

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP

Form 6-K

June 11, 2010

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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 May 7, 2010**

**(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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## Message from the CEO

SABESP took important steps in 2009 in its mission to render sanitation services, contributing for a better life and environmental quality. We prioritize five work fronts.

The first was investment acceleration aiming universal services. In 2009, SABESP invested R\$1.8 billion, a record level in the past ten years. The investment made in 2007-2009 was approximately R\$4.5 billion, more than double the investment made in 2003-2005.

The investments made improved the quality of living of the population. We made roughly 201,000 new water connections and 184,000 new sewage connections. As a result, currently sewage collection increased to 80% and sewage treatment reached 74%. In 2007-2009, we started to treat the sewage to additionally 3 million people. We estimate that by the end of 2010, this number increases to 3.4 million people, a figure close to the entire population of Uruguay.

In addition to increase our investment, there was a visible improvement in project management. Investment acceleration was made using structuring programs, which facilitate planning and funds raising. We have enhanced project management with the use of a methodology based on the concepts and best practices of the Project Management Institute (PMI), one of the largest project management development centers in the world. Additionally, we created a streamlined structure, named Investment Executive Group (GEI).

The highlight is the Northern Coast Clean Wave Program (*Onda Limpa Baixada Santista*), which will increase sewage collection from 54 to 95%, and treat all collected wastewater. Investments in this program will total R\$1.4 billion by 2011.

Four programs in the São Paulo Metropolitan Region should be specially highlighted. Firstly, Tietê Project, which second phase was completed in 2008, increasing sewage collection in the São Paulo Metropolitan Region from 80% to 84%, and treatment from 62% to 70%. Project continuity is ensured by the approval of a US\$600 million loan from the IADB for the project's Phase 3. This will allow increasing collection in the São Paulo Metropolitan Region to 87% and treatment to 84% by 2015. Secondly, the Metropolitan Water Program, with the confirmation of the first big investment under a public private partnership in the High Tietê Water Producing System, increasing water treatment capacity from 10 to 15 cubic meters per second. Thirdly, Program *Vida Nova* (New Life), focused on the conservation of watersheds, in particular around the Guarapiranga and Billings dams. Finally, Clean Stream Program (*Córrego Limpo*), which permitted

decontaminating 42 streams in the city of São Paulo during stage 1, and will reach 58 streams by the end of 2010.

We prioritized the Water Loss Reduction Program as it should. In 2009, the loss to revenue ratio decreased to 26%. The goal for 2010 is to reduce loss ratio to 24%, a decrease of 8 percentage points over 2006, when losses reached 32%. If we reach this goal, in the 2007-2010 we will increase water supply capacity by 1.7 million inhabitants, equivalent to the population of Campinas and Osasco together, without the need to find new watersheds, and incurred in the related power and material costs.

The second work front was ensuring contract and market security, comprising the renewal of existing agreements and ensure closer cooperation with the city governments.

In fact, the universal sanitation services goal requires actions in the municipalities in addition to our investments. It is necessary that each party's efforts be complementary. A municipal government can work to clear irregularly occupied, invaded and environmental preservation areas, eliminate unauthorized connections and make the connection to the sewage system mandatory, detect illegal sewage, etc.

During the year several city councils approved 40 authorization acts, including in the City of São Paulo. In 2009, we entered into 14 agreements, added to the 174 agreements entered into since 2007. By January 2010, 30 authorization acts had been approved that, in brief, permit the provision of sanitation services.

The third work front was build up sound pillars of economic and financial sustainability, to increase investment capacity and, therefore, the ability to serve better our customers. Note, to this regard, the R\$1.4 billion net revenue obtained in 2009, the highest ever nominal net revenue in our history.

To ensure our economic and financial soundness, we have been working to obtain efficiency and productivity gains. One of the most important actions in this sense is the mentioned water loss reduction program. Note also the increase in productivity, from 684 connections by employee in 2006 to 837 connections by employee in 2009, a considerable 22% increase.

To reach these gains, we have made significant efforts in cutting costs, optimizing the asset base, and improving our financing structure. The reduction in personnel, telecommunications, electric power, and treatment material costs, among other, represent savings of approximately R\$180 million in the 2010 budget. More than this, they create a continuous cost efficiency and control culture, which is crucial for a secure growth path. As part of the asset base reduction efforts, in 2009 we sold nonoperating properties worth R\$27 million. As regards funds raising, the need for more funds to finance increased investments was covered together with an estimated two percentage point reduction in the average interest rate paid and an

increase in the share of Government and multilateral funding. These funds bear lower interest rates, have longer terms, and are, therefore, more appropriate for the type of projects developed by SABESP.

We also progressed in the elimination of outstanding financial items, with the settlement of water and sewage bills owed by the State and the cities. There was equal progress in the actions taken to reduce water supply debts with wholesale municipalities.

Our financial soundness is confirmed by the increase in our rating awarded by Standard and Poors S&P, a sign of our capacity to honor our financial obligations. Additionally, SABESP is for the third consecutive year part of the Sustainability Index portfolio of the São Paulo Mercantile and Stock Exchange (BM&F Bovespa).

The fourth work front consisted on the corporate modernization process. In 2009, we worked intensely to renew our staff. We conducted an eight year comprehensive public contest to hire 1,771 new employees. To ensure new talents succeed current leads, we prepared a succession and career plan within SABESP, including special training consisting of MBA classes, language courses, and a mentoring program. Additionally, we started the scaled termination of retired, in compliance with a Public Prosecution Office resolution. With a headcount formed by staff that passed the public contest and trained and qualified new talent, we are ready to face the coming challenges and enter new markets and industries.

In the same line, it is important to emphasize the continuity of the pioneering implantation in a state owned company of the Value Added Management (VAM) model, which is crucial to steer the actions related to the optimization our asset base and improve the quality of investments, to strengthen SABESP and its long term sustainability.

Enhancing the corporate governance practices is also one of our priorities. Our Code of Ethics and Conduct of Company was widely disseminated, with a Q&A section, and practical examples to facilitate their understanding by our personnel. In order to consolidate the companywide implementation of strategic risk management, we formalized the formation of a Risk Committee.

The fifth work front was the Company's strategic repositioning in view of the challenges of the new regulatory framework and the Company's expectations as regards the water and waste services and the environmental conservation. After the creation of the environment and environmental management function in 2007 and the regulatory affairs function in 2008, we formalize the new businesses function in 2009.

The last one is devoted to ensuring the return on existing assets and developing environmentally sustainable solutions. Note, to this regard, that the publication in 2009 of the first bidding process for the concession to

private sector companies of the right to exploit the energy potential of the Guaraú and Vertedouro Cascata Water Treatment Plants, by building small hydropower plants (SHPs).

Additionally, there was progress in the execution of arrangements and agreements. Domestically, we highlight the first loss reduction technology transfer agreement with Companhia de Saneamento de Alagoas CASAL, and the technical cooperation agreements with Agbar from Barcelona, Mekorot from Israel, CAESB from Brasília, and CASAN from Santa Catarina.

Internationally, the consortium formed by SABESP and Latin Consult won the international bidding held by Instituto de Acueductos y Alcantarillados Nacionales (IDAAN), with the support of the Inter American Development Bank (IADB). This consortium will operate as consultant in a rational water use program and the implementation of a new commercial and operational management model in the central provinces of Panama.

In 2009, we progressed in actions to mitigate the impact of climate change by planting 582,000 trees, and reducing by 2.3% specific power consumption by cubic meter of water supplied. We also expanded partnering projects, such as the collection of frying oil in ten other cities, and the forestation of areas around company facilities, in 13 of our business units. In the environmental management area, we highlight the implementation of more detailed environmental clauses in supplier contracts, and the retaining of a consultant to implement an environmental accounting and balance sheet system.

After creating three new functions, the challenge for 2010 is strengthening the research, development & innovation (RD&I) function. The objective is to increase our efficiency and competitiveness. This area's highlight was the cooperation agreement with the São Paulo State Research Support Foundation (FAPESP), which provides for joint investments totaling R\$50 million, over a five year period, to fund research in water and waste areas.

As part of our concern for the quality of living of our employees, we implemented a partnership program with the community focused on cultural and sports activities. Also, SABESP was the first state owned company and the second company in general to receive the Tobacco Free Environment Gold Seal.

We opened the new Call Center, resulting from our concern to improve customer service, which will serve 10 million people, in the 328 municipalities in the countryside where we operate.

2009 was a year of great economic hardships, nationally and internationally. Despite the adverse scenario, we managed to maintain the level of investments. The goal for 2010 is to increase our investments by R\$1.8

billion. This will require maintaining the cost cutting program, the optimization our asset base, decreasing even further the revenue loss ratio by utilizing existing assets, and finding new partners.

SABESP is in the right path to materialize our strategic vision of universal sanitation services in all the areas were we operate. In line with the guidelines of Governor José Serra administration, we have contributed for the economic and environmental development of the State of São Paulo, following best corporate governance practices.

**Gesner Oliveira**

CEO

## SABESP

SABESP provides sanitation services to 366 of the 645 municipalities in the State of São Paulo, supplies water on wholesale<sup>1</sup> to six municipalities<sup>1</sup> and treats sewage in five of them, serving, directly or indirectly, over 26 million people, 67% of the State urban population.

SABESP is a mixed capital Company and our main shareholder is the São Paulo State Government. SABESP went public in 1994, 100% of our shares are common shares, and in 2002 we became the first mixed capital Company to join the BM&FBovespa's *Novo Mercado* (New Market), the highest corporate governance level segment in Brazil. In the same year, we became a Securities and Exchange Commission (SEC) registrant, and our shares started to be traded in the New York Stock Exchange ( NYSE ), in the form of Level III American Depositary Receipts ( ADRs ). In 2007, we were included in the BM&FBovespa's Corporate Sustainability Index (ISE), a portfolio that includes only companies that have a high level of commitment to sustainability and social responsibility, and we are until today the only water and waste company part of this index.

We are the biggest water and sewage service provider in the Americas and the fifth largest in the world based on the number of customer, according to the 11<sup>th</sup> issue of the Pinsent Masons Water Yearbook. Our economic value and our environmental and social importance are recognized in Brazil and abroad. We were included in the Global Pact, a UN initiative that gathers the largest voluntary social responsibility groups in the world.

In addition to providing basic sanitation services in the State of São Paulo, we can also provide these services in other countries and operate in the urban rainwater management and drainage services, urban cleaning services, solid waste management services and related activities, including the planning, operation, maintenance and commercialization of energy. The broadening of our geographic and technical market creates development, qualification opportunities, adding new technologies, and increasing revenue.

Our focus, described in our Mission and our Vision, is provide universal sanitation services in the region where we operate, and contribute to the social, environmental, and economic development of the region.

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<sup>1</sup> Municipalities served on wholesale are those where we only provide part of the services that form the entire sanitation cycle. Treated water is sold on wholesale and the City is responsible for its distribution. In case of sewage, the city collects wastewater and we treat it.

Table 1 SABESP's Mission and Vision

**Table 1 Mission and Vision sharpen the focus and facilitate the communication**

<b>Mission</b>	Provide water & sewage services, contributing for a better life and environment quality
	By 2018
	To be recognized as the company that has universal water & sewage, within its area of operation and focusing the customer, in a competitive and sustainable way, with excellence in environmental solutions"
<b>Vision</b>	

Currently, 125 municipalities served by SABESP already have universal water and sewage services. To reach every household and industry in the municipalities where we operate in the State of São Paulo by 2018, in 2008 we doubled the annual investment volume and we are working to maintain this level in the coming years.

In addition, we are expanding our environmental solutions platform, offered to large customers that want to utilize SABESP's knowledge and technology for rational water use and appropriate sewage disposal, thus contributing for the preservation of the environment.

Our mission and vision are fully aligned with our ethical values: respect for society and the customer, respect for the environment, integrity, competence, and citizenship.

These values guide the work of our 15,103 employees, working all over the State of São Paulo, and their focus and dedication of these employees have been recognized by SABESP. We received many awards in 2009, including:

***Intangibles Award Brazil 2009 Utilities Industry***, granted by the National Federation of the Marketing and Sales Managers Associations of Brazil (FENADV), for considering SABESP the best manager of own intangible assets (trademark, corporate governance, sustainability, customers, innovation, information technology, talents, corporate knowledge, etc.);

***Metering International Latin America Excellence Award Category Best Advanced Metering Project***, granted by Metering Magazine;

***São Paulo Management Quality Award PPQG 2009***, granted by the São Paulo Management Excellence Institute (IPEG);

***Época Climate Changes Award***, granted by Época magazine, which elected SABESP one of the 20 Climate Change Leading Companies for its environmental policy to reduce greenhouse gases;

***Best Company of Brazil Award Category Utilities***, granted by Revista Isto É Dinheiro magazine;

***National Water & waste Quality Award PNQS 2009***, granted by the Brazilian Sanitation and Environmental Engineering Association (Abes);

*National Quality Award PNQ 2009 Category Customers*, granted by the National Quality Foundation for our management of consumer relations;

*National Quality Award PNQ 2009 Category IGS (Water & waste Innovation Management)*, granted by the National Quality Foundation for case Sustainable Partnership Program, focused on the implementation of a service and product supplier management excellence model;

*Top Environmental Award* granted by the Brazilian Association of Sales and Marketing Managers (ADVB), for case Environmental Solutions;

*E Learning Award* National Reference to SABESP's Corporate University by Micropower;

*Top Social* granted by the Brazilian Association of Sales and Marketing Managers (ADVB), for case SABESP, in the Path of Sustainability;

*Top HR* granted by the Brazilian Association of Sales and Marketing Managers, for case Knowledge Management; and

*São Paulo Diversity Seal* granted by the São Paulo State Government.

Table 2 - Indicators Panel

Indicators	Unit	2003	2004	2005	2006	2007	2008	2009
<b>Service</b>								
Population with water connection		Tendency to Universal Service <sup>(1)</sup>						
Population with sewage connection	%	77	78	78	78	79	79	80
Population with sewage treatment	%	61	63	61	63	66	72	74
Population served with water	thousand inhab	21,324	22,335	22,570	22,700	22,959	23,162	23,363
Population served with sewage collection	thousand inhab	17,030	18,014	18,326	18,519	18,881	19,198	19,600
<b>Operating</b>								
Water connections	thousand	6,044	6,358	6,489	6,609	6,767	6,945	7,118
Sewage connections	thousand	4,462	4,747	4,878	5,002	5,167	5,336	5,520
Water loss	%	33.0	34.0	32.4	31.9	29.5	27.9	26.0
Water produced volume	millions of m <sup>3</sup>	2,820	2,770	2,830	2,887	2,874	2,853	2,845
Water volume billed to wholesale	millions of m <sup>3</sup>	346	251	259	263	274	285	288
Water volume billed to retail	millions of m <sup>3</sup>	1,419	1,441	1,500	1,544	1,573	1,596	1,630
Sewage volume billed	millions of m <sup>3</sup>	1,110	1,141	1,198	1,246	1,300	1,330	1,373
Number of employees <sup>(2)</sup>	employees	18,546	17,735	17,448	16,978	16,850	16,649	15,103
Operational Productivity	cnn/employees	566	626	651	684	708	738	837
<b>Financial</b>								
Net revenues	millions of R\$	4,130.8	4,397.1	4,953.4	5,527.3	5,970.8	6,351.7	6,730.5
EBITDA	millions of R\$	2,076.5	1,926.5	2,285.6	2,446.1	2,698.9	2,840.3	2,741.7
EBITDA Margin	%	50.3	43.8	46.1	44.3	45.2	44.7	40.7
Earnings (Profit/Net Loss)	millions of R\$	833.3	513.0	865.6	778.9	1,055.3	63.6	1,373.9

(1) 99% or more

(2) number of employees, does not include employees transferred to other government department

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## CORPORATE MANAGEMENT

In 2009 we took important steps toward our future vision for 2018.

Firstly, the investment volume reached R\$1.8 billion, a record level for the last 10 year.

Secondly, we took actions to cut costs and increase efficiency to ensure the economic and financial sustainability of SABESP, and sustain the progress made in the recovery of receivables.

Thirdly, contract and market stability progressed. Throughout the year, 40 authorization acts<sup>2</sup> were passed by city councils, including the São Paulo City Council.

Fourthly, we promoted a strategic repositioning in view of the new regulatory framework. We created an environmental function in 2007, a regulatory affairs function in 2008, and a new business function in 2009. The challenge for 2010 is to progress in the creation of a Research, Development & Innovation (RD&I) function.

Fifthly, the modernization of management is evolving within SABESP. We should highlight the qualification of our staff, with the first comprehensive public contest since 2001, the stated of the implementation of TAC<sup>3</sup> to dismiss employees already retired by Social Security (INSS) and the preparation of a succession and career plan to train our new leads for the coming decade.

### Investment Acceleration toward Universal Services

In 2009, we invested R\$1.8 billion, approximately 11% above the initially budgeted investments.

#### Table 3: Investment History

*Note: 2003 does not include the transfer of sanitation services of the City of São Bernardo do Campo (R\$415 million)*

*2008 & 2009 – does not include commitments assumed regarding the program contracts (R\$253 million and R\$18 million, respectively)*

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<sup>2</sup> An authorization act is a permit granted by the City Councils to the Mayor authorizing the City to enter into an agreement, under predefined terms and conditions.

<sup>3</sup> Conduct Adjustment Term entered into with the State Public Prosecution Office.

The table below shows the investments made in 2009 by region:

Table 4: Breakdown of Investments Made in 2009

	Water	Sewage	Total
<b>São Paulo Metropolitan Region</b>	506.2	237.5	743.7
<b>Regional Systems (coastal and countryside)</b>	350.7	740.0	1,090.7
<b>Total</b>	856.9	977.5	1,834.4

2009 does not include commitments assumed regarding the program contracts (R\$ 18 milhões)

In 2009, we completed the first investments funded by private sector capital, under a public private partnership and asset leases. These funding models allow us to access funds and accelerate investments.

Also in 2009, we completed approximately 201,000 new water connections and 184,000 sewage connections, the water supply service ratio remained at the universal service level, and sewage collection increase to 80%, and the sewage treatment ratio reached 74%. Approximately 23.4 million people receive water directly in their households (if we include the population of the cities that buy water on a wholesale from SABESP, this figure increases to over 26 million). At the same time, 19.6 million people have their sewage collected by us, and we treated the sewage generated by 14.4 million people.

The table below shows the 2009 results of operations and the summary of operational goals for 2009 2018:

Table 5 Actual 2009 and 2009 2018 Goals

	Realized		Goals				
	2009	2009	2010	2011	2012	2013	2018
	<b>Tendency to Universal service</b>						
<b>Water Supply</b>							
<b>Sewage Collection (%)</b>	<b>80</b>	<b>80</b>	<b>81</b>	<b>82</b>	<b>83</b>	<b>85</b>	<b>90</b>
<b>Sewage Treatment (%)</b>	<b>74</b>	<b>74</b>	<b>78</b>	<b>81</b>	<b>84</b>	<b>88</b>	<b>100</b>
<b>New Water Connections (thousands)</b>	<b>201</b>	<b>159</b>	<b>158</b>	<b>149</b>	<b>159</b>	<b>159</b>	<b>787*</b>
<b>New Sewage Connections (thousands)</b>	<b>184</b>	<b>160</b>	<b>225</b>	<b>179</b>	<b>167</b>	<b>154</b>	<b>915*</b>
<b>Water Loss (%)</b>	<b>26</b>	<b>26</b>	<b>24</b>	<b>22</b>	<b>21</b>	<b>20</b>	<b>14</b>

\* 2014 2018 accumulated goal

Table 6 Water and sewage connections completed and population served

	São Paulo Metropolitan Region	Regional Systems (coastal and countryside)	Total
<b>Water</b>			
# of new connections (1)	130.1	70.8	200.9
Population served (2)	380	180	560
<b>Sewage</b>			
# of new connections (1)	112.9	71.2	184.1
Population served (2)	470	220	690

(1) In thousands of units

(2) In thousands of habitants

### Structuring programs

Investment acceleration was made using structuring programs, which facilitate planning and funds raising.

