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GRI 1.1

# Message from the Chairman of the Board of Directors

## Quality of Living: The Major Goal

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What drives the sustainable activity of Companhia de Saneamento Básico do Estado de São Paulo? While the answer may seem simple, it is not. In its essence, it involves great complexity and requires vigorous, constant, and articulated work in several fronts.

What, objectively, is sustainability?

Sustainability is a concept involving three essential dimensions of commitment: First, with the environment, which indirectly expresses our commitment with future generations; second, with social equality, which implies an express commitment with universal access to the services to all the segments of society; and, third, with the economic and financial sustenance of such services, so as to provide means to their expansion in the measure required to ensure the full satisfaction of the two previous dimensions.

From the perspective of Sabesp and its insertion in those three dimensions, sustainability is to act in accordance with clear rules, both in connection with the provision of services and from the accounting, economic, financial and technical perspectives (seeking and implementing new technologies), as well as to have an efficient expense management. This includes a modern human resource management, which values results, and an investment plan that effectively results in problem-solving, with improvement of quality of living. This is how Sabesp serves more than 26 million people in 366 of the 645 municipalities in the State of São Paulo.



In 2008, the company structured its Regulatory Affairs Area and increased its transparency in its relationship with customers. For the first time in its history, the company sent management reports on service provision to each of the municipalities under renewed agreements, in accordance with the new regulations, which establish sanctions and penalties. Agreements were signed with 53 municipalities under the regulation and inspection of services by the São Paulo State Sanitation and Power Regulatory Agency (Artesp). Rules are clear. The 30-year validity of the agreements bears witness to the municipalities' trust in the service provider.

In compliance with new legislation, the company is expanding outside the limits of the State of São Paulo. In 2008, Sabesp signed three new technical cooperation agreements with other state sanitation companies: Cagepa from Paraíba, Corsan from Rio Grande do Sul, and Cesan from Espírito Santo. It had already signed with Casal from Alagoas in 2007. In January 2009, Sabesp negotiated its first international agreement with Instituto Costarricense de Acueductos y Alcantarillados (Aya) from Costa Rica.

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This is how Sabesp serves more than **million** people in 366 of the 645 municipalities in the State of São Paulo

Notwithstanding the global economic crisis, Sabesp obtained a net income of R\$ 1.008 billion, not much lower than the 2007 net income. Such good result is due to the fact that the company employs an efficient management, has a stable revenue, and, being a government-controlled corporation, has access to domestic and international financing at attractive rates and long-term maturities. Those are basic factors to ensure the economic and financial strength of Sabesp and to preserve its multiannual investment plan. In the São Paulo Stock Exchange, the company's securities dropped less than the Ibovespa.

In its search for the best technology, Sabesp invested R\$ 3.5 million in R&D in 2008. Now, in 2009, it is structuring its new Research & Development & Innovation area to expand research and technological innovation. Aiming at reaching universal services, the company invested R\$ 1.7 billion in 2008, a record in a decade. By the end of 2010, the goal is to increase the sewage collection rate to 81% and the collected sewage treatment rate to 78%. The water supply rate is very close to universal.

The company met or exceeded most of the 10 major goals for 2008. The revisited Ethical Values of Sabesp were incorporated into the Strategic Planning: regard for the society and the customer, regard for the environment, regard for people, integrity, competence, and citizenship.

This is all reflected in its major programs, such as the Vida Nova (New Life Program), for protection and recovery of the Billings and Guarapiranga water sources, and the Córrego Limpo (Clean Stream Program), for clean-up of 100 rivers in the State capital, of which 42 in the first phase, already completed, and 58 in the second phase, by the end of 2010. With the Córrego Limpo (Clean Stream Program), Sabesp's work becomes visible and concrete to the community.

This is not about underground pipes, but clean water flowing in neighborhoods. The smile in the faces of the residents in the environs is the fullest expression of the success of this project. With the first phase alone, there are already 800,000 people living in a now clean and healthy environment. The Córrego Limpo (Clean Stream Program) will receive R\$ 440 million by 2010 and will benefit 4 million people. The Vida Nova (New Life Program) also includes protection of green areas and urbanization of shanty towns and will directly benefit approximately 45,000 families, a great part of which will have new residences with complete infrastructure.

