

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP

Form 6-K

August 20, 2014

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

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**FORM 6-K**

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

**For August 15, 2014**  
**(Commission File No. 1-31317)**

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

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

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

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

Form 20-F  Form 40-F

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

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

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

Yes  No

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

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**SABESP announces 2Q14 results**

São Paulo, August 14, 2014 - **Companhia de Saneamento Básico do Estado de São Paulo - SABESP** (BM&FBovespa: SBSP3; NYSE: SBS), one of the largest water and sewage services providers in the world based on the number of costumers, announces today its results for the **second quarter of 2014 (2Q14)**. The Company's operating and financial information, except when indicated otherwise is presented in Brazilian Reais, in accordance with the Brazilian Corporate Law. All comparisons in this release, unless otherwise stated, refer to the same period of 2013.

SBSP3: R\$  
19.54/share

SBS: US\$ 8.65  
(ADR=1 share)

Total shares:  
683,509,869

Market value: R\$  
13.4 billion

Closing quote:  
08/14/2014

**R\$ million**

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## 1. Financial highlights

|  |          |         |         |         |          |
|--|----------|---------|---------|---------|----------|
| (+) Gross operating revenue  | 2,224.02 | 2,307.4 | (83.4)  | (3.6)   | 4,668.44 |
| (+) Construction revenue   | 678.7    | 656.9   | 21.8    | 3.31    | 210.01   |
| (-) COFINS and PASEP taxes   | 148.6    | 168.0   | (19.4)  | (11.5)  | 332.3    |
| (=) Net operating revenue  | 2,754.12 | 2,796.3 | (42.2)  | (1.5)   | 5,546.15 |
| (-) Costs and expenses   | 1,650.81 | 1,438.3 | 212.5   | 14.83   | 166.42   |
| (-) Construction costs   | 664.2    | 643.2   | 21.0    | 3.31    | 184.71   |
| (+) Equity result  | -        | (0.1)   | 0.1     | (100.0) | (0.3)    |
| (+) Other operating revenue/expenses, net                                | 5.2      | 1.5     | 3.7     | 246.7   | (37.8)   |
| (=) Earnings before financial result, income tax and social contribution | 444.3    | 716.2   | (271.9) | (38.0)  | 1,156.91 |
| (+) Net financial  | (21.6)   | (207.3) | 185.7   | (89.6)  | 5.9      |
| (=) Earnings before income tax and social contribution                   | 422.7    | 508.9   | (86.2)  | (16.9)  | 1,162.81 |
| (+) Income tax and social contribution                                   | (120.3)  | (147.2) | 26.9    | (18.3)  | (382.8)  |
| Net Income   | 302.4    | 361.7   | (59.3)  | (16.4)  | 780.0    |
| Earnings per share* (R\$)  | 0.44     | 0.53    |         |         | 1.14     |

\* Total shares = 683,509,869

## Adjusted EBITDA Reconciliation (Non-accounting measures)

|  | <i>R\$ million</i> |       |         |        |          |         |         |         |
|--|--------------------|-------|---------|--------|----------|---------|---------|---------|
| Net income                                   | 302.4              | 361.7 | (59.3)  | (16.4) | 780.0    | 857.9   | (77.9)  | (9.1)   |
| (+) Income tax and social contribution       | 120.3              | 147.2 | (26.9)  | (18.3) | 382.8    | 413.5   | (30.7)  | (7.4)   |
| (+) Net financial                            | 21.6               | 207.3 | (185.7) | (89.6) | (5.9)    | 179.9   | (185.8) | (103.3) |
| (+) Other operating revenues/expenses, net   | (5.2)              | (1.5) | (3.7)   | 246.7  | 37.8     | (10.3)  | 48.1    | (467.0) |
| (=) Earnings before financial result (EBIT)* | 439.1              | 714.7 | (275.6) | (38.6) | 1,194.71 | 1,441.0 | (246.3) | (17.1)  |
| (+) Depreciation and amortization            | 222.6              | 196.7 | 25.9    | 13.2   | 482.9    | 391.9   | 91.0    | 23.2    |
| (=) Adjusted EBITDA **                       | 661.7              | 911.4 | (249.7) | (27.4) | 1,677.61 | 1,832.9 | (155.3) | (8.5)   |
| (%) Adjusted EBITDA margin                   | 24.0               | 32.6  |         |        | 30.2     | 33.7    |         |         |

(\*) Earnings before interest, income tax and social contribution.

(\*\*) Adjusted EBITDA is net income before: (i) depreciation and amortization; (ii) income tax and social contribution; (iii) financial result; and (iv) other operating revenues/expenses, net.

In 2Q14, net operating revenue reached R\$ 2.8 billion; a 1.5% decrease compared to the same period of 2013.

Costs and expenses, including construction costs, totaled R\$ 2.3 billion, up 11.2% on the R\$ 2.1 billion recorded in 2Q13.

EBIT, in the amount of R\$ 439.1 million, dropped 38.6% from R\$ 714.7 million in 2Q13.

Adjusted EBITDA, in the amount of R\$ 661.7 million, dropped 27.4% from R\$ 911.4 million in 2Q13 (R\$ 1,677.6 million in the last 6 months and R\$ 3,851.3 million in the last 12 months).