#### *Clean Wave Program*

Clean Wave Program will increase from 54 to 95% the sewage collection rate, and ensure the treatment of all sewage collected in Santos, São Vicente, Praia Grande, Guarujá, Itanhaém, Peruíbe, Mongaguá, Cubatão and Bertioga, benefiting approximately 3 million people (resident and seasonal population).

The program focuses on the decontamination of rivers and canals, which will improve swimming conditions on 82 beaches in the region, promoting tourism, job creation, and income generation in the Santos municipalities comprising the Baixada Santista metropolitan region. Additionally, it will reduce the number of hospital and clinic admissions due to water transmitted diseases, and the overall mortality rates, in particular the infant mortality rate.

Total investment to be made is R\$1.4 billion through 2011. Total invested in the program by December 2009 was approximately R\$960 million, equivalent to 67% of the works required.

#### *Northern Coast Clean Wave Program*

The program's goal is to expand sewage system and collection the treatment capacity of sewage collected in São Paulo State northern, benefiting 600,000 people. The program will increase the region's sewage collection and treatment from 30 to 85%, improving the population's health and wellbeing, and boosting economic development while increasing the region's tourism.

Total investment in the program will amount to R\$385 million by 2015.

#### *Coastal water Program*

The objective of the program is to increase production capacity, ensuring the supply of treated water to all municipalities served by SABESP on the coastal of São Paulo and eliminate discontinuous supply, especially during the summer. Approximately four million people will benefit, including and resident and seasonal population.

By 2013, we expect to invest R\$1.1 billion in production expansion, treated water quality improvement, treated water transmission and storage capacity, distribution system expansion, and the increase in the number of household connections.

#### *Tietê Project*

The Tietê Project is focused on improving better water quality in the Tietê River Basin, São Paulo Metropolitan Region, by expanding the sewage collection and treatment infrastructure. The project was initiated in 1992 and involves investments in the range of US\$2.5 billion, divided throughout 23 years.

The first two stages of the program increased sewage collection in the São Paulo Metro Region from 70 to 84%, and sewage treatment leaped from 24 to 70%. These steps allowed reducing pollution in the Tietê river and contamination of the Billings dam watershed.

In 2009, we took important steps toward the third stage of Project Tietê. The objective of this stage is to increase the collection rate to 87% and the treatment rate to 84%. Investments for this stage are estimated at US\$1.05 billion.

This Project will benefit approximately 1.5 million people with million people collection and approximately the 3 million people with sewage treatment.

#### *Metropolitan Water Program*

This program's objective is to ensure regular supply of treated water to the São Paulo Metro Region municipalities served by us and the municipalities served on a wholesale,<sup>4</sup> increasing water production capacity in the region by 13.2 cubic meters/s by 2014. Total program investments should reach R\$2.7 billion over eight years and benefit 18.9 million people.

In 2009, we completed the transmission, storage and dam works. We should also highlight the start, in 2009, of the construction works of the Alto Tietê Public Private Partnership, which has already invested approximately R\$126 million. After the works are completed, nominal capacity in the Alto Tietê System will increase to 15m<sup>3</sup>/s from 10m<sup>3</sup>/s, with direct benefits to 1.5 million people in the eastern region of the São Paulo Metropolitan Region, including the cities Arujá, Itaquaquecetuba, Poá, Ferraz de Vasconcelos, Suzano, Guarulhos and Mogi das Cruzes, in addition to increase the reliability, flexibility and was availability of the integrated system that supplies the Greater São Paulo.

#### *New Life Program*

The New Life Program, which includes the Watersheds Program, among other projects, consists of actions focused on the preservation of the watersheds in the São Paulo Metropolitan Region, especially the watersheds of the Guarapiranga and Billings dams. Its main objective is to recover the water in the reservoirs by organizing settlements around the dams and ensuring water supply to the São Paulo metropolitan region. Most of the funds will be invested in building sewage collection and treatment infrastructure. New Life also includes green area preservation projects and the urbanization of *favelas* (slums), with a direct benefit to 45,000 families.

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<sup>4</sup> Municipalities served on wholesale are those where we only provide part of the services that form the entire sanitation cycle. Treated water is sold on wholesale and the City is responsible for its distribution. In case of sewage, the city collects wastewater and we treat it.



In the whole, the program gathers investments of approximately R\$1.2 billion from the São Paulo State Government, cities in the region, and the Federal Government. Our share totals R\$300 million.

#### *Clean Stream Program*

Developed in association with the Municipal Government of São Paulo, this program focuses the decontamination of urban streams, including the improvement of the sewage system, the elimination of sewage discharges in streams and rainwater harvesting systems, cleaning the stream banks and beds, and removing and relocating houses built on stream banks. The Program started in 2007 and its objective is to decontaminate 100 streams, which will cost R\$197.1 million, of which R\$143.0 million will be defrayed by us. During the Program's stage 1, completed in March 2009, we performed decontamination actions in 42 streams. The second stage started right after the first stage and has the objective of cleaning 58 other streams by the end of 2010.

During stage 2, R\$118.7 million more will be invested.

#### *Corporate Water Loss Reduction Program*

The program's objective is to reduce the loss rate to 13% by 2019, a level consistent with international standards.

Budgeted investments from 2009-2019 total R\$3.4 billion, which will be used especially in the replacement of water mains and service pipes, compartmentalization (reducing water pressure), and replacement of water meters.

In 2009, we invested approximately R\$261 million in this program and the loss rate decreased to 26.0% (Dec 2009) from 27.9% (Dec 2008), a level significantly lower than the national average of 40%.

#### *Countryside Investment Programs*

The main investments in 2009 in the State countryside region were as follows: (i) the final stage of the universal sanitation service works in Presidente Prudente; (ii) the significant progress in the São José dos Campos and Taubaté Tremembé sewage system construction works; (iii) the structuring of an asset lease or the new Water Production System in Franca and the São José dos Campos Sewage Diversion and Treatment System, and the Campos do Jordão Sewage Diversion and Treatment System; and (iv) the completion of the sewage treatment plants in several municipalities, such as Monte Aprazível, Hortolândia, Caçapava, etc.

#### **Economic and Financial Sustainability**

The maintenance of a high level of investments was accompanied by cost cutting, revenue increase, asset base optimization, improvement of credit profile and funds raising increasing steps, as well as resolving past due receivables with wholesale municipalities<sup>5</sup> and the São Paulo State Government (GESP).

Cost cutting is indispensable at a time the water and waste industry is becoming more competitive and pressure for increasing expenses are also materializing due to new environmental, regulatory, and service quality standard requirements.

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<sup>5</sup> Wholesale municipalities are those where we only provide part of the services that form the entire sanitation cycle. Treated water is sold on wholesale and the City is responsible for its distribution. In case of sewage, the city collects wastewater and we treat it.



When we implement in 2010 the adjustment to 2009 expenses through the renegotiation of contracts, review of benchmark pricing, resource optimization, and other steps in several areas such as telecommunications, power, treatment materials and bank collection fees, the potential reduction may reach R\$180 million and represent an efficiency and competitiveness gain for SABESP.

The efforts to ensure long term revenues from large consumers, through SABESP's environmental solutions program, have already had a positive impact. The 159 loyalty contracts (firm demand) entered into in 2009 guarantee annual revenue of R\$196 million. Another example is the Non Domestic Sewage (END) collection program, through which we receive industrial sewage and that generated R\$125 million in revenue for 2009.

As regards assets reduction, we have structured an asset optimization program whose purposes are (i) sell nonoperating and unused areas and (ii) optimize operating areas, according to actual needs and the purposes for which they are intended. The focus of this work is on reducing the asset base and generate cash. Disposal in 2009 generated proceeds of R\$27 million.

As regards funds raising, despite the credit crisis, in 2009 we raised R\$1 billion with IADB and BNDES to finance our investment plan and R\$900 million to rollover our debts. Even though 2009 was marked by the lowering of many companies' ratings, our economic and financial soundness was acknowledged. The risk rating agency Standard and Poors S&P increase our rating to BB from BB and the Brazilian scale rating to brAA from brA+.

Another highlight in 2009 was the filing with the Pension Fund Authority of a proposal for the settlement of Sabesprev's project deficit, in an effort to resolve a ten year dispute.

#### Agreement with the São Paulo State Government (GESP)

2009 is the year where we made considerable advance in our relations with the São Paulo State Government As follows:

- i. Elimination of State Government's practice of water and sewage bill default. The ratio of paid bill increased to 97.6% in 2009 from 90.7% in 2008;
- ii. Late 2008, SABESP and the State Government reached an agreement for the reimbursement of R\$915 million, i.e., approximately two thirds of total receivables related to the pensions and survivors' pensions recognized in our financial statements. This amount was divided into installments that the State Government is regularly paying and represents cash inflows of R\$27.5 million for SABESP since the agreement was executed. In addition, the State Government also assumed part of the monthly outflows of payments to beneficiaries (pensioners and survivors). This has allowed us to reimburse R\$91.2 million since the agreement was executed late 2008. This represents approximately 48.9% of the total paid by us as pensions and survivors' pensions. The agreement reached has allowed us to receive more than R\$118.7 million since the end of 2008.

#### Negotiations with Wholesale Municipalities

In 2009, there was progress in the steps taken to water supply debts of wholesale municipalities. These steps included:

- a) We received under the claims filed against the Guarulhos water and waste authority (Serviço Autônomo de Água e Esgoto de Guarulhos - SAAE) approximately R\$38 million related to water bills issued and unpaid bonds issued to pay court ordered debts;

b) We obtained an important favorable decision requiring the City of Santo André and the municipal water and waste authority (Serviço Municipal de Saneamento Ambiental de Santo André - SEMASA) to include in their budgets the full amounts owed to SABESP; and

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c) Extrajudicial negotiation initiatives with the wholesale to settle their debts to SABESP:

We reschedule a debt of approximately R\$8.5 million of the Mogi das Cruzes water and waste authority (Serviço Municipal de Água e Esgotos de Mogi das Cruzes – SEMAE), which is regularly paying SABESP. In addition, we initiated negotiations to create a SABESP SEMAE joint venture that will operate the city's sewage system.

There was considerable progress in the negotiations with the City of Diadema and the Diadema water and waste authority (Companhia de Saneamento de Diadema – SANED) for the creation of a SABESP City of Diadema water and waste joint venture. We expected to complete these negotiations in 2010 and settling all the debts of the City of Diadema currently being collected in courts.

### **Market Consolidation and Contractual Stability**

During 2009, we entered into 14 contracts and several city councils approved 40 acts that authorize municipal governments to enter into contracts with us. The highlight was the authorization act passed by the São Paulo City Council in June. Thirty nine other authorization acts were enacted by the countryside cities councils. By the end of 2009, 202 authorization acts had been approved, which allowed entering into 174 contracts.

In December 2008, we entered into a contract for collecting and treating 20% of the sewage generated in the city of Guarulhos. Our total revenue over this contract's five year term will increase by approximately R\$58 million. In 2009, we made progress in the negotiation for sewage collection and treatment in the municipality's central region, which we expect to complete in 2010.

The great challenge for 2010 is the contract between the State of São Paulo and the City of São Paulo, which is singlehandedly responsible for more than half our total revenue.

### **Repositioning in View of the New Regulatory Framework**

The implementation of a regulatory framework for the water and waste industry (Federal Law nº 11.445/07) and the creation of the São Paulo State Sanitation and Energy Regulatory Agency (ARSESP) radically change the regulatory environment where we operate, increasing competition in the industry, creating new changes and new opportunities for SABESP.

In addition, we have increasing expectations in relation to the water and waste and environmental preservation services, which require more investments, agility and innovation. To adjust SABESP to this new scenario, we have scheduled actions around four modernization pillars.

### **Environmental solutions**

The Sabesp Environmental Solutions program consists of a platform of products and services offered to achieve customer loyalty and broaden our large customer base. By using our new services, customers benefit from our expertise and technology in sustainability, environmental preservation and water resources management areas. Therefore, we have been increasing, for example, our competitive capacity in the segments the most targeted by alternative water suppliers. The main results for 2009 are as follows:

*Loyalty Contracts*: Under a take or pay contract with SABESP, companies are entitled differentiated rates and consumption management systems, thus, cutting their costs. Companies may also count on a distinctive assistance and supply guarantees. In 2009, we entered into 56 new contracts which when added to the 103 existing contracts generate revenue of R\$196 million/year.

*Non Domestic Sewage (END)*: one of our greatest concerns is the final destination of industrial sewage. To meet this need, we are prepared to receive and treat non domestic sewage. In 2009, we collected 16.9 million cubic meters of sewage, generating revenue of R\$125 million.

*Program for the Rational Use of Water (PURA)*: a Program steered specifically for the State Departments and the Municipal Governments classified as public use, the solutions to reduce water consumption involve a number of actions, such as leak detection and repair, replacement of conventional equipment by water saving equipment, studies for water reuse, and educational lectures. In 2009, 644 public schools in the city of São Paulo joined the program, generating savings of 70 million liters of water per month (an average monthly reduction of 37%). 504 of these 644 schools have also entered into a Tariff Agreement for Public Entities, under which water and or sewage tariffs are 75% of the tariff charged to other public sector entities that do not have this type of agreement. To maintain eligibility to the benefit, the entity must have saved at least 10% of the water consumption and maintain this level of consumption.

*Reused water*: treated sewage that can be used for used in equipment cooling, manufacturing processes, and in other non potable uses. The use of reused water helps broadening water offering for public supply and preserves the environment. Our reclaimed water production process is certified by ISO 9001/2000 quality management system in conformity with strict quality standards. Currently, our largest customers are Coats Corrente and Santher, which use reused water in manufacturing, and the City of São Paulo, which uses it in street and monument cleansing, garden irrigation, and unclogging rainwater harvesting systems. Annual revenue from reclaimed water reached R\$ 182.4 thousand.

*Individualized water metering in condominiums*: In 2008, we launched a technology that allows measuring separately the individual consumption of each apartment. Named individual water metering, the new technology meets an old request of many condominiums and may become an important economic incentive to rational water use. Individualized water metering can be purchased by any residential or commercial condominium in any municipality where we currently operate in the State of São Paulo. The model developed by ProAcqua, a partnership between SABESP and Cediaplac, uses cutting edge technology that installs a concentrator developed exclusively for SABESP that allows distant reading and supply cut.

*Telemeter*: this service allows web based tracking consumption registered in the water meter, in real time. Consumption history is presented in graphs according to the period requested by the customer. Additionally, the system can send warning flags about leaks and consumption peaks, via e mail and cell phone messages. Real time consumption management results in faster decision making, increasing the logistics efficiency of required responses, while reducing water waste. In aggregate, since 2007 approximately 2,900 already use our Telemeters.

## Regulatory affairs

After structuring the Regulatory Affairs function in 2008, when we created a related Department and Committee, during 2009 we started to implement best regulation practices and disseminate a regulatory culture at SABESP.

There was considerable progress in terms of the challenges raised by the new regulatory framework, through the relations between the São Paulo State Sanitation and Energy Regulatory Agency (ARSESP) and SABESP.



The highlights for 2009 were as follows:

Freedom to negotiate with large customers: After preparing a technical study and several discussions with ARSESP, we were authorized to negotiate prices with large customers, above 500 m<sup>3</sup>/month, under specific contracts. This freedom is crucial to ensure we remain competitive in this market segment, where we face the competition of artesian wells, customized solutions, and water distribution using water trucks.

Tariff revision: In 2009, ARSESP proceeded with the revision process of the tariff criteria used and issued on July 22 a Technical Note on the Tariff Revision Process Methodology. On August 12, 2009, ARSESP informed us that the methodology adjustment will continue to be studied to be enhanced, and will be applied at the time of the tariff revision, in a process that should be completed in 2011.

According to the regulator, this future Tariff Revision will be steered to:

Set the initial framework of periodic Tariff Revisions for all municipalities with a Program Contract entered into with SABESP, and receiving services regulated by ARSESP;

Discuss once again all the criteria adopted to determine the cost of services, the tariff framework, the grant policy, etc.;

Create a methodology, standards and procedures for future revisions and adjustments;

Ensure the broad involvement of stakeholders, namely: the cities, the concessionaires, consumers, investors, etc.

Regulatory standards: in 2009, ARSESP issued two important regulations. The first was the infringement and penalty regulation for water and waste service providers. The regulation basically sets out the penalty system and the amounts of fines to be imposed to the concessionaires in case of noncompliance with prevailing standards and legislations. The regulation preparation process involved public consultations, and we contributed with several inputs. The regulator also issued on November 13, standards that set out the general terms and conditions for the provisions and use of water and waste utility services. This basically addresses the standards that govern the business and operational relationship between utility operators and users.

## New businesses

2009 was very important for the New Businesses function, with the creation of a related Department and the signature of several cooperation and partnership agreements:

Technical cooperation agreement with CAESB, Brasília's water & waste authority, and CASAN, from Santa Catarina;

Technology transfer agreement on water loss reduction with CASAL, from Alagoas. This agreement generated new orders to SABESP, and still in 2009 we initiated negotiations with Serviço Autônomo de Belém do Pará SAAEB (Belém water and waste authority) and the City of Toritama, Pernambuco;

International cooperation agreements with Instituto Costarricense de Acueductos y Alcantarillados (AyA), from Costa Rica, Agbar, from Barcelona, and Mekorot, from Israel. These cooperation agreements proved to be quite effective to exchanging experiences and knowledge between different companies, and prospect new joint initiatives.

The increase of our activities abroad was not restricted to cooperation agreements. The consortium formed by SABESP and Latin Consult won the international bidding process held by Instituto de Acueductos y Alcantarillados

Nacionales (IDAAN), with the support of the Inter American Development Bank (IADB). This consortium will operate as consultant in a program for the rational use of water and the implementation of a new commercial and operational management model in the central provinces of Panama. The agreement amounts approximately to US\$8 million.

The first tender notice for the concession to private sector companies of the right to exploit the energy potential of the Guaraú and Vertedouro Cascata Water Treatment Plants, by building small hydropower plants (SHPs) was published in 2009. These plants will generate approximately 7 MWh – the first time this power model will be applied in Brazil. The bidding process ended with the execution of the contract with the Sevtec/Tecniplan consortium in March 2010, and the project awaits the environmental permit.

As regards Project Aquapolo Ambiental, we also made significant progress with the definition of the main terms and conditions of the contracts to build, together with Foz do Brasil, the largest reused water project in South America. The Project plans to supply up to 1m<sup>3</sup>/s of reused water to the Quattor Petrochemical Group, with the possibility of extending supply to the other companies in the Capuava Petrochemical Hub, and companies located along the 16.5 km long watermain, that will cross the São Paulo, São Caetano do Sul and Santo André municipalities. We expect completing the negotiations and start construction works in the first half of 2010.

In addition, our entering into new segments has created new demands. In view of the interest shown by some cities, such as São João da Boa Vista, Mogi Mirim and Lins, the New Businesses function conducted several studies and analyses to bring solutions for the disposal of urban solid waste.

## RD&I

Three great accomplishments mark 2009 in our Research, Development & Innovation (RD&I) function. The first was the cooperation agreement with the São Paulo State Research Support Foundation (FAPESP) to develop Joint Technology Innovation Research (PITE) projects. This partnership provides for investments totaling R\$25 million by SABESP and another R\$25 million by FAPESP over five years.

