a **social diagnosis** in order to assess the conditions of the families: employment situation, income, housing standard, age groups, schooling, among other aspects. The information contributes to the planning and structuring of the project and allows the selection of families that are beneficiaries of programs, such as *Se Liga na Rede* (Connect To The Network) and the social tariff.

The rapprochement with the community by means of individual visits and socio-educational lectures at locations with the community opens up an important channel for dialogue with residents and encourages local leaders to get involved. These, in turn, disseminate information regarding the importance of making the residential connection, the correct use of the sewage collection networks and the resulting benefits for people as well as for the environment.

Sabesp also takes a mobile service station to the neighborhood, which allows it to provide information, clear up doubts and records requests for sewage connection. This work has had a positive impact in terms of increasing the number of requests for connection as well as regarding the correct use

<sup>25</sup> Non-accounting value.

of the sanitary structure. The information recorded is also available to the local town halls in order to help support political and social planning in other areas of public service. In 2017, about four thousand families from the Tremembé, Iguape and Lavrinhas neighborhoods and from the Baixada Santista were visited by Sabesp employees.

### Greater access for low income families

Despite the investments in the expansion of the collection networks, the lack of economic conditions for customers to connect sanitary facilities to Sabesp's pipelines means that sewage continues to be disposed of in an irregular way. To deal with these situations, at the end of 2011, Sabesp and the State Government launched the Pro-Connection Program, the trade name of which is ***Se Liga na Rede (Connect To The Network)***. Under this Program, the installation costs of the interconnection are fully paid by the government (80%) and by Sabesp (20%). By 2017, internal adjustments and connections were carried out in 23,500 residences.

In the neighborhoods to be benefited, the homes are visited by a *Se Liga* Agent - usually a resident of the locality hired by Sabesp to present the initiative and explain the advantages of having a sewage connection. The granting of the social tariff is one of the actions directed at providing access to low-income families (up to three monthly minimum wages). In 2017, 390 thousand households paid the symbolic sum of about R\$16 for the use of water and sewage services (up to 10 m<sup>3</sup>), with significant gains in quality of life for these families.

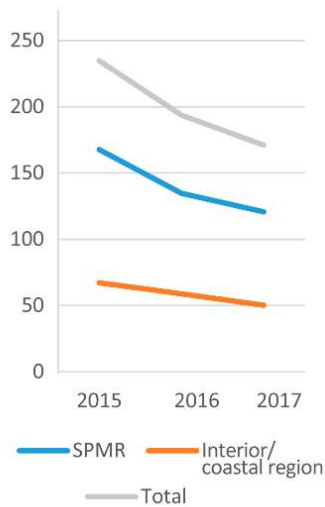
### United for the collective well-being

The social and environmental benefits resulting from basic sanitation are made possible by the correct use of the available structures. Those who do not connect their properties to the collection network, even though the pipes are at their door, cause harm to the community. Sewage that is illegally diverted to the pluvial water gallery is the cause of the foul smell of manholes, of the pollution of rivers and streams and the of risk of contamination among people.

For those who live in urban areas and have a property on a street that has collectors, sewage connection is compulsory, with it being the responsibility of city hall to carry out inspections. In 2017, Sabesp registered about 170 thousand properties with irregular connections and regularized more than 22 thousand cases. Although high, this figure, which stood at 235 thousand in 2015, has been decreasing on a year-on-year basis, as a result of partnerships with town halls and the Legal Authorities (table).

In the RMSP, the pool of efforts carried out annually in partnership with the Court of Justice has resulted in a drop in the number of irregular cases. The Court of Justice helps with the sending of invitation-letters to property owners who are not connected to the sewage collectors, inviting them to National Conciliation Week. In 2017, 138 owners of properties made a deal.

## Feasible connections (in thousands)



In the interior of the state and in the coastal region, the Judicial Centers for Conflict Resolution and Citizenship (Cejusc) are put at Sabesp's disposal for negotiations. This type of partnership has been yielding good results.

Between 2015 and 2017, roughly 48 thousand cases were regularized in the RMSP. Another good example is provided by the municipality of Campos do Jordão, where, in June 2017, town hall published a notice giving 120 days for all 915 homes that were irregular to connect to the Sabesp network.

### Awareness begins in the home

In order to reduce the impact of water and soil pollution caused by the improper disposal of frying oil and to warn about the damage caused to sewage pipes, ten years ago Sabesp created the **Frying Oil**

**Recycling Program (PROL).** The oil is collected at regional offices, commercial agencies or partner establishments and forwarded to recycling companies and transformed into biodiesel, paint, lubricant, glycerin, detergent, soap, and other by-products.

About 500 thousand liters of oil was collected in 2017. The disposal of plastic containers, cigarettes, Q-tips and other objects in toilets also cause blockages in the pipes and can result in sewage flowing back into homes.

# RESULTS YIELDING BENEFITS FOR SOCIETY

**DMA Economic-financial management** In the wake of the severe water crisis during the two years 2014-2015, when Sabesp had to cope with reduced revenues, and consequently the deadlines for a series of investments in sewage treatment were extended in order to make room to bring forward water security projects, in 2017 the Company continued to make progress in terms of recovering the financial metrics of the pre-crisis period.

Sabesp has been meeting society's demands for better sanitation conditions with a marked increase in investments. Between 2011 and 2016, it invested approximately R\$3 billion a year, which represents roughly 30% of all the investment made in sanitation in Brazil during the period. However, there is still a very high level of demand, particularly for sewage collection and treatment.

In order to meet the challenge of mobilizing resources for investment, the Company has combined its own resources, resulting from the tariffs charged for the services rendered, together with third-party resources obtained by means of debt. However, at the present time the possibilities of obtaining resources to efficiently finance the investments necessary for the universalization of services are limited.

One of the constraints is internal - the current level of the Company's indebtedness, which although prudent, does not permit any significant increase - and the other one is external, the country's fiscal situation, which has reduced the availability of funds in terms of long-term domestic financing from public sector agencies, such as the BNDES and the Caixa Econômica Federal.

In light of these circumstances and given society's continuous demands, on September 15, 2017, State Law 16,525 was enacted, which authorized the Government of the State of São Paulo to establish a joint stock company that will exercise share control of Sabesp, while ensuring that the State's Government retains a majority of the voting capital of the parent company.

The company, which is yet to be set up by the Government, is an alternative way of leveraging the Company's investments in the short term, without undermining its economic-financial sustainability, and will help with the implementation of public policies aimed at basic sanitation.

This new company will be able to accept private shareholders with a long-term investment profile who have an interest in the infrastructure sector and, provided that state control is maintained, may issue new shares to be acquired by private investors, with the proceeds being earmarked for investment in basic sanitation.

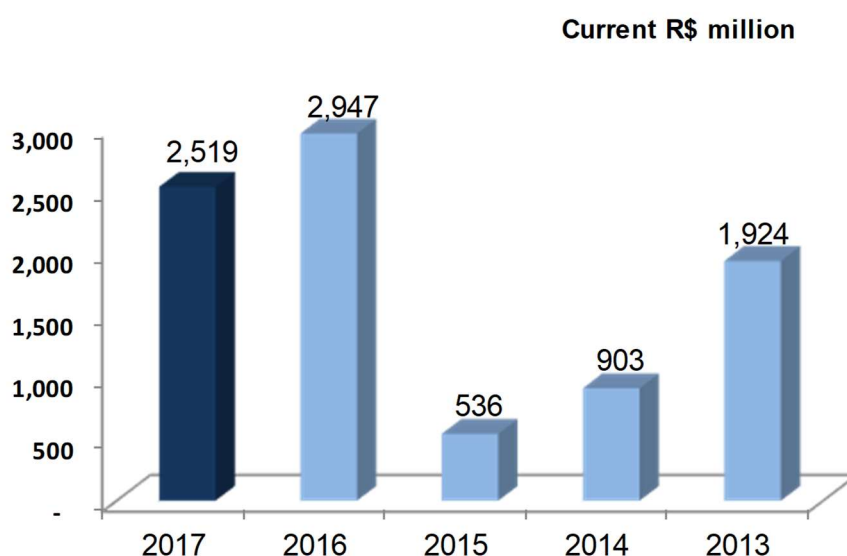
The proposed model will enable the maintenance of Sabesp's program agreements, without altering the relationship and negotiation conditions between Sabesp and the municipalities, will maintain the access to financing by multilateral organizations, and will also respect the rights of Sabesp's minority shareholders.

Sabesp is of the opinion that with the corporate restructuring and sound economic and financial management, it will be able to fulfill, more quickly and in a better way, its mission of "providing sanitation services, helping to improve the quality of life and of the environment" as well achieving its vision of "being a worldwide reference in the provision of sanitation services, in a sustainable, competitive and innovative way, with a focus on the customer".

## Economic-Financial Performance

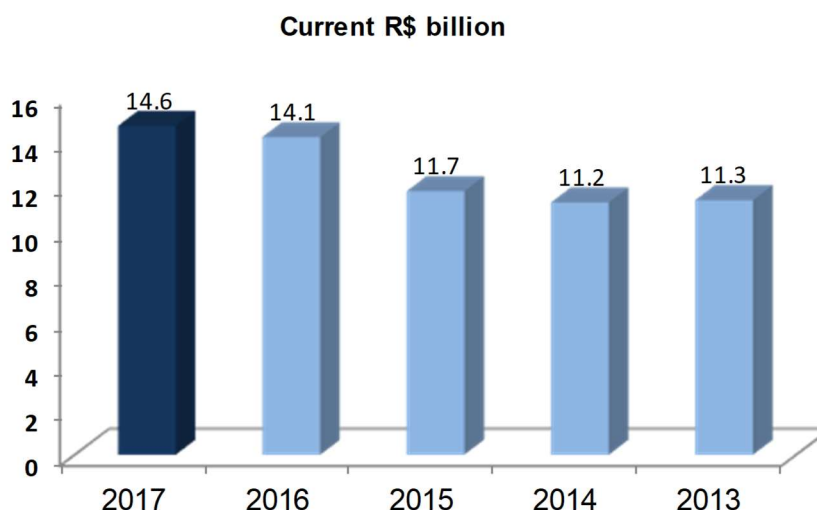
In 2017, the Company posted a net income of R\$2.5 billion, against the R\$2.9 billion net income registered in 2016.

### History of Income



Net operating revenue (including construction revenue) totaled R\$14.6 billion, a 3.6% increase over the previous year.

### History of Net Operating Revenue



Gross operating revenue related to the provision of sanitation services (excluding construction revenue) totaled R\$12.2 billion in 2017, which is an increase of R\$1.1 billion, or 9.9%, by comparison with the R\$11.1 billion figure registered in 2016.

The positive variation in 2017 can mainly be attributed to (i) the 8.4% tariff adjustment since May 2016, (ii) the 7.9% tariff repositioning since November 2017, (iii) the 4.3% increase in the total volume billed, (iv) the granting of bonuses in 2016 in the amount of R\$187.4 million in the context of the Water Consumption Reduction Incentive Program, which ended in April 2016; and (v) due to the lower recognition of estimated losses with revenue from sales on the wholesale market in 2017, in the amount

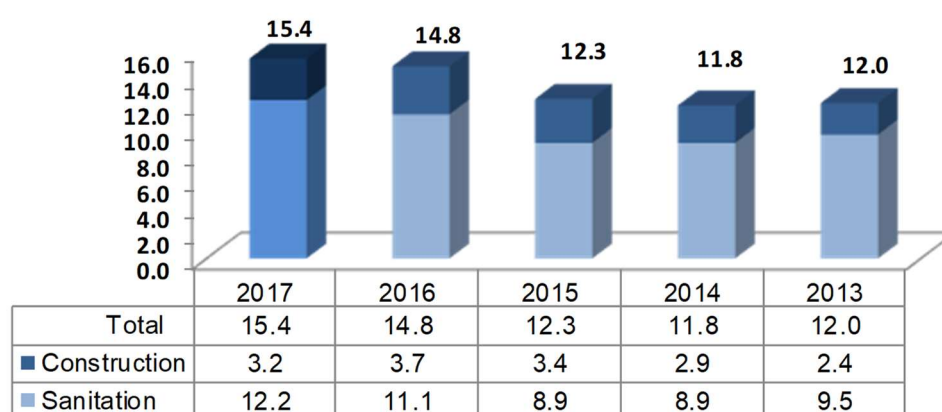
of R\$125.1 million, due to the receipt that occurred during the period, mainly from the municipality of Guarulhos.

In the comparison with 2016, it should also be borne in mind that the increase was reduced by the R\$224.7 million registered in 2016, in relation to the application of the Contingency Tariff, which ended in April of that year.

Construction revenue decreased by R\$582.0 million, or 15.6%, when compared to 2016. This variation is mainly due to the lower investment that was made in the period.

### History of Gross Operating Revenue

Current R\$ billion



### Volume of water and sewage billed <sup>(1)</sup> by category of use - million m<sup>3</sup>

	Water			Sewage			Water + Sewage		
	2017	2016	%	2017	2016	%	2017	2016	%
Residential	1,580.9	1,527.6	3.5	1,346.5	1,294.0	4.1	2,927.4	2,821.6	3.7
Commercial	166.1	162.9	2.0	159.3	155.0	2.8	325.4	317.9	2.4
Industrial	31.4	31.6	(0.6)	37.5	38.3	(2.1)	68.9	69.9	(1.4)
Public	40.8	40.8	-	36.3	35.9	1.1	77.1	76.7	0.5
<b>Total retail</b>	<b>1,819.2</b>	<b>1,762.9</b>	<b>3.2</b>	<b>1,579.6</b>	<b>1,523.2</b>	<b>3.7</b>	<b>3,398.8</b>	<b>3,286.1</b>	<b>3.4</b>
Wholesale <sup>(2)</sup>	256.7	227.4	12.9	37.6	29.0	29.7	294.3	256.4	14.8
<b>Total</b>	<b>2,075.9</b>	<b>1,990.3</b>	<b>4.3</b>	<b>1,617.2</b>	<b>1,552.2</b>	<b>4.2</b>	<b>3,693.1</b>	<b>3,542.5</b>	<b>4.3</b>

(1) Not audited

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

### Volume of water and sewage billed <sup>(1)</sup> by region - million m<sup>3</sup>

	Water			Sewage			Water + Sewage		
	2017	2016	%	2017	2016	%	2017	2016	%
Metropolitan	1,175.8	1,136.7	3.4	1,024.1	987.8	3.7	2,199.9	2,124.5	3.5
Regional Systems <sup>(2)</sup>	643.4	626.2	2.7	555.5	535.4	3.8	1,198.9	1,161.6	3.2
<b>Total retail</b>	<b>1,819.2</b>	<b>1,762.9</b>	<b>3.2</b>	<b>1,579.6</b>	<b>1,523.2</b>	<b>3.7</b>	<b>3,398.8</b>	<b>3,286.1</b>	<b>3.4</b>
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(1) Not audited

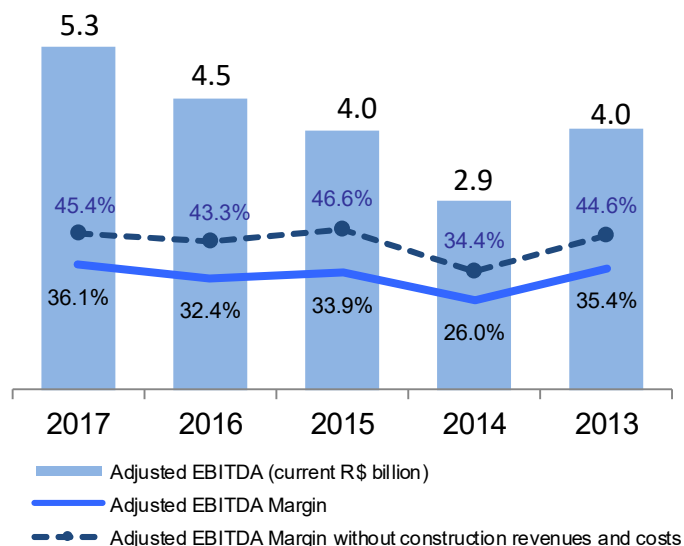
(2) Consisting of the coastal and inland regions

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

In 2017, costs, administrative and commercial expenses and construction costs showed a 0.3% decrease (R\$31.4 million). Disregarding the effects of construction costs, the increase was 7.7% (R\$539.5 million). The share of costs and expenses in net revenue was 72.9% in 2017, by comparison with the 75.7% figure observed in 2016. For further information regarding the composition and changes in costs and expenses, see the Earnings Press Release, which is available on the Company's website at [www.sabesp.com.br/investidores](http://www.sabesp.com.br/investidores), item Financial and Operational Information in the top menu.

Adjusted EBITDA showed a 15.3% increase, rising from R\$4,571.5 million in 2016 to R\$5,269.3 million in 2017, and the adjusted EBITDA margin came out to 36.1%, against the 32.4% result the previous year. Excluding the effects of construction revenues and costs, the adjusted EBITDA margin shows 45.4% in 2017 (43.3% in 2016).

### History of Adjusted EBITDA and Adjusted EBITDA Margin





## Reconciliation of Adjusted EBITDA<sup>26</sup> (Non-accounting measures) (R\$ million)

	2017	2016	2015	2014	2013
Net income	2,519.3	2,947.1	536.3	903.0	1,923.6
Financial result	458.1	(699.4)	2,456.5	635.9	483.2
Depreciation and amortization	1,301.9	1,146.6	1,074.1	1,004.5	871.1
Income tax and social contribution	984.3	1,181.9	51.2	371.8	732.0
Other net operating revenues/expenses <sup>27</sup>	5.7	(4.7)	(143.8)	3.5	(3.3)
Adjusted EBITDA	5,269.3	4,571.5	3,974.3	2,918.7	4,006.6
Adjusted EBITDA Margin	36.1	32.4	33.9	26.0	35.4
Revenue from construction	(3,150.9)	(3,732.9)	(3,336.7)	(2,918.0)	(2,444.8)
Construction costs	3,080.5	3,651.4	3,263.8	2,885.5	2,394.5
Adjusted EBITDA excluding construction revenues and costs	5,198.9	4,490.0	3,901.4	2,886.2	3,956.3
Adjusted EBITDA Margin excluding construction revenues and costs	45.4	43.3	46.6	34.4	44.6

<sup>26</sup> Adjusted EBITDA ("Adjusted EBITDA") corresponds to net income before: (i) depreciation and amortization expenses; (ii) income tax and social contribution; (iii) the financial result 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 US GAAP (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, or as a measure of liquidity. Adjusted EBITDA has no standardized meaning, and the Company's definition of Adjusted EBITDA may not be comparable to those used by other companies. The Company's management believes that 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 differently from the Company. Adjusted EBITDA is not part of the financial statements.

Adjusted EBITDA is designed to present an indicator of operational economic performance. Sabesp's adjusted EBITDA is equal to net income before net financial expenses, income tax and social contribution, depreciation and amortization, and other net operating expenses. Adjusted EBITDA is not an indicator of financial performance recognized under the Corporate Law Method and should not be considered individually or as an alternative to net income as an indicator of operating performance, as an alternative to operating cash flows or as an indicator of liquidity. Sabesp's Adjusted EBITDA serves as a general indicator of economic performance and is not affected by the restructuring of debt, interest rate swings, changes in the tax burden or levels of depreciation and amortization. As a result, Adjusted EBITDA serves as an appropriate instrument for a regular comparison of operating performance. In addition, there is another formula for calculating the Adjusted EBITDA that is adopted in clauses of some of the financial commitments. Adjusted EBITDA enables a better understanding not only of operating performance but also of the Company's ability to meet its obligations and raise funds for investments in capital goods and working capital. However, Adjusted EBITDA has limitations that prevent it from being used as an indicator of profitability because it does not take into account other costs resulting from Sabesp's activities or some other costs that may significantly affect its profits, such as financial expenses, taxes, depreciation, capital expenses and other related charges.