The adjusted EBITDA margin was 24.0% in 2Q14, versus the 32.6% in 2Q13 (30.2% in the last 6 months and 33.7% in the last 12 months). Excluding construction revenues and construction costs, the adjusted EBITDA margin was 31.2% in 2Q14 (42.0% in 2Q13, 38.1% in the last 6 months and 42.6% in the last 12 months).

Net income totaled R\$ 302.4 million, 16.4% lower than the R\$ 361.7 million recorded in 2Q13.

## **2. Gross operating revenue**

Gross operating revenue from water and sewage totaled R\$ 2.2 billion, a drop of R\$ 83.4 million or 3.6%, when compared to the R\$ 2.3 billion recorded in 2Q13.

The main factors that led to this variation were:

- Decrease of 1.8% in the Company's total billed volume (2.8% in water and 0.6% in sewage); and
- Payment of bonus, within the scope of the Corporate Program for Water Loss Reduction, with an R\$ 88.1 million impact.

The decreases mentioned above were partially offset by the 3.1% tariff adjustment since December 2013.

### 3. Construction revenue

Construction revenue increased R\$ 21.8 million or 3.3%, when compared to 2Q13. The variation was mainly due to higher investments in 2Q14.

### 4. Billed volume

The following tables show the water and sewage billed volume, quarter-on-quarter, and semester-on-semester, per customer category and region.

#### WATER AND SEWAGE BILLED VOLUME <sup>(1)</sup> PER CUSTOMER CATEGORY - million m<sup>3</sup>

|                     | Water          |                |              | Sewage       |              |              |                |                |              |
|---------------------|----------------|----------------|--------------|--------------|--------------|--------------|----------------|----------------|--------------|
| Residential         | 382.0          | 383.6          | (0.4)        | 319.2        | 318.7        | 0.2          | 701.2          | 702.3          | (0.2)        |
| Commercial          | 42.7           | 43.7           | (2.3)        | 40.3         | 40.8         | (1.2)        | 83.0           | 84.5           | (1.8)        |
| Industrial          | 9.9            | 9.7            | 2.1          | 10.9         | 11.7         | (6.8)        | 20.8           | 21.4           | (2.8)        |
| Public              | 13.3           | 14.1           | (5.7)        | 10.3         | 10.9         | (5.5)        | 23.6           | 25.0           | (5.6)        |
| <b>Total retail</b> | <b>447.9</b>   | <b>451.1</b>   | <b>(0.7)</b> | <b>380.7</b> | <b>382.1</b> | <b>(0.4)</b> | <b>828.6</b>   | <b>833.2</b>   | <b>(0.6)</b> |
| Wholesale           | 63.1           | 74.4           | (15.2)       | 6.6          | 7.5          | (12.0)       | 69.7           | 81.9           | (14.9)       |
| <b>Total</b>        | <b>511.0</b>   | <b>525.5</b>   | <b>(2.8)</b> | <b>387.3</b> | <b>389.6</b> | <b>(0.6)</b> | <b>898.3</b>   | <b>915.1</b>   | <b>(1.8)</b> |
| Residential         | 792.6          | 772.6          | 2.6          | 659.5        | 639.9        | 3.1          | 1,452.1        | 1,412.5        | 2.8          |
| Commercial          | 87.7           | 86.8           | 1.0          | 82.3         | 80.7         | 2.0          | 170.0          | 167.5          | 1.5          |
| Industrial          | 20.1           | 19.3           | 4.1          | 22.0         | 22.2         | (0.9)        | 42.1           | 41.5           | 1.4          |
| Public              | 27.1           | 26.9           | 0.7          | 20.9         | 21.1         | (0.9)        | 48.0           | 48.0           | -            |
| <b>Total retail</b> | <b>927.5</b>   | <b>905.6</b>   | <b>2.4</b>   | <b>784.7</b> | <b>763.9</b> | <b>2.7</b>   | <b>1,712.2</b> | <b>1,669.5</b> | <b>2.6</b>   |
| Wholesale           | 138.5          | 149.0          | (7.0)        | 13.1         | 14.8         | (11.5)       | 151.6          | 163.8          | (7.4)        |
| <b>Total</b>        | <b>1,066.0</b> | <b>1,054.6</b> | <b>1.1</b>   | <b>797.8</b> | <b>778.7</b> | <b>2.5</b>   | <b>1,863.8</b> | <b>1,833.3</b> | <b>1.7</b>   |