In the context of this agreement, in December 2009, FAPESP published a tender invitation for the first round of water and waste research bids, which will fund totaling R\$10 million, R\$5 million from SABESP and R\$5 million from FAPESP, to be completed in 36 months.

The second accomplishment was the SABESP Creativity Award, which selects and rewards innovating ideas proposed by our employees to improve processes and cut costs. The first edition gathered 730 participants, and we rewarded 64.

The third accomplishment was our integration to the São José dos Campos Technology Center, in which other companies participate. The integration in the Technology Hub will allow us to share and develop technologies and knowledge with companies traditionally involved in research, development, and innovation, thus expanding the possibility of forming technology alliances and prospecting new businesses.

The main challenges of the RD&I function will be to inventory and disseminate existing proprietary technologies, develop an intellectual property protection policy, coordinating technological alliances and cooperation agreements for the development of research within our interests, and help in the making of products that we will be able to sell using technologies developed by us.

### Management modernization

We are undergoing a comprehensive human resources restructuring to increase productivity and change our staff's profile.

After 8 years without a competitive public contest, we held in May 2009 a public contest to fill 1,771 jobs all over the State of São Paulo. We had over 190,000 applicants and among those selected, 379 were already working with us in December 2009. Also in 2009, we started to comply with the Conduct Adjustment Term signed in February 2009 with the Public Prosecution Office, which provides for the termination of INSS retirees.

In 2008-2009, terminations related to the 2% decrease in our headcount, permitted under the collective labor agreement, and the terminations related to the compliance with the TAC<sup>6</sup> totaled 1,971 employees. When terminated, retirees are offered outplacement assistance under the Employee and Entrepreneurship Support Program.

The termination of a large number of employees highlights the importance of a corporate strategy to train new talent that can succeed current leads in the future. We have prepared, therefore, a succession and career plan, a structured, continuous training program offered to employees in managerial positions.

### Added Value Management (GVA)

In 2009, we continued the implantation of the Value Added Management (VAM) model, which is crucial to steer the actions related to the optimization of our asset base and improve the quality of investments, to strengthen SABESP and its long term sustainability.

The challenge for 2010 is to complete the implementation of the VAM in all business units, as part of the preparation of a variable compensation proposal, pegged to value generation. The objective is to encourage and reward asset, expense and revenue management improvement efforts.

### Tobacco Free Environment Seal

We were awarded the Tobacco Free Environment Gold Seal. We were the first state owned company and the second company in general to receive this seal. To help those interested quit smoking, we paid, through the Employee Recovery and Care Program (Pare), for the treatment of 559 employees, of whom 177 actually quit smoking.

### Corporate Governance

The corporate guideline "A proactive behavior in external relations" also sets the broadening of Corporate Governance, which should mean a constant challenge for a Company that was the first state owned company in Brazil to join, in April 2002, the BM&FBOvespa's Novo Mercado, and simultaneously listed its shares in the New York Stock Exchange.

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<sup>6</sup> Conduct Adjustment Term entered into with the State Public Prosecution Office

### *Governance structure*

General Shareholders' Meeting: The highest decision making body, with the power to decide on all businesses conducted by SABESP and take all the actions it considers necessary to ensure SABESP's protection and development. The shareholders' meeting is responsible for, but not limited to, electing or dismissing the member of the Board of Directors and the Supervisory board. All documents to be analyzed or discussed at a shareholders' meeting are available at our registered office and BM&FBovespa, from the call notice date.

A shareholder can evidence his or her condition as such at any time after the start of a shareholders' meeting, in compliance with the rules set forth in our bylaws social.

Board of Directors: Consists of 13 members with a two year term, and may be reelected. The positions chairperson of the board and president/CEO are filled by two different persons, and any president who is elected a board member cannot be hold the chair. Four of our directors are independent directors, in compliance with the *Novo Mercado* Listing Regulations, of whom one is elected by the non controlling shareholders. The Company's bylaws provides for the participation of one representative of the employees in the Board of Directors, with a term of office similar to the other directors.

Audit Committee: The Board of Directors is assisted by an Audit Committee, consisting of three independent directors, of which one is specialized in finance and is the Committee's Coordinator. The duties and functioning of this Committee are set out in its internal charter, which is available for consultation on our website, in a new version approved by the Board of Directors.

Fiscal Council: The supervisory board is established on permanent basis since our incorporation and currently consists of five members and five alternates, of whom one is the representative of non controlling shareholders.

Executive Committee: The executive committee consists of six members elected for a two year terms, who may be reelected. Officers are elected by the Board of Directors, and one is appointed as the President/CEO. The President/CEO is a member of the Board of Directors.

Governance Executive Departments: They advise on the governance processes, assisting the Chairman of the Board, the Audit Coordinator, the Fiscal Council, and our President/CEO to define meeting agendas, call and conduct the shareholders' meeting, forward meeting agendas and supporting material, preparing minutes, and interacting with the member of the executive board committee and other management bodies to assist in the enhancement of governance.

Internal Audit: The Internal Audit department is an independent body whose purpose is to assess the completeness, accuracy, effectiveness, and efficiency of processes and information and internal control systems. The Internal Audit department has access to all documents, physical and logical records, system, facilities and individuals involved in the Company's activities for the proper fulfillment of its duties. The Internal Audit department reports to the President/CEO and its activities are overseen by the Audit Committee.

External Audit: The Company follows the principles that maintain the independence of the external auditor, i.e., the auditor shall not audit his own work, function as client management, or act the client's advocates. PricewaterhouseCoopers was our independent auditor for the annual period ended December 31, 2009 and they did not provide non audit services during this period.

Management Compensation: According to the Brazilian corporate law, the compensation paid to the members of the board of directors, the fiscal council, and the executive committee is set in aggregate by the Shareholders' Meeting. The compensation of the members of the board of directors and the executive committee, in 2009, including the benefits, totaled R\$2.1 million. Additionally, approximately R\$0.8 million was paid as bonus.



### *Code of Ethics and Conduct*

Our Code of Ethics and Conduct comprises the main guiding principles of our activities, such as respect for society and the customers, respect for the environment, respect for people, integrity, competence, and citizenship. The Code defines our relationship with our different stakeholders: directors, fiscal council members, officers, employees, customers, suppliers, shareholders, community, and society in general.

In 2009, we issued a manual with illustrative examples to build up awareness and disseminate the Code, which was made available to our employees in several formats. In addition, we restructured the Ethics and Conduct Committee, which is responsible for ensuring the employee's commitment with the Code and the Code's continuous relevance, updating, and appropriateness, as well as guiding and suggesting the actions necessary for the companywide disclosure and dissemination of its principles.

Adopting the Code of Ethics and Conduct is crucial for consolidating and expanding our conquered reputation of a socially responsible company.

### *Whistle-blowing Channel*

To ensure compliance with the Code of Ethics and Conduct, we have an Ethics Committee and an internal Whistle blowing Channel, as well as a Corporate Accountability Procedure and an Ombudsman Office and a Customer Service that receive external complaints. The internal channel can receive anonymous whistle blowing. The results of the investigations are forwarded to the Audit Committee. Incidents are reported to the Ethics Committee, which takes preventive actions.

In 2009, 172 incidents were reported. The reported incidents were mapped to the Business Units, using an information system, to identify the major incidents. All incidents were investigated according to a specific procedure and the deployment of corrective action. As a result of the preventive actions, we note that in general there is a significant decrease in the number of incidents. This trend was stronger in processes involving suspected fraud in the commercial relationship with customers and cases of misconduct.

### *Internal Control and Risk Management*

In 2009, we continued testing internal controls to maintain the certification that meets the US Sarbanes Oxley Act (SOx), since 2006. These controls cover the procedures that ensure the accuracy of accounting records; the preparation of statutory financial statements; and the proper authorization of transactions related to the purchase, use and disposal of Company assets.

Based on the assessment made, internal controls were considered effective and, therefore, we concluded that the main risks that might impact the financial statements were duly mitigated.

To improve organizational instruments and operational processes, in 2009 we ensured the continuity of performance indicator monitoring, focusing on the identification of critical points that require action to maintain and expand revenue, reduce expenses, and optimize the management of administrative, operational, and construction processes. The Company's managers proposed Action Plans to improve internal controls, which were reported to the Audit Committee and the Top Management.

### *Risk Management*

The implementation of companywide risk management was also consolidated, by identifying and assessing strategic risks and the main business processes of SABESP. The project also includes the assessment of Fundação de

Seguridade Social Sabesprev s strategic risks.

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We are aware that good risk management is important to ensure the continuity of our activities and accomplish our mission: provide water & sewage services, contributing for a better life and environment quality.

Previously, we used to perform various nonstandard risk management actions. In 2009, the process was made official and the management of strategic risks is now under the responsibility of two bodies: i) Risk Committee, consisting of President of SABESP/CEO, as coordinator, and a representative from each executive committee; and ii) the Risk Management Center, which report to Internal Audit. The Committee formally started its activities in January 2010.

#### *Arbitration Clause*

We, our shareholders, directors, officers and members of the fiscal council have agreed to solve through arbitration any dispute or controversy among them, whether related to or, in particular, arising from the enforcement, validity, effectiveness, interpretation, violation and effect therefrom of the provisions set forth in Law n° 6.404/76, our Bylaws, the rules issued by the National Monetary Council, the Central Bank of Brazil, and the Brazilian Securities and Exchange Commission CVM, as well as the other rules applicable to the operation of capital markets in general, in addition to those contained in *Novo Mercado* Listing Rules, the *Novo Mercado* Participation Agreement, and the Market Arbitration Chamber Regulation, to be brought before the Market Arbitration Chamber established by BM&FBovespa, in compliance with said Regulation, considering the exception applicable to the unavailable rights.

#### **Economic and Financial Performance**

In 2009, we registered solid results, confirming our low exposure to the global crisis that affected the markets in 2008 and 2009. Net income in 2009 was R\$1.4 billion, net revenue reached R\$6.7 billion, a 6.0% increase compared to prior year, and EBITDA reached R\$2.7 billion, a slight setback of 3.5% as compared to 2008.

#### Table 7: Profit History

2008 net income of R\$1.0 billion decreased to R\$64 million mainly due to the provision for losses of the disputed amount of the benefits paid by the Company as additional retirement payments and pensions envisaged in Law 4,189/58, in the amount of R\$ 409.1 million and the respective actuarial commitment maintained with the beneficiaries, amounting to R\$ 535.4 million.

### Operating Revenues

Gross operating revenue reached R\$7.2 billion, a 5.8% increase as compared to the prior year, as a result of tariff revisions in September 2008 (5.10%) and September 2009 (4.43%), and the 2.1% growth of the water volume billed and the 3.2% increase in sewage billings.

#### Table 8: Gross Operating Revenue History

Table 9 Billed water and sewage volume per customer category and per region

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

	Water			Sewage			Water + Sewage		
	2008	2009	%	2008	2009	%	2008	2009	%
Residential	1,358.7	1,393.1	2.5	1,088.8	1,124.3	3.3	2,447.5	2,517.4	2.9
Commercial	154.0	155.5	1.0	141.8	143.8	1.4	295.8	299.3	1.2
Industrial	35.7	34.4	(3.6)	33.9	34.8	2.7	69.6	69.2	(0.6)
Public	47.1	47.0	(0.2)	38.0	38.6	1.6	85.1	85.6	0.6
<b>Total retail</b>	<b>1,595.5</b>	<b>1,630.0</b>	<b>2.2</b>	<b>1,302.5</b>	<b>1,341.5</b>	<b>3.0</b>	<b>2,898.0</b>	<b>2,971.5</b>	<b>2.5</b>
Wholesale	284.5	288.0	1.2	27.9	31.1	12.0	312.4	319.1	2.1
Reclaimed water	0.2	0.8	-	-	-	-	0.2	0.8	-
<b>Total</b>	<b>1,880.2</b>	<b>1,918.8</b>	<b>2.1</b>	<b>1,330.4</b>	<b>1,372.6</b>	<b>3.2</b>	<b>3,210.6</b>	<b>3,291.4</b>	<b>2.5</b>

(1) Not audited

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

	Water			Sewage			Water + Sewage		
	2008	2009	%	2008	2009	%	2008	2009	%
Metropolitan	1,065.9	1,083.9	1.7	887.3	911.1	2.7	1,953.2	1,995.0	2.1
Regional Systems (2)	529.6	546.1	3.1	415.2	430.4	3.7	944.8	976.5	3.4
<b>Total retail</b>	<b>1,595.5</b>	<b>1,630.0</b>	<b>2.2</b>	<b>1,302.5</b>	<b>1,341.5</b>	<b>3.0</b>	<b>2,898.0</b>	<b>2,971.5</b>	<b>2.5</b>
Wholesale	284.5	288.0	1.2	27.9	31.1	11.5	312.4	319.1	2.1
Reclaimed water	0.2	0.8	-	-	-	-	0.2	0.8	-
<b>Total</b>	<b>1,880.2</b>	<b>1,918.8</b>	<b>2.1</b>	<b>1,330.4</b>	<b>1,372.6</b>	<b>3.2</b>	<b>3,210.6</b>	<b>3,291.4</b>	<b>2.5</b>

(1) Not audited

(2) Comprised by coastal and country side regions

Net operating revenue reached R\$6.7 billion, a 6.0% increase compared to 2008.

Table 10: Net Operating Revenue History

Operating Income

Income as measured by EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) was of R\$2.7 billion and EBITDA margin was 40.7%.

The EBITDA margin was impacted by some extraordinary events, mainly including the accrual for termination of retirees under the TAC.<sup>7</sup> If we disregard this accrual, the EBITDA margin would be 42.9%.

Table 11: EBITDA History

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<sup>7</sup> Conduct Adjustment Term entered into with the State Public Prosecution Office

## Indebtedness Analysis

In 2009, we incurred new debt, totaling R\$2,239 million, and amortized R\$1,896 million. Due to the amortizations and in particular the appreciation of the Brazilian real in relation to the US dollar, the net balance was a R\$305 million decrease in total indebtedness.

Net debt at yearend was R\$5,790.6 million, a 7.3% down as compared to 2008. At the end of 2009, foreign currency denominated debt was 26.6% of total debts, against 33.2% in 2008, of which 70.2% was owed to multilateral agencies against 69.5% in 2008. Despite the new borrowings that we have incurred to fund the investment program and the need to refinance debts, in 2009 the Net Debt to EBITDA ratio was 2.1 times, the same ratio of 2008.

## Sources of Funds

### *Debt securities*

In December 2009, we conducted the 4<sup>th</sup> Issue of Promissory Notes, totaling R\$900 million, maturing in May 2010, whose proceeds were used to fully redeem the 3<sup>rd</sup> Issue Promissory Notes, totaling R\$600 million, and reinforce cash.

On February 22, 2010 we filed with ANDIMA (National Association of Financial and Capital Market Institutions) for prior analysis the registration of the public offering of the 11<sup>th</sup> Issue of Debentures totaling R\$900 million, in two series, where series 1 totals R\$600 million and matures in five years, and series 2 totals R\$300 million and matures in three years.

### *Loans and financing*

We are in an advance negotiation and closing stage of the following financing lines that will make the programs of our Multiannual Investment Plan feasible:

#### *Inter-American Development Bank (IADB)*

We are negotiating with the IADB a US\$600 million financing line for the 3<sup>rd</sup> phase of Tietê Project. Our counterpart funding will be US\$200.0 million, totaling an investment of US\$800.0 million. We expect closing the deal in the first half of 2010.

#### *International Reconstruction and Development Bank (IRDB)*

In 2009, we closed with the IRDB a financing line for the Watersheds Program, which integrates the New Live Program. The Watersheds Program has the involvement of the State and several municipalities in addition to SABESP, and its general coordinator is the State Department of Sanitation and Energy. The Program's investments amount to approximately US\$281.8 million and we will have the largest share, US\$125 million, out of which US\$100 million is financed and US\$25 million is our counterpart funding.

#### *Japan International Cooperation Agency (JICA)*<sup>8</sup>

We are negotiating with JICA new financing lines for three programs, as summarized below:

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<sup>8</sup> Since October 1, 2008, the Japan International Cooperation Agency (JICA) merged the Official Assistance for the Development (AOD) lending operations of the Japan Bank for International Cooperation (JBIC).



Clean Wave Program Stage 2: financing complementary to the agreement entered into with JICA in 2004. The estimated financing amount is approximately US\$190.0 million and funds will be used to perform the works and services in the Santos Metropolitan Region.

Pro Billings Program: Part of the New Life Program, this program will be performed in the Billings Dam area, in São Bernardo do Campo. The estimated amount for the Program is of US\$123 million, of which US\$61.5 million is financed and US\$61.5 million is our counterpart funding. We expect closing the deal in the first half of 2010.

Water Loss Reduction Program Stage 2: The estimated amount for this stage is US\$572.0 million, of which US\$366.0 million is financed and US\$206.0 is our counterpart funding. The current stage of negotiations still does not allow us to estimate when the deal will be closed.

In addition to these negotiations, we also have with JICA a financing agreement entered into with the Japan Bank for International Cooperation (JBIC) in 2004 totaling ¥ 21,320 million, to perform the Clean Wave Program, whose disbursements ended in 2009.

#### *Caixa Econômica Federal – CEF*

In 2009, we entered into a financing agreement for the construction of a landfill in the municipality of São João da Boa Vista. Total investment is R\$8.5 million, of R\$8.1 million is financed and R\$424,000 is our counterpart funding.

We are negotiating with CEF the issue of public securities (debentures) to raise funds for the Water & Waste Portfolio of the Severance pay Fund (FGTS). The funds should be used to finance part of the Investment Plan. Total issuance should reach R\$500.0 million and our counterpart funding will be US\$50.0 million, totaling an investment of US\$550.0 million.

#### *National Bank for Economic and Social Development (BNDES)*

In 2009, we filed with BNDES a simple debenture subscription agreement for private placement. The funds will be used for the following projects: Loss Reduction Program Stage 1; Rio Grande Water Treatment Plant; North Shore; Vale do Paraíba and Mantiqueira and Bacia do Piracicaba, Capivari, and Jundiaí. The debentures will be subscribed in three issuances, each of which amounting to R\$275.4 million, totaling R\$826.1 million. The 1<sup>st</sup> Issue was conducted in December 2009, and the 2<sup>nd</sup> and 3<sup>rd</sup> issues are scheduled for 2010 and 2011, respectively.

Early 2010, we entered into with BNDES a financing agreement for the Clean Wave Program Stage 2. The financing amount is approximately US\$294.0 million and funds will be used to perform the works and services in the Santos Metropolitan Region.

#### **Stock Market**

In a year of recovering share prices, our share trade on BM&FBovespa closed 2009 quoted at R\$34.38, a 23.8% appreciation as compared to the end of 2008. The financial volume and the trading in our shares totaled R\$2.5 billion in 2009 and an average daily trading 28% higher than in 2008 with 1,082 trades per day on average, and our papers were traded in all trading sessions.

Our market value in the end of 2009 was of R\$7.8 billion, or 74% of the recorded shareholders' equity.

The quotation of our American Depositary Receipts (ADRs) appreciated by 62% and closed at US\$39.12, and financial volume traded on the NYSE in 2009 was US\$2.5 billion.

Table 12 . Ownership Structure as of December 31, 2009

Our shares are traded on the São Paulo Stock Exchange with the code SBSP3 and on the NYSE with the code SBS and continue to integrate the main indices of the BM&FBovespa and, for the third consecutive year, they are part of ISE's theoretical portfolio.