<sup>27</sup> Other net operating income/expenses, mainly refers to write-offs of property, plant and equipment, estimated losses on intangible assets, losses on economically unviable projects, minus revenues from sale of property, plant and equipment, sales of call notices, indemnification and reimbursement of expenses, fines and pledges, property leases, reuse water, projects and services of Pura and Aqualog.

## Investments

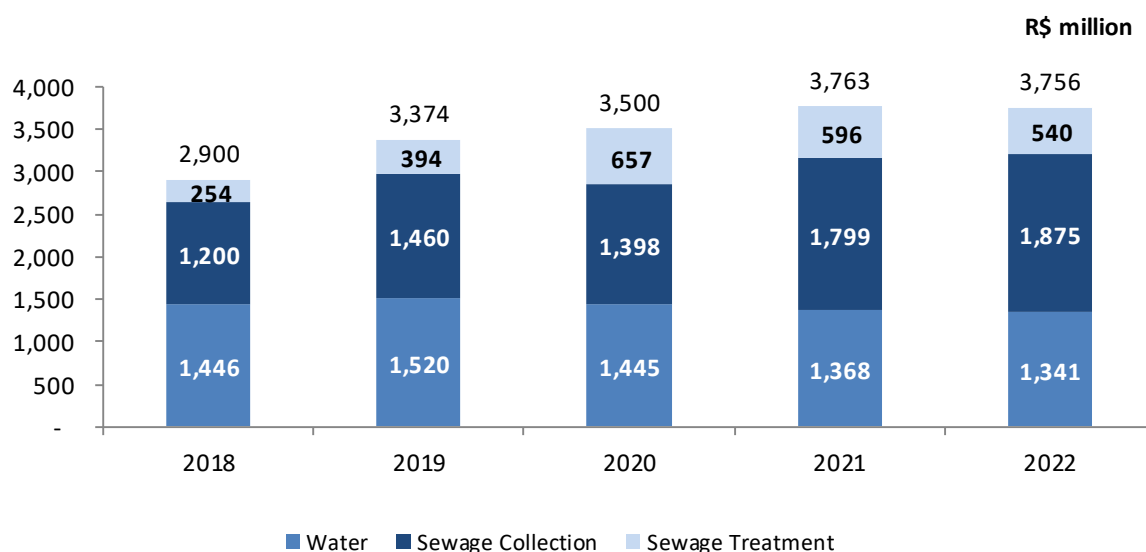
In 2017, the total amount invested by the Company was R\$3.4 billion, including R\$866 million in relation to the São Lourenço PPP, also reflecting the prioritization of investment in water supply infrastructure and water security.

The table below gives details of the investments made, broken down between water, sewage and the region:

	R\$ million (current)		
	Water	Sewage	Total
<b>Região Metropolitana de São Paulo</b>	1,816.9	769.5	2,586.4
<b>Regional Systems (interior and coast)</b>	408.5	393.0	801.5
<b>Total</b>	2,225.4	1,162.5	3,387.9

Note: Does not include the commitments assumed under the program agreements (R\$121 million).

For the period from 2018 to 2022, the Company plans to directly invest roughly R\$17.3 billion, with R\$7.1 billion of this amount being in water and the remaining R\$10.2 billion in sewage collection and treatment:



In this period, as can be seen, the priority in terms of allocation of resources will be on the sewage segment.

## Indebtedness

In 2017, total debt remained stable at approximately R\$12.1 billion. The Company repaid R\$1.2 billion of debt during the year, while funds raised totaled R\$1.0 billion.

The company's active management of its debt enabled Sabesp to reduce its relative indebtedness level, as demonstrated by the "Total Adjusted Debt/Adjusted EBITDA" ratio. This ratio which is mentioned in the Company's debenture issues (the 15th, 17th and 20th Issues), remained virtually stable at 2.27 times, as shown in the graph below. This means that Sabesp has returned to the debt levels it

exhibited in 2013, the year before the water crisis began, as well as maintaining this index below the 2.5 times reference level, a historical level that the Company uses as a guideline for the aforementioned financial ratio.

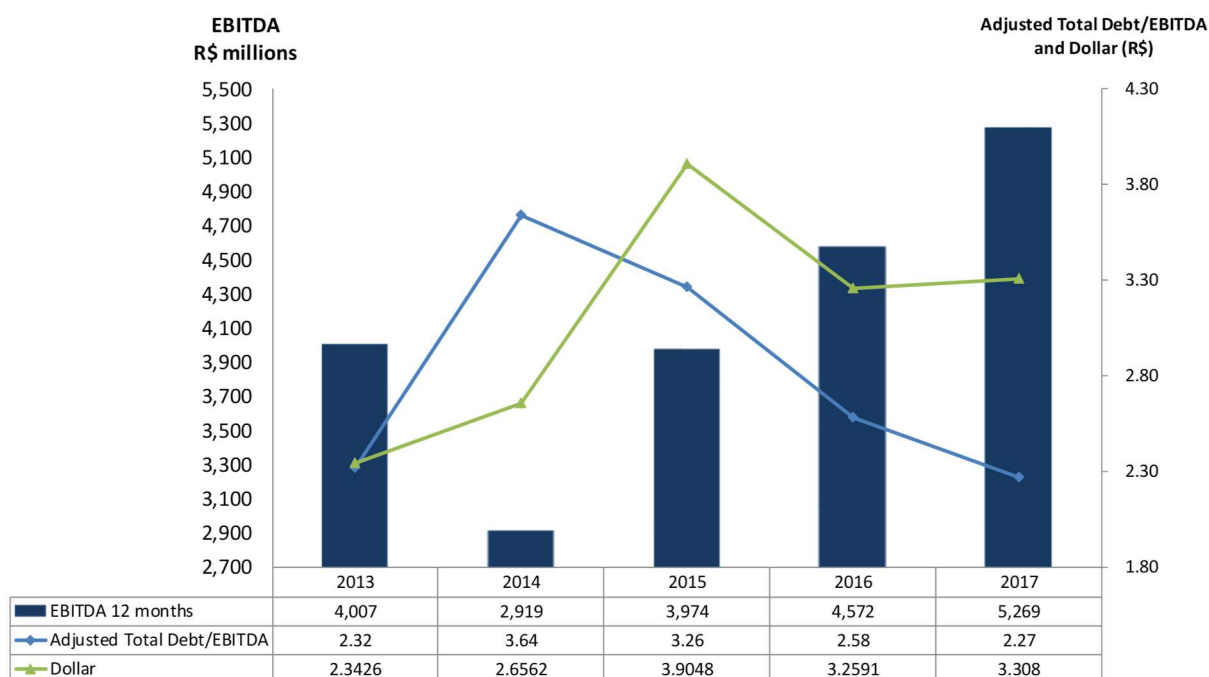
In June 2017, the Company repaid the full amount of the balance of its 19th Issue of Debentures. In July, there was a new issue of Debentures (the 21st Issue).

The Company's foreign currency debt remained at a similar level to that seen in the previous year, close to R\$5.7 billion, which is equivalent to 46.7% of the total debt. Similarly, the Real/US dollar exchange rate exhibited a lower level of volatility, ending 2017 at R\$3.3080, by comparison with the R\$3.2591 FX rate observed at the end of 2016, which translates into a 1.50% devaluation in the Real.

It should be stressed that Sabesp does not use hedging instruments, and the diluted payment flow and long-term maturities of the foreign currency denominated debt enables the reduction of exchange rate risk, whilst at the same time obtaining the benefits from the low cost of the aforementioned debt.

It should be borne in mind that, in its 21st Issue of Debentures, the Company began its migration from its above mentioned financial leverage indicator (covenant) to the "Adjusted Net Debt/EBITDA" ratio, with a 3.5 times limit. The difference in relation to the previous covenant arises from the deduction, from the total debt, of the amount in relation to the Company's cash at the time of measurement. This change seeks to align the indicator with market practice, which for the most part uses the net debt ratio.

Up until such time as the oldest debt issues, which make use of the total debt indicator, reach maturity, the Company will coexist with the two indicators. This new indicator has exhibited the following behavior in recent years:



With regard to the company's credit risk classification, notwithstanding the favorable development in the indebtedness ratios, not all the rating agencies have taken this into account in the Company's credit rating, since the aforesaid rating continues to be negatively affected by Brazil's risk classification, as well as the credit rating of the State Government, which is Sabesp's majority shareholder. While Fitch Ratings upgraded the Company's credit rating in local currency in May 2017, S&P downgraded the

company on the global scale in January 2018 due to the fact that the country's rating had been downgraded.

The Company currently has the following risk classifications (credit rating):

	Fitch	Moody's	S&P
National Scale	AA (bra)	AA2.br	brAA-
Global Scale	BB	Ba2	BB-

Sabesp benefits from an extended debt repayment profile at financing costs that are compatible with its investment cycle, particularly those granted by domestic official banks and multilateral lending agencies.

The Company has adequate access to domestic and international credit markets, maintaining solid relationships with public sector banks, particularly the National Bank for Economic and Social Development (BNDES) and the *Caixa Econômica Federal* (Federal Savings and Loans Bank), as well as multilateral agencies such as the IADB (Inter-American Development Bank), IBRD (International Bank for Reconstruction and Development) and JICA (Japan International Cooperation Agency).

With regard to third-party loans, as a State-controlled company, the Company is subject to the rules and limits imposed on the national financial system related to the tightening of credit to the public sector.

### Fundraising

In 2017, the Company contracted a sum of R\$648 million, used to restore cash, refinance financial commitments and finance its investment plan.

Part of the proceeds, in relation to the 21st issue of debentures, in the amount of R\$500.0 million were disbursed in 2017, distributed in two series. The first of these with maturity in June 2020, remunerated at the Interbank Deposit Rate plus an interest rate of 0.6% per year, while the second of these is scheduled to mature in June 2022, remunerated at the Interbank Deposit Rate plus an interest rate of 0.9%, both with six-monthly payments of interest.

The Company also signed a financing agreement for the sum of R\$148 million, earmarked for the undertaking of construction work to make use of the waters of the Itapanhaú River for supplying the Metropolitan Region of São Paulo, to be disbursed over the course of the project's construction. This financing agreement was selected on an extraordinary basis under the scope of the Ministry of Cities' Selection Process, with the *Caixa Econômica Federal* (Federal Savings and Loans Bank) as the financial agent and the funds coming from the FGTS (Government Severance Indemnity Fund for Employees). The conditions of the agreement are as follows: an interest rate of 6.00% p.a., a Risk Rate of 0.50% p.a. and a Management Fee of 1.40% p.a., indexed by the TR - Referential Rate. The grace period is 22 months and repayment is over 240 months.

In addition, at the start of 2018, the Company made its 22nd Issue of Debentures in the amount of R\$750 million, in three series. The first of these, in the amount of R\$100 million, with maturity in 3 years and remunerated at the Interbank Deposit Rate + 0.58% p.a., the second of these, in the amount of R\$400 million, with maturity in 5 years and remunerated at the Interbank Deposit Rate + 0.90% p.a., and the third of these, in the amount of R\$250 million, with maturity in 7 years and remunerated by the IPCA + 6.00% p.a.

Further information about the Company's sources of financing is available in Note 16 to the Financial Statements.

### **Stock market**

The company's shares ended the year 2017 at a price of R\$34.33, which was a 19.24% increase against the end of the previous year. During the same period, the IBOVESPA registered a 26.86% appreciation. The main events that influenced the performance of Sabesp's shares were the return to normal of the water conditions, the Real's stability against the US dollar, the tariff revision processes and the Company's possible capitalization, as well as the approval of the collection of the Regulation, Control and Inspection Fee established by Arsesp (Sanitation and Energy Regulatory Agency of the State of Sao Paulo).

Sabesp's ADRs ended the year with a 20.39% appreciation, being quoted at US\$10.45, while the Dow Jones index rose 25.1% and the S&P 500 index rose 19.4%.

The Company's shares participated in 100% of the B3's trading sessions and the annual financial volume traded was R\$12.6 billion, a 3% drop by comparison with 2016. In the US market, the Company ended the year with 136.8 million ADRs outstanding, and an annual financial volume of US\$4.4 billion, which was 2% lower than the previous year. The equity value of the shares at the end of the year was R\$25.62, which represents a 13.6% increase against 2016. In 2017, Sabesp continued to be included in the main B3 indexes and continued to be accompanied by the market's main financial institutions.

### **Tariffs and Regulation**

Sabesp's second ordinary tariff review was scheduled for April 2017, however, due to delays in hiring a consulting firm to assist ARSESP (Sanitation and Energy Regulatory Agency of the State of Sao Paulo) with this process and the need for further information in relation to Sabesp, the Agency decided to alter the schedule and divide the process into two separate stages.

The first (preliminary) stage was completed in October 2017, with the publication of the Final Technical Note 004/2017, which set the base for calculating the regulatory remuneration for the first stage at R\$40.3 billion, increased the weighted average cost of regulatory capital (WACC) from 8.06% to 8.11% and set the preliminary PO at R\$3.6386/m<sup>3</sup> (in April 2017 prices), which resulted in a tariff repositioning of 7.8888% for bills issued from November 10, 2017 onward.

The second (final) stage of the tariff review got underway in January 2018 with the publication of Arsesp Resolution 780/2018, which established the schedule for the final stage. During this stage, we highlight that the Agency is now considering the possibility of including the portion related to the transfers to municipal funds, such as the transfer to São Paulo's Municipal Environmental Sanitation and Infrastructure Fund, in the average tariff. In March 2018, the Agency released Preliminary Technical Note 0004/2018. The proposal is in the Public Consultation and Public Hearing stage during the period between 03/27/2018 and 04/17/2018. The final result of the Tariff Review is scheduled for May 10, 2018, under Resolution 788/18. The details regarding the tariff review process and the Resolution published by Arsesp can be found on the Company's Investor Relations website.

In addition, on November 10, 2017, Sabesp also started to charge clients who reside in the municipalities regulated by Arsesp, the 0.5% Regulation, Control and Inspection Fee established by Resolution 406/2013 issued by the agency. This rate was initially established by State Supplementary Law 1.025/2007 and has already been paid by Sabesp to ARSESP but has not yet been passed on to the consumer.

## **Transactions with Related Parties**

In October 2017, SABESP and the Metropolitan Water and Energy Company (EMAE) signed the 1st Amendment to the Private Transaction Instrument and Other Covenants, which excluded the suspensive condition related to the need for approval of the Instrument by the general meeting of EMAE's shareholders, ending the litigation involving the use of the Guarapiranga and Billings dams. For more information about the transaction, see Note 10 (b).

## **Advances in the negotiations of the debit balances of the permissionaire municipalities**

Sabesp supplies water on a wholesale basis to five municipalities in the RMSP: São Caetano, Mogi das Cruzes, Guarulhos, Mauá and Santo André, and the municipalities of Mauá and Santo André continue to record a significant history of default. Since 2015 Sabesp has stepped up its efforts to reestablish commercial relations with the municipalities that are in default, in order to recover the amounts owed and to ensure the regularity of the future flow of payments.

No progress has been made in the negotiations with Mauá and the Protocol of Intention, which was signed in 2015, was terminated in 2016. Negotiations with Guarulhos and Santo André, which had also been interrupted in 2016, were resumed in April 2017 and May 2017, respectively, with the formalization of new Protocols of Intent.

In relation to the municipality of Guarulhos, Sabesp and the municipality's Autonomous Water and Sewage Service (SAAE) have indicated their intention to sign (i) a judicial agreement for payment by installments of the municipality's debt with Sabesp, and (ii) an interdependence agreement, to regulate the supply of water by Sabesp on the wholesale market. The judicial agreement will provide for payment of the debt in 480 monthly installments, with interest of 0.5% per month and monetary correction by the IPCA (Broad Consumer Price Index), plus a 30% discount on R\$2.9 billion of the municipality of Guarulhos' debt, linked to payment over the course of the installment period.

The agreement for the wholesale supply of water will provide for a guarantee of payment to Sabesp by means of the fiduciary sale of SAAE's receivables, with automatic segregation of the amounts owed to Sabesp by the SAAE's centralizing collection bank, and a 20% reduction over the monthly amount billed for the wholesale water supply services, as a result of the establishment of the guarantee and the automatic payment.

The implementation of the above described agreements depends on the prior approval of Sabesp's Board of Directors, as well as other approvals to be determined by each party and obtained before any binding documents are signed. Since 2017, the municipality has begun to make payments of between 80% and 100% of the invoices.

The Company signed a protocol of intention with the municipality of Santo André in May and studies and evaluations have been underway since that time, with a view to rebalancing the commercial relations and the settlement of the municipality's debt with Sabesp. In addition, in October, the administrative investigation instigated by the Administrative Council for Economic Defense (CADE) at the request of Santo André's Municipal Environmental Sanitation Service (SEMASA), and to which a similar request made by the municipality of Guarulhos had been attached, was shelved due to the lack of evidence of violation of the economic order allegedly practiced by Sabesp in the supply of water on the wholesale market.

## Dividends

According to the Company's Bylaws, the common shares are entitled to the mandatory minimum dividend, which corresponds to 25% of the year's net income, obtained after deductions determined or permitted by law and which may be paid in the form of interest on equity. In 2017, Sabesp provided a credit for the dividends, in the form of interest on equity in the amount of R\$823.5 million, in relation to the year 2016, which translates into roughly R\$1.2048 per common share and results in a dividend yield of 4.2%.

With regard to the year 2017, the Board of Directors considered the proposal to pay interest on equity in the amount of R\$703.9 million, which corresponds to R\$1.0298 per common share and a dividend yield of 3.0%, with payment scheduled to get underway on June 26, 2018.

## ENVIRONMENT

# ENVIRONMENTAL MANAGEMENT, INNOVATION AND TECHNOLOGY FOR THE BENEFIT OF SUSTAINABILITY

Basic sanitation has sustainability at its heart, since the recovery and efficient management of its main natural resource has a positive impact on public health, on the quality of people's lives and on the socioeconomic development of the area served. At Sabesp, this activity is backed up by a set of procedures that combine environmental management with business guidelines. In addition, the pursuit of innovation and technological enhancement make up one of the strategic lines of the Company, encouraging the research, design, adoption and dissemination of new solutions that add technology and efficiency to water and sewage services.

With the understanding that environmental management requires the involvement and commitment of the operational areas in order to raise the levels of efficiency, over the last few years, Sabesp has organized a redirection of its operating strategy, which for many years was focused exclusively on the implementation of sanitation construction works and services. In this way, it is increasingly committed to promoting improvements in its operating facilities, with a view to complying with the environmental legislation and achieving sustainable development.

Supported by an Environmental Policy, the Company aims to achieve the integrated development of its activities by means of corporate programs focused on operations. For this task, in 2007 an environmental corporate area was set up, at the superintendence level, along with Environmental Management Nucleuses (NGAs) at the Business Units (UNs), where they operate as environmental management operational agents. These programs are disseminated throughout the entire area operated by means of the NGAs, ensuring the uniformity of procedures and information, and based on two pillars: namely environmental compliance and Sabesp's changing environmental culture.

**G4-EN31** - In 2017, investments allocated to corporate environmental management programs, as well as to the Rational Water Use Program (PURA), among other one-off initiatives described in this document, add up to a total sum of R\$19.9 million. Other investments and expenses associated with environmental protection are included in the total amount of operating expenses and investments reported in this report, given the direct relationship between environmental activities and the Company's core activity.

In this context, highlight goes to the investments in sewage collection and treatment, effluent monitoring, payment for the use of water from federal and state bodies of water, maintenance of reserves in protected areas, maintenance of forest nurseries, reuse water, combating water losses, environmental education actions and environment training, along with other initiatives.

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

In 2017, on the operational front, Sabesp continued with the progressive implementation of the Environmental Management System (EMS) at the STSs and WTSs. Structured in 2009, the EMS is based on the main guidelines of ISO 14001, with a focus on minimizing accident risks and on generating environmental liabilities, in addition to encouraging the development of preventive and sustainable actions, with an improvement in the efficiency of the operation and of the processes at the treatment stations.