#### WATER AND SEWAGE BILLED VOLUME <sup>(1)</sup> PER REGION - million m<sup>3</sup>

|                         |                |                |              |              |              |              |                |                |              |
|-------------------------|----------------|----------------|--------------|--------------|--------------|--------------|----------------|----------------|--------------|
| Metropolitan            | 292.8          | 298.8          | (2.0)        | 251.2        | 255.1        | (1.5)        | 544.0          | 553.9          | (1.8)        |
| Regional <sup>(2)</sup> | 155.1          | 152.3          | 1.8          | 129.5        | 127.0        | 2.0          | 284.6          | 279.3          | 1.9          |
| <b>Total retail</b>     | <b>447.9</b>   | <b>451.1</b>   | <b>(0.7)</b> | <b>380.7</b> | <b>382.1</b> | <b>(0.4)</b> | <b>828.6</b>   | <b>833.2</b>   | <b>(0.6)</b> |
| Wholesale               | 63.1           | 74.4           | (15.2)       | 6.6          | 7.5          | (12.0)       | 69.7           | 81.9           | (14.9)       |
| <b>Total</b>            | <b>511.0</b>   | <b>525.5</b>   | <b>(2.8)</b> | <b>387.3</b> | <b>389.6</b> | <b>(0.6)</b> | <b>898.3</b>   | <b>915.1</b>   | <b>(1.8)</b> |
| Metropolitan            | 601.9          | 595.6          | 1.1          | 514.1        | 507.4        | 1.3          | 1,116.0        | 1,103.0        | 1.2          |
| Regional <sup>(2)</sup> | 325.6          | 310.0          | 5.0          | 270.6        | 256.5        | 5.5          | 596.2          | 566.5          | 5.2          |
| <b>Total retail</b>     | <b>927.5</b>   | <b>905.6</b>   | <b>2.4</b>   | <b>784.7</b> | <b>763.9</b> | <b>2.7</b>   | <b>1,712.2</b> | <b>1,669.5</b> | <b>2.6</b>   |
| Wholesale               | 138.5          | 149.0          | (7.0)        | 13.1         | 14.8         | (11.5)       | 151.6          | 163.8          | (7.4)        |
| <b>Total</b>            | <b>1,066.0</b> | <b>1,054.6</b> | <b>1.1</b>   | <b>797.8</b> | <b>778.7</b> | <b>2.5</b>   | <b>1,863.8</b> | <b>1,833.3</b> | <b>1.7</b>   |

(1) Unaudited

(2) Including coastal and interior region

## 5. Costs, administrative and selling expenses

In 2Q14, costs, administrative and selling expenses, grew 11.2% (R\$ 233.5 million). Excluding construction costs, total costs and expenses grew 14.8%. As a percentage of net revenue, cost and expenses was 84.1% in 2Q14 from 74.4% in 2Q13.

|   | <b>R\$</b>     |                |              |             |                |                |              |
|---|----------------|----------------|--------------|-------------|----------------|----------------|--------------|
| Payroll and benefits                                  | 551.4          | 492.0          | 59.4         | 12.1        | 1,048.1        | 953.8          | 94.3         |
| Supplies  | 46.9           | 49.4           | (2.5)        | (5.1)       | 94.1           | 93.7           | 0.4          |
| Treatment supplies                                    | 64.6           | 55.2           | 9.4          | 17.0        | 134.3          | 120.0          | 14.3         |
| Services  | 351.6          | 295.1          | 56.5         | 19.1        | 666.2          | 523.9          | 142.3        |
| Electric power  | 144.5          | 133.0          | 11.5         | 8.6         | 284.5          | 277.8          | 6.7          |
| General expenses                                      | 190.0          | 186.3          | 3.7          | 2.0         | 342.7          | 401.8          | (59.1)       |
| Tax expenses  | 17.6           | 11.8           | 5.8          | 49.2        | 37.3           | 51.8           | (14.5)       |
| <b>Sub-total</b>                                      | <b>1,366.6</b> | <b>1,222.8</b> | <b>143.8</b> | <b>11.8</b> | <b>2,607.2</b> | <b>2,422.8</b> | <b>184.4</b> |
| Depreciation and amortization                         | 222.6          | 196.7          | 25.9         | 13.2        | 482.9          | 391.9          | 91.0         |
| Credit write-offs                                     | 61.6           | 18.8           | 42.8         | 227.7       | 76.3           | 56.2           | 20.1         |
| <b>Sub-total</b>                                      | <b>284.2</b>   | <b>215.5</b>   | <b>68.7</b>  | <b>31.9</b> | <b>559.2</b>   | <b>448.1</b>   | <b>111.1</b> |
| <b>Costs and expenses</b>                             | <b>1,650.8</b> | <b>1,438.3</b> | <b>212.5</b> | <b>14.8</b> | <b>3,166.4</b> | <b>2,870.9</b> | <b>295.5</b> |
| Construction costs                                    | 664.2          | 643.2          | 21.0         | 3.3         | 1,184.7        | 1,129.2        | 55.5         |
| <b>Costs, adm., selling and construction expenses</b> | <b>2,315.0</b> | <b>2,081.5</b> | <b>233.5</b> | <b>11.2</b> | <b>4,351.1</b> | <b>4,000.1</b> | <b>351.0</b> |
| % of net revenue                                      | 84.1           | 74.4           |              |             | 78.5           | 73.5           |              |

### 5.1. Payroll and benefits

In 2Q14 payroll and benefits grew R\$ 59.4 million or 12.1%, from R\$ 492.0 million to R\$ 551.4 million, due to the following:

- R\$ 17.9 million increase in provisions, from the higher number of employees who are entitled to request retirement (TAC), in addition to the wage increase in the period;
- R\$ 14.0 million increase due to the 8.0% increase in wages since May 2013 and the average wage increase of 6.80% since May 2014, in addition to the changes from the career and wage plan carried out by the Company;

- R\$ 8.0 million upturn in the provision for the Pension Plan, arising from changes in actuarial assumptions;
- R\$ 4.4 million increase in expenses related to the Profit Sharing Program, chiefly due to lower reversal of provision occurred in 2Q14, due to higher compliance with the targets estimated for the period, combined with adjustments made in the period; and
- R\$ 4.3 million increase in overtime pay, mainly due to wage adjustment in the period, and the higher number of hours exercised.