#### Dividends

In 2008, we paid R\$296.2 million in dividends as interest on own capital, corresponding to R\$1.30 per common share. As regards 2009, the Board of Directors approved the payment of interest on own capital totaling R\$394.2 million, or R\$1.73 per common share, to be paid within up to sixty days after the Annual Shareholders' Meeting, which will approve the 2009 accounts.

## ENVIRONMENTAL MANAGEMENT

The guideline *Environmental Solutions* establishes that SABESP must incorporate in its presence dynamics the implementation of policies directed to environmental sustainability, the strengthening of the commitment to the environment before the society.

In this respect, in 2009, Sabesp operated in many fronts to improve environmental management, to achieve universal water and sewage services. The purpose was to ally, in line with the sustainability context, economic and financial results with environmental preservation and social development, in an integrated way and gaining synergies.

#### *Environmental Policy*

Our new Environmental Policy, in effect since January 2008, sets out the guidelines of SABESP's environmental management. The file is available on the internet, at our website, [www.sabesp.com.br](http://www.sabesp.com.br), *Sustentabilidade* page, and is also exposed in controlled bulletin boards, in locations accessible to all employees, third parties and visitors to facilities with permanent personnel.

#### *Environmental Management Network*

To process our environmental demands in an integrated way and in response to the specific needs of each SABESP location, we implemented from June 2007 to July 2008, 20 Environmental Management Centers (NGAs), reporting to the Environmental Management Department.

During 2009, we invested in the qualification of the 31 professional team of the NGAs using courses, lectures, seminars, and technical visits. We covered subjects like enforced legislation civil proceedings, environmental civil class actions, and Conduct Adjustment Term (TAC) corporate wording, valuation of possible environmental damages, environmental licensing in the State of São Paulo, and house and outside sessions).

#### *Corporate Program for the Regularization of Water Resources Use Permits*

The program estimates the companywide regularization of approximately 2,700 use permits, including regulating dams, level increasing dams, river intakes, wells, and discharges of existing effluents. The ongoing program focuses on the High Tietê water resources management units (UGRHs), comprising the isolated systems of the São Paulo metropolitan region. Another work front in progress comprises the Vale do Paraíba, North Shore and Mantiqueira UGRHs. The Piracicaba/Capivari/Jundiá and Santos Lowlands UGRHs were included in contracts prior to 2008. The contracts for studies related to the other UGRHs are at their completion stage, and will complete regularization in the State, scheduled to be completed by the end of 2011. Permits for new projects are being obtained during the building stage.

#### *ISO 14001 Certification*

One of our corporate goals is to obtain the ISO 14001 certification. The objective is to certify 65 facilities by December 2010. These facilities include Water Treatment Plants and Sewage Treatment Plants. In 2009, we implemented the Environmental Management System (SGA) in 26 operating units, with the involvement of the countryside and São Paulo metropolitan region business units. The SGA documentation was prepared based on the revision, adaptation and creation of new procedures, totaling 6 corporate procedures. To date, 920 employees were trained (10,300 hours) and we made a concentrated effort to ensure full legal and regulatory compliance of the plants selected during this stage. ISO 14001 is a tool that will permit a better control of the possible environmental impacts arising from our activities, products and services. It is also an incentive to provide environmentally sustainable sanitation services, and inputs for the change in the environmental culture, creating cost cutting opportunities through better performance, with ambitious environmental goals and targets.

#### *Participation in Water Resources Boards*

Currently, approximately 150 SABESP employees participate directly in 2 federal committees, 21 state committees, and 5 statewide subcommittees. This representation is managed by the Environmental Management Department, which created corporate guidelines to appoint our representatives and their initiatives. We also promoted events and meetings to interchange information, leveling the knowledge and guidance for corporate alignment of our Business Units representatives. In first half of 2009, we changed the members of the management committees for the 2009-2011 term, an opportunity used to appoint professionals with the appropriate technical and people skills.

We are also members of the National Water Resources Council (CNRH), through the seats at the National Association of State Water & Waste Utilities (AESBE).

The matters discussed at the basin, CRH and CNRH committees and subcommittee are collated in reports and disclosed for the purpose of increasing the internal discussion of these issues. One of the discussed issues at the CRH, for example, is the preparation of specific watershed protection laws.

*Follow-up of Collections for Water Use*

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We created a workgroup in March 2009 to follow up the collection process for the use of water resources. The workgroup has representatives from the operating, legal, financial, and integrated planning functions and is coordinated by the environmental management function. We prepared two guidelines to establish the general guidelines and principles for the actions of the representatives at the committees, especially on subjects such as implementation of collection and the collection of these funds for use in new projects.

In addition to the Paraíba do Sul and Piracicaba, Capivari and Jundiá river basins, where we already pay for the use of water, we are implementing collection in the Sorocaba and Mid Tietê basins. In December 2009, we approved proposals for collection in for other four basins in the State, as follows: Low Tietê, starting 2010, and High Tietê, Santos Lowlands and Tietê Jacaré, starting 2011.

#### *Environmental Education Program (PEA SABESP)*

We conduct environmental and sanitation education activities for more than 20 years and, therefore, they are already part of our values, used in system operations and communication processes. However, since the enactment of Federal Law n° 9.795/99, which creates the National Environmental Education Policy, and more recently the enactment of State Law n° 12.780/07, which creates the São Paulo State Environmental Education Policy, we took environmental education as a crucial point of our activities, together with the sanitation, water resources and environmental policies.

To do so, we developed the companywide Environmental Education Program (PEA SABESP), which sets forth general guidance. Some of the main initiatives developed are the corporate procedure, the methodology and the mechanisms for the management of a set of ongoing Environmental Education actions and projects.

The PEA was launched in October 2009 in a large event attended by over 500 people, including several industry leads and experts, invited by us. To advance the qualification process, in 2009 we conducted 2,900 hours of in class Environmental Education courses and more than 950 employees have already attended Environmental Education distance learning courses offers by the SABESP's Corporate University, totaling 10,500 class/hours.

#### *Carbon Emission Management*

We are taking proactive actions, such as our first inventory of greenhouse gas emissions taken in 2008 (FY2007). Based on this inventory, we were able to start the design of an emissions management program and thus participate in the global effort to stabilize and even reverse greenhouse gas concentrations in the atmosphere. Approximately 92% of our direct and indirect emissions arise from the collection and treatment of sewage and 4% from the consumption of electric power. As the growth of these emissions is estimated for the medium term, we scheduled for 2010 inventories for FY2008 and FY2009 and the completion of the corporate emissions management program, which aims at improving the methodology for this important management tool.

Concurrently, we are preparing feasibility studies capable of reducing the emissions of greenhouse gases and generating carbon

#### *Cycle of Environmental Management Conferences*

This is an initiative created in October 2008 to promote the exchange of experiences and disseminate knowledge and know how on the most significant environmental issues that we are currently approaching.



The events are part of an environmental management strategy that seeks a closer relationship with society in favor of the environment. We held nine conferences gathering approximately 1,700 participants from SABESP and guest attendants, which covered issues like climate change and carbon credits, water resource management, reclassification of bodies of water, monitoring and control of aquatic macrophytes, river bank reforestation, payment for environmental services, and environmental education.

### *Good Environmental Practices*

#### *Revitalization of springs*

SABESP and the City of São José dos Campos entered into in September 2009 an agreement under which we join the Spring Revitalization Program, formalizing a partnership effective since 2006, a period during which we recovered the preservation areas around 38 springs (32,000 trees planted) in the urban area.

We donate 18 educational water analysis kits per year (parameters: pH, total coliforms, color and temperature) to be used by students to monitor water quality at the springs. This program involves 600 students who act as multipliers of the actions and knowledge acquires in 28 schools, 1 Fundhas (Hélio Augusto de Souza Foundation) unit and an NGO (Brasil Sokai Gakai Internacional BSGI), reaching 5,000 youngsters. We will also make supplementary collections and analyses in our labs. This activity is disclosed by the Water Environment Federation and International Water Association (IWA) networks, through the World Water Monitoring Day.

The project was one of the three front runners of the 2008 Rational Water Use Preservation Award of the National Water Agency (ANA).

### *Green Hug*

This purpose of this project is to plant trees on the sidewalks of approximately 4,000 SABESP facilities, when feasible. The project was launched in September 2008. In 2009, we launched the project in 13 of our 16 Business Units, through the symbolic tree plantations, during the commitment events with management goals, several of which attended by guest such as students from neighboring schools, boys and girls scouts, and authorities, including local mayors.

### *One Million Trees in Cantareira*

We are planting in association with several partners 313 hectares of trees around our dams.

Our partners are the NGOs The Nature Conservancy (TNC) and Instituto de Pesquisas Ecológicas (IPE), as well as companies in three municipalities in the Bragança Paulista region, and the objective of the program One Million Trees in Cantareira is to ensure the partnering and the support of the development of environmental sustainability projects that will contribute to the preservation of the quality and increase in the volume of water from these watersheds.

In 2009, the Desenvolvimento Rodoviário S.A. DERSA (State Road Authority) joined the program and proposed planting trees in 550 hectares around the Cantareira System dams.

These partnerships prescribed the plantation of native trees of the Atlantic Forest and the *Cerrado* savannah biomes, in approximately 1,000 hectares on the margins of the Jaguari Jacareí, Cachoeira, Atibainha, and Paiva Castro dams. In addition to these partnerships, we have the support of the State Environment Department and the local municipal



In 2009, 522,000 native seedlings were planted in 313 hectares, of which 21 hectares (35,000 seedlings) were planted by TNC on the banks of the Cachoeira dams, in the municipality of Piracaia, sponsored by DOW Brasil. The Instituto de Pesquisas Ecológicas (IPE) (Ecological Research institute) planted, with the support of the National Environment Fund 24 hectares (40,000 seedlings) in the Atibainha dam preservation areas, Nazaré Paulista, and in February 2009 it signed a contract amendment for the plantation of another 18 hectares.

DERSA planted 268 hectares (447,000 seedlings) on the banks of the Cachoeira dam, in Piracaia.

The areas chosen favor the formation of ecologic corridors, linking existing isolated forests and promoting natural regeneration in degrading areas. The program involves an environmental education component, where we discuss the subject with the neighboring communities and the region schools, promoting the plantation of legal, adjacent reserves in neighboring properties. It also has a social side, as most of the labor used in plantations consists of farmers from the region itself.

## **SOCIAL RESPONSIBILITY**

Social responsibility is our commitment to society. The most significant progresses in 2009 in this field have impacted our relations with our stakeholders, our employees, and quality management. To materialize this, many partnership and studies were made, in a transparent management, guided by our Code of Ethics and Conduct, in our search for sustainable development and improvement of quality of living. The living examples are the many voluntary adoption of international guidelines, like the United Nations Global Pact, which gathers several world corporate segments aligning their activities to the following principles: human rights, right to employment, environmental protection, and the fight against corruption.

We support and encourage the eight objectives of the United Nations that are part of our Corporate Volunteers Program.

Our Code of Ethics and Conduct comprises the main guiding principles of our activities, such as respect for society and the customers, respect for the environment, respect for people, integrity, competence, and citizenship. To ensure compliance with the Code of Ethics and Conduct, we have an internal Whistle blowing Channel, as well as a Corporate Accountability Procedure and an Ombudsman Office and a Customer Service that receive external complaints.

### *Relations with Stakeholders*

The form how we relate with our different stakeholders is the expression of what we believe. A relationship can only be sustainable if it carries the correct ethical and transparency principles with its different stakeholders.

### *Customer Relations*

In order to improve the satisfaction rate of our customers and create a new form of relationship, as well as expediting user service, we expanded our Call Center in the São Paulo Metropolitan region and the Bragança Paulista region, increasing its capacity by 70%, 100 to 170 service stations. We also initiated the web based, online customer support, where we offer all the services available at the call center. In 2009, we also entered into a Call Center contract for the customers of the Regional Systems, which centralizes the service in its 328 countryside municipalities, increasing operating control, optimizing costs, and contributing to the creation of jobs in the Itapetininga region, where the Call Center is located. In addition, the call center also started to offer communication channels for the hearing impaired.

### *Ombudsman Office*

In 2009, the Ombudsman Office received 68,500 calls and complaints, a considerably positive result as it reflects a 7.5% decrease in the number of complaints made. From the first to the second half of 2009, the number of calls decreased even further, by 17%. The analysis of these figures allows us to highlight the significant 7.7% reduction in the number of calls to the Ombudsman Office that are considered actual complaints. These results are considered groundbreaking as it was the first time we record a drop in these indicators, which noticeably highlights the improvement of our customer service.

The start of the migration from a self regulated environment to a regulated environment, with the creation of the São Paulo State Sanitation and Energy Regulatory Agency (ARSESP), pursuant to Decree nº 52.455, of December 7, 2007 São Paulo State Gazette (DOE SP) of December 8, 2007, suggest a period of adjustment, with still undetermined impacts in s

In association with the Judiciary Branch, the Ombudsman Office is developing the JEC/Digital (a digital special court), which friendly resolutions for customer complaints, thus avoiding litigation. In 2009, the JEC/Digital received complaints from 513 customers, and 568 hearings were held, resulting in the settlement of 78% of the complaints during conciliatory proceedings. As compared to prior year, there was a 30.1% decrease in the number of complaints and a 21% decrease in the number of hearings. Conciliatory settlements also dropped 12%. The Ombudsman Office follows up all manifestations registered by Procon (consumer protection agency). In 2009, we received 1,600 CIPs (Preliminary Information letters) from the Procon in São Paulo City and 756 from the municipalities, resulting in 2.3 customers served in the preliminary stages of analysis. A good result as regards Procon complaints was the 10% decrease in the total number of complaints considered evidenced (FAs): they totaled only 179 in 2009, over 197 in 2008. If we adopt the proportionality criterion, this represents a 36% decrease. This result shows that we have fully adopted the system of handling and prioritizing complaints sent by the consumer protection agency.

### *Investor Relations*

Despite the global crisis that engulfed the markets in 2008 and 2009, we continued to attract market analysts (sell side) and, as a result, investors, resulting in a number of coverages that jumped from 11 in 2008 to 17 in 2009.

In order to keep our shareholders and investors always informed on our operations, strategies, and results, we adopt a consistent, clear and reliable communication policy with our shareholders, market analysts, financial institutions, rating agencies, and regulators. In addition to the public meeting and the traditional results conference calls, we held a meeting between the analysts and the Chairman of the São Paulo State Sanitation and Energy Regulatory Agency (ARSESP).

For purposes of ensuring more transparency and facilitating the access to information about SABESP, we have expanded information availability on the investor relations website and used mailing lists as a communication tool. Because of the increased transparency, there was a 34% increase in the number of individual shareholders in 2009 as compared to 2008.

### *Supplier Relations*

The regulatory framework of the basic sanitation industry (Law 11445/07) places us in an environment in which business practices should take into consideration the provisions set forth in the competition protection legislation, in particular Law 8884/1994. SABESP widely disclosed its procurement plan to the market in order to encourage competition among suppliers. We designed our Competition Guidelines for Public Procurement Processes, which establishes the general guidelines to expand the portfolio of suppliers and encourage competition. Furthermore, it covers the authorizations in public biddings and the potential imposition of barriers to the entry of competitors in the market. Note also that in 2009 we conducted 870 procurement processes, totaling R\$1.15 billion, representing savings of R\$116 million. We also set out in our Code of Ethics and Conduct the requirement that all suppliers comply with prevailing laws, in particular the laws against child labor and enslavement. This conduct is consistent with the obligations set forth by Fundação Abrinq, which for six years has awarded us the Children's Friend Business seal.

### *Employee Relations*

We are undergoing a comprehensive human resources restructuring to increase productivity in terms of employees per connection, and the change our staff's profile. In 2009, there were two core events: the public contest and the continuity of the termination of retirees, as imposed by the Conduct Adjustment Term (TAC).

### *Human Capital Indicators*

In 2009, the number of employees decreased 9.3%, to 15,103 from 16,649 in 2008. This, together with the increase in the number of connections, resulted in a productivity of 837 connections per employee in 2009 over 738 connections per employee in 2008.

Our headcount consists of 15,103 employees with employment contracts governed by the Labor Code (CLT), 931 interns, and in addition, we create work opportunities for 468 young apprentices, contributes to their development as citizens, their professional qualification, and insertion in the formal labor market, by creating job training opportunities. Note that we do not subcontract outside services and contract services as needed. We also count on a workforce of approximately 7,100 service providers included in these agreements. Our personnel are comprised of 81% male and 19% female employees, with an average period of 17.6 years working at SABESP, and 69.9% of our employees are over 40 years old. Note that 18.1% of our employees completed elementary school, 47.4% graduated from high school, and 34.5% are college graduates. The distribution of the employees by ethnic group is 12,822 Whites, 1,998 Multiracial/Blacks, 260 Asians, 2 Amerindians, and 23 undeclared.

We comply with Decree n° 3.298 of 1999, which requires the allocation of 5% of the positions offered through public selection processes to physically disabled individuals. In 2009, we held a public contest to fill 1,771 positions all over the State of São Paulo. Over 190,000 applicants enrolled for the three types of positions: operational, technical and college graduates. Among those selected, 379 were already working with us in 2009.

In February 2009, after the initiation of a civil investigation by the State Public Prosecution Office, we were compelled to sign a Conduct Adjustment Term (TAC). This TAC provides for the termination of 2,437 workers, of whom 1,388 are the retirees terminated in 2009. To ensure the quality of the services rendered to the population, the other terminations will be gradually made through 2012.

In 2008 - 2009, terminations related to the 2% decrease in our headcount, permitted under the collective labor agreement, and the terminations related to the compliance with the TAC totaled 1,971 employees.

We are structuring a benefit package that goes way beyond those required by law, to provide the employees and their dependents security and comfort that will meet their basic needs. The benefits are granted to all employees, regardless of their working hours, level or category, except for underage apprentices, whose benefits are governed by specific regulations. The benefits granted are as follows: Regular and Special (for employees with physically and or mentally disabled children) Child Care Allowance, Electronic Benefits and meal Card, Child Care Center, Basket of Food Staples, Salary Premium (for employees on sick or accident leave paid by Social Security), Drugstore, Meals/Snacks (in case of extraordinary service), Supermarket, Meal Ticket, and Transportation Ticket. We also subsidize healthcare and pension fund benefits, through Fundação Sabesp.

### *People Management*

Our people management policy reflects our commitment to responsible operations and assuring the upholding of human rights in our relations with our internal stakeholders. These assumptions are put into practice in all our projects.

We encourage and support our employees to be involved in any type of entities and associations, as is their right, and help in their individual development and the improvement of the organizational climate. All our employees are entitled to freedom of association, are represented by a union, and are parties to collective labor agreements. Therefore, the collective bargaining process for 2009 2010, which is a major participative management tool, was completed in May with the main trade unions that represent our employees, resulting in the Collective Labor



In 2009 contributions to the Sabesprev pension plan amounted to 2.1% of the monthly payroll, thus ensuring employees the possibility of enjoying pension benefits supplementary to the benefits granted by the National Institute of Social Security

Changes in personnel, involving promotions, transfers and assignment of employees to their positions, are part of the people management model adopted, and are crucial to grant us the independence, flexibility and agility required to meet the employees' career expectations, which result in modern and efficient service to our customers. In 2009, changes totaled 4,463.

The 2009 Profit Sharing Program (PPR) recognizes the efforts of our employees to attain the goals and indicators set out in the Corporate Strategic Planning. Structured with companywide indicators and indicators by business segment, profit sharing is divided into two groups, one for the back office and the other for the front office, with a weight of 50% each. Payment of up to one base salary is contingent to the attainment of these goals.