Since 2015, Sabesp has been working with a mixed model, with ISO 14001 being applied to a limited scope of certified stations, and for the other stations, the company uses its own environmental management model (also called SGA-Sabesp), without certification objectives.

SGA-Sabesp was developed with a view to streamlining the process of implementing this system at the various business units, with its main emphasis being on facilitating the incorporation of environmental management tools into the operational routine, reinforcing the cultural change process that is already underway at the Company.

Over the course of 2017, the SGA was implemented at 48 stations, with ISO 14001 certification being maintained at another 35 stations. The SGA is currently present at 177 of Sabesp's stations, with the prospect of it being implemented at all the stations by 2024.

### **Training multipliers for the protection of the environment**

Based on the Environmental Policy, Sabesp's environmental actions are also directed towards disseminating the message of sustainability, and of knowledge about the correct use of the installed sanitation structure. In addition, counts on the involvement of clients, communities and partnerships with non-governmental organizations in order to promote initiatives that encourage mobilization for preservation and respect for the environment.

This is the purpose of the Corporate Environmental Education Program (also called PEA Sabesp), which includes activities of various types such as talks at schools, theater plays, tree plantations, competitions, collective efforts for the cleaning-up of beaches and rivers, the release of fingerlings and monitored visits to STSs and WTSs. Activities are also held on commemorative dates such as World Water Day, Environment Day and Tree Day.

The program begins with the preparation of disseminating agents, both Sabesp employees as well as members of civil society, by means of environmental education courses, with the objective of training multipliers of sound environmental practices and of the message about the importance of sanitation to society. In 2017, the PEA - Sabesp held 1,195 environmental education lectures and received 1,477 monitored visits to its facilities, catering to roughly 65,266 visitors.

Supplementing this, there is a corporate environmental training program with specific courses aimed at the operational areas, managers and leaders, addressing issues related to the management of water resources, environmental legislation and environmental management practices in the operation, among others, with more than 1,700 people receiving training in 2017.

Aimed primarily at environmental education, Sabesp also maintains a virtual space [www.clubinhosabesp.com.br](http://www.clubinhosabesp.com.br), with games, characters and savings tips to encourage children and youngsters aged from six to thirteen to take care of water.

### **In defense of the efficient management of water resources**

Sabesp participates in and acts in the various bodies of the National Water Resources System. On the National Council of Water Resources (CNRH), which is the highest body in the System, it occupies a seat on the Council and in three of its technical chambers. In the State Water Resources Council - CRH, Sabesp has representation in all seven technical chambers.

The Company also takes part in all 21 of the State of São Paulo's Water Basin Committees and in the 4 Interstate Committees with coverage in the State of São Paulo, giving priority to the activities in those

chambers that deal with Planning, Sanitation, Environmental Education and Charging for Water Use. In total, there are 159 employees operating in a coordinated way as institutional representatives.

In 2017, the Company disbursed R\$60.8 million by way of payment for the use of the water resources of rivers under federal and state domain, in the water basins of the Paraíba do Sul, Piracicaba, Capivari and Jundiá, Sorocaba and Médio Tietê rivers, of the rivers in the Baixada Santista region, and those of the Alto and Baixo Tietê, Tietê Batalha, Tietê Jacaré, Ribeira de Iguape and of the rivers in the Litoral Sul, Pardo, Baixo Pardo and Grande, Sapucaí Mirim and Grande, and Mogi-Guaçu regions. Charges for the State's other river basins are expected to get underway in 2018.

The charge for the use of water is a topic of great interest to Sabesp, bearing in mind its significance in the national debate regarding scarcity and awareness of the rational use of the resource. It is also an important source for financing actions planned by the Committees for the recovery and preservation of water resources.

Another topic of interest to the Company is focused on the classification of water bodies and the need to establish a pact for water quality goals associated with its uses. Among other issues, highlight goes to the preparation of draft laws to protect the water sources used for water supply.

Also in line with the issue of protecting water resources, in addition to the reserves in protected areas, since 1990 Sabesp has maintained two forest nurseries which are reserved for the production of seedlings of native species with the goal of meeting the requirements of the projects for restoring and rehabilitating the riparian forest in the area around the water sources that supply the RMSP. One of these is installed at the Cantareira System's Jaguari dam, in the municipality of Vargem and the other one at the Alto Cotia WTS, in the municipality of Cotia. It also runs a nursery at the Jales STS, which supplies seedlings of the species ipê, embaúba, mahogany, cedar, queen palm, palm, guava, bilimbi and moringa, among others, used for reforestation.

With regard to the environmental permits and licenses, the existing operating complex is the subject of the Corporate Programs for Obtaining and Maintaining the Grants of Right of Use of Water Resources and Environmental Permits for STSs, WTSs and Sewage Pumping Stations. In this context, it should be noted that the development of activities related to the implementation of construction projects and interventions goes through a process of obtaining permits and environmental licenses, in accordance with the legislation that is in force. As a result of these processes, Sabesp undertakes environmental compensation commitments.

In order to fulfill its current and future requirements, Sabesp has developed and is implementing a corporate program that includes the planting and maintenance of one million seedlings of regional native species over a ten-year period.

The work has already been initiated and is part of the Government of the State of São Paulo's **Nascentes Program** with 213 thousand seedlings already planted and being maintained in the Cantareira System, in the area surrounding the Cachoeira Reservoir. An agreement has already been reached for the services of planting and maintaining another 168 thousand seedlings, which are to be planted in the municipalities of Igaratá and Mirante do Paranapanema.

The planting and maintenance of a further 350,000 seedlings is also in the process of being contracted, further expanding the forest cover of the Cantareira System, which is responsible for supplying about nine million people.

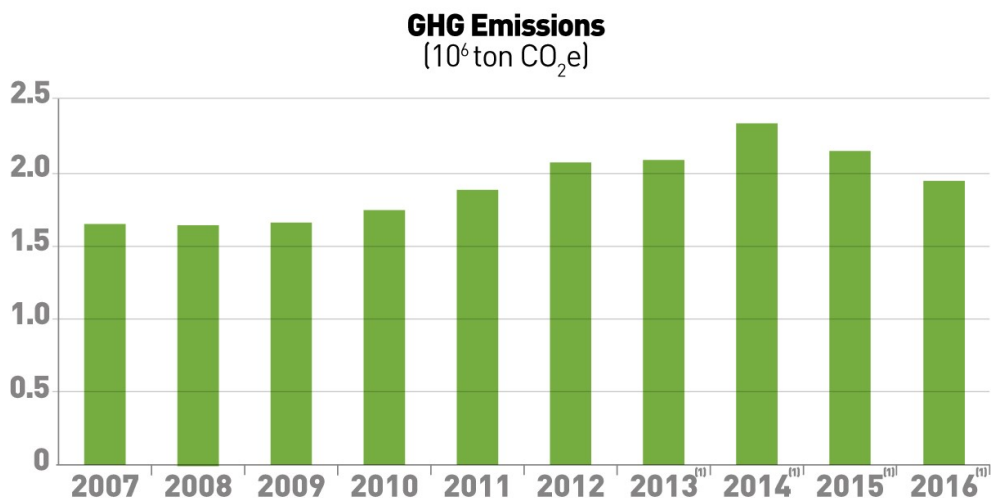
## Climate change and management of greenhouse gas emissions

Climatic conditions and extreme events have a direct impact on sanitation activities. Therefore, Sabesp's environmental management is focused on technical training, quantification of greenhouse gas emissions and initiatives designed to reduce these emissions, as well as adapting to the current climatic conditions.

One project that is related is the Corporate Program for the Management of Greenhouse Gas Emissions (also known as GEE), which results in the preparation of annual inventories for the measurement of the aforesaid emissions and the promotion of awareness activities in relation to climate issues. These initiatives are in alignment with the responsibilities established in the guidelines and requirements of the State Policy on Climate Change (PEMC).

**G4-EN15; G4-EN16; G4-EN17** In 2017, Sabesp completed its 2016 corporate GHG inventory, which showed total emissions of 1,979,677 tCO<sub>2</sub>e. The emissions corresponding to scope 1 totaled 1,771,135 tCO<sub>2</sub>e, to scope 2, 178,724 tCO<sub>2</sub>e and to scope 3, 29,818 tCO<sub>2</sub>e. This is the 10th edition of the annual inventory, which shows the same trend as that observed in previous years, where it can be observed that sewage collection and treatment activities are the main sources of GHG emissions accounting for roughly 89% of the total, with electricity consumption being the second largest source, contributing 9% of the total amount. The other activities account for approximately 2%.

Historical series of corporate inventories of greenhouse gas emissions - GHG



\* Global Warming Potential - IPCC, Second Assessment Report - SAR. The inventory of greenhouse gas emissions follows the principles and requirements of NBR ISO 14064:2007 Part 1 and the Brazilian GHG Protocol Program. The calculation guidelines follow the methodologies by categories of atmospheric emissions of the Intergovernmental Panel on Climate Change Guidelines for National GHG Inventories (IPCC 2006).

### New technologies: efficiency, cost and sustainability **DMA Energy**

From the innovation standpoint, Sabesp relies on initiatives that focus on the development of technology, with a view to increasing operational efficiency, reducing costs and minimizing environmental impact.

One example in this sense are the improvements implemented at the França Pinto Water Pumping Station, which guarantees the water supply in the Vila Mariana and Avenida Paulista regions of the city

of São Paulo. In partnership with AES Eletropaulo, Sabesp is organizing replacement by more energy efficient equipment, seeking to reduce the plant's energy consumption.

In addition to this, Sabesp and AES Eletropaulo have also begun an operation to replace electric motors. The two concessionaires identify those motors that are no longer performing efficiently, dispose of them and replace them with new high-performance motors, thus guaranteeing the station greater reliability and reduced energy consumption. The company pays for the new motor, presents the invoice to the concessionaire and it reimburses a previously agreed percentage of the value. For the start of 2018 Sabesp is forecasting the replacement of 12 old low-performance electric motors by high performance premium class motors.

Another highlighted project, in the pilot phase at the Tamboré reservoir, in the municipality of Barueri, will use the flow of treated water in the pipeline to generate electricity. The "mini-hydroelectric power plant" is expected to generate more than 64 thousand kWh/month, enough to supply the monthly energy consumption of roughly 1,500 people. The energy will be used for the reservoir's lighting and electricity panels as well as for pumping water to the houses in the region. The surplus will be made available to AES Eletropaulo in exchange for a discount of an amount equal to the bill paid by Sabesp.

Initiated in 2017 in the city of São Paulo's Vila Prudente and Butantã neighborhoods, the Company's initiative encourages the installation of small turbines that recharge using the flow of water in the pipelines. Self-sufficient, these devices power the telemetry system that monitors the performance of the pressure reducing valves (VRPs), enabling more efficient monitoring to the extent that they allow signals to be sent more frequently. In this way, they help the VRPs to control the pressure better, reducing water losses. In addition, the new system produces an environmental gain, since it replaces the batteries of the meters that need to be disposed of at the end of their useful life.

**G4-EN6** At the São João da Boa Vista STS, a prominent initiative concerns the study carried out with mechanical aerators for sewage treatment lagoons with depths exceeding four meters. As a result, alternatives were identified capable of generating demand reduction and energy savings estimated at 40%, which also contributed to reducing the greenhouse gas emissions resulting from the Company's electricity consumption. The contracting is expected to take place in 2018.

Coupled with the principles of sustainability, with a positive impact on cost reduction and greenhouse gas emissions, part of the Franca STS's fleet will be supplied by the biomethane generated from the purification of the biogas resulting from the sewage treatment. The technology is the result of a technical cooperation agreement with the German Fraunhofer Institute and has a total cost of R\$7.3 million. Tests using this fuel to supply the vehicles are expected to get underway in April 2018.

In addition to these initiatives, Sabesp also helps reduce greenhouse gas (GHG) emissions by means of the Sabesp Fleet Renewal Program, an action which has been in place since 2011 that is focused on the replacement of light vehicles that have been in use for more than 7 years and heavy vehicles that have been in use for more than 20 years. Up until 2017, 1,446 light vehicles and 461 heavy vehicles had been replaced, accounting for 74% and 72%, respectively of the total. In addition to this program, Sabesp complies with governmental guidelines regarding the use of renewable fuel, ethanol, for flex vehicles and Diesel S10 for heavy vehicles.

On top of the environmental importance, there are the economic benefits and the modernization of management generated by the Fleet Renewal Program, such as reducing fossil fuel consumption, savings in relation to maintenance costs and documentation, and the revenue obtained from the auctions for the sale of the replaced vehicles. As a result of the program the fleet's daily availability achieved a 99.5% level, increasing the productivity of operational activities.

## Research and innovation

**DMA Indirect Economic Impacts** - The actions developed by the Company are based on the strategic guideline “Innovation and Technology” and are designed to encourage the creation, adoption and dissemination of new solutions that add technology and efficiency to the water and sewage services and, often working in conjunction with educational institutions, research entities and companies with state-of-the-art technology.

**G4-EC7** Structured with a Superintendence focused on technological development, in 2017 the Company invested about R\$10.7 million in projects with its own resources, resources raised with development entities or financed, in part or on full, by partners. R\$37 million was invested over the course of the last three years.

One of the important partnerships resulted in the Cooperation agreement between Sabesp and FAPESP, aimed at financing projects in Higher Education and Research Institutions in the State of São Paulo. Among the research partner institutions are the following: the University of São Paulo - USP, the Aeronautics Technological Institute - ITA, the Federal University of São Paulo - UNIFESP, the National Institute of Space Research - INPE and the State University of São Paulo - UNESP.

The Agreement provides for non-refundable financing of R\$50 million, split equally between Sabesp and FAPESP. Initiated in 2009, the partnership has already yielded 17 projects, nine of which have been concluded, with an investment of R\$5.2 million, with eight other projects being approved and having had their terms of agreement signed in 2015. These projects are predicted to have investments of R\$7 million and an execution time of 42 months.

Among the projects under study, the highlight is the development of a national signal correlator optimized for the location and detection of leaks in the Company’s underground water ducts, together with effective devices for training leak detection teams which are being developed together with researchers from UNESP.

**G4-EN6** By means of a Financing Agreement that was signed in 2015 with the Brazilian Innovation Agency - FINEP, Sabesp is enabling the implementation of its “Technological Innovations Plan for Sanitation”. With a forecast 30-month execution period and a cost of R\$60 million, the Plan is made up of four projects: a system for the production of reuse water for urban and industrial use, which is being implemented in the RMSP; biofiltration units for controlling odor from sewage pumping stations, which is also to be implemented in RMSP, an STS sludge drier by means of Solar Irradiation, which is being implemented in the municipality of Franca, and the Plasma gasification system of solid waste from STSs.

Technical cooperation agreements are another way to promote the development of technologies on issues that are a priority for Sabesp, such as reduction of losses, energy efficiency and alternatives for the treatment and disposal of sludge. In 2016 an agreement was signed with a representative of the Danish company Liqtech to evaluate the technology of ceramic membranes for ultrafiltration of silicon carbide for the recovery of waste water from water treatment plants. Tests were carried out at a number of WTSs in 2017, to verify the technical and economic viability of the material.

Also in 2017, a Protocol of Intent was signed with the Federal University of Minas Gerais, by means of its Sanitary and Environmental Engineering Department DESA/UFMG, with a view to continuing the project “Evaluation of the potential for energy use of biogas generated in anaerobic reactors applied to the treatment of domestic sewage in Brazil” at Várzea Paulista’s Sewage Treatment Plant. Measurements and assessments of the biogas production are underway.

In 2017 we also signed a Memorandum of Understanding with ino3W Ltd. (ino3W community water system) for the specific purpose of exchanging knowledge and experience between the parties, with a

view to an eventual partnership for technological development. This partnership aims to share information in relation to innovative technologies, with the participation of the world's major sanitation companies, enabling the exchange of knowledge, validation of technologies, development and implementation of innovations and subsequent placing in the market.

At the Parque Novo Mundo sewage treatment station, in the city of São Paulo, a study is underway to replace the current complex of blowers with machines that consume 23% less energy and increase air production, in order to meet the expected increase in demand for treatment and the final quality of treated sewage. Contracting is also expected to take place in 2018. **G4-EN6**

Photovoltaic generation is another alternative that is being studied. In this context, a study is underway for the implementation of photovoltaic power plants in a number of sewage treatment ponds, making it possible to achieve savings of between 10% to 20% in the amount of electricity consumed. This project, which is in the technical package structuring phase, will be contracted in 2018.

### **Disposal of waste**

**G4-EN6** The final destination of the solid waste from water and sewage treatment systems has been one of the areas of greatest concentration of Sabesp's studies and research in the search for economically viable and environmentally sustainable solutions.

At STS Barueri, which is the largest sewage treatment plant in Latin America and which accounts for more than half of all the sewage volume treated by the Company in the RMSP, a pilot system for the thermal treatment of sludge using plasma technology is in the process of being implemented. Under this process the sludge is subjected to high temperatures (of around 1500°C) and at the end of the system an inert vitreous residue is generated with a drastic reduction of the initial volume and with the possibility of being reutilized for civil construction. In this way, the project also aims to reduce waste disposal in landfills, consequently reducing the need for sludge to be transported.

Also in Barueri, the project entitled Waste to Energy Barueri, which fosters environmentally appropriate disposal and better energy use of the by-products of sewage treatment, must be subject to a bidding process by the end of 2018. The agreement will be for a period of thirty years and the process consists of the thermal treatment of sludge and the energy use of biogas and, if possible, of sludge. The energy potential will be used for the sludge treatment process itself as well as to operate the STS itself, which is the largest one in South America.

Therefore, this project will contribute to the sustainability of the entire sewage treatment process, looking to reduce operational costs as well as reducing the amount of sludge disposed of in landfills. At plants in the interior of the state and in the coastal region, sludge drying initiatives using solar irradiation are under development, where the decrease in the volume of sludge generated reduces the number of trips to transport the sludge to the landfill, which is reflected in the drop in consumption of vehicle fuel and in greenhouse gas emissions.

In some cases, the process is associated with the implementation of composting systems, using, for example, pruning debris from trees and eucalyptus bark, with the compost produced being used in agriculture.

In addition, in the administrative areas, Sabesp implemented the Sabesp 3Rs Program with the aim of structuring the management of solid waste generated, as well as organizing and standardizing a series of selective waste collection initiatives. As a result of this, actions and practices were defined to minimize generation, reutilize and dispose of waste for recycling.

The program also provides for the training of employees to act as multipliers in their areas of work along with external activities, together with the training of outsourced workers to ensure they are better qualified to provide the services. Since the program first got underway in 2008, more than 2,200 people have been trained, including employees and outsourced workers, in addition to the collection of more than 2,100 tons of waste.

## SOCIAL RESPONSIBILITY

# RELATIONSHIP GUIDED TRUST, RESPECT AND APPRECIATION OF CITIZENSHIP

It is Sabesp's belief that social responsibility should be a stance that is adopted both inside as well as outside the Company. Based on ethics, this conduct is present on a daily basis in the relationship of transparency and respect for the client, efficiency in the services rendered and appreciation of the competencies of its employees. The substantial investments in the expansion of the sanitation infrastructure and the strengthening of partnerships with society result in the promotion of citizenship, the provision of health and quality of life for the population served.

### Voluntary adhesion and representativeness

**G4-15; G4-16** Sabesp is a signatory to the Global Compact, a United Nations (UN) initiative that brings together companies, workers and civil society to promote sustainable growth and citizenship. Sabesp aligns its activities with the principles of human rights, labor, environmental protection and combating corruption.

The Company supports and encourages the 17 Sustainable Development Goals (SDGs), another UN initiative aiming to stimulate actions over the next 15 years in areas of crucial importance to humanity, the planet, countries and companies. The SDGs are integrated into our Corporate Volunteer Program, the goal of which is to carry out actions and encourage changes in behavior that contribute in a broader way to the social development of the population that is under the Company's influence.