Both programs, which are developed and implemented under a partnership between the São Paulo State Government and the São Paulo Municipal Government, have various domestic and international financing sources and are counter-guaranteed by Sabesp. The programs will bring enhanced health and quality of living for the community, as well as the recovery of the urban environment and the resulting appreciation of land value in the areas. The Vida Nova (New Life Program) will have investments of R\$ 1.2 billion. Coordinated by the Sanitation and Energy Department, it involves activities of Sabesp, CDHU (Companhia de Desenvolvimento Habitacional Urbano), and the São Paulo municipal government.

There are also other major projects in progress, such as Tietê III, one third of which is already under public bidding, and the process is authorized by the IDB even before the execution of the US\$ 800 million financing agreement; the Programa Metropolitano de Água (Metropolitan Water Program), which will increase the water volume to the region by 20%; and the Onda Limpa (Clean Wave Program), in the Santos coastal region and in the North Shore, to recover beach water pollution levels in the State of São Paulo.

This Sustainability Report pictures an important chapter in the contemporary history of the State of São Paulo – a period of major changes in the sanitation area. A chapter written by many hands: the State governor, the Sanitation and Energy Department and Sabesp, municipal governments, the regulatory agency, the board of directors and audit committee, shareholders, lenders, and other partners in this ever-challenging endeavor. Sabesp is aware of the importance of partners for sustainable development. The major goal is the enhancement of quality of living for all.

***Dilma Pena***



# GRI 1.1 Message from the CEO

## 2008 Balance and 2009 Challenges


In 2008, Sabesp took important steps to adapt itself to the challenges and opportunities brought by the regulatory framework, gaining strength as a efficient and competitive environmental solutions company. With the effort of all employees, a major part of the goals proposed was met. Five achievements deserve to be highlighted.

First, the acceleration of investments towards universal services was remarkable. In 2008, R\$ 1.7 billion were invested, the largest volume in the last 10 years. In the 2007-2008 biennium, investments reached approximately R\$ 2.6 billion, more than twice the amount invested during the 2003-2004 period and 65% over the 2005-2006 biennium.

The acceleration of investments is essential to expand services in line with the new strategic guidelines of the company. The new Sabesp vision establishes as its objective for 2018 “to be recognized as the company that made sanitation services universal in its area of activity, with a focus on the customer, in a sustainable and competitive manner, and with excellence in environmental solutions”.


In order to materialize such objective, the Company has been working intensely in the expansion of sewage collection and treatment, clean-up of the Tietê River and other rivers and streams in São Paulo, improvement of beach water pollution levels, preservation of water sources, and promotion of rational use of water resources. The achievements indicate Sabesp’s commitment with development and sustainability.

In 2008, 189,000 water connections and 169,000 sewage connections were performed, which amounts to the inclusion of a city the size of São José dos Campos, with a population of 600,000, in the Sabesp service network. The achievement in terms of collected sewage treatment was even more significant. The coverage rate was increased from 63% in 2006 to 66% in 2007 and 72% in 2008, which is sufficient



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**R\$ 1.7** In 2008, **billion** were invested, the largest volume in the last 10 years



to incorporate into the sewage treatment structure a city the size of Guarulhos, with a population of approximately 1.3 million, per year. The goal for 2009 is to maintain the work towards universal services in water supply, increase the sewage collection rate to 80%, and increase the collected sewage treatment rate to 74%.

Such work is integrated into a global effort to achieve the millennium goals established by the United Nations (UN). In the field of environmental sustainability, the UN established as a goal to reduce by half the percentage of population without access to drinking water and to basic sanitation by 2015. Sabesp is going beyond that and working at a fast pace to make services universal in the municipalities where it operates.

In addition, investments also made possible to reduce water losses by four percentage points, from 31.9% of the volume billed in 2006 to 27.7% in 2008. Such reduction amounts to an economy of water sufficient to incorporate a city with a population of 1.2 million into the service network. The increase in efficiency reduces the consumption of water resources, water treatment materials, and electricity. By way of illustration, the economy achieved with the reduction of losses resulted in a lower production of water in 2008 than in 2007, in spite of the increase in the number of connections and the population growth.