The Employee and Entrepreneurship Support Program (PAEE) was created in 2009 for the purpose of supporting our retired employees in their search for new work opportunities. When a retiree is terminated, we offer him or her outplacement assistance. Several actions were initiated, for example, the outplacement of 45 retirees in monitoring initiatives and the GB2 consortium, which manages the Clean Wave Program.

To respond to the countless challenges, people development at SABESP has been one of the crucial drivers of our results and to boost the business. In 2009 the SABESP Corporate University (UES) focused its actions on contributing to disseminating the corporate sustainability vision, attaining our strategic objectives and professional development. It also steered efforts to technical, operating, and occupational safety and health demands, covering our different operating segments. The balance for 2009 of companywide in class and distance training and development achievements includes 123,600 attendances, reaching an average of 68 hours of training per capita, and an investment of R\$8 million.

Sabesp Corporate University started in 2009 the implementation of the Succession Preparation and Career Program whose objective is to develop professionals with the profile and potential to manage our business by creating a bank of possible successions in the company.

It also intensified the implementation of Knowledge Management practices to cope with a possible knowledge evasion in view of the number of employees on the brink of retirement.

The Safety and Health Policy was revised in 2009 and we intensified the application of the risk analysis methodology, based on the current OHSAS 18001/2007 standard, with in class training and distance learning, and the enhancement of the environmental risk prevention programs (PPRA).

In 2009 the number of occupational accidents resulting in leave of absence dropped by 33% as compared to 2008, as a result of the development of several educational and prevention programs that embed the values of a safety and working conditions improvement culture.

In the last five years, we invested approximately R\$47 million in personal and collective protection equipment. In 2009 alone, we invested R\$11 million.

In the health area, we should highlight the information campaign on the Influenza A (H1N1), Dengue and Ergonomics. The Occupational Safety and Health Management System is certified by the OHSAS 18001 standard since June 2006, and was re certified in 2009, encompassing 100 locations within the services and digging and confined space works carried out in public ways scope. We created a specific communication channel for the outside stakeholders, covering occupational safety and health issues, available on our webpage.



In order to improve the quality of living of our employees, we created, together with the SABESP Association, the Quality of Living Program *Live Happy*, whose main objective is to encourage employees and their families to make behavior changes that have a positive influence on their lives, such as engaging in physical and cultural activities that contribute to their wellbeing. In 2009, we retained an expert consultant to conduct a survey on our employees' life style. As part of our concern for the health of our employees, we anticipated the enactment of State Anti Smoking Law, Law nº 13.541 of May 7, 2009, and implemented the Tobacco Free Environment policy that restricts smoking in indoor and outdoor areas since December 2008. In addition to restricting smoking, we also offer group or individual psychotherapeutic treatment to smokers, under the Employee Recovery and Care Program (Pare).

In 2009 we granted the 1<sup>st</sup> SABESP Creativity Award whose objective is to encourage generation of ideas, stimulating creativity and adopting actions that generate results for the company. We recognized 64 good ideas of 55 Company employees from 730 enrolled projects, from several units.

The Life Award is an employee appreciation and recognition program that paid homage to 2,500 employees in 2009.

SABESP was recognized the São Paulo Diversity Seal, for our commitment with the structuring of the inclusion program that we are developing. We set out in our code of ethics the diversity values and conducts, encompassing: discrimination, respect for people and, moral or sexual harassment. We are also developing several Human Resources practices that promote equality of opportunity and treatment. We have a census that monitors ethnic, gender, age, and disability issues, whose data is published herein. We have a partnership with AVAPE (Association for the Appreciation and Promotion of the Disabled), under which we offer social inclusion opportunities to 22 physically disabled professionals.

### *Quality Management*

In 2009, our Quality Excellence Program focused on its integration into the SABESP Integrated System (SIS) and the ISO 14001 (environmental management) Certification.

Bureau Veritas Certification (BVC) recertified SABESP with the ISO 9001 (quality), OHSAS 18001 (occupational safety and health) and ISO 14001 (environmental management) certifications. In addition, we intensified the preparation for the extension of the ISO 14001 certification to 65 Water and Sewage Treatment Plants. Currently we also have 13 labs certified by the ISO/IEC 17025 standard, granted by INMETRO, which certifies that our water does not have any direct impacts on the health of our customers.

### *Community Relations*

Currently we are working with the communities, together with local municipal governments and mainly in the city of São Paulo, where there is a higher concentration of lower income population. The programs implemented for this population include social technical work focused on the socioeconomic and environmental sustainability of our projects, including the involvement of the community and environmental education, taking into account the works characteristics and the profile of the beneficiary population.

We are the cosponsors of the Instituto Criança Cidadã ICC (Citizen Child Institute), whose Mission is investing in the education and training of youngster from poor families, supporting education, culture and welfare in the São Paulo and Guarulhos Metropolitan Region. It grants free community and citizenship development to approximately 6,000 children and adolescents, reaching 3,500 families.

The mission of program Our Agent is to get SABESP closer to society, especially in lower income communities, through partnership with the community's different segments (organized society, public institutions, businesses and population in general) to improve the quality of living. In São Paulo, we have approximately 50 agents that speak the communities' language and create an important communication channel between the population and SABESP. In 2009, the program served a population of 1.3 million people, through 15,400 technical visits, 12,000 telephone calls, 1,000 events, 680 educational lectures, and 56 meetings with community leads, resulting in the regularization of 23,200 water connections and 10,000 sewage connections.

SABESP Corporate Volunteers Program: we use a large network of volunteers, from all our units and locations, in our relationship with the outside community, who work in social projects all over the State of São Paulo. They total more than 2,000 volunteers, who through their commitment to society and society progress have reached more than 11,000 people in 2009, in particular the neediest population and our neighboring communities. The work of the volunteers resulted in gathering and distributing 800 toys, the donation of 12,000 kg of food, the plantation of 3,000 seedlings, and the collection of more than 10,000 liters of cooking oil. An example of the strength of our volunteer work is the Winter Clothes Campaign, which collected and distributed among various charities 3.2 million clothes and blankets, and promoted 19 social inclusion and income generation actions.

The highlight in 2009 was also the annual Apprentice Program cycle, involving 468 youngsters and contributing to their development as citizens, their professional qualification, and insertion in the formal labor market, by creating education and job training opportunities. This Program is conducted as a SENAI (National Service for Industrial Training) SABESP partnership, which provides a vision both practical and theoretical of the administrative, accounting, financial and human resources processes.

In 2009 our visits program promoted 1,600 visits, totaling 63,100 visitors, focused on showing the sanitation cycle, at Water and Sewage Treatment Plants.

In order to create opportunities to those interested in providing institutional and financial support to environmental, social and cultural and sports projects, we offer a selection process, using tender invitations, to legal entities that engage in environmental preservation work and are aligned with the social responsibility principles, cultural incentive, partnerships with civil society organizations and the community.

In 2009 we invested, using tax incentives, R\$3.3 million in the State Fund for the Children's and Adolescents' Rights, through CONDECA (State Council for Children's and Adolescents' Rights), whose mission is to Encourage, decide and control the actions related to the Policies for the Ascertainment of Children's and Adolescents' Rights in the State of São Paulo .

Our SABESP Program for Those Who Want Culture sponsors several literary, visual arts, music, dance, theater, circus, cinema, and preservation of cultural heritage projects. In 2009, we invested R\$13.5 million in cultural projects using incentives under the Rouanet Act and Audiovisual Law. We also sponsored sports events and allocated R\$3.3 million to water sports such as swimming, rowing and canoeing. We launched together with the São Paulo State Government the CEU (Unified Educational Centers) and Water Olympic project to encourage children from the Paraisópolis community to start swimming and contribute to their growth as citizens. The São Paulo sails project is a SABESP partnership with the São Paulo State Department of Sports, Leisure and Tourism. The objective is to create and sponsor sailing sports and leisure centers, to train students from public schools.

The Editora Abril Initiative, which gathers companies, including SABESP, that sponsor the Sustainable Planet project, is a multimedia project that reaches more than 13 million readers all over Brazil.

We use this tool to disseminate our environmental sanitation culture.

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**Annual Social  
Balance Sheet / 2009**

Empresa: SA BESP

<b>1 Calculation Basis</b>	<b>2009 Amount (Thousands of Reais)</b>			<b>2008 Amount (Thousands of Reais)</b>		
Net revenue (NR)			6,730,547			6,351,672
Operating profit (OP)			2,141,773			1,169,472
Gross payroll (GP)			1,298,346			1,240,406
<b>2 Internal Social Indicators</b>	<b>Amount (thousand)</b>	<b>% on GP</b>	<b>% on NR</b>	<b>Amount (thousand)</b>	<b>% on GP</b>	<b>% on NR</b>
Meals	100,417	7.73%	1.49%	95,241	7.68%	1.50%
Compulsory social charges	117,140	9.02%	1.74%	99,686	8.04%	1.57%
Private pension	77,712	5.99%	1.15%	70,370	5.67%	1.11%
Health care plan	96,681	7.45%	1.44%	90,156	7.27%	1.42%
Occupational Safety and Health	9,304	0.72%	0.14%	9,973	0.80%	0.16%
Education	434	0.03%	0.01%	825	0.07%	0.01%
Culture	892	0.07%	0.01%	801	0.06%	0.01%
Professional training and development	9,331	0.72%	0.14%	7,338	0.59%	0.12%
Daycare centers or nursery allowance	1,536	0.12%	0.02%	1,420	0.11%	0.02%
Profit sharing	45,856	3.53%	0.68%	53,732	4.33%	0.85%
Other	3,295	0.25%	0.05%	2,742	0.22%	0.04%
<b>Total - Internal Social Indicators</b>	<b>462,598</b>	<b>35.63%</b>	<b>6.87%</b>	<b>432,284</b>	<b>34.85%</b>	<b>6.81%</b>
<b>3 External Social Indicators</b>	<b>Amount (thousand)</b>	<b>% on OP</b>	<b>% on NR</b>	<b>Amount (thousand)</b>	<b>% on OP</b>	<b>% on NR</b>
Education	119	0.01%	0.00%	2,800	0.24%	0.04%
Culture	15,346	0.72%	0.23%	25,552	2.18%	0.40%
Health and sanitation	419	0.02%	0.01%	525	0.04%	0.01%
Sports	3,665	0.17%	0.05%	1,213	0.10%	0.02%
Hunger eradication and food security	0	0.00%	0.00%	0	0.00%	0.00%
Other	11,304	0.53%	0.17%	10,540	0.90%	0.17%
<b>Total contributions to society</b>	<b>30,853</b>	<b>1.44%</b>	<b>0.46%</b>	<b>40,630</b>	<b>3.47%</b>	<b>0.64%</b>
Taxes (excluding social charges)	1,319,139	61.59%	19.60%	1,171,955	100.21%	18.45%
	1,349,992	63.03%	20.06%	1,212,585	103.69%	19.09%

**Total - External  
Social Indicators****4 Environmental  
Indicators**

	Amount (thousand)	% on OP	% on NR	Amount (thousand)	% on OP	% on NR
Investments related to the Company's production / operation	640	0.03%	0.01%	107	0.01%	0.00%
Investments in external programs and/or projects	31,126	1.45%	0.46%	10,064	0.86%	0.16%
<b>Total environmental investments</b>	31,766	1.48%	0.47%	10,171	0.87%	0.16%

With respect to the setting of annual goals to minimize residues, the general consumption in production / operation, and improve the efficiency in the use of natural resources, the Company

( x ) does not have goals ( ) fulfills from 51 to 75% ( ) fulfills from 0 to 50% ( ) fulfills from 76 to 100%

( x ) does not have goals ( ) fulfills from 51 to 75% ( ) fulfills from 0 to 50% ( ) fulfills from 76 to 100%

**5 Staff Indicators****2009****2008**

Nº of employees in the end of the period	15,103	16,649
Nº of employees hired during the period	415	16
Nº of outsourced employees	0	0
Nº of interns	931	328
Nº of employees above 45 years	7,783	8,875
Nº of female employees	2,878	3,086
% of management positions held by female employees	21.40%	20.09%
Nº of black employees	1,998	2,250
% of management positions held by black employees	3.70%	4.40%
Nº of physically-disabled	49	52

employees or  
employees with  
special needs

**6 Significant information with respect to the exercise of corporate citizenship**

	2009 (thousand reais)			Goals 2010		
Ratio between the highest and the lowest compensation in the Company		23			na	
Total number of work accidents		145			136	
The social and environmental projects developed by the Company were defined by:	<input type="checkbox"/> management	<input checked="" type="checkbox"/> management and departments	<input type="checkbox"/> all employees	<input type="checkbox"/> management	<input checked="" type="checkbox"/> management and departments	<input type="checkbox"/> all employees
The safety and health standards in the work environment were defined by:	<input checked="" type="checkbox"/> management and departments	<input type="checkbox"/> all employees	<input type="checkbox"/> all options + Cipa	<input checked="" type="checkbox"/> management and departments	<input type="checkbox"/> all employees	<input type="checkbox"/> all options + Cipa
With respect to the trade union freedom, the right to collective and to agreement and the internal representation of employees, the Company:	<input type="checkbox"/> does not get involved	<input checked="" type="checkbox"/> complies with OIT rules	<input type="checkbox"/> encourages and adopts OIT rules	<input type="checkbox"/> will not get involved	<input checked="" type="checkbox"/> will comply with OIT rules	<input type="checkbox"/> Will encourage and adopt OIT rules
The private pension plan includes:	<input type="checkbox"/> management	<input type="checkbox"/> management and departments	<input checked="" type="checkbox"/> all employees	<input type="checkbox"/> management	<input type="checkbox"/> management and departments	<input checked="" type="checkbox"/> all employees
The profit sharing includes:	<input type="checkbox"/> management	<input type="checkbox"/> management and departments	<input checked="" type="checkbox"/> all employees	<input type="checkbox"/> management	<input type="checkbox"/> management and departments	<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 respect to the participation of	<input type="checkbox"/> does not get involved	<input type="checkbox"/> supports	<input checked="" type="checkbox"/> organizes	<input type="checkbox"/> will not get involved	<input type="checkbox"/> will support	<input checked="" type="checkbox"/> will organize

employees in voluntary work programs, the Company:			and encourages incentiva			and encourage
Total number of complaints and criticisms of consumers according to the Ombudsman Office	in the Company 23880	in Procon 1.568	in Court 513	in the Company	in Procon	in Court
% of complaints and criticisms received of resolved by the Ombudsman Office	in the Company 99.5%	in Procon 91.20%	n a Justiça Expres 78%	in the Company none	in Procon none	in Court none
Total value added to distribution (in thousands of R\$):	<b>In 2009: 4,494,633</b>			<b>In 2008: 3,990,459</b>		
Distribution of value added:	30.9% government 8.8% shareholders 21.8% retained	31.8% employees 6.7% third parties		29.4% government 1.6% shareholders retained	31.3% employees 37.7% third parties	0%

## 7 Other Information

This Company does not use child or slave labor, is not involved with prostitution or sexual exploration of children or adolescents and is not involved in corruption.

Our Company appreciates and respects the internal and external diversity.

**COMPANHIA DE SANEAMENTO BÁSICO DO State of SÃO PAULO - SABESP****BALANCE SHEETS**

For the years ended December 31, 2009 and 2008

(In thousands of Brazilian reais - R\$, unless otherwise stated)

	<i>Note</i>	Parent Company		Consolidated			<i>Note</i>	Parent C
		2009	2008	2009	2008			2009
Assets						Liabilities and shareholders' equity		
Current assets						Current liabilities		
Cash and cash equivalents	3	769,433	622,059	771,008	625,732	Contractors and suppliers		195,606
Trade accounts receivable	4	1,179,730	1,129,746	1,179,730	1,129,746	Loans and financing	10	1,010,537
Related-party balances	5	135,987	210,131	135,987	210,131	Payroll, accruals and payroll charges		239,109
Inventories		39,877	47,678	39,877	47,678	Taxes payable	12	218,862
Recoverable taxes		3,017	4,665	3,017	4,665	Deferred taxes	11	37,912
Other receivables		141,413	49,478	141,504	49,478	Interest own on capital payable	16	365,442
Deferred income tax and social contribution	11	258,551	170,982	258,551	170,982	Provisions for contingencies	15	643,863
Total current assets		2,528,008	2,234,739	2,529,674	2,238,412	Accounts payable		239,494
						Other payables		158,864
						Total current liabilities		3,109,689
Noncurrent assets						Noncurrent liabilities		
Long-term receivables:						Long-term payables:		
	4	266,543	326,472	266,543	326,472	Loans and financing	10	5,549,463
						Taxes payable	12	85,029

Trade accounts receivable								
Related-party balances	5	956,648	980,756	956,648	980,756	Deferred taxes	11	156,860
Indemnities receivable	6	146,213	148,794	146,213	148,794	Provisions for contingencies	15	824,957
Judicial deposits		46,365	49,127	46,365	49,127	Actuarial liability - Law 4819/58	13	518,027
Other receivables		100,395	192,257	100,395	192,257	Pension plan obligations	13	480,103
Deferred income tax and social contribution	11	530,131	435,341	530,131	435,341	Other payables		313,231
		2,046,295	2,132,747	2,046,295	2,132,747	Total noncurrent liabilities		7,927,670
Investments	7	4,334	4,552	720	720	Shareholders' equity	16	
Property, plant and equipment	8	15,441,056	14,350,501	15,443,211	14,350,684	Capital		6,203,688
Intangible assets	9	1,545,303	1,391,348	1,545,303	1,391,348	Capital reserve		124,255
		16,990,693	15,746,401	16,989,234	15,742,752	Revaluation reserve		2,145,100
						Earnings reserves		20,545,94
Total noncurrent assets		19,036,988	17,879,148	190,355,29	17,875,499	Total shareholders' equity		10,527,637
						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		
TOTAL ASSETS		21,564,996	20,113,887	21,565,203	20,113,911			21,564,996

The accompanying notes are an integral part of these financial statements

**COMPANHIA DE SANEAMENTO BÁSICO DO ESTADO DE SÃO PAULO - SABESP****STATEMENTS OF INCOME**

For the years ended December 31, 2009 and 2008

(In thousands of Brazilian reais - R\$, unless otherwise stated)

		PARENT COMPANY		CONSOLIDATED	
	Note	2009	2008	2009	2008
<b>GROSS REVENUE FROM SALES AND SERVICES</b>	<b>19</b>	<b>7,236,218</b>	<b>6,838,803</b>	<b>7,236,218</b>	<b>6,838,803</b>
Gross sales deductions		(505,671)	(487,131)	(505,671)	(487,131)
<b>NET REVENUE FROM SALES AND SERVICES</b>		<b>6,730,547</b>	<b>6,351,672</b>	<b>6,730,547</b>	<b>6,351,672</b>
<b>COST OF SALES AND SERVICES</b>	<b>20</b>	<b>(3,076,273)</b>	<b>(2,831,809)</b>	<b>(3,076,273)</b>	<b>(2,831,809)</b>
<b>GROSS PROFIT</b>		<b>3,654,274</b>	<b>3,519,863</b>	<b>3,654,274</b>	<b>3,519,863</b>
<b>OPERATING EXPENSES</b>					
Selling	20	(801,259)	(718,949)	(801,259)	(718,949)
Administrative	20	(671,742)	(578,458)	(672,248)	(578,596)
Other operating expenses, net	21	(39,500)	(1,052,984)	(39,500)	(1,052,984)
<b>INCOME FROM OPERATIONS BEFORE EQUITY SHARE OF INVESTMENT IN INVESTEE, FINANCIAL INCOME (EXPENSES), AND TAXES</b>		<b>2,141,773</b>	<b>1,169,472</b>	<b>2,141,267</b>	<b>1,169,334</b>
<b>EQUITY SHARE OF INVESTMENT SUBSIDIARIES</b>					
Equity share of investment in investee		(218)	(9)	-	-
<b>INCOME BEFORE FINANCIAL INCOME (EXPENSES), NET</b>		<b>2,141,555</b>	<b>1,169,463</b>	<b>2,141,267</b>	<b>1,169,334</b>
Financial expenses, net	20	(598,995)	(268,790)	(598,707)	(268,661)
Exchange differences, net	20	395,369	(438,869)	395,369	(438,869)
<b>INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION</b>		<b>1,937,929</b>	<b>461,804</b>	<b>1,937,929</b>	<b>461,804</b>
<b>INCOME TAX AND SOCIAL CONTRIBUTION</b>					
Current	11(c)	(748,705)	(548,373)	(748,705)	(548,373)
Deferred	11(c)	184,655	150,140	184,655	150,140
<b>NET INCOME FOR THE YEAR</b>		<b>1,373,879</b>	<b>63,571</b>	<b>1,373,879</b>	<b>63,571</b>
Earnings per share in R\$	16(b)	6.03	0.28	6.03	0.28