In 2017, Sabesp promoted dialogues with *Rede Brasil do Pacto Global* (the Brazilian Global Compact Network) with the aim of sharing experiences and demonstrating how Sabesp's actions and projects can be aligned with the Sustainable Development Goals (SDGs). In addition, the Social Mobilization Platform was implemented in order to benefit awareness and engagement among the employees as well as the dissemination and management of the projects.

On the other hand, Sabesp's activities in sector entities are designed to increase the relationship with sanitation representatives and strengthening the dialogue in relation to issues that encourage the creation of public policies aimed at expanding basic sanitation and at the efficient and sustainable management of water resources at the regional and national levels.

At the same time, Sabesp uses these spaces to spread and acquire knowledge, bearing in mind the incorporation or sharing of technological advances applied to basic sanitation operations.

Based on these aspects, Sabesp takes part, through its management and officers, in meetings, gatherings and forums of important entities, with a seat on some of the sector's most representative entities. In this sense, the presidency of the Brazilian Association of Sanitary and Environmental Engineering is held by Roberval Tavares de Souza, who is the Superintendent of the South Business Unit of the Metropolitan Region.

In the same entity, the Company has executives on the executive board of its São Paulo branch (ABES-SP), technical chambers, in addition to holding five of the nine regional presidencies installed in the State of São Paulo. Sabesp's CEO Jerson Kelman is also the vice-president of the Association of State Basic Sanitation Companies, an entity in which Sabesp also has its executives participating in the following Technical Chambers: Legal, Accounting, Communications, Water Quality Control, Water Resources and Environment and Regulation.



Kelman also has a seat on the board of the Brazilian Association of Infrastructure and Basic Industries (Abdib) and the Superior Council of Infrastructure of the Federation of Industries of the State of São Paulo (Fiesp). Additionally, in the field of scientific and technological diffusion, Sabesp has representatives on the joint bodies of the following entities: the Brazilian Association of Scientific Editors (ABEC), the Brazilian Association of Technical Standards (ABNT) and the National Association of Research and Development of Innovative Companies (ANPEI).

## Programs and Institutional partnerships

For the 14th year in a row, Sabesp renewed its Child Friendly Company Seal from Abrinq Foundation, reinforcing the company's image and its socially responsible performance, helping to spread a culture of citizenship by means of initiatives aimed at Brazilian children and youth. The renewal of the seal emphasizes the company's commitment to carrying out actions on behalf of children and teenagers, conditions that stand out in the companies recognized in the Child Friendly Company Program.

Sabesp is a joint-sponsor of *Instituto Criança Cidadã* - ICC (Child Citizen Institute), which is dedicated to training young boys and girls from families that are in situations of economic and social difficulty, by providing education, culture and assistance to roughly 5,500 people including children, young people and adults in the Metropolitan Region of Sao Paulo.

In addition, Sabesp maintains the grant of the Seal of Diversity, established by the State Government, which aims to encourage public, private and civil society organizations to include this issue in their human resources management and to highlight good business practices as a strategic action for equal rights.

The Company has an agreement with *Associação Amigos Metroviários dos Excepcionais* (AME), as a result of which a number of people with disabilities operate in our customer service stations.

**Corporate Volunteer Program** - Aware of the importance of voluntary work and of its benefits for society, Sabesp, through its Corporate Volunteer Program, inspires good practices and provides those involved with greater dignity, carrying out campaigns that on an annual basis result in the collection of food, clothing, hygiene products, books and magazines, among others.

In addition to the campaigns, it acts in a variety of actions of social inclusion, learning and care for children, the elderly and people with special needs. In addition, 2017 saw the continuation of partnerships with nearby communities, NGOs, the State Government, municipal administrations, schools, orphanages and day care centers, along with other segments.

Volunteer actions are coordinated by a group of employees, with representatives from all departments, who network with volunteers.

The Winter Clothing Campaign by the Solidarity and Social and Cultural Development Fund of the State of São Paulo – FUSSESP, is already part of Sabesp's calendar as one of the most integrated and best-performing corporate actions. It is an occasion when solidarity is incorporated into the company's culture.

Historically, Sabesp has been one of the largest contributors to this campaign. Since 2002, the year when participation was officially started, more than 46.7 million items of clothing have been collected and donated, promoting social well-being and providing the population with a better quality of life. In 2017, 1.4 million items of clothing, which benefited more than 18 thousand families and 195 charitable entities.

**Institutional Programs focused on the social area - Apprentice Program** - In line with its objective of evolving as a company, which by vocation is socially responsible and in compliance with Law 10,097/2000, since 2006, Sabesp has run the Apprentice Program, which contributes to the formation of citizenship and the professional training of young people aged between 14 and 22.

With an 18-month contract that includes theory and on-the-job training, the program is developed in conjunction with the Sao Paulo branch of the National Service of Industrial Learning - Senai. The purpose of the program is to help with the training of young people, giving them an opportunity to enter the job market, as well as offering practical learning, the exchange of experience and integration between Sabesp's employees, trainees and current apprentices. The students get the opportunity to work at one of the world's largest sanitation companies.

Among the indirect positive impacts of this program, one can highlight a consistent technical and professional development in the administration, finance and human resources segments. In addition, the young people help with the family income, since they receive compensation and benefits. On the other hand, this program is also an opportunity to encourage our employees to play the role of tutors, a function that contributes to the exercise of citizenship. This initiative has already provided opportunities to 3,307 young people.

### **Support and Sponsorship**

By means of financial and/or institutional support with resources from budget funds and tax incentives, Sabesp takes part in cultural, social, educational, sports and environmental actions encouraging social development in partnership with a number of civil society organizations. In 2017, more than R\$34 million was allocated to actions and projects that contribute to respect for human rights, promotion of social inclusion, mitigation of social impacts and encouragement of volunteer work.

**Cultural Projects** - Sabesp plays a very significant part in cultural projects. In 2017 alone, more than R\$15 million was distributed across 50 projects, spreading culture in different artistic languages, such as music, cinema, theater, dance, the visual arts and literature. Sabesp believes that the dissemination of culture is an important source for transforming lives and that access to culture, the arts, memory and knowledge is a fundamental condition for the full exercise of citizenship. The productive chain of culture is also a source of opportunities for generating jobs and income.

**Sports Incentive** - Sabesp also recognizes the transformational power of sport and has been supporting a number of sports projects, both aimed at high performance as well as sport as an instrument of education. In 2017 roughly R\$4 million was made available to sponsor organizations that offer activities that go beyond the practice of sports, promoting health, education, citizenship and knowledge. This service is not limited to the children and young people who benefit directly but extends to the families and people in the surrounding communities, who are also affected.

**Cancer Awareness Projects** - With the aim of contributing to improve cancer treatment in Brazil, since 2015, Sabesp has been supporting the National Program of Support for Cancer Awareness (PRONON) projects. Over the last three years, the allocation of more than R\$7.5 million of funds has allowed the training of professionals, the expansion and qualification of diagnostic and surgical services, the use of more modern techniques and the provision of excellent care to cancer patients.

**Projects on behalf of the Elderly, Children and Adolescents** - The State Fund for the Elderly is aimed at financing programs and actions related to the elderly population, particularly at ensuring their social rights and establishing the conditions to promote their autonomy and effective participation in society. The use of resources allocated to the Fund is carried out by means of the Public Call Notice, which allows, in a more just and equitable way, the selection and financing of the best projects.

**The State Fund for the Rights of Children and Adolescents (FEDCA)** consists of special resources for assisting this public. The funds are a fundamental means of enabling the Statute of the Child and Adolescent (ECA) and financing the implementation of policies aimed at catering to the child and adolescent population. In São Paulo, this is administered by Condeca-SP.

Financial Incentives	2012	2013	2014	2015	2016	2017
Cultural incentives - Rouanet Law	9,280	7,341	4,304	396	7,210	8,678
Audiovisual incentive	4,672	6,908	5,572	1,188	7,252	6,001
Sports incentives	2,872	3,379	2,130	396	3,615	3,600
Cancer awareness incentives	0	0	0	396	3,600	3,600
Condeca (State Council on the Rights of Children and Adolescents)	3,000	3,300	2,100	0	3,600	3,690
Fund for the Elderly	0	0	0	0	3,600	3,690
<b>Total</b>	<b>19,824</b>	<b>20,928</b>	<b>14,106</b>	<b>2,376</b>	<b>28,877</b>	<b>29,259</b>

### Supply chain management

For the Company, management of the supply chain goes beyond the acquisition of products, materials and services. It seeks to establish partnerships, by means of which values and principles of action are shared. With each contract that is signed, the new supplier is oriented towards compliance with labor, tax and environmental legislation. In addition, documents and assumptions that qualify the company for the business relationship are required.

**G4-12** At present, there are roughly 7,840 active suppliers who are part of the chain throughout the State of São Paulo. The amount spent on suppliers in 2017 was R\$4 billion, in relation to investments and expenses.

The contracting of suppliers complies with the Labor, Occupational Safety and Environmental requirements, extending the commitment to the contracted company, which is responsible for any irregular acts or facts practiced by the subcontractor and/or outsourced party on its behalf, or on behalf of its employees and agents.

The Company has its own process for the qualification of suppliers and their respective products, for the purchase of strategic materials. Supplier qualification covers a number of requirements, including the production process, from the raw material to the finished product, and includes aspects in relation to environmental liability, such as toxicological risks of the product, and social responsibility, such as combating forced labor and the use of child labor.

In addition, the Company seeks to provide the market with the maximum possible publicity regarding its procurement and contracting process, using electronic bidding procedures, based on preconditions for taking part, establishing requirements for contracting and guidelines to prevent collusion between competitors. Electronic processes, in addition to reducing costs, offer both suppliers as well as the population greater transparency, efficiency and agility.

As it is committed to conducting its business in a legal, ethical, transparent and professional way, in accordance with the general requirements of anticorruption laws, the Company extends the obligation to assimilate, accept and enforce those requirements to its suppliers, who represent it, by means of a declaration in which the supplier states that it conducts its business in a legal way.

In addition, the participation and contracting of local suppliers in their areas of activity is encouraged by the Company, as well as the fact that under current legislation, micro and small companies and cooperatives are guaranteed differentiated treatment.

In accordance with State Decree No. 53,336/08, which established the State Program for Sustainable Public Procurement, Sabesp presents its Report on Sustainable Public Procurement, which is produced according to the guidelines established by the Government of the State of São Paulo's Program for Sustainable Public Procurement, with the main socio-environmental actions and best practices applied to its supply chain.

Sabesp also uses the Government of the State of São Paulo's Outsourced Services Studies - Specific Social and Environmental Instructions in the definition of its technical specifications. This study establishes environmental actions, such as: rational use of water and of energy and electricity, reduction of solid waste production, etc., whether by means of the training of the contracted party's employees, or the awareness of all those involved, or by means of concrete actions specifically mentioned in Sabesp and the contracted party's Technical Specifications and obligations.

All bid notices take into account legislation and environmental standards. In turn Sabesp's contractual instruments have a clause requiring compliance with the stances adopted by the Municipality and with the State and Federal legal provisions that may interfere with the execution of works or services, highlighting the environmental legislation, particularly CONAMA's Resolutions and State Law 12,684/07.

In addition to the goal of reporting on the performance of Sabesp's procurement areas, this instrument offers important information regarding suppliers' good practices and their awareness and actions for sustainable development. The toxicological risks of the products used are also evaluated, so as to guarantee safety of use in both at the water treatment plant as well as for the final consumer.

This process also includes the following analyzes: evaluation of the production process, from the raw material to the final product; verification of aspects related to the environment and social responsibility; promotion of fair trade, selecting suppliers with the same level of quality and, in these circumstances, the search for the lowest price.

Special highlight goes to the work of qualifying suppliers of fluorosilicate acid, the known fluorine, which is added at the end of the water treatment, as established by Law No. 6,050/1974, and its regulatory decree No. 76,872/1975.

This material, which undergoes strict quality controls, is evaluated in accordance with the procedures established by ABNT NBR 15784:2017 ABNT/NBR 15784:2017 and is also required to meet the parameters established by PRC Ordinance No. 5, dated September 28, 2017 (Ministry of Health), resulting from the reuse and purification of materials from the processing of phosphate rock, which contributes to the preservation of natural resources at the same time as protecting the population's oral health, strengthening dental enamel. **DMA Materials**

The potential risks identified in the procurement and inventory processes are continuously monitored and reassessed and new action plans are implemented whenever necessary in order to act directly on the causes of these risks. In addition, Sabesp relies on its Supply Policy, Business Procedures, and the Bid Notices Committee, which define rules and standards for the company's contracting, the Bidding Management System (SGL) and the Integrated Information System (SiiS). **DMA Materials**

Using the Bidding Management System (SGL) and the Integrated Information System (SiiS), it is possible to obtain management and operational information, which can be grouped, analyzed and monitored in accordance with the Company's management needs of the. Sabesp also has functional

authorities in its processes for operating, determining rules, procedures and standards for its activities. In addition, the requirements of the Sarbanes-Oxley Act, Anti-Corruption Law, Bidding Law, Code of Ethics, Audit Committee, etc. have to be met.

#### **Child Labor - Sabesp plays its part in maintaining human rights**

Sabesp's bidding procedures establish, as a condition for qualification, that bidders confirm they are not in breach of Ministry of Labor rulings on the prohibition of nighttime, hazardous or unhealthy work involving those under the age of eighteen, and that they do not employ anyone under the age of sixteen. During the bidding stage, failure to comply with this rule will disqualify the bidder and, when the contract is being performed, the discovery of any violation of this rule may result in the contract being rescinded. On another front related to measures taken to contribute to the effective eradication of child labor, for the 14th year in a row we have renewed the certificate conferred by the Fundação Abrinq.

The Company has its own process for qualifying suppliers and their respective products, in the case of purchases of strategic materials, such as chemical products. Furthermore, the supplier qualification process evaluates several requirements, including the production process, from the raw materials, to the final product, checking aspects related to social responsibility with regard to the use of child labor.

#### **Forced labor**

The measures adopted by Sabesp with a view to eliminating all forms of forced or slave labor are the result of the study carried out by the National Pact on the production chains of employers that use forced or slave labor. Actions involving the register of suppliers and participation in tenders and bidding processes were referred at the time to the Steering Committee of the National Pact for the Eradication of Slave Labor. Worthy of note among the actions are: a) consultation by our registration department of the Ministry of Labor and Employment's "dirty list", to verify whether any of Sabesp's suppliers are using slave labor; b) the obligation that those interested in participating in bids, or in qualifying their respective products in Sabesp, declare that they do not use slave labor in their productive chain and; c) contractual provisions whereby the contracted company will assume responsibility for any use of slave labor in its productive chain. To this end, we stress that employing forced or slave labor constitutes motive for termination of contract(s) with Sabesp.

### **Relationship with Customers**

**DMA Labeling of Products and Services** Respect for society and for the customer, with the offer of quality products and services, adequate tariffs and effective customer service make up one of the strategic guiding principles for Sabesp's operations, which focus on boosting technology as a pillar for improving excellence in the provision of the services.

In this way, Sabesp relies on the traditional service channels (telephone and in-person contact by means of the 404 branches established in the municipalities in which the company operates and 13 mobile service units) and the virtual agency, where customers can make requests, via the Company's website, for new water and sewage connections, second copies of bills, repairs, report lack of water or sewage leakages, along with tips and information related to the conscious consumption of water.

In addition to these service channels, the Company has been increasing the use of technology in order to make the customer's life more comfortable and easier. In January 2017, it launched the Sabesp Mobile app, which makes it possible to pay overdue bills by installments, receive a second copy of a bill, obtain a copy of the bar code in order to settle a debt via bank app, and report a lack of water, along with other services.

In order to facilitate access and inclusion of hearing impaired clients, in September 2017 a pilot system was established at the Penha branch, which allows attendants to initiate a video call with qualified interpreters who are fluent in Libras (Brazilian Sign Language) from a Simultaneous Translation Center and, therefore, be given assistance to provide all the support that the customer needs.

Sabesp also provides contact via the Ombudsman's Office, which is a qualified channel for customer service, at the 2nd level, to handle complaints, suggestions, criticism and information. In 2017, the Ombudsman's Office received about 110 thousand statements, which was a 20.9% reduction against 2016.

**G4-PR5** In order to improve its service, Sabesp conducts a Satisfaction Survey on an annual basis, taking into account the best market practices. In 2017, 6,240 interviews were carried out throughout the entire State of São Paulo, which makes it possible to obtain results with a 1.24% margin of error and a 95% confidence level. The overall satisfaction indicator was 85%, which means that out of every 10 customers, 8 stated that they were satisfied or very satisfied with Sabesp.

### **Relationship with the granting authority**

The Regulatory Sanitation Framework (Federal Law 11,445/07), together with the other laws that regulate the sector, introduced a new type of relationship between municipalities and the service provider, namely the program agreement. In accordance with the provisions of the legislation, Sabesp has already signed 287 agreements under this modality, with 266 Program Agreements in the Regional Systems Department and 21 in the Metropolitan Department. In 2017 alone, 6 new agreements were signed, with 5 being renewals with municipalities that were already being operated by Sabesp and the sixth being the acquisition of the Municipality of Pereiras.

Sabesp works to maintain and increase its market, seeking the economic, financial and socio-environmental sustainability of the Company and ensuring the continuity of the business. On the one hand, the company's high capillarity, with operations in every part of the state, represents a competitive advantage for the business due to the large volume of agreements but on the other hand it also represents a challenge regarding the forms of management and the relationship with the representatives of the granting power, due to the specific characteristics of each locality and of the municipal managers.

### **People management DMA Employment**

2017 was a challenging year for managing people at Sabesp. In addition to making adjustments in order to comply with E-social, the new Labor Law and the training of employees in the use Sabesp's Integrated Information System (SiiS), which was implemented in April, this year the Company switched to a more innovative and flexible people management model. A number of projects were developed in the sense of integrating and leveraging the efforts into one main goal of optimizing the organizational values to the future challenges.

**G4-10** At the end of 2017, Sabesp had 13,672 employees, 910 trainees and 540 apprentices. In addition to the job, career and compensation plans, and actions that ensure a safe and healthy working environment for everybody and the strategy of enhancing and improving intellectual capital, the Company has been investing in measures to increasingly ensure equal opportunities.

Of the total, 81 job positions were held by people with disabilities, with 72% being physically disabled, 12% being hearing impaired and 16% being visually impaired. The average length of time that the employees have been with the Company is 19.5 years. In 2017, the company had a 1.7% turnover rate

(versus 3.8% in 2016), overtime in relation to normal hours worked was equal to 10.6% and the absenteeism rate was 1.6%. With regard to maternity leave, of the 55 women who took advantage of this benefit, 61.8% returned to work<sup>28</sup>.

Sabesp selects and recruits its employees, trainees and apprentices by means of competitive public examination. In 2017, the competitive held a competitive public examination to fill 485 vacancies for young apprentices and at the beginning of 2018 announced a selection process for 661 vacancies for various different job positions.

People Management is directly related to Sabesp's strategy by means of the Strategic Guideline for Valuing People, which guides, among others, the Strategic Objective of Promoting Professional and Personal Development. It is about boosting and encouraging professional and personal development, providing continuous access to operational, technological and managerial knowledge applicable to the business, contributing to the challenge of serving roughly 27.9 million people in the State of São Paulo, helping to improve the quality of life and of the environment.

Sabesp adopts the **Competency-Based People Management** model that has been improved with the purpose of offering a value proposition to the employees, capable of increasing their commitment and engagement. Its principles are: valuing people, managing career and improving competencies. Reviews are continuously being made in a search for excellence and to generate results.