## **5.2. Supplies**

In 2Q14, expenses with supplies decreased R\$ 2.5 million or 5.1%, when compared to the same period of the previous year, from R\$ 49.4 million to R\$ 46.9 million, mostly due to:

- R\$ 1.2 million decrease, basically due to space that has been adapted to develop Sabesp Information Integrated System (SiiS), in 2Q13; and
- Lower use of materials in preventive and corrective maintenance and in several water and sewage systems, thus, resulting in a reduction of R\$ 0.8 million.

## **5.3. Treatment supplies**

Treatment supplies expenses in 2Q14 were R\$ 9.4 million or 17.0% higher than in 2Q13, from R\$ 55.2 million to R\$ 64.6 million. The main factors for this variation were:



- Increase in the consumption of activated carbon, in the amount of R\$ 4.3 million, essentially in the Guarapiranga and Taiacupeba Water Treatment Stations due to the proliferation of algae;
- Use of chemical products since the second half of 2013, for the recovery of springs (mainly at the Guarapiranga System), in the amount of R\$ 2.2 million;
- Increase of R\$ 1.5 million in the consumption of aluminum sulfate; and
- Application of calcium nitrate since January 2014 to control smell in several Sewage Treatment Stations, in the amount of R\$ 0.9 million.

#### **5.4. Services**

Services, in the amount of R\$ 351.6 million, grew R\$ 56.5 million or 19.1%, in comparison to the R\$ 295.1 million in 2Q13. The main factors were:

- Advertising campaigns, in the amount of R\$ 28.1 million, mainly due to the intensification of the rational use of water campaign;
- Higher estimate of services expenses, in the amount of R\$ 7.0 million, basically due to higher volume of advertising services in the period;
- Expenses with risk contracts for credit recovery, in the amount of R\$ 6.3 million; and
- Hiring of services, in the amount of R\$ 6.2 million, due to the beginning of operations in Diadema, in the amount of R\$ 4.6 million.

#### **5.5. Electric power**

This item totaled R\$ 144.5 million, an increase of R\$ 11.5 million or 8.6% in comparison to the R\$ 133.0 million in 2Q13, mainly due to the average increase of 14.0% in free market tariffs and of 6.2% in regulated market.

#### **5.6. General expenses**

General expenses grew R\$ 3.7 million or 2.0%, totaling R\$ 190.0 million, versus the R\$ 186.3 million recorded in 2Q13, due to the following:

- Increase in the provision for lawsuits in the amount of R\$ 14.6 million, mainly related to civil (R\$ 8.0 million) and labor (R\$ 5.3 million) contingencies; and

- Decrease of R\$ 10.5 million in provision related to the transfer to the Municipal Fund for Environmental Sanitation and Infrastructure, as a result of the decrease in revenues in the municipality of São Paulo.

### **5.7. Tax expenses**

In 2Q14, there was an increase of R\$ 5.8 million or 49.2%, due to increased tax expenses in 2Q14.

### **5.8. Depreciation and amortization**

Depreciation and amortization increased R\$ 25.9 million or 13.2%, from the R\$ 196.7 million recorded in 2Q13, totaling R\$ 222.6 million, due to the beginning of operations of intangible assets, in the amount of R\$ 2.0 billion.

### **5.9. Credit write-offs**

Credit write-offs grew R\$ 42.8 million, to R\$ 61.6 million in 2Q14, chiefly due to the higher provision of losses with allowance for doubtful accounts.

## 6. Other operating revenues and expenses, net

### 6.1. Other operating revenues, net

Recorded an R\$ 8.1 million increase, mainly due to fine applied to suppliers and third parties.

### 6.2. Other operating expenses

R\$ 4.3 million increase in other operating expenses due to:

- Provision for the write-off of hydrometers in the amount of R\$ 5.6 million; and
- Losses regarding contractual payments related to the agreement with the municipality of Diadema, in the amount of R\$ 2.0 million.

The increases mentioned above were partially offset by the R\$ 3.4 million drop in the write-off of studies and projects.

## 7. Net financial

|                                     | <i>R\$ million</i> |                |              |               |
|-------------------------------------|--------------------|----------------|--------------|---------------|
| Financial expenses, net of revenues | (74.4)             | (11.5)         | (62.9)       | 547.0         |
| Net monetary and exchange variation | 52.8               | (195.8)        | 248.6        | (127.0)       |
| <b>Net financial</b>                | <b>(21.6)</b>      | <b>(207.3)</b> | <b>185.7</b> | <b>(89.6)</b> |

### 7.1. Financial revenues and expenses

*R\$ million*

|   |                |               |               |              |
|---|----------------|---------------|---------------|--------------|
| Financial expenses  |                |               |               |              |
| Interest and charges on international loans and financing | (23.1)         | (22.1)        | (1.0)         | 4.5          |
| Interest and charges on domestic loans and financing      | (79.9)         | (64.9)        | (15.0)        | 23.1         |
| Other financial expenses                                  | (45.3)         | (5.6)         | (39.7)        | 708.9        |
| <b>Total financial expenses</b>                           | <b>(148.3)</b> | <b>(92.6)</b> | <b>(55.7)</b> | <b>60.2</b>  |
| Financial revenues  | 73.9           | 81.1          | (7.2)         | (8.9)        |
| <b>Financial expenses net of revenues</b>                 | <b>(74.4)</b>  | <b>(11.5)</b> | <b>(62.9)</b> | <b>547.0</b> |

### 7.1.1. Financial expenses

Financial expenses grew R\$ 55.7 million or 60.2%. The main reasons were:

- R\$ 39.7 million increase in other financial expenses, chiefly due to the favorable results of lawsuits in 2Q13, reducing interest expenses in that period, representing a variation of R\$ 37.8 million; and
- R\$ 15.0 million increase in interest and charges on domestic loans and financing, due to the higher increase in the Interbank Deposit Certificate (CDI) in 2Q14 (10.8%), versus 2Q13 (7.7%).