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



**COMPANHIA DE SANEAMENTO BÁSICO DO ESTADO DE SÃO PAULO - SABESP****STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the years ended December 31, 2009 and 2008

(In thousands of Brazilian reais - R\$, unless otherwise stated)

	Note	Capital	Capital reserve	Revaluation reserve	Earnings reserves		Retained earnings	TOTAL
					Legal	Investments		
<b>BALANCES AS OF DECEMBER 31, 2007</b>		<b>3,403,688</b>	<b>124,255</b>	<b>2,339,829</b>	<b>306,654</b>	<b>3,609,580</b>	<b>(3,474)</b>	<b>9,780,532</b>
Absorption of accumulated losses generated by adjustments under Law 11638/07		-	-	-	-	(3,474)	3,474	-
Capitalization of reserves		2,800,000	-	-	-	(2,800,000)	-	-
Realization of revaluation reserve	8(h)	-	-	(86,817)	-	-	86,817	-
Net income for the year		-	-	-	-	-	63,571	63,571
Transfer to legal reserve	16(e)	-	-	-	3,178	-	(3,178)	-
Interest on own capital (R\$1.30 per share)	16(c)	-	-	-	-	-	(296,188)	(296,188)
Absorption of accumulated losses by transfer to investment reserve	16(e(ii))	-	-	-	-	(148,978)	148,978	-
<b>BALANCES AS OF DECEMBER</b>		<b>6,203,688</b>	<b>124,255</b>	<b>2,253,012</b>	<b>309,832</b>	<b>657,128</b>	<b>-</b>	<b>9,547,915</b>

**31, 2008**

Realization of revaluation reserve	8(h)	-	-	(107,912)	-	-	107,912	-
Net income for the year		-	-	-	-	-	1,373,879	1,373,879
Transfer to legal reserve	16(e)	-	-	-	68,694	-	(68,694)	-
Interest on own capital (R\$1.73 per share)	16(c)	-	-	-	-	-	(394,157)	(394,157)
Transfer to reserve for investments	16(e(ii))	-	-	-	-	1,018,940	(1,018,940)	-
<b>BALANCES AS OF DECEMBER 31, 2009</b>		<b>6,203,688</b>	<b>124,255</b>	<b>2,145,100</b>	<b>378,526</b>	<b>1,676,068</b>	<b>-</b>	<b>10,527,637</b>

The accompanying notes are an integral part of these financial statements

**COMPANHIA DE SANEAMENTO BÁSICO DO ESTADO DE SÃO PAULO - SABESP****STATEMENTS OF CASH FLOWS**

For the years ended December 31, 2009 and 2008

(In thousands of Brazilian reais - R\$, unless otherwise stated)

	Note	PARENT COMPANY		CONSOLIDATED	
		2009	2008	2009	2008
<b>Cash flows from operating activities</b>					
Income before income tax and social contribution		1,937,929	461,804	1,937,929	461,804
Adjustments to reconcile net income:					
Taxes and contributions payable		0	(68,878)	0	(68,878)
Provision for contingencies		596,543	461,654	596,543	461,654
Actuarial liability - Law 4819/58		45,104	535,435	45,104	535,435
Allowance for losses on disputed amounts of Law 4819/58		0	409,079	0	409,079
Reversal of allowance for losses		8,183	(366)	8,183	(366)
Other provisions		398	(492)	398	(492)
Pension plan obligations		77,793	71,704	7,7793	71,704
Loss on disposal of property, plant and equipment	08(b)	22,852	157,978	22,852	157,978
Disposal of deferred charges		0	611	0	611
Other disposals		4,542	0	4,542	0
Gain on sale of property, plant and equipment		(9,461)	0	(9,461)	0
Depreciation and amortization	20	560,686	617,804	560,689	617,804
Interest on loans and financing payable		456,203	499,590	456,203	499,590
Currency and exchange adjustments on loans and financing		(402,329)	564,095	(402,329)	564,095
Currency adjustments from interest on own capital		0	7,338	0	7,338
Interest and currency adjustment losses	12	5,585	8,281	5,585	8,281
Interest and currency adjustment gains		(28,724)	(368,806)	(28,724)	(368,806)
Allowance for doubtful accounts	20	308,188	336,264	308,188	336,264
Accrual for retirees TAC		82,700	0	82,700	0
Accrual for São Paulo arrangement		27,748	0	27,748	0
Equity share of investment in investee	7	218	9	0	0
<b>Adjusted net income</b>		<b>3,694,158</b>	<b>3,693,104</b>	<b>3,693,943</b>	<b>3,693,095</b>
<b>Changes in assets</b>					
Trade accounts receivable		(285,543)	(301,844)	(285,544)	(301,844)

Related-party balances	103,936	82,956	103,936	82,956
Indemnities receivable	2,581	0	2,581	0
Inventories	6,758	5,829	6,758	5,829
Recoverable taxes	1,648	4,749	1,648	4,749
Other receivables	(4,903)	(112,111)	(4,994)	(112,111)
Judicial deposits	(34,010)	(37,933)	(34,010)	(37,933)
<b>Changes in liabilities</b>				
Contractors and suppliers	(15,404)	(917,986)	(15,249)	(17,982)
Payroll, accruals and payroll charges	(39,647)	29,259	(39,620)	29,275
Reserves for actuarial liability - Law 4819/58	(62,512)	0	(62,512)	0
Taxes payable	(60,022)	431,346	(60,021)	431,350
Accounts payable	30,706	6,216	307,06	6,216
Other payables	181,058	16,321	181,058	16,321
Contingencies	(240,031)	(235,573)	(240,031)	(235,573)
Pension fund - transfer to Sabesprev	(17,561)	(17,067)	(17,561)	(17,067)
<b>Changes in assets and liabilities</b>	<b>(432,946)</b>	<b>(145,838)</b>	<b>(432,855)</b>	<b>(145,814)</b>
<b>Cash provided by operating activities</b>	<b>3,261,212</b>	<b>3,547,266</b>	<b>3,261,088</b>	<b>3,547,281</b>
Interest paid	(555,573)	(516,887)	(555,573)	(516,887)
Income tax and social contribution paid	(643,788)	(502,404)	(643,788)	(502,404)
<b>Net cash provided by operating activities</b>	<b>2,061,851</b>	<b>2,527,975</b>	<b>2,061,727</b>	<b>2,527,990</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(1,924,479)	(1,395,458)	(1,926,453)	(1,395,641)
Increase in intangible assets	(56,014)	(159,514)	(56,014)	(159,514)
Increase in investments	0	(3,841)	0	0
Proceeds from sale of property, plant and equipment	29,162	0	29,162	0
<b>Net cash used in investing activities</b>	<b>(1,951,331)</b>	<b>(1,558,813)</b>	<b>(1,953,305)</b>	<b>(1,555,155)</b>
<b>Cash flows from financing activities</b>				
<b>Loans and financing</b>				
Borrowings	2,237,056	1,043,174	2,237,056	1,043,174
Repayments of borrowings	(1,896,480)	(11,464,16)	(1,896,480)	(1,146,416)
<b>Payment of interest on own capital</b>	<b>(303,722)</b>	<b>(708,858)</b>	<b>(303,722)</b>	<b>(708,858)</b>

<b>Net cash provided by (used in) financing activities</b>		<b>36,854</b>	<b>(812,100)</b>	<b>36,854</b>	<b>(812,100)</b>
<b>Increase in cash and cash equivalents</b>		<b>147,374</b>	<b>157,062</b>	<b>145,276</b>	<b>160,735</b>
<b>Cash and cash equivalents at beginning of year</b>	3	<b>622,059</b>	<b>464,997</b>	<b>625,732</b>	<b>464,997</b>
<b>Cash and cash equivalents at end of year</b>	3	<b>769,433</b>	<b>622,059</b>	<b>771,008</b>	<b>625,732</b>
<b>Changes in cash and cash equivalents</b>		<b>147,374</b>	<b>157,062</b>	<b>145,276</b>	<b>160,735</b>
<b>Supplemental information on cash flows:</b>					
Capitalization of interest and finance charges	08(c)	(143,985)	219,430	(143,985)	219,430
COFINS and PASEP paid		503,296	515,659	503,296	515,659
Program contract commitments		(7,550)	146,426	(7,550)	146,426

The accompanying notes are an integral part of these financial statements

**COMPANHIA DE SANEAMENTO BÁSICO DO ESTADO DE SÃO PAULO - SABESP****STATEMENTS OF VALUE ADDED**

For the years ended December 31, 2009 and 2008

(In thousands of Brazilian reais - R\$, unless otherwise stated)

	Note	PARENT COMPANY		CONSOLIDATED	
		2009	2008	2009	2008
Revenues					
Sales of products and services	19	7,236,218	6,838,803	7,236,218	6,838,803
Other income	21	55,689	70,280	55,689	70,280
Income related to construction of own assets		12,719	356,600	12,719	356,600
Allowance for doubtful accounts charge	20	(308,188)	(336,264)	(308,188)	(336,264)
		6,996,438	6,929,419	6,996,438	6,929,419
Inputs purchased from third parties					
Cost of sales and services		(1,325,027)	(1,180,116)	(1,325,027)	(1,180,116)
Materials, electricity, outsourced services, and other		(742,502)	(589,851)	(742,709)	(589,925)
Other operating expenses	21	(90,913)	(1,117,958)	(90,913)	(1,117,958)
		(2,158,442)	(2,887,925)	(2,158,649)	(2,887,999)
Gross value added		4,837,996	4,041,494	4,837,789	4,041,420
Retentions					
Depreciation & amortization (including amounts capitalized)		(562,337)	(618,924)	(562,340)	(618,924)
		4,275,659	3,422,570	4,275,449	3,422,496

Wealth created by the Company									
Wealth transferred to SABESP									
Equity in subsidiaries		(218)		(9)		-		-	
Financial income	20	219,192		567,898		219,485		568,027	
		218,974		567,889		219,485		568,027	
Wealth for distribution		4,494,633		3,990,459		4,494,934		3,990,523	
Distribution of wealth									
Employees									
Salaries and wages		918,514	20.4%	884,736	22.2%	918,716	20.4%	884,775	22.2%
Benefits		308,662	6.9%	295,929	7.4%	308,672	6.9%	295,931	7.4%
Severance Indemnity Fund for Employees (FGTS)		201,903	4.5%	66,741	1.7%	201,918	4.5%	66,741	1.7%
		1,429,079	31.8%	1,247,406	31.3%	1,429,306	31.8%	1,247,447	31.3%
Taxes, fees and contributions									
Federal		1,334,676	29.7%	1,124,752	28.2%	1,334,719	29.7%	1,124,770	28.2%
State		36,621	0.8%	32,713	0.8%	36,621	0.8%	32,713	0.8%
Municipal		18,896	0.4%	14,490	0.4%	18,897	0.4%	14,491	0.4%
		1,390,193	30.9%	1,171,955	29.4%	1,390,237	30.9%	1,171,974	29.4%
Lenders and lessors									
Interest, exchange and currency adjustments		275,282	6.1%	1,489,967	37.3%	275,287	6.1%	1,489,968	37.3%
Rentals		26,200	0.6%	17,560	0.4%	26,225	0.6%	17,563	0.4%
		301,482	6.7%	1,507,527	37.7%	301,512	6.7%	1,507,531	37.7%
Shareholders									
Interest on own capital	16(c)	394,157	8.8%	63,571	1.6%	394,157	8.8%	63,571	1.6%
Retained earnings		979,722	21.8%	-	0.0%	979,722	21.8%	-	0.0%

	1,373,879	30.6%	63,571	1.6%	1,373,879	30.6%	63,571	1.6%
Wealth distributed	4,494,633	100%	3,990,459	100%	4,494,934	100%	3,990,523	100%

The accompanying notes are an integral part of these financial statements

**COMPANHIA DE SANEAMENTO BÁSICO DO State of SÃO PAULO - SABESP**

**NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2009 and 2008

(In thousands of Brazilian reais - R\$, unless otherwise stated)

## 1. OPERATIONS

Companhia de Saneamento Básico do Estado de São Paulo ( SABESP or the Company ) is a mixed-capital company headquartered in São Paulo, controlled by the São Paulo State Government. The Company is engaged in the provision of basic and environmental sanitation services, and supplies treated water on a bulk basis and provides sewage treatment services to other six municipalities of the Greater São Paulo Metropolitan Area.

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

The company operates water and sewage services in 366 municipalities of the State of São Paulo, having temporarily discontinued operations in two of these municipalities due to court orders under ongoing lawsuits. In most of these municipalities operations are based on 30-year concession agreements. As of December 31, 2009, 82 concessions have expired and are being renegotiated. From 2010 to 2030, 80 concessions will expire, and the remaining concessions have an indefinite term. By December 31, 2009, 174 program contracts had been signed (2008 160 program contracts).

Management believes that all concessions terminated and not yet renewed will result in new contracts or contract extensions, and does not consider the risk of discontinuity in the provision of municipal water and sewage services. As of December 31, 2009, the carrying amount of property, plant and equipment used in the 82 municipalities under negotiation totals R\$2,049 million and revenue for the year then ended totals R\$876 million.

In the municipality of Santos, in the coastal region, which has a significant population, the Company operates under an authorization public deed, a situation similar to other municipalities in that region and in the Ribeira valley, where the Company started to operate after the merger of the companies that formed it.

The significant transformations in the water and sewage industry regulatory framework in 2007 generated new challenges and opportunities for SABESP. The O regulatory framework that consolidated the integration between utilities investments and the priorities set out by the Grantor municipalities rendered reporting more efficient and transparent, increasing security for investments.

The Company s shares have been listed on the *Novo Mercado* (New Market) segment of BOVESPA (São Paulo Stock Exchange) since April 2002 and on the New York Stock Exchange (NYSE) as ADRs since May 2002.

The information on the concession area, number of municipalities, water and sewage volumes, and other related data disclosed in this report that are not derived from the financial statements is not audited by the independent auditors.

## 2. PRESENTATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING PRACTICES

### 2.1 Presentation of Financial Statements

The financial statements were approved by the Board of Directors on March 25, 2010.

The financial statements have been prepared and are presented in accordance with Brazilian accounting practices, based on the provisions of Brazilian Corporate Law and the standards set out by the Brazilian Securities and Exchange Commission (CVM).

The main accounting policies adopted in preparing these financial statements comply with the standards and guidance effective for financial statements closed as of December 31, 2009, which are consistent with the standards and guidance adopted for the close of fiscal year 2008, and are different from the standards and guidance that will be used to prepare the financial statements for the year ending December 31, 2010, as described in item 2.3 below.

The preparation of financial statements requires management to make estimates and assumptions to account for certain assets, liabilities and other transactions, as well as the amounts of revenue and expenses related to the rendering of services. Therefore, the Company's financial statements include estimates of the useful lives of property, plant and equipment, reserves for contingent liabilities, determination of the provisions for income tax, and other similar provisions. Actual results could differ from those estimates.

**COMPANHIA DE SANEAMENTO BÁSICO DO State of SÃO PAULO - SABESP**

**NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2009 and 2008

(In thousands of Brazilian reais - R\$, unless otherwise stated)

2.2 Significant Accounting Practices

(a) Revenue from sales and services

Revenue from water supply and sewage collection are recognized as the water is consumed and services are provided. Revenues from unbilled water supply and sewage services are recorded as trade accounts receivable based on monthly estimates, so as to match revenues and expenses in the proper period.

(b) Leases

Leases of property, plant and equipment where the Company as lessor retains substantially all risks and rewards incidental to ownership are classified as finance leases. Such leases are accounted for as purchase financing, and a fixed asset and a financing liability are recognized at their inception. Property, plant and equipment purchased under finance leases are depreciated at the rates set out in note 8.

(c) Income tax and social contribution

Income tax and social contribution are calculated based on taxable income.

The rates used are 15%, plus a 10% surtax for income tax and 9% for social contribution tax and the taxes are accounted for on the accrual basis.

Deferred income tax and social contribution assets are recognized to the extent that it is probable that there will be taxable income available for the offset of temporary differences and/or tax loss carryforwards, based in future taxable income projections prepared and based on internal assumption and future economic scenarios, which are therefore subject to change.

The Company elected not to recognize deferred income tax and social contribution on the revaluation reserve of property, plant and equipment recorded through 1991.

(d) Other income and expenses

Other income and expenses are recorded on the accrual basis.

(e) Cash and cash equivalents

Consist of cash and highly liquid short-term investments, immediately convertible into cash and with insignificant risk of change in value.

(f) Financial instruments

Classification and measurement

The Company classifies its financial assets according to the following categories: measured at fair value through profit or loss, receivables, and held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets when first recorded.

#### Financial assets calculated at fair value through profit or loss

These are financial assets held for active and frequent trading. These assets are classified as current assets. Gains or losses arising from changes in the fair value of financial assets measured at fair value through profit or loss are presented in the statement of income in Financial income (expenses) in the period they occur, unless the instrument has been contracted in connection to another transaction. In this case, changes are recognized in the same line item of income affected by this transaction.

#### Loans and receivables

These comprise receivables which are nonderivative financial assets with fixed or determinable payments, not quoted in an active market. Loans and receivables are included in current assets, except for those with maturity of more than 12 months after the balance sheet date (these are classified as noncurrent assets). The Company's loans and receivables comprise trade accounts receivable, other accounts receivable and cash and cash equivalents. Loans and receivables are recorded at amortized cost, under the effective interest rate method.

#### Held-to-maturity assets

These are basically the financial assets that cannot be classified as loans and receivables because they are quoted in an active market. In this case, these financial assets are acquired with the intention and financial capacity for their maintenance in the portfolio up to maturity. These are stated at cost of purchase, when applicable, as income for the year, under the effective interest rate method. As of December 31, 2009 and 2008, the Company did not have financial assets classified in this category.

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Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are included in this category or that are not classified in any other category. They are included in noncurrent assets, unless management intends to sell the investment within 12 months after the balance sheet date. Available-for-sale financial assets are recorded at fair value. Interest on available-for-sale securities, calculated under the effective interest rate method, is recognized in the statements of income as financial income. The portion related to the change in fair value is recorded against shareholders' equity, in the equity valuation adjustments account, and it is realized against income (loss) upon its settlement or due to impairment. As of December 31, 2009 and 2008, the Company did not have financial assets classified in this category.