Second, contractual and market stabilization improved. During the year, 58 authorization laws were approved by city councils, which made possible the renewal of concessions in 53 municipalities. Accordingly, the company ended the year with 160 program contracts signed and is preparing to sign other 89 contracts in 2009. The process of contract renewal allows to identify the major needs of each municipality and to incorporate such needs into the company's investment plan.

Third, certain important outstanding debts have been settled. The main highlight was the signature of the Third Amendment to the agreement with the São Paulo State Government, which ensured the settlement of debts outstanding for several years between the parties. In connection with the relationship with the São Paulo Municipal Government, the major achievement was the reestablishment of the flow of payments of the municipality's accounts. The delinquency rate was reduced from an average 85% in the 3 previous years to 5% in 2008.

Fourth, a comprehensive process of corporate modernization is in progress at Sabesp. The achievements include an improvement of the strategic planning, which increased the focus of employees on goals and results, and the implementation of the value-added management system (VAM), which will increase the efficiency in the use of the Company's production resources.

The process of adequacy of personnel started in 2008 deserves special attention. In compliance with the guidelines issued by the State Public Prosecution Office, Sabesp signed a Conduct Adjustment Instrument for termination of all employees retired under the INSS [Social Security Authority] scheme. Since this is the moment of expansion of the company's capacity, a restructuring of personnel through the recruitment new talent will be essential. In 2009, Sabesp will carry out the first comprehensive public selection process since 2001, to fill 1,771 positions in the several municipalities operated in the State of São Paulo.

The generation of employees which will join Sabesp after such process will have the privilege to learn with the skilled and dedicated team which built the largest sanitation company in Latin American and one of the largest in the world. With its personnel restructured, Sabesp will be capable of facing future challenges and expanding its frontiers and operating areas.

Fifth, the company took major steps to adjust its strategic position in connection with the new regulatory framework. Following the creation of the environmental area in 2007, the regulatory affairs area was created, with the purpose of fomenting the adoption of regulatory best practices and promoting a regulatory culture in the company.

In addition, there was significant improvement in the creation of the new business area, the role of which is to assess opportunities in other markets and in new segments. During the year, Sabesp established its first partnership with the private sector for sewage treatment in Mogi Mirim, signed three cooperation agreements with state-owned companies for technology exchange, and negotiated its first international agreement with AYA from Costa Rica.

Important steps were also taken for the creation of an R&D&I area. The purpose of such new division will be to organize and expand the company's research and innovation efforts, which are a basic ingredient for increase in efficiency and competitiveness. The research topics were selected taking into account the minimization of the environmental impact of our activities in connection with electricity consumption, loss reduction, and development of sustainable technologies for disposal of sludge.



At the same time, the Sabesp Environmental Solutions platform, launched in 2007, showed its first results. A total of 54 new firm demand agreements were signed with major customers, which is higher than the total number of agreements in the 2003-2006 period. Sabesp also launched the remote and individual measurement services, in response to an old demand from residential condominiums.

Also worth mentioning are our efforts to improve services in socially more vulnerable communities. In partnership with the São Paulo Municipal Government, Sabesp has been engaged in a comprehensive program for river clean-up, urbanization of shanty towns, and construction of parks, thus contributing to improve quality of living in the city. Moreover, 30 meetings with community leaders were held in order to meet demands from the population.

The effort to expand and improve services were perceived by a major part of our 26 million customers. The result of the satisfaction survey showed that 80% are satisfied with the services provided. We also had a 57% reduction in the number of reasonable complaints submitted to Procon, which reflects the improvement in our Customer Service and Ombudsman Office.

All the achievements mentioned occurred during a year marked by an important change in the economic scenario. In the last quarter of 2008, the Brazilian economy reported a 3.6% decrease in comparison with the previous quarter. Therefore, 2009 will be a doubly-challenging year for Sabesp. The goals are not only at an ambitious level, but will also be pursued in an adverse economic context, particularly as regards credit availability.