### 7.1.2. Financial revenues

Financial revenues from interests dropped R\$ 7.2 million or 8.9%, due to lower number of instalment agreements held in 2Q14.

## 7.2. Monetary and exchange rate variation on assets and liabilities

|  | <i>R\$ million</i> |                |              |                |
|--|--------------------|----------------|--------------|----------------|
| Exchange rate variation on loans and financing         | 84.2               | (201.7)        | 285.9        | (141.7)        |
| Monetary variation on loans and financing              | (28.9)             | (16.4)         | (12.5)       | 76.2           |
| Other monetary variations                              | (13.1)             | 2.1            | (15.2)       | (723.8)        |
| <b>Monetary/exchange rate variation on liabilities</b> | <b>42.2</b>        | <b>(215.9)</b> | <b>258.1</b> | <b>(119.5)</b> |
| Monetary/exchange rate variation on assets             | 10.6               | 20.1           | (9.5)        | (47.3)         |
| <b>Monetary/exchange rate variation, net</b>           | <b>52.8</b>        | <b>(195.8)</b> | <b>248.6</b> | <b>(127.0)</b> |

### 7.2.1. Monetary/exchange rate variation on liabilities

The effect on the monetary/currency exchange variation on liabilities in 2Q14 was R\$ 258.1 million, lower than in 2Q13, especially due to:

- Revenue of exchange rate variation in the amount of R\$ 84.2 million in 2Q14, mainly deriving from the depreciation of the US Dollar and Japanese Yen versus Brazilian Real (2.7% and 1.0%, respectively), versus an expense of exchange rate variation of R\$ 201.7 million in 2Q13, deriving from the appreciation of both currencies (10.0% and 4.3%, respectively);
- R\$ 12.5 million increase in monetary variation expenses over domestic loans and financing, mainly due to the higher variation of the IPCA rate in 2Q14 (2.06%), versus a 1.4% variation recorded in 2Q13. This increase is also a result of the higher amount of debt indexed to the IPCA rate, due to the 18<sup>th</sup> debenture issuance, in December 2013; and
- R\$ 15.2 million increase in other monetary variation due to the greater need of provision for lawsuits, in the amount of R\$12.6 million.

## 8. Income tax and social contribution

Income tax and social contribution expenses decreased by R\$ 26.9 million, due to the drop in taxable income in the period.

## 9. Indicators

## 9.1. Operating

Non-revenue water loss (IPF) and micro-measured water loss (IPM) continued to decline, reaching 23.8% and 30.8%, respectively, in 2Q14. This reduction was expected as a result of investments in the Corporate Program for Water Loss Reduction . Produced volume fell by 5.6% in 2Q14, thanks to the Corporate Program for Water Loss Reduction that covers the entire São Paulo Metropolitan Region.

|  |        |        |       |
|--|--------|--------|-------|
| Water connections <sup>(1)</sup>                     | 8,100  | 7,778  | 4.1   |
| Sewage connections <sup>(1)</sup>                    | 6,542  | 6,223  | 5.1   |
| Population directly served - water <sup>(2)</sup>    | 25.1   | 24.4   | 2.9   |
| Population directly served - sewage <sup>(2)</sup>   | 22.1   | 21.2   | 4.2   |
| Number of employees                                  | 14,799 | 15,124 | (2.1) |
| Water volume produced in the quarter <sup>(3)</sup>  | 710    | 752    | (5.6) |
| Water volume produced in the semester <sup>(3)</sup> | 1,488  | 1,514  | (1.7) |
| IPF - Non-revenue water loss (%)                     | 23.8   | 25.3   | (5.9) |
| IPM - Micro-measured water loss (%)                  | 30.8   | 31.6   | (2.5) |

(1) Total connections, active and inactive, in thousand units at the end of the period

(2) In million inhabitants, at the end of the period. Not including wholesale

(3) In millions of cubic meters

(\*) Unaudited

## 9.2. Financial

|                                       |        |        |
|---------------------------------------|--------|--------|
| Amplified Consumer Price Index (IPCA) | 1.54%  | 1.18%  |
| Referential Rate (TR)                 | 0.15%  | 0.00%  |
| Interbank Deposit Certificate (CDI)   | 10.80% | 7.72%  |
| US DOLAR (R\$)                        | 2.2025 | 2.2156 |
| YEN (R\$)                             | 0.0218 | 0.0223 |
| (*) Unaudited                         |        |        |

## 10. Loans and financing

In June 2014, the Company conducted the 19<sup>th</sup> Issuance of Debentures, in a single series, in the amount of R\$ 500 million to mature in June 2017 and progress payment of half-yearly interest rates from 0.80% to 1.08% p.a., plus CDI (interbank deposit certificate) variation. Proceeds are destined to settle financial commitments to mature in 2014 and 2015.