Assessments are conducted on an annual basis between the employees and the managers and, after determining the stage of the competencies, an Individual Development Plan is drawn up, which allows for the progression of the essential competencies so that Sabesp achieves the challenges it has assumed. In 2017, the 5th assessment cycle was carried out, which resulted in more than 6,000 movements. The process also included the **Organizational Climate Survey**, which makes it easier to analyze the internal environment and to monitor employee satisfaction, enabling the identification of employees' motivation in aspects such as leadership, relationship, pride, and appreciation among others.

In 2017 the survey was applied throughout the organization, with a response rate of 79.8% of the employees, the highest participation rate in Sabesp's Organizational Climate Survey. The results obtained by means of the survey will be used to draft an improvement plan aimed at mitigating the critical aspects identified by the employees.

In addition, the annual **Competency and Performance Assessment** process, involving all of the employees, also provides assistance with management assessment, providing data in relation to the competencies and performance of employees and leaders, as well as the perception of the work environment.

Both from the point of view of labor relations and the level of employment, People Management has an impact on operations and, therefore, on the company's financial results. The level of employment refers to the challenge of sizing the workforce in an efficient way, to meet operational needs, avoiding both excess labor (idle capacity) as well as insufficient staff, which can lead to excessive overtime and the risk of labor claims<sup>29</sup>.

Indicators related to People Management are mostly generated using data from the functional records (as a result of admission and payroll processes, among others) contained in the SAP ERP System. This data is extracted from the SAP in the form of reports, which are then processed in order to calculate staff indicators, with a view to making strategic decisions.

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<sup>28</sup> More information is available in the chapter Detailed Quantitative Information

<sup>29</sup> More information is available in the chapter Detailed Quantitative Information

It should be stressed that in addition to SAP data, depending on the purpose, data are also extracted from other systems related to People Management, such as the distance learning management platform and social responsibility actions management system, etc.

### Relationship with labor entities

**G4-11** Historically the Company has a good relationship with representative entities (unions and associations), seeking to meet the employees' main demands, whilst always respecting the limit of its financial capacity and the legal and governmental guidelines. It prioritizes negotiations in its labor relations, as a way of resolving conflicts, substantially reducing the occurrence of stoppages which could compromise efficiency and operational results. Roughly 70% of the employees are unionized.

The main trade unions in the various professional categories are as follows:

Trade Unions	Representativeness		
	Sabesp base	Number of members	% of members in the base
<b>Sintaema</b> (the Union of Water, Sewage and Environmental Workers of the State of São Paulo)	10,137	7,787	76.82
<b>Sintius</b> (the Union of Urban Industrial Workers in Santos, the Baixada Santista, the Southern Coastline and the Vale do Ribeira region)	978	782	79.95
<b>SEESP</b> (the Engineers' Union in the State of São Paulo)	652	605	92.79
<b>SASP</b> (the São Paulo Lawyers' Union)	159	43	27.04
<b>SINTEC</b> (Union of High-School Level Industrial Technicians of the State of São Paulo)	310	182	58.71

Note: 1500 employees are represented by the unions of their respective professional categories.

The main representative entities are:

Entities and Purpose	Members
<b>Sabesp Association</b> - development of leisure, sporting, social and cultural activities	6,083
<b>Association of Sabesp Retirees and Pensioners</b> - AAPS - defends retirees and pensioners, as well as active employees who are eligible for retirement, in addition to improving their quality of life	189
<b>Association of Sabesp's University Professionals/APU</b> - represents employees from all backgrounds, in order to collaborate with and influence sanitation management, expand the channels for taking part in the Company's management, in addition to enhancing and developing staff	407
<b>Association of Sabesp's Administrators/ADMSABESP</b> – defends the rights and wishes, encouraging professional enhancement and ensuring strict observance of professional and functional ethics	144
<b>Association of Sabesp Engineers /AESABESP</b> - integration and defense of the interests of national and international recognition and the promotion of technical and cultural development	1,057
<b>Sabesp's Employees Savings and Loans Cooperative /CECRES</b> – offers lines of credit at more affordable interest rates	9,767



<b>Fundação Sabesp de Seguridade Social (Sabesp Social Security Foundation)</b> – Sabesprev – closed supplementary pension entity, responsible for managing the pension plans (12,024) and medical assistance plans (13,065)	13,065
<b>Brazilian Association of Sanitary and Environmental Engineering/ABES</b> – contributes to the knowledge and improved quality of life of Brazilian society. Takes part at the national and state level in CONAMA, the National Council for Water Resources – CNRH, CONFEA, State Environmental Councils and others	
<b>Brazilian Association of Infrastructure and Basic Industries/ABDIB</b> - development of the Brazilian infrastructure market and of domestic basic industries and strengthening them in terms of international standards of competition	

### Collective bargaining agreement

The employees' claims are negotiated between Sabesp and the Unions, always respecting the limit of its financial capacity and the legal and governmental guidelines. Collective bargaining took place in May/2017 for the 2017/2018 period, which resulted in the maintenance of benefits and a 3.71% salary readjustment.

### Compensation and Benefits

In line with employees' performance assessment, the **Career and Salary Plan** is regarded as a key part of the Company's people management, as it guarantees flexibility, attractiveness and the retention of talent.

Sabesp adopts a single Salary Policy for the entire State of São Paulo, with the employees' compensation being made up of base salary, profit sharing, function bonus and benefits, there being no difference for holders of the same position and reference on the basis of gender. The ratio between the lowest salary paid in the Company and the minimum wage is 1.98 times. The plan is currently under review.

Benefits	
Granted by the Company	
Meal voucher and food voucher	Monthly flexible benefit of R\$1,204.27, R\$840.24 of which meal voucher and R\$364.03 food voucher paid in accordance with available percentages.
Snack at different times	R\$35.01 paid to employees who work at least two extra hours after their work day
Christmas basket	Additional R\$364.03 granted to all employees, credited to the basic basket card, pursuant to the 2017 collective bargaining agreement
Children Community Center – CCI	Day care managed by Sabesp, whose services are outsourced to third parties, at Ponte Pequena. The day care can assist 100 children of up to five years old (inclusive)
Job security	Job security to 98% of the staff on May 1, 2017 (except for: termination for cause, employee resignation, retirement, death, termination of employment contract and voluntary redundancy program)
Additional disability compensation	Payment of the difference between the amount of the salary and the benefit paid by the social security national system (INSS) to employees on sick leave or on leave due to occupational accidents, for up to six months
Paid vacation	Fixed value of R\$1,825.01 + 50% of the difference between the fixed value and the salary + seniority-based pay
Health insurance	

(Fundação Sabesprev)	Sabesprev Pleno health care plan – employees contribute 3.21% of their basic compensation, deducted by Sabesp. The benefit is extended to employees' dependents free of charge. Sabesp contributes 7.4% of the gross payroll
Private pension plan	Sabesprev Mais plan (CD): salaries of up to R\$5,269.80, contribution of 0.5% or 1%. For higher salaries, an additional of up to 8% over the difference is paid. Basic Benefit Plan (BD) – adhesions are suspended; the plan is based on the compensation. Formula: salaries of up to R\$5,269.80 x 2.9648%; salaries higher than R\$5,269.80 x 25.1910%.
(Fundação Sabesprev)	
<b>Legal</b>	
Night shift premium	Additional 20% of the night shift, pursuant to the current legislation
Paid weekly rest	Overtime compensation for working on holidays and paid weekly rest at 100% of the regular hourly pay when employees are unable to take a paid day off in the following week
Overtime	100% increase on the regular hourly pay
Insalubrity premium	Paid to employees exposed to dangerous chemical, physical and biological agents (residential sewage, noise, humidity, chlorine and others). Additional 20% and 40% of the minimum wage
Risk premium	Paid to employees exposed to dangerous agents (flammable fuel, explosives, ionizing radiation and electricity). Additional 30% of the employee's base salary
Day care aid and special day care aid	Reimbursement of day care expenses to employees with children: up to one year old = R\$1,078.46; up to 6 years old (exclusive) = R\$360.04 and to employees with children with special needs = R\$720.08
Uniform cleaning	Monthly provision of products for washing and disinfection of uniforms to employees who work in activities with risk of contamination by biological agents (sewage)
Employees on call	Additional paid at the rate of 1/3 of the regular hourly pay to employees on call
Transportation voucher	Provided to employees who adhere to this benefit; the company subsidizes expenses that exceed 6% the employee's base salary, pursuant to the law

**Transportation voucher:** In order to optimize processes and reduce costs, these services should be outsourced in 2018. The Company expects to reduce fixed costs related to transportation vouchers by up to 35%.

**Health insurance:** Sabesp contracted the Economic Research Institute Foundation (FIPE) to remodel the provision of Sabesprev's medical services, resulting in a proposal to create three new plans to replace the existing ones, as well as to unify the plan portfolios of active and inactive employees (retired and dependents), which is expected to be implemented in the first half of 2018. The proposal should ensure the maintenance and sustainability of the health plans over the coming years.

**Private pension plan:** Sabesp also offers employees the option to join a private pension plan, in order to complement their retirement plan. The Company offers two private pension plans managed by Sabesprev: Benefit Plan – G1 and Defined Contribution Plan - Sabesprev Mais. Since 2010, employees can choose Sabesprev Mais only, given that the Benefit Plan (G1) was suspended due to its unsatisfactory characteristics. The private pension plan currently has 20,541 participants, 11,212 of whom from the Benefit Plan – G1 and 9,329 from Sabesprev Mais.

Other Benefits	
Social work	PARE - Assistance to chemically dependent employees (alcohol, tobacco and other drugs) that offers subsidized treatments in specialized clinics (admission, outpatient support accompanied with social work) Special financial aid: medication allowance, donations and loans
Group life insurance	Through Sabesp Association, the Company offers a group life insurance plan that guarantees indemnification in case of death or disability, in the amount of 20.9 base salaries (not subsidized by Sabesp)
Supermarket/ drugstore voucher	Agreements with supermarkets and drugstores, whereby the amounts spent are fully discounted in the employee's payroll in the subsequent month (not subsidized by Sabesp)
Engineer wage floor	Pursuant to the collective bargaining agreement (8.5 minimum wages on the reference date - May) May 2017 = R\$7,964.50

In addition to the direct benefits, the Company, through Sabesp Corporate University, offers educational subsidies and agreements to a wide range of training and undergraduate and graduate education programs, technical high school education programs, language courses, professional training and distance-learning programs. Subsidies are offered exclusively to employees and the agreements are also offered to family members, of all ages.

#### Profit sharing - PPR

The Company adopts a **Profit Sharing Program (PPR)**, which is a strategic tool used on an annual basis to encourage employees' adherence to organizational goals. It follows the general guidelines established by Federal Law No. 10,101/2000 and by State Decree No. 59,598/2013 and is the subject of annual negotiations with the Unions.

Functional Category	2012	2013	2014	2015	2016	2017
Operational	2,344	2,285	2,755	2,552	3,128	3,534
Technician	3,122	3,054	3,698	3,382	4,082	4,564
University	5,416	5,262	6,533	5,958	6,995	7,969
Managers	10,849	10,870	13,161	11,435	13,781	15,842
Sabesp Average	3,585	3,542	4,281	3,904	4,703	5,289

#### Developing leaderships - Sabesp's Corporate University

To meet the need to supply knowledge to all of Sabesp's units, spread throughout the State of São Paulo, Sabesp's Corporate University (UES) is constantly being aligned with the market and has an important tool that connects the entire company: the online platform with courses in a number of different areas of knowledge, making use of differentiated audiovisual tools such as whiteboard animation and gamification, case studies, films and exercises with practical situations to further enrich the teaching. This translates into a total of 17 years dedicated to spreading knowledge.

	2012	2013	2014	2015	2016	2017
Average hours	48.8	67.0	72.7	33.0	39.9	47.1
Participation	92,372	128,903	134,986	63,948	87,157	96,761
Total investment (R\$ thousand)	8,442	10,669	11,642	4,716	6,202	9,716
Per capita investment	510	646	708	330	406	711

In December/17 Sabesp's Corporate University concluded the third group of MBA in Business Management with the participation of 40 employees, 14 of whom were managers and 26 of whom were potential successors. The course is an integral part of Sabesp's Management Excellence and Management Succession programs.

The MBA course was conducted in partnership with the Foundation Institute of Administration (FIA) to meet the executives' need to develop a strategic vision in the face of adverse situations using modern methods and tools for corporate decision making. In recent years, Sabesp's Corporate University has enabled roughly 570 professionals, between managers and potential successors, to take part in management development programs and this will continue to be a major focus of its annual development planning.

### Management Succession Program

The implementation of the Management Succession Program in 2010 was a pioneering initiative at Sabesp, since it introduced a model aligned with modern concepts of planning and management of the succession process into the people management cultural practices. The identification of professionals, different types of evaluation, training and career guidance were coordinated in such a way as to provide the best conditions so that people and the company could structure their decisions about the future.

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. In 2017, a subsidy was offered for language courses, thus increasing the curriculum in English and Spanish. At present, 157 professionals from the university category, with different backgrounds and professional experience, are enrolled in the program. Out of these, 43 were selected to take up management positions in the Departments, representing 27% of the total professionals in the program.

### More knowledge, more opportunities

With the purpose of giving the employees' professional and personal development a boost, in 2017 Sabesp launched the *Mais Conhecimento* (More Knowledge) Program, which increased the opportunities for granting educational subsidies, with the main purpose being to raise the employees' educational level, as well as promoting technical training and professional recognition.

The main highlights of the program are the offer of technical-vocational courses to employees in the operational category, the offer of graduate degree programs to employees in the technical/administrative category and subsidies to undergraduate courses for all job categories, including employees who already have a degree, enabling them to increase their knowledge, as long as it is in line with the Company's objectives. The program also aims to encourage employees to take master's degrees and PhD courses (stricto sensu graduate degree programs).

The subsidy percentage was also increased to 80%, with the definition of the percentage to be applied to each subsidy granted being at the discretion of each business unit and superintendence, taking into account the available budget, the respective manager's evaluation regarding the candidate's performance and the applicability of the knowledge in the company. As a result of this program, in the

second half of 2017 alone, almost 600 thousand *Reais* were invested, in a total of 267 subsidies granted. For 2018, units will be able to make new indications.

### **Internal / External Training Program**

This initiative was aimed at achieving business excellence by means of the development of its employees outside Brazil. On its trajectory to achieving universal access to sanitation services Sabesp is permanently looking to incorporate into its business cutting-edge practices and technologies that can be found in the global scenario. In line with the company's strategic guidelines, Sabesp has continuously promoted the training of its human capital in order to increase the effectiveness and productivity of its employees and have an ever-more competitive team.

In this sense, the International Training Program is the latest initiative from Sabesp's Corporate University intended to increase employees' knowledge by means of taking part in congresses, conferences, forums, seminars, overseas trade fairs and technical visits abroad. The program generates opportunities not just in connection with topics directly related to the business' core activities, but also in terms of matters related to support, leadership and business management activities.

The National Service of Industrial Learning (SENAI) is an important partner of the project. By means of the foreign scholarship program, the institution makes it possible for Sabesp to receive partial reimbursement of the amounts that it has invested. On the return from their trip the participants are obliged to pass on the knowledge they have acquired, drawing up technical reports to be delivered to Senai and to the State Government, preparing an applied study of solutions for recommendation to the company's units, as well as proposals for innovation projects, producing video classes for the Sabesp's Corporate University and presentations at executive board meetings.

In addition to the relevance of the knowledge to the success of the business and to the technical and professional development, the program provides appreciation and recognition for employees, who obtain personal experience and exceptional experiences for their careers.

This year, development opportunities were offered in four different countries: the United States, Germany, the Netherlands and France, with participation by a total of 23 employees who had been nominated by their respective departments. The indications took into account the affinity of the assignments, the autonomy and competence for articulation and representation of the company, the ability to pass on the knowledge acquired, as well as the potential to identify opportunities and propose projects and innovations to put them into practice.

### **Dissemination and Training on Labor Reform and E-Social**

One subject that generated a lot of impact in 2017 was the Labor Reform. The Company organized a lecture for the managers explaining the main changes in the CLT (Consolidated Labor Laws) and the possibilities offered by the Reform. It also published an e-book on the subject, which is accessible to all employees via the intranet and set-up an e-mail address to which any employee could send his/her questions that would be answered within a period of 48 hours.

Another important issue that required a lot of effort from the Human Resources area was Sabesp's preparation for the implementation of e-Social, a federal government platform that will centralize all employees' personal and labor related information from 2018 onwards. The Superintendence of Human Resources set up a team to work full-time on implementing the project, which along with other actions carried out the qualification and correction of all employees' record data.

## Virtual Training Siis

The Superintendence of Human Resources played an active role in the Institutional Projects, in the integration and alignment of movements involving all employees. Among them is the SIIS Project. For the SIIS Project, about 800 face-to-face classes were held and more than 100 courses were developed and implemented in EAD (distance learning) format, and were made available at Sabesp's Corporate University, which resulted in more than 80,000 participations in face-to-face and virtual training courses, representing the largest training course ever carried out at the company.

## Internal Selection

The Internal Selection Process is a very important instrument in the Strategic Guideline for Valuing People. It makes it possible to take advantage of the employees' human capital, giving them greater motivation, recognition and professional development.

In order to ensure smoothness and transparency in the carrying out of the selection processes, the Superintendence of Human Resources contracted specialized consulting firms which used recognized tools in the market as well as specific methodologies in order to evaluate the assignments required for the positions. The stages of the processes are made up of assessments of prerequisites, professional experience, general and/or specific knowledge, personality, profile and competencies (group dynamics and situational test) and a technical interview with the requesting party.

In addition to being open and democratic, the internal selection process is a great opportunity for participating employees to assess their knowledge and identify development opportunities. In 2017, five job positions were filled in this way. As a positive result of these processes we highlight that a number of employees who took part in these selection processes were promoted to other job positions that became available during the period, which reinforces the investment in the company's internal talents.

## External Selection - Competitive Examination

Sabesp carries out the recruitment and selection process for employees, trainees and apprentices by means of a competitive examination, in order to comply with specific legislation, ensuring the hiring of professionals who are qualified and prepared to work in various positions in the company. In 2017, Sabesp held a competitive examination to fill 485 vacancies for young apprentices, who are scheduled to be hired in February 2018. The program is aimed at high school students, who are in their 1st or 2nd year in 2017, distributed throughout the RMSP - Metropolitan Region of São Paulo, the interior of the state and the Coastal Region, and the contracts are for a maximum duration of 18 months. To meet the company's demands, another competitive examination is scheduled to be held for trainees in 2018.

Competitive Examinations Held	2012	2013	2014	2015	2016	2017
Employees	-	624	-	-	-	-
Apprentices	552		565	-	565	485
Trainees	-	1,030	748	826	-	-

## Occupational Health and Safety

The actions of Health and Safety seek to promote the development of the culture of prevention with employees and service providers, aiming, with this, to ensure the improvement of working conditions and quality of life, in line with the foundations of the Management Excellence Model - MEG. The main actions developed are:

**Occupational Health and Safety Procedures:** establish policies, guidelines and specific rules for risk activities both of Sabesp as well as of service providers, being reviewed on annual basis or whenever necessary, in this improving their application and compliance with the legislation.

**Environmental Risk Prevention Programs (PPRA):** generated by a computerized system, for each of Sabesp's more than 500 facilities, identifying the environmental risks by Homogeneous Exposure Groups (GHE), defining control measures, corrective actions, compulsory training, uniforms and personal and collective protection equipment, being reviewed annually, in accordance with legal criteria.

**Unhealthy and hazardous work procedure:** the classification of employees in unhealthy and hazardous GHEs is reviewed at regular intervals periodically by the SESMT, so that the information is always kept up-to-date and validated by the Superintendences.

**Occupational Health Medical Control Program (PCMSO):** enables profiling the health of all employees, apprentices and trainees, and provides input for the healthcare and quality of life programs, in addition to fulfilling the legal aspects. For the effective prevention of infectious diseases, in 2017, Sabesp applied 11,586 doses of influenza vaccine for employees, apprentices and trainees, which represents 75% of the staff, along with about 1,500 doses of typhoid vaccine for all employees with potential exposure to sewage. In relation to the resurgence of wild-type yellow fever in the state of São Paulo, a campaign was carried out to encourage vaccination, and ensured the immunization of those employees who carry out activities in the regions at risk.