Sabesp's objective is to advance its work program while maintaining the current level of R\$ 1.7 billion in investments, in spite of the effects of the crisis. The profits in excess of R\$ 1 billion achieved by the company in 2008 guarantee at the same time its good risk rating and, consequently, its financing and investment capacity. Complementarily, Sabesp is implementing a set of adjustment measures, including reduction of current expenses, acceleration of the land optimization plan, suspension of non-priority repairs and projects, and other measures.

Investments in sanitation have positive impacts on public health, environment, and job creation. In line with the guidelines of the José Serra administration, Sabesp will maintain its investment plan, contributing for the economic and environmental development of the State of São Paulo.

**Gesner Oliveira**



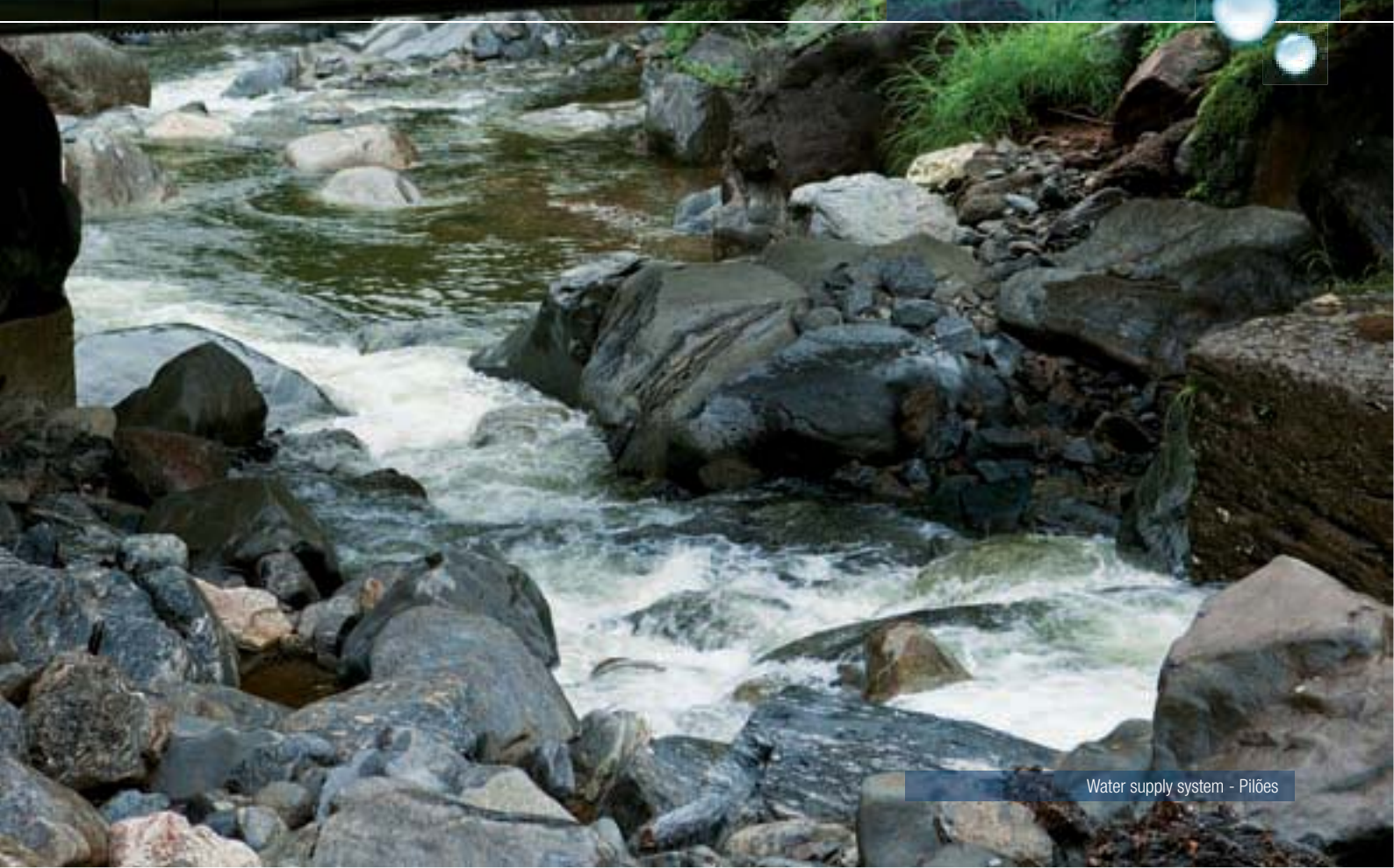


Sewage Treatment Plant - Monte Alto



# Preservation technology in all stages of the process

The implementation of policies aimed at environmental sustainability and increase of the **environmental solutions** platform strengthen Sabesp's commitment with the environment