### Amortization schedule – accounting balance

|                             | <i>R\$ million</i> |              |              |                |              |              |                |                |
|-----------------------------|--------------------|--------------|--------------|----------------|--------------|--------------|----------------|----------------|
| <b>Local market</b>         |                    |              |              |                |              |              |                |                |
| Caixa Econômica Federal     | 36.7               | 65.5         | 65.7         | 69.0           | 72.8         | 76.0         | 679.8          | 1,065.5        |
| Debentures                  | -                  | 594.3        | 236.5        | 755.1          | 443.2        | 515.1        | 514.2          | 3,058.4        |
| Debentures BNDES            | 37.7               | 74.5         | 74.5         | 74.5           | 74.5         | 74.4         | 125.0          | 535.1          |
| Debentures FI FGTS          | 22.7               | 45.5         | 45.5         | 45.5           | 45.5         | 45.5         | 249.4          | 499.6          |
| BNDES                       | 24.6               | 50.7         | 57.3         | 59.4           | 59.4         | 59.4         | 230.1          | 540.9          |
| Others                      | 8.3                | 17.2         | 18.0         | 18.9           | 19.6         | 20.0         | 334.9          | 436.9          |
| Interest and charges        | 61.5               | 27.2         | -            | -              | -            | -            | -              | 88.7           |
| <b>Local market total</b>   | <b>191.5</b>       | <b>874.9</b> | <b>497.5</b> | <b>1,022.4</b> | <b>715.0</b> | <b>790.4</b> | <b>2,133.4</b> | <b>6,225.1</b> |
| <b>International market</b> |                    |              |              |                |              |              |                |                |
| BID                         | 42.0               | 84.0         | 84.0         | 112.0          | 56.8         | 56.8         | 674.4          | 1,110.0        |

|                                   |              |                |              |                |              |              |                |                |
|-----------------------------------|--------------|----------------|--------------|----------------|--------------|--------------|----------------|----------------|
| BIRD                              | -            | -              | -            | -              | -            | 3.4          | 97.2           | 100.6          |
| Eurobonds                         | -            | -              | 308.1        | -              | -            | -            | 765.1          | 1,073.2        |
| JICA                              | 23.8         | 47.6           | 47.6         | 48.0           | 48.4         | 59.2         | 676.2          | 950.8          |
| BID 1983AB                        | -            | 52.7           | 52.7         | 52.7           | 52.4         | 39.0         | 88.0           | 337.5          |
| Interest and charges              | 21.5         | -              | -            | -              | -            | -            | -              | 21.5           |
| <b>International market total</b> | <b>87.3</b>  | <b>184.3</b>   | <b>492.4</b> | <b>212.7</b>   | <b>157.6</b> | <b>158.4</b> | <b>2,300.9</b> | <b>3,593.6</b> |
| <b>Total</b>                      | <b>278.8</b> | <b>1,059.2</b> | <b>989.9</b> | <b>1,235.1</b> | <b>872.6</b> | <b>948.8</b> | <b>4,434.3</b> | <b>9,818.7</b> |

## 11. Capex

Our capex plan is designed to improve and expand our water and sewage system and to increase and protect our water sources in order to meet the growing demand for water and sewage services in the 364 municipalities we serve.

In 2Q14 the Company invested R\$ 728.4 million versus R\$ 716.0 million invested in 2Q13.



## 12. Conference calls

### In Portuguese

**August 19, 2014**

10:30 am (Brasília) / 9:30 am (US EST)

Dial in: 55 (11) 3728-5971 or 55 (11) 3127-4971

Conference ID: Sabesp

*Replay available for 7 days*

Dial in: 55 (11) 3127-4999

Replay ID: 11609129

[Click here to access the webcast](#)

### In English

**August 19, 2014**

2:00 pm (Brasília) / 1:00 pm (US EST)

Dial in: 1 (412) 317-6776

Conference ID: Sabesp

*Replay available for 7 days*

Dial in: 1(412) 317-0088

Replay ID: 10049132

[Click here to access the webcast](#)

**For more information, please contact:**

*Mario Arruda Sampaio*

*Phone.(55 11) 3388-8664*

*E-mail: [maasampaio@sabesp.com.br](mailto:maasampaio@sabesp.com.br)*

Angela Beatriz Airoidi

Phone.(55 11) 3388-8793

E-mail: [abairoidi@sabesp.com.br](mailto:abairoidi@sabesp.com.br)

*Statements contained in this press release may contain information that is forward-looking and reflects management's current view and estimates of future economic circumstances, industry conditions, SABESP performance, and financial results. Any statements, expectations, capabilities, plans and assumptions contained in this press release that do not describe historical facts, such as statements regarding the declaration or payment of dividends, the direction of future operations, the implementation of principal operating and financing strategies and capital expenditure plans, the factors or trends affecting financial condition, liquidity or results of operations are forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. There is no guarantee that these results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.*