**CIPA in Action Program:** the strategic planning for 2015-2018 was continued with the 142 Internal Accident Prevention Committees (CIPA), with 1,448 CIPA members, in preventive actions, contributing to improving working conditions and reducing indices of accidents and occupational illnesses. Electronic elections were held to vote on the new management, facilitating control of the process. With the coming into force of Decree No. 62,130, of July 29, 2016, which creates the "Brigade against Aedes aegypti", the CIPAs assume the responsibilities set forth under this legislation.

**Response to Emergencies:** The 290 emergency brigades, which are present at every Sabesp unit, carry out actions such as meetings, inspections and emergency simulations, so as to ensure that the brigade members are always ready to respond to emergency situations.

**Security inspections:** performed by SESMT and CIPA, with computerized records, in order to improve reliability and intensify information, facilitating management controls.

**Training and awareness:** Sabesp's Corporate University - UES organizes in-class and virtual training courses on occupational health and safety, contributing to improving the employees' professional training. Distance learning courses were intensified, taking into account the ease and speed of access on the part of the employees.

The SIPAT Interativa, which is carried out throughout Sabesp, registered a total of 26,732 participations by employees, apprentices and trainees, by means of virtual and face-to-face events. Prevention newsletters, such as the Prevention Minute, organized by CIPA, SESMT, and by those in charge of specific issues, health and safety alerts and other matters, are also used.

**Health and Safety Campaigns:** they occur through newsletters, lectures and preventive actions with themes such as: *Aedes aegypti* mosquito combat, Ergonomics, You in Traffic - safe riding for motorcyclists, conjunctivitis and flu along with others. Actions against the *Aedes aegypti* mosquito were enhanced with the *Xô Mosquito* (Go away, mosquito!) Campaign, which developed activities such as D-Day, with weekly inspections carried out by CIPAs throughout the company and the creation of promotional images released as wallpaper for PCs, along with others.

### Mitigation of Labor Liabilities

The labor legal area is part of the Superintendence of Human Resources, the purpose of which is to act in a preventive manner in management, and consequently reduce labor claims related to employees, former employees and outsourced employees.

After receiving the notice, a record is made in the legal system - SISJUR, generating a folder, and the notice is distributed to the lawyer in charge, taking into account the nature and main purpose, and an analysis is made of the information gathered in relation to the matters in controversy. In those cases which involve employees of service providers, the company and the administrative contract are identified.

The cases are discussed with the entire team as well as with Sabesp stakeholders, and the best defense strategies [sic]. There are items that require expert evidence and/or testimonial evidence, with the scheduling of a hearing. With the rendering of the sentence, if unfavorable, funds are requested for filing an appeal. If it is necessary to file an appeal with the higher courts, this is analyzed by the lawyer. If it is not necessary, a communication of non-filing of an appeal is made and forwarded to management for resolution. In the case of matters of greater relevance, all appeal possibilities are taken.

### Diversity and equal opportunities **DMA Diversity**

The question of Diversity is a popular topic in major companies both in Brazil as well as in the rest of the world, who are looking to incorporate this concept into their corporate culture. Failure to do so may result in damage to the organization's image with society and may represent a competitive disadvantage in terms of attracting, developing and retaining talents, with an impact on the business and its financial results. In this sense, Sabesp adopts a respectful and equal treatment of its employees, without discrimination in terms of race, gender or sexual orientation, as well as keeping job positions for people with special needs in public examinations, in accordance with the applicable legislation<sup>30</sup>.

It is worth mentioning that the theme is also related to the Strategic Sustainability Directive, as it relates to the social aspect that makes up the tripod of sustainability. The Code of Ethics and Conduct is the main instrument at Sabesp for strengthening diversity. Made up of values, ethical principles of action and conduct, the Code expresses the organizational values that are established in statements that guide the decisions, behavior and attitudes of all of the company's employees and management and stakeholders. It pays particular attention to the current legislation, and business and personal ethics, and contributes to the resolution of possible dilemmas and conflicts.

Sabesp, as a government controlled company, and an indirect member of the public administration, is constitutionally obliged to contract by means of competitive examination. The hiring takes place for positions established in the Career and Salary Plan, which does not show differences in compensation based on gender. It is possible for employees to progress on the basis of "salary references," which are

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<sup>30</sup> - More information is available in the chapter Detailed Quantitative Information



also gender-free. In this sense, it can be noted that Sabesp adopts a policy of equal pay between men and women<sup>31</sup>.

Overall, in 2017 the company's average salary was R\$5,540 for men and R\$6,506 for women. The average is the result of the large number of men concentrated in the operational category, reducing the average salary for the male group.

### Sector Legacy and Equal Opportunities

Sabesp does not establish different compensation by gender. The salary variations perceived within the categories occur for a number of reasons, such as the concentration of the male gender in certain positions and the length of time working for the company, along with others. The operational category, of which men account for 96%, presents greater wage variation between the genders, which can be attributed to the difference in the average amount of time working for the company, with the figure being 17 years in the case of men and 9 years in the case of women.

In the university category, the second largest variation, the difference is related to the fact that the position of engineer, 32% of the category which mainly consists of men (80%), has higher initial and average compensation than that of the other university category job positions posts. The Technical category showed a small variation between average salaries and the average length of time with the company is slightly greater for men (21 years) than it is for women (18 years).

Since 2014, Sabesp has had a single Salary Policy for the entire State of São Paulo, with the employees' compensation being made up of base salary, profit sharing, function bonus and benefits. The current Career and Salary Plan (PCS), approved by the Salary Policy Commission, does not entail gender distinctions, so that the function bonuses are the same for men and women, along with the base salary for those holding the same position and reference level. [DMA Presence in the Market, G4-EC5](#)

Given the commitment assumed towards responsible and sustainable management, Sabesp has the continuous development of its professionals as one of its main challenges. In this sense, the Competency and Performance Assessment is one of the people management practices adopted in line with the corporate strategy.

The purpose of this important management tool, which has been used since 2002 is to identify the degree of knowledge and development of the competencies necessary to carry out business strategies and obtain better results. Its principles are: appreciation of people, career management and enhancement of competencies.

Assessments are conducted on an annual basis between the employees and the managers, and the competencies are defined and assessed, so as to provide clear objectives, as well as increasing each person's contribution to managing the business.

After measuring the stage of the competencies, an Individual Development Plan (PID) is drawn up, which allows for progressions and the achievement of a new level of competencies that are essential for the company to attain the challenges it has assumed.

In recent years, the Assessment cycles have provided the following results:

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<sup>31</sup> - More information is available in the chapter Detailed Quantitative Information

<b>2012</b>	<b>Set-up and classification of 14,658 employees in [sic]</b>
<b>2012-2013</b>	<b>Assessment and Deployment of 5,340 employees (2% payroll)</b>
<b>2013-2014</b>	<b>Assessment and Deployment of 3,640 employees (1% payroll)</b>
<b>2015</b>	<b>Assessment and Personal Advantage to those eligible (1% payroll)</b>
<b>2016</b>	<b>Assessment and Deployment of 4,530 (1% payroll)</b>
<b>2017</b>	<b>Assessment and Deployment of 6,085 (1,7% payroll)</b>

Specifically, in November 2017, the 5th (fifth) Assessment Cycle was carried out, and in February 2018, movements with funds of 1.7% of the payroll earmarked for the recognition of differentiated performance of its employees are expected. In line with the Assessment, Sabesp's Career and Salary Plan is considered to be a key part of the people management, since it ensures management flexibility and attractiveness in relation to the labor market, favoring the retention of talents.

The current Career and Salary Plan, which was implemented in November 2012, is being improved in partnership with Mercer Brasil, taking into account the main aspects and the suggestions of the Officers, Managers, employees and entities representing the employees. The implementation of the improvement points is scheduled for the second half of 2018, and in this way it is hoped to establish a new level of the Plan, which will make it possible for each professional to achieve full development and continuous growth.

### **Quality of life**

Encouraging dissemination of a culture of and commitment to quality of life throughout the organization is a challenge for Sabesp. To this end, a number of actions are carried out with the aim of promoting changes in behavior, lifestyle and arousing concern in relation to health: Blood Donation Campaign, Pink October and Blue November, which are campaigns aimed at increasing awareness and preventing breast cancer and prostate cancer.

As was the case all over the world, a number of Sabesp sites were lit up with the respective colors, and on Fridays in October the employees dressed in pink, and in November in blue. Actions were also carried out, such as informative lectures, the showing of videos and testimonials regarding the importance of prevention and early diagnosis.

The Quality of Life Program is being restructured with the aim of promoting the adoption of a healthier lifestyle among the employees, by means of actions that seek quality of life, providing well-being and personal satisfaction.

## AWARDS RECEIVED IN 2017

- **Anefac Transparency Trophy 2017 - Category of Publicly-Held Companies with Net Revenue in excess of R\$5 billion**, granted by the National Association of Finance Executives (Anefac). In addition to being among the top ten companies regarding accounting transparency, Sabesp was also chosen as the most transparent company in the country in terms of financial information.
- **“The Best and Biggest” Award**, Infrastructure category, awarded by Exame magazine, which places the company as the leading company in the sector and on the list of the country’s main companies.
- **“The 100+ Innovative Companies in the use of IT” award** winner in the ‘utilities’ category and in sixth place among the top 100 in this award granted by IT Mídia and PricewaterhouseCoopers (PwC).
- **“Estadão Empresas Mais 2017” Award**, Silver Trophy, second place in the “Public Services Utilities” category, an award granted by the Estadão Group. Sabesp (the first sanitation company to be recognized in the category) occupies 46th position in the overall ranking from among the 1,500 companies with the best financial performance.
- **National Quality Award for Sanitation (PNQS) 2017**, granted by the Brazilian Sanitary and Environmental Engineering Association (Abes):
  - **Level II** – Gold Trophy: Billings Regional Management Unit
  - **Level III** – Platinum Trophy: Interlagos Regional Management Unit
  - **Level IV** – Diamond Trophy: Metropolitan Department
  - **Level IV Plus** – Ruby Trophy: East Business Unit and West Business Unit
- **Innovation in Sanitation Management (IGS)** –Medal: North and West Business Units and Superintendence of Regulatory Affairs
- **Modern Consumer Award for Excellence in Customer Services, ‘public services’ category**, awarded by *Consumidor Moderno* magazine to the Regional Systems Department’s Call Center, six-times winner of the award (2011, 2012, 2014, 2015, 2016 and 2017).

# DETAILED QUANTITATIVE INFORMATION

## Internal social indicators

### Size of the organization **G4-10**

Number of employees (collaborators) by level	2012			2013			2014			2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	485	117	602	485	114	599	493	119	612	474	117	591	478	120	598	475	126	601
University	1,733	973	2,706	1,735	983	2,718	<b>1,702</b>	<b>957</b>	2,659	1,607	902	2,509	1,627	902	2,529	1,537	837	2,374
Technicians	4,499	1,768	6,267	4,434	1,754	6,188	4,358	1,714	6,072	4,143	1,667	5,810	4,196	1,670	5,866	4,073	1,611	5,684
Operational	5,284	160	5,444	5,314	196	5,510	5,223	187	5,410	5,132	181	5,313	4,960	184	5,144	4,835	178	5,013
<b>Sub-total</b>	<b>12,001</b>	<b>3,018</b>	<b>15,019</b>	<b>11,968</b>	<b>3,047</b>	<b>15,015</b>	<b>11,776</b>	<b>2,977</b>	<b>14,753</b>	<b>11,356</b>	<b>2,867</b>	<b>14,223</b>	<b>11,261</b>	<b>2,876</b>	<b>14,137</b>	<b>10,920</b>	<b>2,752</b>	<b>13,672</b>
Trainees	443	445	888	443	481	924	446	496	942	447	412	859	360	330	690	463	447	910
Apprentices	362	198	560	317	174	491	359	200	559	327	183	510	265	165	430	332	208	540
<b>Total</b>	<b>12,806</b>	<b>3,661</b>	<b>16,467</b>	<b>12,728</b>	<b>3,702</b>	<b>16,430</b>	<b>12,581</b>	<b>3,673</b>	<b>16,254</b>	<b>12,130</b>	<b>3,462</b>	<b>15,592</b>	<b>11,886</b>	<b>3,371</b>	<b>15,257</b>	<b>11,715</b>	<b>3,407</b>	<b>15,122</b>
Number of employees (collaborators) by type of employment	2012			2013			2014			2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Part-time	1,224	261	1,485	1,337	302	1,639	1,326	296	1,622	1,301	294	1,595	1,302	300	1,602	1,277	292	1,569
Full time	10,777	2,757	13,534	10,631	2,745	13,376	<b>10,450</b>	<b>2,681</b>	13,131	10,055	2,573	12,628	9,959	2,576	12,535	9,643	2,460	12,103
<b>Total</b>	<b>12,001</b>	<b>3,018</b>	<b>15,019</b>	<b>11,968</b>	<b>3,047</b>	<b>15,015</b>	<b>11,776</b>	<b>2,977</b>	<b>14,753</b>	<b>11,356</b>	<b>2,867</b>	<b>14,223</b>	<b>11,261</b>	<b>2,876</b>	<b>14,137</b>	<b>10,920</b>	<b>2,752</b>	<b>13,672</b>
Total workforce, by gender	2012			2013			2014			2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Employees	12,001	3,018	15,019	11,968	3,047	15,015	11,776	2,977	14,753	11,356	2,867	14,223	11,261	2,876	14,137	10,920	2,752	13,672
<b>Total</b>	<b>12,001</b>	<b>3,018</b>	<b>15,019</b>	<b>11,968</b>	<b>3,047</b>	<b>15,015</b>	<b>11,776</b>	<b>2,977</b>	<b>14,753</b>	<b>11,356</b>	<b>2,867</b>	<b>14,223</b>	<b>11,261</b>	<b>2,876</b>	<b>14,137</b>	<b>10,920</b>	<b>2,752</b>	<b>13,672</b>
Total workforce, by region and gender	2012			2013			2014			2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Region 1	8,777	2,569	11,346	8,790	2,605	11,395	8,638	2,542	11,180	8,369	2,463	10,832	8,322	2,478	10,800	8,050	2,365	10,415
Region 2	3,224	449	3,673	3,178	442	3,620	<b>3,138</b>	<b>435</b>	3,573	2,987	404	3,391	2,939	<b>398</b>	3,337	2,870	387	3,257
<b>Total</b>	<b>12,001</b>	<b>3,018</b>	<b>15,019</b>	<b>11,968</b>	<b>3,047</b>	<b>15,015</b>	<b>11,776</b>	<b>2,977</b>	<b>14,753</b>	<b>11,356</b>	<b>2,867</b>	<b>14,223</b>	<b>11,261</b>	<b>2,876</b>	<b>14,137</b>	<b>10,920</b>	<b>2,752</b>	<b>13,672</b>

Sabesp does not contract outsourced labor, only signing agreements for provision of services according to the business' needs. No data was presented regarding third parties, because the SAP system is still in the implementation phase, and it is not possible to extract this information.

Rates of new hires and turnover rate **G4-LA1**

Turnover rate by:	2012			2013			2014			2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Gender	5.50%	4.40%	5.30%	3.60%	3.60%	3.60%	1.90%	2.60%	2.00%	3.78%	4.05%	3.84%	3.00%	3.68%	3.14%	1.56%	2.33%	1.72%
Age bracket																		
From 20 to 40	5.10%	5.60%	5.20%	3.90%	5.20%	4.20%	2.20%	3.30%	2.50%	2.40%	2.50%	2.43%	9.20%	8.12%	8.93%	0.90%	0.65%	0.83%
From 41 to 55	3.00%	2.60%	3.00%	2.10%	2.20%	2.10%	0.80%	1.70%	1.00%	2.14%	2.80%	2.27%	1.10%	1.11%	1.10%	0.41%	1.13%	0.55%
Above 55	15.30%	10.80%	14.70%	8.30%	6.10%	8.00%	4.40%	4.60%	4.50%	9.52%	11.51%	9.83%	2.21%	5.16%	2.66%	4.81%	8.58%	5.41%
Region																		
RMSP	5.40%	4.00%	5.10%	4.10%	3.30%	3.90%	1.40%	1.20%	1.40%	4.69%	4.36%	4.61%	3.61%	4.27%	3.78%	5.69%	0.86%	2.05%
Interior and coastal region	5.60%	5.30%	5.60%	3.10%	4.40%	3.30%	2.40%	5.60%	2.80%	2.75%	3.37%	2.84%	2.30%	2.33%	2.30%	7.12%	0.28%	1.27%
<b>Company's total</b>	<b>5.50%</b>	<b>4.40%</b>	<b>5.30%</b>	<b>3.60%</b>	<b>3.60%</b>	<b>3.60%</b>	<b>1.90%</b>	<b>2.60%</b>	<b>2.00%</b>	<b>3.78%</b>	<b>4.05%</b>	<b>3.84%</b>	<b>3.00%</b>	<b>3.68%</b>	<b>3.14%</b>	<b>1.56%</b>	<b>2.33%</b>	<b>1.72%</b>
Employees hired	2012			2013			2014			2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Total	697	218	915	405	131	536	19	7	26	237	63	300	477	128	605	13	5	18
% hired	5.80%	7.20%	6.10%	3.40%	4.30%	3.60%	0.20%	0.20%	0.20%	2.01%	2.12%	2.03%	4.20%	4.46%	4.25%	0.12%	0.17%	0.13%

Make-up of the governance bodies **G4-LA12**

Average compensation by functional category	2012			2013			2014			2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Men	Women	Total	Men	Women	Total	Women	Men	Women	Total	Men
Gender																		
Board of directors and fiscal council	14	1	15	11	2	13	13	2	15	14	1	15	11	1	12	13	0	13
Audit Committee	3	0	3	3	0	3	3	0	3	3	0	3	3	0	3	3	0	3
<b>Total</b>	<b>17</b>	<b>1</b>	<b>18</b>	<b>14</b>	<b>2</b>	<b>16</b>	<b>16</b>	<b>2</b>	<b>18</b>	<b>17</b>	<b>1</b>	<b>18</b>	<b>14</b>	<b>1</b>	<b>15</b>	<b>16</b>	<b>0</b>	<b>16</b>
Age bracket																		
From 20 to 40	0	0	0	1	0	1	0	0	0	1	0	1	1	0	1	2	0	2
From 41 to 55	6	0	6	1	1	2	2	1	3	0	1	1	1	1	2	1	0	1
Over 55	11	1	12	12	1	13	14	1	15	16	0	16	12	0	12	13	0	13
<b>Total</b>	<b>17</b>	<b>1</b>	<b>18</b>	<b>14</b>	<b>2</b>	<b>16</b>	<b>16</b>	<b>2</b>	<b>18</b>	<b>17</b>	<b>1</b>	<b>18</b>	<b>14</b>	<b>1</b>	<b>15</b>	<b>16</b>	<b>0</b>	<b>16</b>