Fair value

Fair values of investments quoted in a public market are based on current purchase prices. For financial assets without an active market or public quotation, the Company determines fair value using valuation techniques, which consist of the use of recent transactions with third parties, the reference to other substantially similar instruments, the analysis of discounted cash flows and option pricing models, which make the maximum use of market inputs and relies as little as possible on entity-specific inputs.

The Company measures, at the balance sheet date, if there is objective evidence that a financial asset or a group of financial assets is impaired. When there is such evidence for available-for-sale financial assets, the cumulative loss measured as the difference between the cost of purchase and current fair value minus any impairment loss on this financial asset previously recognized in profit or loss - is transferred from equity to the statement of income.

(g) Trade accounts receivable and allowance for doubtful accounts

Trade accounts receivable, except for agreements on refinanced amounts, do not take into consideration financial charges, monetary restatement or fines.

The allowance for doubtful accounts is recorded in an amount considered sufficient by management to cover probable losses on the realization of receivables and management does not expect to incur in additional losses on such accounts receivable, especially from municipal governments. The allowance is set up on bills from R\$5 to R\$30, past due for more than 360 days. Bills exceeding R\$30 past due for more than 360 days and in the process of judicial collection are also provided against. The amount thus determined is adjusted when it is excessive or insufficient, based on the analyses of the history of receipts, taking into consideration the expectation of recovery in the different categories of customers. Amounts up to R\$5 and past due for more than 180 days are written off against income.

(h) Inventories

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

(i) Investments

Investments in Sesamm are recorded and evaluated based on the equity accounting method, recognized in income for the year as operating income (or expenses). For the purposes of calculating the equity share of in earnings of the subsidiary, unrealized gains or transactions between the Company and its investee are eliminated in proportion to the Company's investment; unrealized losses are also eliminated, unless the transaction presents evidence of impairment of the transferred asset.

The accounting policies applied by Sesamm are consistent with the accounting policies adopted by the Company.

(j) Foreign currency translation

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**COMPANHIA DE SANEAMENTO BÁSICO DO State of SÃO PAULO - SABESP**

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For the years ended December 31, 2009 and 2008

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Foreign currency-denominated transactions are translated into Brazilian reais using the exchange rates prevailing at the transaction dates. Balance sheet accounts are translated at the exchange rate prevailing at balance sheet date. Exchange gains and losses arising on the settlement of these transactions and the translation of foreign currency-denominated cash assets and liabilities are recognized in the statement of income.

(k) Property, plant and equipment

Stated at cost, monetarily adjusted through December 31, 1995, combined with the following:

Depreciation is calculated using the straight-line method, at the annual rates mentioned in note 8.

The Company's management opted to maintain the revaluation reserve until its actual realization.

The revaluation of property, plant and equipment items, carried out in two stages in 1990 and 1991, was based on an appraisal report issued by independent appraisers and is recorded as a contra-entry to the Revaluation Reserve in Shareholders' Equity, realized through depreciation, sale, and disposal of the respective assets, as a credit to Retained earnings. Therefore, the Company adopted the restated residual amount as of December 31, 2008 as the new cost of property, plant and equipment.

Borrowing costs of loans and financing for construction in progress are allocated to the costs of the assets.

Donations of property, plant and equipment received from third parties and government entities to enable the Company to provide water supply and sewage services are recorded in property, plant and equipment as a contra entry to revenue.

Construction in progress projects are recorded at cost and are mainly related to construction projects contracted with third parties.

Improvements made in the existing assets are capitalized and the expenses on maintenance and repairs are recorded in income and expensed when incurred. Materials allocated to specific projects are added to construction in progress.

(l) Intangible assets

From 1999 to 2006, the acquisition of concession rights from third parties has been accounted for at the amount determined in economic and business valuation reports issued by independent experts. The renewals arising from the new regulatory framework were carried out based on program contracts. Upon renewal of certain program contracts, the Company assumed commitments to financially participate in social and environmental sanitation actions. These commitments are recorded in intangible assets and are amortized over the program contract term, which is mostly 30 years.

(m) Loans and financing

Borrowings are initially recognized at fair value, upon receipt of funds, net of transaction costs. Subsequently, borrowings are stated at amortized cost, i.e., plus charges and interest prorated to the period incurred.

Nonconvertible debentures are recognized in a similar manner to borrowings.

(n) Payroll and related charges

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

(o) Profit sharing

The accrual for profit sharing is recorded on the accruals basis as operating expenses.

(p) Reserves for contingencies and judicial deposits

These are restated through the balance sheet dates using the probable amount of losses, determined based on their nature and the opinion of the Company's legal advisors. For financial statement presentation purposes, the reserve for contingencies and judicial deposits are stated net of the related judicial deposits.

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The bases and the nature of the reserves for civil, tax, labor and environmental risks are described in note 15.

Judicial deposits not linked to related liabilities are recorded in noncurrent assets and monetarily restated.

(q) Environmental costs

Costs related to ongoing environmental programs are expensed as incurred. Ongoing programs are designed to minimize the environmental impact of the operations and to manage the environmental risks inherent to the Company's activities.

(r) Pension plan

Liabilities from defined benefit pension plan correspond to the present value of the defined benefit obligation at balance sheet date, less the fair value of the plan's assets, adjusted by actuarial gains or losses, and past service costs. The defined benefit obligation is calculated on annual basis by independent actuaries, using the projected unit credit method. The estimated future cash outflows is discounted to its present value, using the interest rates of Government bonds with maturities that approximate the maturity of the related liability.

Actuarial gains and losses arising from changes in actuarial assumptions and amendments to pension plans are expenses or credited to income based on the average remaining length of service of the related employees.

(s) Interest on own capital

The Company uses the tax benefits of distributing dividends as interest on own capital, as permitted by Law. This interest is accounted for in accordance with Law 9249/95 for tax deductibility purposes, limited to the daily pro rata fluctuation of the Long-term Interest Rate (TJLP). The benefit attributable to shareholders is recognized in shareholders' equity.

(t) Present value

Long-term assets and liabilities, when applicable, are discounted to present value using discount rates that reflect our best estimate.

(u) Recovery of assets

Property, plant and equipment and other noncurrent assets, are reviewed to identify evidence of impairment annually, and also whenever events or alterations in the circumstances indicate that the carrying amount may not be recoverable. In this case, the recoverable value is calculated to check if there is any impairment. Impairment losses are recognized for the amount by which the carrying amount of an asset exceeds its recoverable value, which is the higher of net sales price and the value in use of an asset. For measurement purposes, assets are grouped in the lowest level for which there are separately identifiable cash flows.

2.3 Standards and interpretations not yet in effect

The standards and interpretations listed below have been issued and effective for annual reporting periods starting on or after January 1, 2010. In addition, other standards and interpretations were issued that change the accounting policies generally accepted in Brazil, as part of the convergence with international accounting standards. The standards below are those that can (or should) materially impact our financial statements. Under the new standards, the 2009 figures presented herein should be restated for comparative purposes on the presentation of the financial statements for the year ended December 31, 2010. The Company did not elect the early adoption of these standards for the year ended December 31, 2009.

(a) Standards

CPC 16 Inventories, approved by CVM Resolution 575, of June 5, 2009.

Determination of cost of maintenance inventories, subsequent recognition as an expense, including any write-down to net realizable value.

CPC 20 Borrowing Costs, approved by CVM Resolution 577, of June 5, 2009.

Treatment of borrowing costs and possibility of including them in assets when attributable to the acquisition, construction or production of a qualifying asset.

**COMPANHIA DE SANEAMENTO BÁSICO DO State of SÃO PAULO - SABESP**

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CPC 22 Operating Segments, approved by CVM Resolution 582, of July 31, 2009. Prescribes the need to disclose information by operating segment of the Company.

CPC 25 Provisions, Contingent Liabilities and Contingent Assets, approved by CVM Resolution 594, of September 15, 2009.

Ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

CPC 26 Presentation of Financial Statements, approved by CVM Resolution 595, of September 15, 2009. Prescribes the basis for presentation of financial statements by setting out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

CPC 27 Property, Plant and Equipment, approved by CVM Resolution 619, of December 22, 2009. Prescribes the accounting treatment for property, plant and equipment as regards their recognition, measurement, depreciation, and impairment losses.

CPC 30 Revenue, approved by CVM Resolution 597, of September 15, 2009.

Prescribes the accounting treatment of revenue arising from certain types of transactions and events.

CPC 32 Income Taxes, approved by CVM Resolution 599, of September 15, 2009. Prescribes the accounting treatment for income taxes.

CPC 33 Employee Benefits, approved by CVM Resolution 600, of October 7, 2009. Prescribes the accounting and disclosure for employee benefits.

CPC 36 Consolidated Financial Statement, approved by CVM Resolution 608, of November 26, 2009. Prescribes the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent.

CPC 37 First-time Adoption of International Financial Reporting Standards, approved by CVM Resolution 609, of December 22, 2009.

Ensure the first financial statements of an entity prepared under International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), hereinafter referred to as IFRSs, and its interim financial reports for part of the period covered by those financial statements, contain high quality information.

CPC 38 Financial Instruments: Recognition and Measurement, approved by CVM Resolution 604, of November 19, 2009.

Establishes principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell nonfinancial items.

CPC 39 Financial Instruments: Presentation, approved by CVM Resolution 604, of November 19, 2009. Establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities.

CPC 40 Financial Instruments: Disclosures, approved by CVM Resolution 604, of November 19, 2009. Requires disclosure of: (a) the significance of financial instruments for an entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

(b) Interpretations

ICPC 01 Service Concession Arrangements, approved by CVM Resolution 611, of December 22, 2009.

ICPC 08 Accounting for Proposed Dividends, approved by CVM Resolution 601, of October 7, 2009.

ICPC 09 Individual, Separate and Consolidated Financial Statements, and Application of the Equity Method of Accounting, approved by CVM Resolution 618, of December 22, 2009.

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ICPC 10 Clarifications of CPC 27 and CPC 28, approved by CVM Resolution 619, of December 22, 2009. ICPC 11 Transfers of Assets from Customers, approved by CVM Resolution 620, of December 22, 2009.

## (c) Impact estimate

The Company is assessing the potential impacts arising from these pronouncements, interpretations and guidance, which can have a material impact of financial statements for the year ended December 31, 2009 to be presented comparatively with the financial statements for the year ending December 31, 2010, and the following annual reporting periods.

## 3. CASH AND CASH EQUIVALENTS

	PARENT COMPANY		CONSOLIDATED	
	2009	2008	2009	2008
Cash and banks	98,309	77,993	98,368	81,638
Cash equivalents	671,124	544,066	672,640	544,094
	769,433	622,059	771,008	625,732

## 4. TRADE ACCOUNTS RECEIVABLE

## (a) Balance sheet balances

	PARENT COMPANY AND CONSOLIDATED	
	2009	2008
Private sector:		
General and special customers (i) (ii)	776,040	736,000
Agreements (iii)	261,139	273,586
	1,037,179	1,009,586
Government entities:		
Municipal	569,655	521,729
Federal	2,871	28,252
Agreements (iii)	143,575	145,767
	716,101	695,748

Bulk sales Municipal governments:

(iv)

Guarulhos	411,774	400,210
Mauá	190,153	163,015
Mogi das Cruzes	14,188	16,495
Santo André	428,227	375,345
São Caetano do Sul	3,410	3,363
Diadema	134,992	115,940
Total bulk sales Municipal governments	1,182,744	1,074,368
Unbilled supply	364,480	309,805
Subtotal	3,300,504	3,089,507
Allowance for doubtful accounts	(1,854,231)	(1,633,289)
Total	1,446,273	1,456,218
Current	1,179,730	1,129,746
Noncurrent (v)	266,543	326,472

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

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

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

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(iv) Bulk Sales - municipal governments This balance refers to the sale of treated water to municipalities, which are responsible for distributing to, billing and charging final consumers. Some of these municipalities are questioning in court the tariffs charged by SABESP and do not pay for the amounts in dispute. The amounts past due, which are substantially included in the allowance for doubtful accounts, are classified in long-term receivables pursuant to the changes below:

	PARENT COMPANY AND CONSOLIDATED	
	2009	2008
Balance at beginning of year	1,074,368	961,184
Revenue for services provided	332,975	314,288
Receipts services in the current year	(164,266)	(135,347)
Receipts services in previous years	(60,333)	(65,757)
Balance at end of year	1,182,744	1,074,368
Current	68,898	51,384
Noncurrent	1,113,846	1,022,984

(v) The noncurrent portion consists of trade accounts receivable that are past due and renegotiated with customers and amounts past due related to bulk sales to municipal governments and is recorded in the allowance for doubtful accounts.

(b) The aging of trade accounts receivable is as follows

	PARENT COMPANY AND CONSOLIDATED	
	2009	2008
Current	1,002,506	949,209
Past-due:		
Up to 30 days	160,979	131,542
From 31 to 60 days	68,247	73,370
From 61 to 90 days	47,349	46,708
From 91 to 120 days	51,887	38,413
From 121 to 180 days	56,845	66,267
	112,472	128,033

From 181 to 360  
days

Over 360 days	1,800,219	1,655,965
Total	3,300,504	3,089,507

(c) Allowance for doubtful accounts

(i) Changes in the allowance during the year were as follows:

	PARENT COMPANY AND CONSOLIDATED	
	2009	2008
Previous balance	1,633,289	1,314,671
Private sector/government entities	30,105	99,370
Bulk sales	190,837	219,248
Additions for the year	220,942	318,618
Balance	1,854,231	1,633,289
Current	852,420	778,238
Noncurrent	1,001,811	855,051

(ii) In income

The Company accounted for probable losses on accounts receivable in 2009 totaling R\$295,799, of which R\$74,857 (net of recoveries) were written off from accounts receivable (in 2008 R\$17,646), under Selling expenses . In 2008, these losses amounted to R\$336,264.

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**5. RELATED-PARTY BALANCES AND TRANSACTIONS**

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

(a) Accounts receivable, interest on own capital and operating revenue with the São Paulo State Government

	PARENT COMPANY AND CONSOLIDATED	
	2009	2008
Accounts receivable		
Current:		
Water and sewage services (i)	82,278	113,642
Gesp Agreement (iii), (iv) and (v)	26,181	28,256
Allowance for losses (v)	(12,389)	-
Reimbursement of additional retirement and pension benefits Agreement (ii) and (vi)	25,494	23,050
Reimbursement of additional retirement and pension benefits paid - Monthly flow (ii) and (vi)	14,423	45,183
Total current	135,987	210,131
Long term:		
Water and sewage services - Gesp Agreement (iii)		
(iv) and (v)	73,414	92,396
Reimbursement of additional retirement and pension benefits paid Controversial (ii) and (vi)	471,591	409,079
Allowance for losses Controversial (vii)	(471,591)	(409,079)
Reimbursement of additional retirement and pension benefits Agreement (ii) and (vi)	186,951	192,077
Reimbursement of additional retirement and pension benefits Reservoir (ii) and (vi)	696,283	696,283
Total noncurrent	956,648	980,756
Total receivables from shareholder	1,092,635	1,190,887
Provision of water and sewage services	169,484	234,294

Reimbursement of additional retirement and pension benefits	923,151	956,593
	1,092,635	1,190,887
Interest on own capital payable	198,099	148,861
Gross revenue from sales and services		
Water sales	193,771	186,286
Sewage services	164,532	157,349
Receipts	(349,983)	(281,823)
Financial income	73,927	62,179

## (i) Water and sewage services

The Company provides water supply and sewage collection services to the State Government and other companies related to it in accordance with usual market terms and conditions, except for the settlement of receivables, which may be realized in the conditions mentioned in items (iii), (iv) and (v).

## (ii) Reimbursement of additional retirement and pension benefits paid

Refers to amounts of supplementary retirement and pension benefits provided for in State Law 4819/58 ( Benefits ) paid by the Company to former employees and their survivors.

Under the Agreement referred to in (iii), Gesp recognizes its liability from charges arising from the Benefits, provided that the payment criteria set forth by the State Department of Personnel (DDPE), based on legal guidance of the Legal Consultancy of the Department of Finance and of the State Attorney General's Office (PGE), are followed.

**COMPANHIA DE SANEAMENTO BÁSICO DO State of SÃO PAULO - SABESP**

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As presented in item (vi), some differences associated with the criteria used by the Company for the calculation and eligibility of the benefits were found during the validation performed by Gesp of the amounts due to the Company related to the benefits.

As of December 31, 2009 and 2008, 2,597 and 2,604 retired employees, respectively, received additional retirement benefits, and for the years ended December 31, 2009 and 2008, the Company paid R\$116,082 and R\$110,763, respectively. There were 91 active employees as of December 31, 2009 who will be entitled to these benefits as a result to their retirement as compared with 143 as of December 31, 2008.

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

(iii) Gesp Agreement

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

The total agreement amounted to R\$678,830, at historical amounts, R\$320,623 of which refers to additional retirement and pension benefits in the period from March 1986 to November 2001, and (ii) R\$358,207 arising from the provision of water supply and sewage collection services, billed and past due since 1985 until December 1, 2001, but not paid by Gesp.

In view of the strategic importance of the Taiapuê, Jundiá, Biritiba, Paraitinga and Ponte Nova reservoirs for ensuring and maintaining the Upper Tietê water volume, the Company agreed to receive them as partial repayment of the reimbursement related to the Benefits. The DAEE would transfer the Reservoirs to the Company, replacing the amount owed by Gesp.

However, the São Paulo State Public Prosecution Office challenged the legal validity of this agreement, and its main argument is the absence of a specific legislative authorization for disposal of DAEE's assets. The Company's legal advisors assess the risk of loss in this lawsuit as probable, if the legislative authorization is not obtained, thus would hinder the transfer of the related reservoirs as a partial settlement of the balance receivable.

The balances of water supply and sewage collection services were included in the First and Second Amendments as described in items (iv) and (v) below. The balances related to the reimbursement of additional retirement and pension benefits were included in the Commitment Agreement between São Paulo State and SABESP, as described in items (vi) and (vii) below.

(iv) First Amendment to the Gesp Agreement

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

Pursuant to the Amendment, the State Government recognized the amounts due to the Company for services water supply and sewage collection services provided until February 2004 totaling R\$581,779, including monetary restatement based on the Benchmark Interest Rate (TR) at the end of each year until February 2004. The Company recognized amounts payable to the State Government related to interest on own capital totaling R\$518,732, including (1) amounts declared and paid related to years prior to 2003 (R\$126,967), (2) monetary restatement of these amounts based on the annual fluctuation of the Consumer Price Index (IPC/Fipe) until February 2004 (R\$31,098); and (3) amounts declared and due related to 2003 (R\$360,667).

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The remaining liability was to be paid in monthly installments from May 2005 to April 2009, monetarily restated by the Extended Consumer Price Index (IPCA/IBGE), plus monthly interest of 0.5%.

The Amendment to the Gesp Agreement does not provide for amounts due by the State Government related to the additional retirement and pension plan benefits paid on behalf of the State Government by the Company, which are still subject to the terms of the original Gesp Agreement.