Water Treatment Plant - Alto Cotia

Sabesp offers sanitation services to 366 of the 645 municipalities in the State of São Paulo, supplies water on a wholesale basis to six municipalities under permission<sup>1</sup>, and treats sewage in five of those municipalities, thus serving more than 26 million citizens, both directly and indirectly, which accounts for 67% of the urban population of the State.

Sabesp is a government-controlled company and its principal shareholder is the São Paulo State Government. The Company went public in 1994; 100% of its shares are common, and, in 2002, it became the first government-controlled company to adhere to the Novo Mercado segment of BM&FBovespa, which is the segment with the highest level in corporate governance in Brazil. At the same time, its shares became listed in the New York Stock Exchange (NYSE).

The significant changes in the regulation governing the sanitation industry during 2007 created new challenges and opportunities for Sabesp. The new regulatory framework consolidated the integration between the investments of the service provider and the priorities established by the owner of the services, made the rendering of accounts more efficient and transparent, and increased safety for investments.

In addition to the rendering of basic sanitation services in the State of São Paulo, Sabesp is also authorized to perform these activities in other States and countries. Sabesp can also conduct activities in urban drainage, urban cleaning, solid waste handling and electric energy markets.

**GRI 4.8** Given such changes, Sabesp went through a process of improvement of its strategic planning in 2008, with a focus on short- and long-term goals and results and better integration with the budget. The Board of Directors approved the Company's five new strategic guidelines, and its mission and vision were redefined, as described in table 1.

<sup>1</sup>Wholesale customers are municipalities to which are those to which Sabesp supplies part of the services that form the sanitation cycle. As regards treated water, sale is made in bulk and municipality is responsible for the distribution. In the case of the sewage, the municipality collects it and Sabesp offers the treatment service.

**Table 1** - Mission and vision improve the focus and facilitate communication

<p><b>Mission</b></p> <p><b>“Provide sanitation services, thus contributing to the improvement of quality of living and the environment.”</b></p>	<p><b>Vision</b></p> <p><b>“In 2018: To be recognized as the Company that made sanitation services universal in its area of activity, with a focus on the customer, in a sustainable and competitive manner, and with excellence in environmental solutions.”</b></p>
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Currently, 112 municipalities served by Sabesp already have universal water and sewage services. In order to fulfill its mission and achieve the goals proposed in its vision, in its investment plan from 2009 to 2013, Sabesp contemplates approximately R\$ 8.6 billion in structuring programs, which are essential to make sanitation services universal in the other 254 municipalities served by the Company.

Moreover, Sabesp is expanding its Environmental Solutions platform, addressed to major customers wishing to benefit from the Company’s knowledge and technology for the rational use of water and adequate disposal of sewage, thus contributing to the preservation of the environment.

The mission and vision of Sabesp are fully in line with its ethical values: regard for the society and the customer, regard for the environment, regard for people, integrity, competence, and citizenship. Such values provide guidance to the work of the Company’s 16,649 employees throughout the State.



## Strategic Guidelines

### Environmental solutions

To incorporate the focus on Environmental Solutions into the Company's operation dynamics. Such incorporation includes the implementation of policies towards environmental sustainability, strengthening of the commitment to the environment and society, and expansion of the environmental solutions platform.

### Universal service and quality

To make water supply and sewage deviation and treatment services universal by 2018 in all municipalities where Sabesp is a concessionaire in the State of São Paulo, aiming at excellent quality in the products and services offered.