Composition of the staff **G4-LA12**

By gender

Number of employees (collaborators) by:	2012			2013			2014			2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Gender	12,001	3,018	15,019	11,968	3,047	15,015	11,776	2,977	14,753	11,356	2,867	14,223	11,261	2,876	14,137	10,920	2,752	13,672
<b>Age bracket</b>																		
From 20 to 40	3,313	1,029	4,342	3,100	989	4,089	2,685	880	3,565	2,316	776	3,092	2,284	774	3,058	1,997	694	2,691
From 41 to 55	6,749	1,678	8,427	6,649	1,677	8,326	6,565	1,641	8,206	6,435	1,616	8,051	6,275	1,589	7,864	6,079	1,523	7,602
Over 55	1,920	308	2,228	2,209	377	2,586	2,526	456	2,982	2,605	475	3,080	2,702	513	3,215	2,844	535	3,379
<b>Total</b>	<b>11,982</b>	<b>3,015</b>	<b>14,997</b>	<b>11,958</b>	<b>3,043</b>	<b>15,001</b>	<b>11,776</b>	<b>2,977</b>	<b>14,753</b>	<b>11,356</b>	<b>2,867</b>	<b>14,223</b>	<b>11,261</b>	<b>2,876</b>	<b>14,137</b>	<b>10,920</b>	<b>2,752</b>	<b>13,672</b>
<b>Length of service</b>																		
Up to 3 years	2,028	571	2,599	2,068	610	2,678	1,358	461	1,819	975	293	1,268	835	240	1,075	481	128	609
From 4 to 10 years	764	194	958	546	91	637	950	188	1,138	1,312	338	1,650	1,803	493	2,296	2,064	583	2,647
From 11 to 20 years	5,262	1,301	6,563	4,889	1,183	6,072	4,957	1,166	6,123	4,435	1,065	5,500	4,251	1,004	5,255	3,809	902	4,711
Over 20 years	3,947	952	4,899	4,465	1,163	5,628	4,511	1,162	5,673	4,634	1,171	5,805	4,372	1,139	5,511	4,566	1,139	5,705
<b>Total</b>	<b>12,001</b>	<b>3,018</b>	<b>15,019</b>	<b>11,968</b>	<b>3,047</b>	<b>15,015</b>	<b>11,776</b>	<b>2,977</b>	<b>14,753</b>	<b>11,356</b>	<b>2,867</b>	<b>14,223</b>	<b>11,261</b>	<b>2,876</b>	<b>14,137</b>	<b>10,920</b>	<b>2,752</b>	<b>13,672</b>
<b>Average time</b>	<b>17.0</b>	<b>16.3</b>	<b>16.9</b>	<b>17.4</b>	<b>16.7</b>	<b>17.3</b>	<b>18.0</b>	<b>18.0</b>	<b>18.0</b>	<b>18.9</b>	<b>18.2</b>	<b>18.8</b>	<b>18.9</b>	<b>18.3</b>	<b>18.8</b>	<b>19.7</b>	<b>18.9</b>	<b>19.5</b>
<b>Education level</b>																		
Basic	2,198	101	2,299	1,712	58	1,770	1,589	52	1,641	1,595	53	1,648	1,375	43	1,418	1,299	38	1,337
High School	6,164	1,121	7,285	6,462	1,125	7,587	6,346	1,073	7,419	6,079	1,053	7,132	6,104	1,043	7,147	5,963	999	6,962
University	3,639	1,796	5,435	3,794	1,864	5,658	3,841	1,852	5,693	3,682	1,761	5,443	3,782	1,790	5,572	3,658	1,715	5,373
<b>Total</b>	<b>12,001</b>	<b>3,018</b>	<b>15,019</b>	<b>11,968</b>	<b>3,047</b>	<b>15,015</b>	<b>11,776</b>	<b>2,977</b>	<b>14,753</b>	<b>11,356</b>	<b>2,867</b>	<b>14,223</b>	<b>11,261</b>	<b>2,876</b>	<b>14,137</b>	<b>10,920</b>	<b>2,752</b>	<b>13,672</b>

## By ethnicity

Number of employees (collaborators). by:	2012			2013			2014			2015			2016			2017		
	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women
<b>Ethnicity</b>	<b>12,001</b>	<b>3,018</b>	<b>15,019</b>	<b>11,968</b>	<b>3,047</b>	<b>15,015</b>	<b>11,776</b>	<b>2,977</b>	<b>14,753</b>	<b>11,356</b>	<b>2,867</b>	<b>14,223</b>	<b>11,261</b>	<b>2,876</b>	<b>14,137</b>	<b>10,920</b>	<b>2,752</b>	<b>13,672</b>
Caucasian	9,889	2,540	12,429	9,790	2,545	12,335	9,637	2,491	12,128	9,225	2,387	11,612	9,072	2,374	11,446	8,791	2,269	11,060
Afro-Brazilian and brown-skinned	1,870	357	2,227	1,928	379	2,307	1,893	368	2,261	1,899	<b>364</b>	2,263	1,950	<b>380</b>	2,330	1,936	368	2,304
Yellow-skinned	202	116	318	209	118	327	206	<b>113</b>	319	<b>187</b>	111	298	194	117	311	183	115	298
Indigenous	7	0	7	7	0	7	7	0	7	11	0	11	11	0	11	10	0	10
Not declared	33	<b>5</b>	38	34	<b>5</b>	39	33	<b>5</b>	38	34	5	39	34	5	39	0	0	0
<b>Total</b>	<b>12,001</b>	<b>3,018</b>	<b>15,019</b>	<b>11,968</b>	<b>3,047</b>	<b>15,015</b>	<b>11,776</b>	<b>2,977</b>	<b>14,753</b>	<b>11,356</b>	<b>2,867</b>	<b>14,223</b>	<b>11,261</b>	<b>2,876</b>	<b>14,137</b>	<b>10,920</b>	<b>2,752</b>	<b>13,672</b>
<b>Ethnicity and functional category</b>																		
<b>Managers</b>																		
Caucasian	450	<b>111</b>	561	451	108	559	455	111	566	436	<b>110</b>	546	437	112	549	435	115	550
Afro-Brazilian and brown-skinned	17	4	21	16	4	20	19	4	23	22	4	26	23	4	27	24	5	29
Yellow-skinned	18	<b>2</b>	20	18	<b>2</b>	20	19	<b>4</b>	23	16	3	19	17	4	21	<b>16</b>	6	22
Indigenous	0	0	0	<b>0</b>	0	0	0	0	0	<b>0</b>	0	0	0	<b>0</b>	0	<b>0</b>	<b>0</b>	0
Not declared	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	0	0	0
<b>Sub-total</b>	<b>485</b>	<b>117</b>	<b>602</b>	<b>485</b>	<b>114</b>	<b>599</b>	<b>493</b>	<b>119</b>	<b>612</b>	<b>474</b>	<b>117</b>	<b>591</b>	<b>478</b>	<b>120</b>	<b>598</b>	<b>475</b>	<b>126</b>	<b>601</b>
<b>University Students</b>																		
Caucasian	1,493	827	2,320	1,487	<b>832</b>	2,319	1,459	810	2,269	1,372	756	2,128	1,388	751	2,139	1,315	697	2,012
Afro-Brazilian and brown-skinned	139	<b>86</b>	225	143	<b>89</b>	232	141	<b>89</b>	230	140	88	228	140	91	231	133	84	218
Yellow-skinned	96	60	156	100	62	162	<b>97</b>	58	155	<b>90</b>	58	148	94	<b>60</b>	154	88	56	144
Indigenous	1	0	1	1	0	1	1	0	1	1	0	1	1	0	1	1	0	1
Not declared	4	0	4	4	0	4	4	0	4	4	0	4	4	0	4	0	0	0
<b>Sub-total</b>	<b>1,733</b>	<b>973</b>	<b>2,706</b>	<b>1,735</b>	<b>983</b>	<b>2,718</b>	<b>1,702</b>	<b>957</b>	<b>2,659</b>	<b>1,607</b>	<b>902</b>	<b>2,509</b>	<b>1,627</b>	<b>902</b>	<b>2,529</b>	<b>1,537</b>	837	<b>2,374</b>
<b>Technicians</b>																		
Caucasian	3,750	1,485	5,235	3,683	1,472	5,155	3,622	1,439	5,061	3,438	1,396	4,834	3,444	1,383	4,827	3,334	1,331	4,665
Afro-Brazilian and brown-skinned	671	227	898	671	226	897	658	221	879	634	218	852	679	231	910	678	228	906
Yellow-skinned	65	52	117	<b>67</b>	52	119	<b>66</b>	50	116	<b>58</b>	<b>49</b>	107	60	<b>52</b>	112	58	52	110
Indigenous	3	0	3	<b>3</b>	0	3	<b>6</b>	0	6	<b>4</b>	<b>0</b>	4	4	<b>0</b>	4	3	0	3
Not declared	10	4	14	10	4	14	9	4	13	9	4	13	9	4	13	0	0	0
<b>Sub-total</b>	<b>4,499</b>	<b>1,768</b>	<b>6,267</b>	<b>4,434</b>	<b>1,754</b>	<b>6,188</b>	<b>4,361</b>	<b>1,714</b>	<b>6,075</b>	<b>4,143</b>	<b>1,667</b>	<b>5,810</b>	<b>4,196</b>	<b>1,670</b>	<b>5,866</b>	<b>4,073</b>	<b>1,611</b>	<b>5,684</b>
<b>Operational</b>																		
Caucasian	4,196	117	4,313	4,169	133	4,302	4,101	131	4,232	3,979	125	4,104	3,803	128	3,931	3,707	126	3,833
Afro-Brazilian and brown-skinned	1,043	40	1,083	1,098	60	1,158	1,075	54	1,129	1,103	54	1,157	1,108	54	1,162	1,101	51	1,152
Yellow-skinned	23	2	25	24	<b>2</b>	26	24	<b>1</b>	25	23	<b>1</b>	24	23	<b>1</b>	24	21	1	22
Indigenous	3	0	3	3	0	3	3	0	3	6	0	6	6	<b>0</b>	6	6	0	6
Not declared	19	1	20	20	1	21	20	1	21	21	1	22	20	<b>1</b>	21	0	0	0
<b>Sub-total</b>	<b>5,284</b>	<b>160</b>	<b>5,444</b>	<b>5,314</b>	<b>196</b>	<b>5,510</b>	<b>5,223</b>	<b>187</b>	<b>5,410</b>	<b>5,132</b>	<b>181</b>	<b>5,313</b>	<b>4,960</b>	<b>184</b>	<b>5,144</b>	<b>4,835</b>	<b>178</b>	<b>5,013</b>

COMPANY'S TOTAL	12,001	3,018	150,19	11,968	3,047	14,015	11,779	2,977	14,756	11,356	2,867	14,223	11,261	2,876	14,137	10,920	2,752	13,672
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Mathematical ratio of compensation of men and women **G4-LA13**

Ratio of average compensation by functional category (women/men)	2012	2013	2014	2015	2016	2017
Managers	98.76%	99.87%	98.91%	98.11%	96.96%	98.89%
University	111.40%	111.20%	111.49%	111.83%	112.74%	112.20%
Technicians	107.36%	106.40%	106.00%	105.89%	105.77%	105.11%
Operational	140.31%	143.50%	143.80%	141.29%	139.65%	138.51%

Variation in the ratio of the lowest wage, broken down by gender, compared to the local minimum wage in major operating units **G4-EC5**

Variation between the lowest salary and the minimum wage	2012	2013	2014	2015	2016	2017
<b>Region 1</b>						
Lowest salary paid by the company	R\$1,321.00	R\$1,427.00	R\$1,501.00	R\$1,625.00	R\$1,788.00	R\$1,854.54
Minimum wage determined by legislation or trade union	R\$622.00	R\$678.00	R\$724.00	R\$788.00	R\$880.00	R\$937.00
<b>Percentage ratio</b>	<b>212.4%</b>	<b>210.5%</b>	<b>207.3%</b>	<b>206.2%</b>	<b>203.2%</b>	<b>197.9%</b>
<b>Region 2</b>						
Lowest salary paid by the company	R\$1,101.00	R\$1,189.00	R\$1,376.00	R\$1,625.00	R\$1,788.00	R\$1,854.54
Minimum wage determined by legislation or trade union	R\$622.00	R\$678.00	R\$724.00	R\$788.00	R\$880.00	R\$937.00
<b>Percentage ratio</b>	<b>177.0%</b>	<b>175.4%</b>	<b>190.1%</b>	<b>206.2%</b>	<b>203.2%</b>	<b>197.9%</b>

There are no minimum wage differences between operating units, or gender.



**G4-EC1 Economic Indicators**

Component	2017	2016	2015	2014	2013
<b>A - Direct Economic Value Generated</b>	<b>15,819,518</b>	<b>15,404,121</b>	<b>12,900,211</b>	<b>12,369,246</b>	<b>12,436,533</b>
Revenues (a)	15,819,518	15,404,121	12,900,211	12,369,246	12,436,533
<b>B- Economic Value Distributed</b>	<b>12,380,333</b>	<b>12,893,011</b>	<b>9,307,382</b>	<b>10,037,632</b>	<b>9,737,238</b>
Operational costs (b)	6,495,739	7,114,963	6,104,882	5,902,839	5,172,151
Salaries and benefits of employees (c)	2,613,041	2,180,531	1,507,964	2,132,245	1,932,739
Payments to capital providers (d)	1,256,522	1,421,057	885,243	842,286	1,063,581
Payments to governments (e)	1,954,688	2,140,495	798,063	1,128,159	1,521,437
Investments in the community (f)	60,342	35,964	11,229	32,102	47,330
<b>Cumulative Economic Value (A-B)</b>	<b>3,439,185</b>	<b>2,511,110</b>	<b>3,592,830</b>	<b>2,331,614</b>	<b>2,699,295</b>

(a) Made up of all operating and financial revenues and other operating revenues, monetary and exchange rate variations and revenue relating to the construction of assets.

(b) Made up of operating costs and expenses, such as general materials, treatment materials, services, power and light, overheads (excluding expenses with water use and meals/snacks) and employee training courses. Depreciation and amortization expenses and credit write-offs were not taken into account.

(c) Wages and benefits to employees - Made up of salaries and charges (excluding courses and training), meals/snacks and amounts paid to government institutions (charges and employee taxation).

(d) Payment to capital providers - Made up of Interest on Equity/Proposed Additional Dividends, financial expenses paid as interest, fines and other financial expenses (excludes income tax on remittances abroad), monetary variations and foreign exchange variations paid. Retained earnings were not taken into account.

(e) Payment to the Government - Made up of COFINS/Pasep on operating and non-operating revenue, tax expenses, income tax and social contribution (excluding deferred charges), income tax on remittances abroad and water use.

(f) Investments in the Company - Made up of institutional support, support of events, reception, exhibition and tax incentives distributed in the areas of education, culture, health, sports, combating hunger and food security.

# SOCIAL BALANCE SHEET

G4-EC1

1 - Tax Basis	Amount 2017 (in thousand Reais)			Amount 2016 (in thousand Reais)		
Net revenues (RL)	14,608,192			14,098,207		
Operating income (RO)	3,961,668			3,429,607		
Gross payroll (FPB)	2,773,327			2,199,352		
2 - Internal social indicators	Amount (in thousands )	% on FPB	% on RL	Amount (in thousands )	% on FPB	% on RL
Food	186,177	6.71%	1,27%	167.698	7,62%	1,19%
Mandatory social charges	232,307	8.38%	1,59%	192.713	8,76%	1,37%
Private pension plan	68,083	2.45%	0,47%	-198.873	-9,04%	-1,41%
Healthcare	181,645	6.55%	1,24%	155.689	7,08%	1,10%
Occupational safety and health	9,154	0.33%	0,06%	11.133	0,51%	0,08%
Education	1,684	0.06%	0,01%	2.445	0,11%	0,02%
Culture	396	0.01%	0,00%	476	0,02%	0,00%
Professional training and development	8,687	0.31%	0,06%	4.661	0,21%	0,03%
Nursery or nursery allowance	2,263	0.08%	0,02%	2.284	0,10%	0,02%
Profit sharing	85,923	3.10%	0,59%	68.379	3,11%	0,49%
Other	1,731	0.06%	0,01%	4.799	0,22%	0,03%
<b>Total - Internal social indicators</b>	<b>778,050</b>	<b>28.05%</b>	<b>5,33%</b>	<b>411.404</b>	<b>18,71%</b>	<b>2,92%</b>
3 - External Social Indicators	Amount (in thousands )	% on RO	% on RL	Amount (in thousands )	% on RO	% on RL
Education	298	0.01%	0,00%	61	0,00%	0,00%
Culture	31,208	0.79%	0,21%	16.186	0,47%	0,11%
Health and sanitation	7,502	0.19%	0,05%	1.191	0,03%	0,01%
Sports	7,578	0.19%	0,05%	3.764	0,11%	0,03%
Fight against famine and food security	0	0.00%	0,00%	0	0,00%	0,00%
Other	13,756	0.35%	0,09%	14.762	0,43%	0,10%
<b>Total contributions to society</b>	<b>60,342</b>	<b>1.52%</b>	<b>0,41%</b>	<b>35.964</b>	<b>1,05%</b>	<b>0,26%</b>
Taxes (excluding social charges)	2,328,625	58.78%	15,94%	2.569.052	74,91%	18,22%
<b>Total - External social indicators</b>	<b>2,388,967</b>	<b>60.30%</b>	<b>16,35%</b>	<b>2.605.016</b>	<b>75,96%</b>	<b>18,48%</b>
4 - Environmental Indicators	Amount (in thousands )	% on RO	% on RL	Amount (in thousands )	% on RO	% on RL
Investments related to the production/operation of the company	7,348	0.19%	0,05%	17.470	0,51%	0,12%
Investments in external programs and/or projects	12,531	0.32%	0,09%	3.704	0,11%	0,03%
<b>Total investments in the environment</b>	<b>19,879</b>	<b>0.50%</b>	<b>0,14%</b>	<b>21.174</b>	<b>0,62%</b>	<b>0,15%</b>
With regard to the establishment of "annual targets" for waste reduction, consumption in general in production/operation, and increased efficiency in the use of natural resources, the company [sic]	( X ) no targets established ( ) meets from 51 to 75% ( ) meets from 0 to 50% ( ) meets from 76 to 100%			( X ) no targets established ( ) meets from 51 to 75% ( ) meets from 0 to 50% ( ) meets from 76 to 100%		
5 - Staff Indicators	2017		2016			
No. of employees at the end of the period	13,672		14,137			
No. of employees hired during the period	18		605			
No. of outsourced employees	n/d		6,418			
No. of interns	910		690			
No. of employees aged over 45	8,839		8,710			
No. of women who work in the company	2,752		2,876			
% of leadership positions held by women	20.97%		20.07%			
No. of African descendants working in the company	2,304		2,330			
% of African descendants in leadership positions	4.83%		4.81%			
No. of disabled persons or persons with special needs (includes employees and partnership with AME)	192		194			