(v) Second Amendment to the Gesp Agreement

On December 28, 2007, the Company and the State Government, by means of the Department of Finance, signed the second amendment to the terms of the original Gesp Agreement, (1) agreeing upon the payment in installments of the remaining balance of the First Amendment, amounting to R\$133,709 (on November 30, 2007), to be paid in 60 monthly and consecutive installments of the same amount, the first of which fell due on January 2, 2008. The amount of the installments will be monetarily restated according to the fluctuation of the IPCA-IBGE, plus interest of 0.5% per month. The balance of this agreement, the installments of which have been paid monthly, includes the amount of R\$46,244, which the State does not recognize as due. SABESP's understanding differs from that of the State regarding this amount and does admit the review of these previously agreed-upon amounts without the supported and unequivocal demonstration of the lack of related support between the amounts presented by SABESP and the services effectively provided. (2) as regards past-due and unpaid accounts in the period March 2004 to October 2007, arising from the provision of water and sewage services totaling R\$256,608, of which we received R\$236,126 and R\$8,093 were transferred to another debtor, and R\$12,389, referring to disputed validation, were submitted to São Paulo State Sanitation and Power Regulatory Agency (ARSESP) are under analysis. To date, differences regarding the debtor but not the amount of the debt have been identified. In the event of the change of the entity responsible for paying the bill, SABESP will transfer the charge to the corresponding Entity. (3) The interest on own capital due by SABESP to the State, related to the period from March 2004 to December 2006, totaling R\$400,823, restated between June 2007 and November 2007, based on the Selic (central Bank overnight rate), was paid in the period from January to March 2008. (4) The State and SABESP agreed on immediately resuming the compliance with their mutual obligations under new assumptions: (a) implementation of an electronic bill management system to facilitate and speed up the monitoring of payment processes and budget management procedures; (b) structuring of the Rational Water Use Program (PURA) to rationalize the consumption of water and the amount of the water and sewage bills under the responsibility of the State; (c) establishment, by the State, of criteria for budgeting so as to avoid the reallocation of amounts to a specific water and sewage accounts as from 2008; (d) possibility of registering state bodies and entities in a delinquency system or reference file; (e) possibility of interrupting water supply to state bodies and entities in the case of nonpayment of water and sewage bills.

Approximately 98% of the billing from November 2007 to December 2009 has already been paid by the State Government.

(vi) Third Amendment to the Gesp Agreement

Gesp, SABESP and DAEE signed the Third Amendment to the Gesp Agreement on November 17, 2008, through which Gesp recognized a debt balance payable to SABESP totaling R\$915,251, monetarily adjusted up to September 2008 in accordance with the fluctuation of the IPCA-IBGE, corresponding to the Undisputed Reimbursement, determined by FIPECAFI. SABESP accepted on a provisional basis the reservoirs as part of the payment of the Undisputed Reimbursement and offered to Gesp a provisional settlement, recognizing a credit totaling R\$696,283,

corresponding to the value of the reservoirs. The final settlement will only be effected with the actual transfer of the property with the proper Registry of Deeds Office. The outstanding balance totaling R\$218,967 is being paid in 114 monthly, consecutive installments, totaling R\$1,920 each, including the annual IPCA/FIPE fluctuation, plus interest of 0.5% p.m., the first of which fell due on November 25, 2008.

The Company and the State Government are working together on obtaining a legislative authorization to transfer the reservoirs to SABESP, overcoming the uncertainties arising from the public lawsuit mentioned in item (iii). The reservoirs will be transferred to the Company after the publication of the legislative authorization.

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

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(vii) As mentioned above on November 17, 2008 the Company and the State signed the Third Amendment to the GESP Agreement, when the reimbursements called disputed and undisputed were quantified. This amendment established the efforts to calculate the so-called Disputed Reimbursement of the Benefits. Under clause four (4) of the amendment, the Disputed Reimbursement represents the difference between the Undisputable Reimbursement and the amount actually paid by the Company as Pension benefits and survivors pensions set out in Law 4819/58, for which, the Company understands, the State of São Paulo is originally liable, but paid by SABESP by May 2008, under a court order.

By entering into the Third Amendment, the State's Legal Representative ( PGE ) agreed to reassess the differences that gave rise to the disposed reimbursement of benefits set out in Law 4819/58. At the time, this expectation was based on the willingness of the PGE to reanalyze the issue and the implied right of the Company to the reimbursement, including based on opinions from outside legal advisors.

However, new opinions issued by the PGE and received on September 4 and 22, 2009 and January 4, 2010 refute, once again, the reimbursement of the largest portion of this amount. As a result, management changed its understanding on the receipt of the Disputed Reimbursement after direct negotiations with the State.

Even though the negotiations with the State are still in progress, it is no longer possible to assure that the Company will recover the receivables related to the Disputed Reimbursement in an amicable manner.

SABESP shall not waive the receivables from the State to which the Company considers itself to be legally entitled. Accordingly, it will take all possible actions to resolve the issue at all technical and court levels. Should this dispute persist, the Company will take all the necessary actions to protect the Company's interests.

In this context, the Company's management decided to recognize net income for 2008 an allowance for the impairment of the disputed reimbursement. As of December 31, 2009, this allowance totals R\$471,591. As a result of the recognition of this allowance, we also recognized the obligation related to the actuarial commitment maintained with the beneficiaries, whose right as it is paid by SABESP is for now denied by the State. As of December 31, 2009, the obligation totals R\$518,027 (2008 R\$535,435). For detailed information on the actuarial obligation refer to note 13.

(b) Cash and cash equivalents

The Company's cash and cash equivalents with financial institutions controlled by the State Government amounted to R\$722,170 and R\$579,750 as of December 31, 2009 and 2008, respectively. The financial income arising from these investments totaled R\$73,927 and R\$62,179 in the years ended December 31, 2009 and 2008, respectively. The Company must, pursuant to a State Decree, invest its surplus resources with financial institutions controlled by the State Government.

(c) Agreements for the use of reservoirs

In its operations, the Company uses the Guarapiranga and Billings reservoirs; should these reservoirs not be available for use to the Company, there could be the need to collect water from more distant places. The Company does not pay any fee for the use of these reservoirs but it is responsible for their maintenance and operating costs.

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

The Company has signed agreements with government entities related to the State Government and municipalities where it operates involving approximately 6,803 properties that benefit from a reduction of 25% in the tariff of water supply and sewage collection services when they are not in default. These agreements provide for the implementation of the rational water use program, which takes into consideration the reduction in the consumption of water.

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(e) Guarantees

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

(f) Sesamm

On August 15, 2008, as part of its growth process, the Company, together with the companies OHL Médio Ambiente, Inima S.A.U. Unipersonal (a Inima ), Técnicas y Gestión Medioambiental S.A.U. (a TGM ) and Estudos Técnicos e Projetos ETEP Ltda. ( ETEP ) incorporated the company Sesamm Serviços de Saneamento de Mogi Mirim S/A ( Sesamm or the Subsidiary ), which is engaged in the provision of complementary services to the sewage diversion system and implementing and operating a sewage treatment system in the municipality of Mogi Mirim, including the disposal of generated solid waste, as described in note 7.

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

The Company has personnel assignment agreements with entities related to the State Government, under which the expenses are fully passed on and monetarily reimbursed.

In 2009, the expenses related to personnel assigned by SABESP to other state government entities amounted to R\$5,359 (2008 - R\$5,503).

In the same period, the expenses related to personnel assigned by other entities to SABESP totaled R\$335 (2008 - R\$1,267).

(h) Services obtained from state government entities

As of December 31, 2009, SABESP had an outstanding amount payable of R\$10,384 for services rendered by São Paulo state government entities, including the supply of electric power by Companhia Energética de São Paulo CESP, which corresponds to 86% of the balance payable.

Expenses related to construction works performed by DAEE amount to R\$11,135.

(i) Non operating assets

As of December 31, 2009 and 2008, the Company had an amount of R\$26,479 mainly related to free land leased to the associations, support entities, non governmental organizations and to DAEE (Water and Electricity Department), among others. The free land leased to DAEE amounts to R\$2,289.

(j) Sabesprev

The Company sponsors a private defined benefit pension plan, which is operated and administered by Fundação SABESP de Seguridade Social - Sabesprev. The net actuarial liability recognized as of December 31, 2009 amounts to R\$480,103 (2008 - R\$419,871).

Management is making efforts to ensure the State maintains payments with respect to transactions with related parties.

#### 6. INDEMNITIES RECEIVABLE

Indemnities receivable are a noncurrent asset that represents amounts receivable from the Municipalities of Diadema and Mauá as an indemnity for their unilateral termination of the concessions for water supply and sewage collection services of the Company in 1995. As of December 31, 2009 and 2008, this asset totaled R\$146,213 and R\$148,794 (nominal amounts), respectively.

Due to these concession agreements, the Company invested in the construction of water and sewage systems in those municipalities in order to meet its concession service commitments. For the unilateral termination of the Diadema and Mauá concessions, the municipalities assumed the responsibility of supplying water and sewage services in those regions. At that time, the Company reclassified the balances of property, plant and equipment related to the assets used in those municipalities to noncurrent assets (indemnities receivable).

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The net book value of property, plant, and equipment relating to the municipality of Diadema, reclassified in December 1996, amounted to R\$75,231, and the indemnity balance from the municipality amounted to R\$60,295 (2008 - R\$62,876).

The net book value of property, plant, and equipment relating to the municipality of Mauá, reclassified in December 1999, totaled R\$103,763, and the indemnities receivables the municipality totaled R\$85,918.

The Company's right to recover these amounts have been challenged by the municipalities.

SABESP filed lawsuits to collect the amounts due by the municipalities. With respect to Diadema, the decision of the lower court judge was unfavorable to SABESP, which filed an appeal in November 2000. In December 2005, SABESP's appeal to have the agreement entered into with the municipality of Diadema declared valid was partially accepted. Even though this Municipal Government filed appeals against this decision, they were all denied and a final and unappealable decision was issued in April 2009. In December 2007, the decision that accepted the execution of the Companhia de Saneamento the Diadema Saned was rendered, ordering this company to be summoned to pay the full amount of the debt within 15 days under the penalty of fine. Saned filed an interlocutory appeal against the decision but the appeal was rejected by the Court of Justice in June 2008. The judge approved the seizure of cash from Saned's bank accounts and short-term investments (online seizure) of up to 10% of the adjusted debt. An appeal was filed against this decision, but the Appellate Court upheld the final and unappealable decision. R\$2,919 were seized and withdrawn on March 3, 2009. Subsequently, the Court of Justice issued an injunction determining the seizure through weekly deposits by Saned in the amount corresponding to 20% of everything received in its bank accounts and short-term investments. This injunction was confirmed in sentence of the Court of Justice, which can still be appealed.

On December 29, 2008, Saned and the City of Diadema entered into a Letter of Intent with the São Paulo State and SABESP for the purpose of preparing studies and conducting negotiations to guide Diadema's and SABESP's decisions, aiming to establish SABESP as the exclusive provider of water supply and sewage collection services for the City of Diadema.

The parties agree that the settlement of the existing conflicts between the companies is indispensable for the proper development of the public utility services of water supply and sewage collection in the municipality of Diadema.

In January 2009, the parties filed a joint petition requesting the suspension of new seizures, for a three-month period, trying to enable an agreement. The suspension was confirmed by the Tax Court. As the settlement on which a possible agreement will be based was maintained, the suspension request was renewed in April 2009, October 2009, and January 2010.

With respect to Mauá, a lower court decision demanded this Municipality to pay the amount of R\$153.2 million as a compensation for loss of profits. In April 2005, the City of Mauá filed an appeal against this decision. On July 2006, the decision was converted into a measure consisting of an expert clarification on the amount of the indemnity for loss of profits. The clarification was provided on December 2007, and the expert confirmed the amount of the loss of profits determined by the lower court. In August 2008, the Court of Justice decided for the integral maintenance of the lower court decision. The Municipal Government of Mauá filed special and extraordinary appeals against the decision

that confirmed the sentence to indemnify Sabesp. Both appeals were denied by the Court of Justice, which led to the filing of a bill of review with the Superior Court of Justice and Federal Supreme Court.

Based on the opinion of its legal advisors, management continues to state that the Company is entitled to receive the amounts related to the indemnity and continues to monitor the status of the lawsuits.

## 7. INVESTMENTS

	2008	Equity share of results of in subsidiaries	2009
Sesamm	3,832	(218)	3,614
Other	720	-	720
Total	4,552	(218)	4,334

On August 15, 2008, the company Sesamm – Serviços de Saneamento de Mogi Mirim S/A was incorporated for a period of 30 years, from the date the concession agreement with the municipality was executed, for the purpose of providing complementary services to the sewage diversion system and implementing and operating a sewage treatment system in the municipality of Mogi Mirim, including the disposal of generated solid waste.

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Sesamm's capital as of December 31, 2009, totaling R\$ 10,669, is represented by 10,669,549 registered shares without a par value, and SABESP holds 36% of its equity interest.

The Company entered into an agreement which provides veto power for certain situations together with Médio Ambient Inima S/A.

**8. PROPERTY, PLANT AND EQUIPMENT**

	PARENT COMPANY			
		2009	2008	
	Adjusted cost	Accumulated depreciation	NET	NET
In use				
Water systems:				
Land	952,163	-	952,163	954,919
Buildings	2,682,852	(1,716,902)	965,950	1,055,391
Connections	1,019,636	(446,680)	572,956	594,865
Water meters	304,139	(155,852)	148,287	146,339
Networks	3,488,399	(1,187,959)	2,300,440	2,311,790
Wells	183,334	(105,179)	78,155	84,485
Equipment	573,424	(401,513)	171,911	169,713
Other	17,744	(14,048)	3,696	2,710
	9,221,691	(4,028,133)	5,193,558	5,320,212
Sewage systems:				
Land	346,382	-	346,382	347,151
Buildings	1,647,682	(743,323)	904,359	899,405
Connections	947,533	(443,408)	504,125	514,481
Networks	5,741,254	(1,436,306)	4,304,948	4,224,754
Equipment	621,009	(458,691)	162,318	156,731
Other	2,625	(1,960)	665	2,044
	9,306,485	(3,083,688)	6,222,797	6,144,566
General use:				
Land	91,452	-	91,452	107,696
Buildings	135,550	(92,473)	43,077	53,204

Transportation equipment	141,811	(121,625)	20,186	19,217
IT equipment	117,403	(73,503)	43,900	35,246
Furniture, fixtures and equipment	248,704	(133,038)	115,666	124,093
Land used	20,488	-	20,488	20,556
Assets by third parties	8,411	(2,488)	5,923	5,923
	763,819	(423,127)	340,692	365,935
Subtotal in use	19,291,995	(7,534,948)	11,757,047	11,830,713
Construction in progress:				
Water systems	1,507,673	-	1,507,673	884,099
Sewage systems	2,166,018	-	2,166,018	1,628,289
Other	10,318	-	10,318	7,400
Subtotal in progress (d)	3,684,009	-	3,684,009	2,519,788
Grand total	22,976,004	(7,534,948)	15,441,056	14,350,501

The consolidated balance totals R\$15,443,211, where the R\$2,140 difference refers to sewage treatment projects and the R\$15 difference basically represents furniture, fixtures and equipment.

In 2009, we reclassified to intangible assets some property, plant and equipment items to improve their presentation. The reclassified items refer to the renewals of concession agreements under program contracts.

These reclassifications were retrospectively applied to 2008 for comparability purposes. The R\$14,926,433 total disclosed in 2008 decreased to R\$14,350,501 after the reclassifications.

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Property, plant and equipment represent assets used in the provision of water supply and sewage collection services in 352 municipalities. SABESP is both the owner and the manager of the assets arising from agreements negotiated based on economic and financial reports and program contracts.

The concession agreements provide for the assets to be handed over to the concession grantor at the end of the term, which will be reimbursed at residual amount or fair value, pursuant to each agreement provisions. In the program contracts, the reimbursement will correspond to the present value of the cash flows for the remaining period on the date services are resumed, monetarily restated, plus interest to the date of actual payment.

## (a) Depreciation

## Review and adjustment of estimated useful lives

The Company analyzed its property, plant and equipment to review and adjust the estimated useful lives used in the calculation of depreciation. For this analysis, the Company engaged a specialized company, which issued a valuation report. The appraiser considered the Company's operating planning for the coming years, our background and the items, maintenance and use levels, outside benchmarks, such available technology, manufacturers' recommendations and manuals, and the assets' life span to prepare its report. The new estimated remaining useful lives of property, plant and equipment items, compared with the current estimated useful lives, is shown in the table below, and has been prospectively accounted for beginning January 1, 2009.

**Current rates**

<b>Property, plant and equipment items</b>	<b>2009</b>	<b>2008</b>
Buildings	2%	4%
Connections	2%	5%
Water meters	10%	10%
Networks	2%	2%
Wells	5%	5%
Equipment	5%	10%
Transportation equipment	10%	20%
Furniture and fixtures	6.7%	10%

The effects of this study in 2009 resulted in a R\$45,018 decrease of depreciation allocated to the operating costs and expenses.

(b) Disposals of property, plant, and equipment

(i) In 2009, the Company wrote off property, plant and equipment items totaling R\$43,090, which resulted in a total loss of R\$22,852 (2008 - R\$20,632). Of the total loss, R\$15,650 (2008 - 12,105) refers to items in use, due to obsolescence, theft and misplacements, R\$6,899 (2008 - 8,527) to discontinued construction, unproductive wells and projects considered economically unfeasible, and R\$303 to loss on sale of part of the land of the Theodoro Ramos water treatment plant (WTA).

(ii) In 2008, the Company recorded losses on property, plant and equipment totaling R\$137,346 referring to leasehold improvements (DAEE Sistema Produtor Alto Tietê).

(c) Capitalization of interest and financial charges

The Company capitalized interest and monetary restatement, including exchange rate changes, in property, plant and equipment totaling R\$143,985 in the year ended December 31, 2009, (2008 - R\$219,430) and during this period these assets were presented as construction in progress.

(d) Construction in progress

Construction in progress refers mainly to new projects and operating improvements and is represented by:

PARENT COMPANY

	2009	2008
Water systems:		
Networks and connections	447,246	276,793
Transmission	65,120	21,439
Water treatment	291,677	86,053
Sub-transmission	535,125	337,222

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Production and storage	131,617	114,638
Other	36,888	47,954
Total water systems	1,507,673	884,099
Sewage systems:		
Collection	1,527,401	1,223,576
Treatment	547,785	284,560
Other	90,832	120,153
Total sewage systems	2,166,018	1,628,289
Other	10,318	7,400
Total	3,684,009	2,519,788

The consolidated balance totals R\$3,686,149, and the difference of R\$2,140 is represented by sewage treatment projects.

The estimated disbursements related to already contracted investments total approximately R\$3,741 million for the years from 2010 to 2015 (unaudited).

**(e) Expropriations**

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

The amount of compensation to be paid starting in 2010 is estimated at approximately R\$526 million (unaudited) which will be paid with the company's own funds. The assets to be received as a result of these negotiations will be recorded as property, plant, and equipment after the transaction is completed. In 2009, the amount related as expropriations was R\$6,244 (2008 - R\$11,004).

**(f) Assets pledged as guarantee**

As of December 31, 2009 and 2008, the Company had assets totaling R\$249,034 offered as guarantee of the request for the Paes (tax debt refinancing program) (note 12).

**(g) Nonoperating assets**

As of December 31, 2009, the Company had R\$26,411 (2008 - R\$26,479) mainly related to free land leased to the associations, welfare entities, non-governmental organizations and to DAEE (Water and Electricity Department), among others.

(h) Revaluation

Property, plant and equipment items were revalued in 1990 and 1991 and are depreciated at annual rates that correspond to their remaining useful lives.

As allowed by CVM Instruction 197/93, the Company did not accrue the deferred tax effect on the appreciation arising from the revaluation of property, plant and equipment in 1990 and 1991. Should income tax and social contribution be recognized on the revaluation reserve, the amount too as of December 31, 2009 would total R\$337,063 (2008 R\$371,088). The amounts of R\$86,817 and R\$107,912 of the revaluation reserves were realized in the years ended December 31, 2008 and 2009, respectively.

The Company's management opted to maintain the revaluation reserve until its actual realization.

(i) Fully depreciated assets