### Growth with sustainability

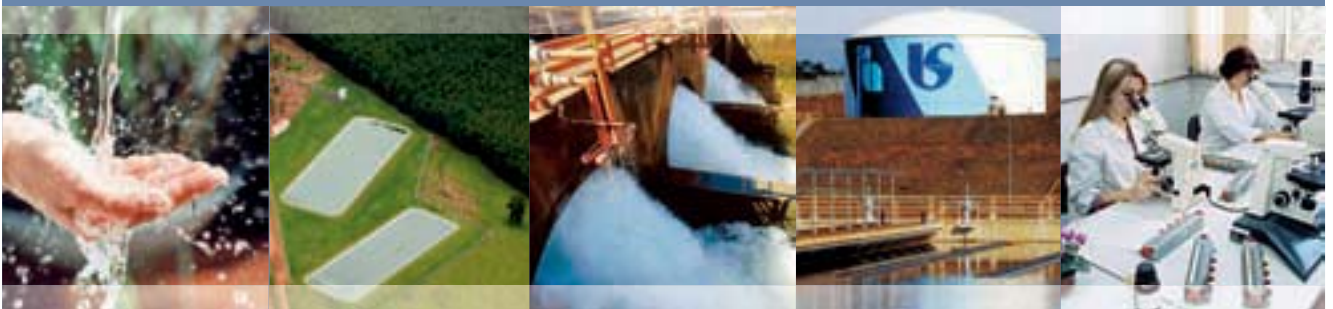
To seek the growth of the Company while ensuring economic and financial sustainability, in a scenario where the other guidelines are fully implemented, based on measures towards an increase in operating efficiency, such as water loss prevention and efficient use of inputs, and an appropriate management of revenues, expenses, assets and liabilities, in order to generate resources to ensure the necessary investments.

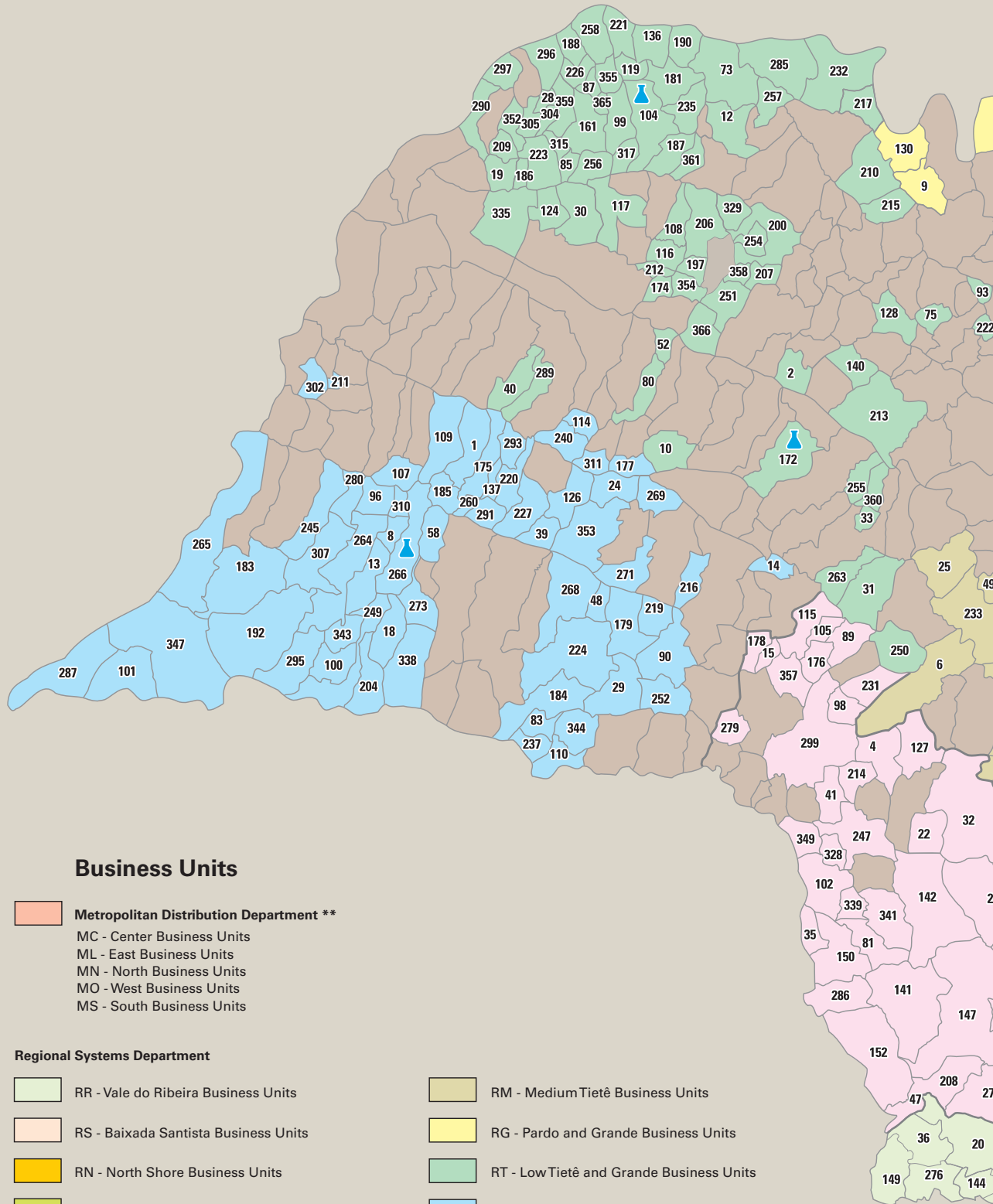
### Proactive conduct in external relationships