6 - Relevant information on the exercise of corporate citizenship	2017			2018		
Ratio of the highest to the lowest compensation in the company	16.8			n/d		
Total number of occupational accidents	180			120		
Social and environmental projects developed by the company were defined by:	<input type="checkbox"/> officers	<input checked="" type="checkbox"/> officers and managers	<input type="checkbox"/> all employees	<input type="checkbox"/> officers	<input checked="" type="checkbox"/> officers and managers	<input type="checkbox"/> all employees
The occupational security and health standards were defined by:	<input checked="" type="checkbox"/> officers and managers	<input type="checkbox"/> all employees	<input type="checkbox"/> all + Cipa	<input checked="" type="checkbox"/> officers and managers	<input type="checkbox"/> all employees	<input type="checkbox"/> all + Cipa
In relation to freedom of association, right to collective agreement and internal representation of the employees, the company:	<input type="checkbox"/> does not get involved	<input type="checkbox"/> follows ILO rules	<input checked="" type="checkbox"/> encourages and follows ILO rules	<input type="checkbox"/> will not get involved	<input type="checkbox"/> will encourage and follow ILO rules	<input checked="" type="checkbox"/> will encourage and follow ILO rules
The private pension plan includes:	<input type="checkbox"/> officers	<input type="checkbox"/> officers and managers	<input checked="" type="checkbox"/> all employees	<input type="checkbox"/> officers	<input type="checkbox"/> officers and managers	<input checked="" type="checkbox"/> all employees
Profit sharing includes:	<input type="checkbox"/> officers	<input type="checkbox"/> officers and managers	<input checked="" type="checkbox"/> all employees	<input type="checkbox"/> officers	<input type="checkbox"/> officers and managers	<input checked="" type="checkbox"/> all employees
In the selection of suppliers, the same ethical and social and environmental responsibility standards adopted by the company:	<input type="checkbox"/> are not considered	<input type="checkbox"/> are suggested	<input checked="" type="checkbox"/> are required	<input type="checkbox"/> will not be considered	<input type="checkbox"/> will be suggested	<input checked="" type="checkbox"/> will be required
With regard to employees' participation in volunteer programs, the company:	<input type="checkbox"/> does not get involved	<input type="checkbox"/> supports	<input checked="" type="checkbox"/> organizes and encourages	<input type="checkbox"/> will not get involved	<input type="checkbox"/> will support	<input checked="" type="checkbox"/> will organize and encourage
Total number of complaints and criticisms received from consumers	at the company 42,131	at Procon 1,628	at the Court JEC/Conc 480	at the company n/d	at Procon n/d	at the Court n/d
% of complaints and criticisms answered or resolved:	at the company 98.54%	at Procon 89.13%	at the Court 76.46%	at the company n/d	at Procon n/d	at the Court n/d
Total value added to be distributed (in thousands of R\$):	<b>In 2017: 8,757,598</b>			<b>In 2016: 7,984,170</b>		
Value Added Distribution (DVA):	26.6% government employees 27.4% 6.8% shareholders 17.3% third parties 21.9% retained			31.5% government employees 24.8% 8.8% shareholders 6.7% shareholders 28.1% retained		
<b>7 - Other Information</b>						
<p>* Sabesp does not hire outsourced labor, only signing contracts to provide services, according to business needs. No data was presented regarding third parties, because the SAP system is still in the implementation phase, and it is not possible to extract this information.</p> <p>"Environmental protection investments and expenditures, directly associated with the development and implementation of the main corporate environmental management programs, as well as the Rational Use of Water Program - Pura, along with other local environmental initiatives carried out by the Company's Business Units. Other investments and expenses related to environmental protection are included in the total amount of operating expenses and investments reported in this report, given the direct relationship between environmental activities and the Company's core business "</p> <p>"This company does not use child labor or slave labor, nor does it have any involvement with prostitution or sexual exploitation of children or adolescents and nor is not involved in corruption."</p> <p>"Our company values and respects diversity both internally and externally."</p>						

## ABOUT THE REPORT

For the eleventh year in a row Companhia de Saneamento Básico do Estado de São Paulo – Sabesp voluntarily publishes its Sustainability Report, which contains information about its operations and the initiatives undertaken to ensure the company's sustainable development, in such a way as to meet the main demands and expectations of its stakeholders. [G4-29, G4-30](#)

As in previous editions, this report follows the guidelines of the Global Reporting Initiative (GRI) - an international reference organization for sustainability reporting - with the adoption of the G4 version, the Essential agreement option. The indicators are referenced throughout the text and can also be consulted in GRI G4 Content Summary. [G4-32](#)

The content - defined based on the materiality review process (see below) - contemplates the initiatives of the administrative headquarters and the company's performance in all the municipalities in which it is present during the year from January 1 to December 31, 2017. The report was not subject to external assurance and there were no significant changes in this reporting period in relation to previous years. [G4-13, G4-28, G4-32, G4-33](#)

If case of any doubts regarding the content of this publication, or to send suggestions and comments, please get in contact by means of the e-mail [sustentabilidade@sabesp.com.br](mailto:sustentabilidade@sabesp.com.br). [G4-31](#)

### Prioritization of issues

[G4-18, G4-24, G4-25, G4-26, G4-27](#) - A proper understanding of Sabesp's material issues is essential for the preservation of the company's ability to generate sustainable value and to make its contribution to modern, fair and competitive practices in the basic sanitation sector.

In a continuous process of improving sustainability management and communication, in 2017 Sabesp redid the process of defining its materiality matrix, resulting in a review of its material issues. The process consisted of sequential steps guided by global reference standards and methodologies.

The first stage consisted of the selection of material issues for the basic sanitation sector and was carried out based on specialized publications and on benchmarking of the sector. The next step carried out was the prioritization of the issues and included the participation of internal and external agents to Sabesp. The purpose of this stage is to select the subjects of greater relevance for the company by means of the correlation of the topics previously raised with what is pointed out in the various proposed engagement activities. The activities carried out were as follows:

- Public consultation - conducted by means of an online survey with stakeholders, which was carried out at the end of 2017, and made available on Sabesp's website and social networks. Stakeholders were selected based on previous materiality determination processes, in addition to selecting groups with a direct relationship with Sabesp. A total of 840 valid responses were received from the following interest groups:

Employee/Associate	768
Supplier	23
Sector specialist	15
Others	11
Customer	8
Third sector/Associations	4
Investor	4
Regulatory body	4
Community leader	2
Granting authority	1
Market analyst	0
<b>TOTAL</b>	<b>840</b>

- Interviews with managers Entrevistas com gestores – held individually with superintendents of the main Sabesp’s areas, following a pre-determined agenda with specific issues for each area
- Analysis of internal and external publications - reading and analysis of news reports and mass media reports and the monthly in-house newsletters “Sabesp Reports”
- Corporate videos – watching corporate videos of engagement with the population in order to identify the highlights of this relationship

All these different activities resulted in a compilation of aspects relevant to Sabesp’s various stakeholders. This compilation was consolidated and weighted based on specific methodology and afterwards validated and approved by the company’s senior management, resulting in the list of material issues that served as the base for preparation of this report.

### Material issues

**G4-19** The selected material issues, in order of prioritization, were as follows:

1. Promotion of universal access to water and sewage
2. Local community development
3. Effluent and waste management
4. Corporate governance and transparency
5. Transparency and engagement with stakeholders
6. Improving eco-efficiency of operations
7. Water crisis
8. Losses in distribution
9. Customer Relationship Management
10. Climate strategy

The boundaries of each of the above listed topics, both inside and outside the company, have been addressed in the corresponding chapters of the report, as well as any necessary information or reformulations published in previous reports. **G4-20, G4-21, G4-22, G4-23**

## GRI SUMMARY

GENERAL STANDARD DISCLOSURES			
General standard disclosures	Page/answer	Correlation with the Principles of the UN Global Compact	Correlation with the SDG
<b>Strategy and analysis</b>			
<b>G4-1</b> Statement from the organization's most senior decision-maker (such as CEO, chairman, or equivalent position) about the relevance of sustainability to the organization and its sustainability strategy.	6, 8	-	-
<b>G4-2</b> Description of the main impacts, risks and opportunities: focus on the organization's main impacts on sustainability and its effects on stakeholders.	6, 8	-	-
<b>Organizational profile</b>			
<b>G4-3</b> Name of the organization	10	-	-
<b>G4-4</b> Main brands, products and services	10	-	-
<b>G4-5</b> Location of the organization's head office	City of São Paulo/State of Sao Paulo	-	-
<b>G4-6</b> Number of countries in which the organization operates and the name of the countries in which its main operations are located or which are specifically relevant to the sustainability issues covered in the report	10	-	-
<b>G4-7</b> Nature of ownership and the legal form of the organization	18	-	-
<b>G4-8</b> Markets in which the organization operates (with a geographical breakdown, sectors covered sectors and types of customers and beneficiaries)	10	-	-
<b>G4-9</b> Scale of the organization	10		
<b>G4-10</b> Total number of employees	69, 84	6	8
<b>G4-11</b> Percentage of total employees covered by collective bargaining agreements	72	3	8
<b>G4-12</b> Description of the organization's supply chain	66	-	-
<b>G4-13</b> Significant changes occurring during the period covered by the report in relation to the organization's size, structure, share ownership or supply chain	89	-	-
<b>G4-14</b> If and how the organization adopts the precautionary approach or principle	17	-	-

<b>G4-15</b> List of charters, principles or other externally developed economic, environmental, and social initiatives that the organization supports or endorses	63	-	-
<b>G4-16</b> List of participations in associations (e.g. sectoral associations) and national or international defense organizations	63	-	-
<b>Material aspects identified and boundaries</b>			
<b>G4-17</b> List of all entities included in the organization's consolidated financial statements or equivalent documents	89	-	-
<b>G4-18</b> Explanation of the process adopted to define the content of the report and the limits of the Aspects	89	-	-
<b>G4-19</b> List of all the material Aspects identified in the process of defining the content of the report	90	-	-
<b>G4-20</b> For each material Aspect, give the Aspect Limit within the organization	90	-	-
<b>G4-21</b> For each material Aspect, give the Aspect Limit outside the organization	90	-	-
<b>G4-22</b> Effect of any re-statements of information supplied in previous reports and the motives for the aforesaid re-statements	90	-	-
<b>G4-23</b> Significant changes in relation to periods covered by previous reports in terms of Scope and Aspect Limits	90	-	-
Stakeholders' engagement	89	-	-
<b>G4-24</b> List of stakeholder groups engaged by the organization	89	-	-
<b>G4-25</b> Basis used for the identification and selection of stakeholders for engagement	89	-	-
<b>G4-26</b> Approach adopted by the organization to engage stakeholders, including the frequency of their engagement broken down by type and group, with an indication that some engagement was specifically arranged as part of the reporting process	89	-	-
<b>G4-27</b> Main topics and concerns raised during the stakeholder engagement and the measures taken by the organization to address these topics and concerns, including in the process of reporting them. Give details of the stakeholder groups that raised each of the issues and concerns mentioned	89	-	-

<b>Report Profile</b>				
<b>G4-28</b> Period covered by the report (e.g. fiscal or calendar year) for the information presented	89	-	-	
<b>G4-29</b> Date of the most recent previous report (if any exists)	89	-	-	
<b>G4-30</b> Reporting cycle (annual, each two years, etc.)	89	-	-	
<b>G4-31</b> Contact point for questions about the report or its content	89	-	-	
<b>G4-32</b> “In accordance” option chosen by the organization	89	-	-	
<b>G4-33</b> Current policy and practice adopted by the organization regarding submitting the report to an external verification	89	-	-	
<b>Governance Structure</b>				
<b>G4-34</b> The organization’s governance structure, including the highest governance body’s committees. Identify all committees responsible for advising the board of directors in relation to decisions that have economic, environmental and social impacts	14	-	-	
<b>G4-38</b> Composition of the highest governance body and its committees	14			
<b>G4-39</b> Report as to whether the chairman of the highest governance body is also an executive officer	14			
<b>G4-40</b> Selection and appointment processes for the highest governance body and its committees, as well as the criteria adopted for selecting and appointing the members of the highest governance body	14			
<b>Ethics and integrity</b>				
<b>G4-56</b> The organization’s values, principles, standards and norms of behavior, such as codes of conduct and ethics	13, 18	10	16	
<b>SPECIFIC STANDARD DISCLOSURES</b>				
<b>Economic Category</b>				
Material aspects	DMA and indicators	Page/answer	Correlation with the Principles of the UN Global Compact	Correlation with the SDG
<b>Economic performance</b>	<b>G4-DMA</b> Form of management	45	7	-
	<b>G4-EC1</b> Direct economic value generated and distributed	87	-	2, 5, 7, 8, 9



	<b>G4-EC2</b> Financial implications and other risks and opportunities for the organization's activities as a result of climate change	17	7	13
<b>Presence in the market</b>	<b>G4-DMA</b> Form of management	78	6	-
	<b>G4-EC5</b> Variation in the ratio of the lowest salary, broken down by gender, compared to the local minimum wage in major operating units	78, 86	6	1, 5, 8
<b>Indirect economic impacts</b>	<b>G4-DMA</b> Form of management	60	-	-
	<b>G4-EC7</b> Development and impact of investments in infrastructure and services offered	60	-	2, 5, 7, 9, 11
	<b>G4-EC8</b> Significant indirect economic impacts, including the extent of the impacts	There is no measurement of the economic impacts generated	-	1, 2, 3, 8, 10, 17
<b>Environmental Category</b>				
<b>Material aspects</b>	<b>DMAs and indicators</b>	<b>Page/answer</b>	<b>Correlation with the Principles of the UN Global Compact</b>	<b>Correlation with the SDG</b>
<b>Materials</b>	<b>G4-DMA</b> Form of management	67, 68	7, 8	-
	<b>G4-EN1</b> Materials used, broken down by weight or volume	11	7, 8	8, 12
	<b>G4-EN2</b> Percentage of materials used from recycling	11	8	8, 12
<b>Energy</b>	<b>G4-DMA</b> Form of management	58, 59, 60	7, 8, 9	-
	<b>G4-EN3</b> Energy consumption within the organization	11	7, 8	7, 8, 12, 13
	<b>G4-EN5</b> Energy intensity	11	8	7, 8, 12, 13
	<b>G4-EN6</b> Reduction in energy consumption	11, 58, 59, 60	8, 9	7, 8, 12, 13

	<b>G4-EN7</b> Reductions in energy requirements of products and services	58, 59, 60	8, 9	7, 8, 12, 13
<b>Water</b>	<b>G4-DMA</b> Form of management	21	7, 8	-
	<b>G4-EN8</b> Total water withdrawn by source	11	7, 8	6
	<b>G4-EN10</b> Percentage and total volume of water recycled and reused	11	8	6, 8, 12
<b>Biodiversity</b>	<b>G4-DMA</b> Form of management	28	8	-
	<b>G4-EN11</b> Operating units owned, leased or managed within or adjacent to protected areas and areas of high biodiversity value located outside protected areas	29	8	6, 14, 15
<b>Emissions</b>	<b>G4-DMA</b> Form of management	58	7, 8	-
	<b>G4-EN15</b> Direct emissions of greenhouse gases (GHGs) (Scope 1)	11, 58	7, 8	3, 12, 13, 14, 15
	<b>G4-EN16</b> Indirect emissions of greenhouse gases (GHGs) from energy purchased (Scope 2)	11,58	7, 8	3, 12, 13, 14, 15
	<b>G4-EN17</b> Other indirect greenhouse gas (GHG) emissions (Scope 3)	11,58	7, 8	3, 12, 13, 14, 15
<b>Effluents and waste</b>	<b>G4-DMA</b> Form of management	35	8	6, 15
<b>General</b>	<b>G4-DMA</b> Form of management	56	7, 8, 9	-
	<b>G4-EN31</b> Total investments and expenditures on environmental protection, broken down by type	11, 56	7, 8, 9	7, 9, 12, 13, 14, 15, 17
<b>Social Category – labor practices and decent work</b>				
Material aspects	DMAs and indicators	Page/answer	Correlation with the Principles of the UN Global Compact	Correlation with the SDG

<b>Employment</b>	<b>G4-DMA</b> Form of management	70	6	8
	<b>G4-LA1</b> Total number and rates of new employees hired and employee churn rate by age bracket, gender and region	71, 84	6	5, 8
<b>Diversity and equal opportunities</b>	<b>G4-DMA</b> Form of management	78	6	5, 8, 16
	<b>G4-LA12</b> Composition of the groups responsible for governance and breakdown of employees by functional category, according to gender, age bracket, minorities and other indicators of diversity	78, 84, 87	6	5, 8
<b>Compensation equality</b>	<b>G4-DMA</b> Form of management		6	5, 8, 10, 16
	<b>G4-LA13</b> Mathematical ratio of salary and compensation between women and men, broken down by functional category and relevant operational units		6	5, 8, 10
<b>Social Category – society</b>				
<b>Material aspects</b>	<b>DMAs and indicators</b>	<b>Page/answer</b>	<b>Correlation with the Principles of the UN Global Compact</b>	<b>Correlation with the SDG</b>
<b>Local Communities</b>	<b>G4-DMA</b> Form of management	33, 38, 42	1	1
	<b>G4-SO1</b> Percentage of operations with local community engagement programs implemented, impact assessment and local development	Due to the fragmented nature of Sabesp's operations, it is not possible to present the total value of operations in which community engagement programs are implemented.	1	-

<b>Fighting corruption</b>	<b>G4-DMA</b> Form of management	15	10	16
	<b>G4-SO3</b> Total number and percentage of operations subject to risk assessments related to corruption and the significant risks identified	15	10	16
	<b>G4-SO4</b> Communication and training in anti-corruption policies and procedures	15	10	16
	<b>G4-SO5</b> Confirmed cases of corruption and the measures taken	16	10	16
<b>Public policies</b>	<b>G4-DMA</b> Form of management	Since 1997 - with the publication of Law No. 9504, the so-called Elections Law -, public utilities are among the prohibited contribution sources listed in article 24. However, the 2015 decision by the Supreme Federal Court (STF), which classified it as being it unconstitutional for companies to make donations to political parties, helped to communicate the issue more clearly to society.	10	16
	<b>G4-SO6</b> Total value of financial contributions to political parties and politicians, broken down by country and recipient/beneficiary	Sabesp does not make donations to political parties or individual politicians	10	16
<b>Social Category – responsibility for the product</b>				

Material aspects	DMAs and indicators	Page/answer	Correlation with the Principles of the UN Global Compact	Correlation with the SDG
<b>Labeling of products and services</b>	<b>G4-DMA</b> Form of management	69	-	-
	<b>G4-PR5</b> Results of customer satisfaction surveys	69	-	-

### Principles of the UN Global Compact

1. To respect and protect Human Rights
2. To prevent violations of Human Rights
3. To support freedom of association in the workplace
4. To eliminate forced labor
5. To abolish child labor
6. To eliminate discrimination in the work environment
7. To support a preventive approach to environmental challenges
8. To promote environmental responsibility
9. To encourage environmentally-friendly technologies
10. To fight corruption in all its forms, including extortion and bribery

### Sustainable Development Objectives (SDG):

1. To end poverty
2. To end hunger
3. To ensure health and well-being
4. To ensure quality education
5. To achieve gender equality
6. To ensure water for all
7. To ensure sustainable energy
8. To promote economic growth
9. To promote inclusive and sustainable industries
10. To reduce inequality among peers
11. To construct inclusive cities
12. To promote sustainable consumption
13. To combat climate change
14. To use the oceans in a sustainable way
15. To promote land ecosystems
16. To promote peaceful cities
17. To strengthen Global Partnerships

## CORPORATE INFORMATION

**2017 Sustainability Report** - Suggestions/comments: sustentabilidade@sabesp.com.br

### SOCIAL NETWORKS

youtube.com.br/user/saneamentosabesp  
flickr.com/sabesp  
facebook.com/oficialsabesp  
twitter.com/ciasabesp

### SERVICE

**Virtual Branch:** your service outlet on the internet. Request a second copy of your bill, repair of leaks, check your consumption history and find out where to make payments.

<https://www9.sabesp.com.br/agenciavirtual>

**Sabesp Mobile:** App compatible with Android and iOS. Request a second copy of bills, your consumption history, instructions regarding direct debits and notices about debits falling due and high consumption. Customers can also report water and sewage leaks.

**On-line service:** talk to our agents and clear up your doubts about our services. From Monday to Friday, from 8.00 a.m. to 9.00 p.m., and on Saturdays, from 8.00 a.m. to 5.00 p.m.  
sabesp.com.br • Option: on-line service

**Service outlets:** find the service outlet closest to where you live, using the site or the water bill delivered to your home.  
sabesp.com.br • Option: customers and services

### HOT LINE

195 (calls are free of charge) – In case of emergencies such as lack of water, leaks and blocked sewers. 24 hours a day, every day.

### COMMERCIAL SERVICES

Information about bills, requests for second copies (in case of loss or non-receipt), request for services, addresses, useful telephones and explanatory leaflets.

**Metropolitan Region of São Paulo:** 0800-0119911 (calls are free of charge) - From Monday to Friday, from 7.00 a.m. to 9.00 p.m., and on Saturdays, from 8.00 a.m. to 5.00 p.m.

**Interior and the coastal area:** 0800-0550195 (calls are free of charge) - 24 hours a day, every day.

### OMBUDSMAN

**0800-0550565** (calls are free of charge) – With the protocol number to hand, users can file complaints regarding services already requested. In addition, it is possible to send criticisms, complaints or praise. From Monday to Friday, from 8.00 a.m. to 6.00 p.m.  
sabesp.com.br • Option: ombudsman.