## Income Statement

| <b>Brazilian Corporate Law</b>                            | <b>R\$ '000</b>  |                  |
|---|------------------|------------------|
| <b>Gross Operating Revenue</b>                            | <b>2,902,766</b> | <b>2,964,272</b> |
| Water Supply - Retail                                     | 1,148,197        | 1,196,615        |
| Water Supply - Wholesale                                  | 59,220           | 52,877           |
| Sewage Collection and Treatment                           | 973,299          | 1,013,554        |
| Sewage Collection and Treatment - Wholesale               | 6,883            | 8,436            |
| Construction Revenue - Water                              | 280,864          | 276,904          |
| Construction Revenue - Sewage                             | 397,886          | 379,940          |
| Other Services  | 36,417           | 35,946           |
| Taxes on Sales and Services - COFINS and PASEP            | (148,613)        | (167,994)        |
| <b>Net Operating Revenue</b>                              | <b>2,754,153</b> | <b>2,796,278</b> |
| Operating Costs   | (1,830,133)      | (1,731,945)      |
| <b>Gross Profit</b>                                       | <b>924,020</b>   | <b>1,064,333</b> |
| <b>Operating Expenses</b>                                 |                  |                  |
| Selling   | (215,232)        | (164,722)        |
| Administrative  | (269,704)        | (184,843)        |
| Other operating revenue (expenses), net                   | 5,209            | 1,507            |
| <b>Operating Income Before Shareholdings</b>              | <b>444,293</b>   | <b>716,275</b>   |
| Equity Result   | 49               | (111)            |
| <b>Earnings Before Financial Results, net</b>             | <b>444,342</b>   | <b>716,164</b>   |
| Financial, net  | (105,534)        | (5,823)          |
| Exchange gain (loss), net                                 | 83,957           | (201,433)        |
| <b>Earnings before Income Tax and Social Contribution</b> | <b>422,765</b>   | <b>508,908</b>   |
| <b>Income Tax and Social Contribution</b>                 |                  |                  |
| Current   | (135,474)        | (116,317)        |
| Deferred  | 15,131           | (30,922)         |
| <b>Net Income (loss) for the period</b>                   | <b>302,422</b>   | <b>361,669</b>   |
| <b>Registered common shares ('000)</b>                    | <b>683,509</b>   | <b>683,509</b>   |
| <b>Earnings per shares - R\$ (per share)</b>              | <b>0.44</b>      | <b>0.53</b>      |
| <b>Depreciation and Amortization</b>                      | <b>(222,594)</b> | <b>(196,758)</b> |
| <b>Adjusted EBITDA</b>                                    | <b>661,727</b>   | <b>911,415</b>   |
| % over net revenue  | 24.0%            | 32.6%            |

## Balance Sheet

| <b>Brazilian Corporate Law</b>                   | <b>R\$ '000</b>   |                   |
|--|-------------------|-------------------|
| <b>Current assets</b>                            |                   |                   |
| Cash and cash equivalents                        | 1,823,711         | 1,782,001         |
| Trade accounts receivable                        | 1,095,827         | 1,120,053         |
| Accounts receivable from related parties         | 123,070           | 134,855           |
| Inventories                                      | 58,394            | 58,401            |
| Restricted cash                                  | 20,463            | 10,333            |
| Recoverable taxes                                | 88,927            | 87,405            |
| Other accounts receivable                        | 104,197           | 61,039            |
| <b>Total current assets</b>                      | <b>3,314,589</b>  | <b>3,254,087</b>  |
| <b>Noncurrent assets</b>                         |                   |                   |
| Trade accounts receivable                        | 185,509           | 395,512           |
| Accounts receivable from related parties         | 110,881           | 130,457           |
| Escrow deposits                                  | 45,673            | 54,827            |
| Deferred income tax and social contribution      | 143,440           | 114,030           |
| Water National Agency – ANA                      | 120,204           | 107,003           |
| Other accounts receivable                        | 77,716            | 94,952            |
| Investments                                      | 23,358            | 23,660            |
| Investment properties                            | 54,039            | 54,039            |
| Intangible assets                                | 24,630,945        | 23,846,231        |
| Property, plant and equipment                    | 277,175           | 199,496           |
| <b>Total noncurrent assets</b>                   | <b>25,668,940</b> | <b>25,020,207</b> |
| <b>Total assets</b>                              | <b>28,983,529</b> | <b>28,274,294</b> |
| <b>Current liabilities</b>                       |                   |                   |
| Trade payables and contractors                   | 249,768           | 275,051           |
| Current portion of long-term loans and financing | 637,898           | 640,940           |
| Accrued payroll and related charges              | 350,270           | 314,926           |
| Taxes and contributions                          | 53,288            | 115,382           |
| Interest on shareholders' equity payable         | 32,458            | 456,975           |
| Provisions                                       | 549,285           | 631,374           |
| Services payable                                 | 334,123           | 323,208           |
| Public-Private Partnership – PPP                 | 21,043            | 20,241            |
| Program Contract Commitments                     | 128,505           | 77,360            |
| Other liabilities                                | 95,672            | 116,924           |
| <b>Total current liabilities</b>                 | <b>2,452,310</b>  | <b>2,972,381</b>  |
| <b>Noncurrent liabilities</b>                    |                   |                   |
| Loans and financing                              | 9,180,826         | 8,809,134         |
| Deferred Cofins and Pasep                        | 131,412           | 129,849           |
| Provisions                                       | 602,966           | 549,008           |
| Pension obligations                              | 2,392,839         | 2,327,016         |