To adopt a proactive conduct in the development and maintenance of ethical and harmonious relationships with customers, municipalities, control and regulatory agents, shareholders, lenders, supply chain partners, entities from the civil society, and other players.

### Integration and innovation

To increase productivity in the Company based on a better integration of processes, sharing of resources and structures, and focus on innovation. This includes to restructure the Company wherever necessary, capacitating it to the new challenges and rewarding performance. It is also essential to foment a continued development of human resources, in line with the strategic planning, and to promote the diffusion of knowledge and technological evolution.





\* a partnership with OHL Médio Ambiente Inima, Técnicas y Gestión Ambiental, and Estudos Técnicos e Projetos ETEP LTDA. The concession purpose is the detour of sewages, implementation and operation of the sewage treatment system.

\*\* partial service to the municipality of Mogi das Cruzes (Taboão Industrial District and Neighboring Districts). The concession purpose is water supply.





## Map of the Municipalities served by Sabesp

1	Adamantina	63	Campina do Monte Alegre	123	Guarujá	188	Mesópolis	251	Planalto	310	Santo Expedito
2	Adolfo			124	Guzolândia	189	Miguelópolis	252	Platina	311	Santópolis do Aguapeí
3	Águas da Prata	64	Campo Limpo Paulista	125	Hortolândia	190	Mira Estrela	253	Poá	312	Santos
4	Águas de Santa Bárbara	65	Campos do Jordão	126	Iacri	191	Miracatu	254	Poloni	313	São Bento do Sapucaí
5	Águas de São Pedro	66	Cananéia	127	Iaras	192	Mirante do Paranapanema	255	Pongai	314	São Bernardo do Campo
6	Agudos	67	Canas	128	Ibirá	193	Mococa	256	Pontalinda	315	São Francisco
7	Alambari	68	Cândido Rodrigues	129	Ibiúna	194	Mogi das Cruzes	257	Pontes Gestal	316	São João da Boa Vista
8	Alfredo Marcondes	69	Capão Bonito	130	Icém	195	Mogi Mirim	258	Populina	317	São João das Duas Pontes
9	Altair	70	Capela do Alto	131	Igarapava	196	Mombuca	259	Porangaba	318	São José dos Campos
10	Alto Alegre	71	Caraguatatuba	132	Igaratá	197	Monções	260	Pracinha	319	São Lourenço da Serra
11	Alumínio	72	Carapicuíba	133	Iguape	198	Mongaguá	261	Praia Grande	320	São Luiz do Paraitinga
12	Álvares Florence	73	Cardoso	134	Ilha Comprida	199	Monte Alto	262	Pratânia	321	São Manuel
13	Álvares Machado	74	Cássia dos Coqueiros	135	Ilhabela	200	Monte Aprazível	263	Presidente Alves	322	São Miguel Arcanjo
14	Álvaro de Carvalho	75	Catiguá	136	Indiaporã	201	Monte Mor	264	Presidente Bernardes	323	São Paulo