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| Public-Private Partnership – PPP    | 319,263           | 322,267           |
| Program Contract Commitments        | 82,674            | 88,678            |
| Other liabilities                   | 153,292           | 145,160           |
| <b>Total noncurrent liabilities</b> | <b>12,863,272</b> | <b>12,371,112</b> |
| <b>Total Liabilities</b>            | <b>15,315,582</b> | <b>15,343,493</b> |
| <b>Equity</b>                       |                   |                   |
| Capital stock                       | 10,000,000        | 6,203,688         |
| Capital reserve                     | -                 | 124,255           |
| Earnings reserves                   | 3,021,470         | 6,736,389         |
| Other comprehensive income          | (133,531)         | (133,531)         |
| Accrued earnings                    | 780,008           | -                 |
| <b>Total equity</b>                 | <b>13,667,947</b> | <b>12,930,801</b> |
| <b>Total equity and liabilities</b> | <b>28,983,529</b> | <b>28,274,294</b> |

**Cash Flow****Brazilian Corporate Law****R\$ '000****Cash flow from operating activities**

|   |                  |                  |
|---|------------------|------------------|
| Profit before income tax and social contribution                                  | 1,162,789        | 1,271,359        |
| <b>Adjustment for:</b>  |                  |                  |
| Depreciation and amortization   | 482,852          | 391,924          |
| Residual value of property, plant and equipment and intangible assets written-off | 1,801            | 5,433            |
| Allowance for doubtful accounts   | 76,328           | 56,239           |
| Provision and inflation adjustment  | 95,467           | 157,834          |
| Interest calculated on loans and financing payable                                | 216,351          | 192,352          |
| Inflation adjustment and foreign exchange gains (losses) on loans and financing   | (139,278)        | 112,612          |
| Interest and inflation adjustment losses  | 10,850           | 12,974           |
| Interest and inflation adjustment gains   | (5,626)          | (8,736)          |
| Financial charges from customers  | (99,846)         | (118,983)        |
| Margin on intangible assets arising from concession                               | (25,287)         | (23,262)         |
| Provision for Consent Decree (TAC)  | 23,986           | 10,228           |
| Equity result   | 319              | 261              |
| Provision from São Paulo agreement  | (18,051)         | (5,007)          |
| Provision for defined contribution plan   | 3,515            | 4,849            |
| Pension obligations   | 144,647          | 130,853          |
| Other provision/write-offs  | 50,292           | (21,512)         |
| Other adjustments   | 10,675           | -                |
|   | <b>1,991,784</b> | <b>2,169,418</b> |
| <b>Changes in assets</b>  |                  |                  |
| Trade accounts receivable   | 262,977          | 68,869           |
| Accounts receivable from related parties  | 30,566           | 19,758           |
| Inventories   | (256)            | 455              |
| Recoverable taxes   | -                | (21,226)         |
| Escrow deposits   | 10,345           | 1,203            |
| Other accounts receivable   | (39,123)         | (17,310)         |
| <b>Changes in liabilities</b>   |                  |                  |
| Trade payables and contractors  | (18,357)         | (22,834)         |
| Services received   | 28,966           | 15,619           |
| Accrued payroll and related charges   | 7,843            | 45,087           |
| Taxes and contributions payable   | (87,530)         | (66,150)         |
| Deferred Cofins/Pasep   | 1,563            | 4,081            |
| Provisions  | (123,598)        | (136,371)        |
| Pension obligations   | (78,824)         | (70,413)         |
| Other liabilities   | (13,121)         | (12,732)         |
| <b>Cash generated from operations</b>   | <b>1,973,235</b> | <b>1,977,454</b> |
| Interest paid   | (307,106)        | (294,990)        |
| Income tax and contribution paid  | (388,216)        | (277,604)        |

|  |                    |                  |
|--|--------------------|------------------|
| <b>Net cash generated from operating activities</b>  | <b>1,277,913</b>   | <b>1,404,860</b> |
| <b>Cash flows from investing activities</b>          |                    |                  |
| Acquisition of intangibles                           | (1,130,122)        | (999,765)        |
| Restricted cash                                      | (10,130)           | 52,489           |
| Investment increase                                  | (17)               | (357)            |
| Purchases of tangible assets                         | (52,135)           | (7,947)          |
| <b>Net cash used in investing activities</b>         | <b>(1,192,404)</b> | <b>(955,580)</b> |
| <b>Cash flow from financing activities</b>           |                    |                  |
| Loans and financing                                  |                    |                  |
| Proceeds from loans                                  | 795,911            | 1,262,709        |
| Repayments of loans                                  | (326,390)          | (1,409,371)      |
| Payment of interest on shareholders'equity           | (467,439)          | (498,648)        |
| Public-Private Partnership – PPP                     | (9,921)            | (20,963)         |
| Program Contract Commitments                         | <u>(35,960)</u>    | <u>(29,894)</u>  |
| <b>Net cash used in financing activities</b>         | <b>(43,799)</b>    | <b>(696,167)</b> |
| <b>Increase in cash and cash equivalents</b>         | <b>41,710</b>      | <b>(246,887)</b> |
| <b>Represented by:</b>                               |                    |                  |
| Cash and cash equivalents at beginning of the period | 1,782,001          | 1,915,974        |
| Cash and cash equivalents at end of the period       | 1,823,711          | 1,669,087        |
| <b>Increase in cash and cash equivalents</b>         | <b>41,710</b>      | <b>(246,887)</b> |

**SIGNATURE**

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

Date: August 15, 2014

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

By: /s/ Rui de Britto Álvares Affonso

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Name: Rui de Britto Álvares Affonso

Title: Chief Financial Officer and Investor Relations Officer

**FORWARD-LOOKING STATEMENTS**

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

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