15	Alvinlândia	76	Cesário Lange	137	Inúbia Paulista	202	Monteiro Lobato	265	Presidente Epitácio	324	São Roque
16	Angatuba	77	Charqueada	138	Iperó	203	Morungaba	266	Presidente Prudente	325	São Sebastião
17	Anhembi	78	Colômbia	139	Iporanga	204	Narandiba	267	Quadra	326	São Vicente
18	Anhumas	79	Conchas	140	Irapuã	205	Nazaré Paulista	268	Quatá	327	Sarapuí
19	Aparecida d'Oeste	80	Coroados	141	Itaberá	206	Nhandeara	269	Queiroz	328	Sarutaiá
20	Apiáí	81	Coronel Macedo	142	Itaí	207	Nipoã	270	Queluz	329	Sebastianópolis do Sul
21	Araçariguama	82	Cotia	143	Itanhaém	208	Nova Campina	271	Quintana	330	Serra Azul
22	Arandu	83	Cruzália	144	Itaoca	209	Nova Canaã Paulista	272	Redenção da Serra	331	Serra Negra
23	Arapeí	84	Cubatão	145	Itapeccerica da Serra	210	Nova Granada	273	Regente Feijó	332	Sete Barras
24	Arco Íris	85	Dirce Reis	146	Itapetininga	211	Nova Guataporanga	274	Registro	333	Silveiras
25	Arealva	86	Divinolândia	147	Itapeva	212	Nova Luzitânia	275	Restinga	334	Socorro
26	Areiópolis	87	Dolcinópolis	148	Itapevi	213	Novo Horizonte	276	Ribeira	335	Sud Menucci
27	Arujá	88	Dourado	149	Itapirapuã Paulista	214	Óleo	277	Ribeirão Branco	336	Suzano
28	Aspásia	89	Duartina	150	Itaporanga	215	Onda Verde	278	Ribeirão Corrente	337	Taboão da Serra
29	Assis	90	Echaporã	151	Itaquaquecetuba	216	Oriente	279	Ribeirão do Sul	338	Taciba
30	Auriflâma	91	Eldorado	152	Itararé	217	Orindiuva	280	Ribeirão dos Índios	339	Taguaí
31	Avai	92	Elias Fausto	153	Itariri	218	Osasco	281	Ribeirão Grande	340	Tapiraí
32	Avaré	93	Embaúba	154	Itatiba	219	Oscar Bressane	282	Ribeirão Pires	341	Taquarituba
33	Balbinos	94	Embu	155	Itatinga	220	Oswaldo Cruz	283	Rifaina	342	Taquarivaí
34	Bananal	95	Embu-Guaçu	156	Itirapuã	221	Ouroeste	284	Rio Grande da Serra	343	Tarabaí
35	Barão de Antonina	96	Emilianópolis	157	Itobi	222	Palmares Paulista	285	Riolândia	344	Tarumã
36	Barra do Chapéu	97	Espírito Santo do Pinhal	158	Itupeva	223	Palmeira d'Oeste	286	Riversul	345	Tatuí
37	Barra do Turvo	98	Espírito Santo do Turvo	159	Jaborandi	224	Paraguacu Paulista	287	Rosana	346	Taubaté
38	Barueri	99	Estrela d'Oeste	160	Jacupiranga	225	Paranapanema	288	Roseira	347	Teodoro Sampaio
39	Bastos	100	Estrela do Norte	161	Jales	226	Paranapuã	289	Rubiácea	348	Terra Roxa
40	Bento de Abreu	101	Euclides da Cunha Paulista	162	Jambeiro	227	Parapuã	290	Rubinéia	349	Timburi
41	Bernardino de Campos	102	Fartura	163	Jandira	228	Paradinho	291	Sagres	350	Torre de Pedra
42	Bertioga	103	Fernando Prestes	164	Jarinu	229	Pariquera-Açu	292	Salesópolis	351	Tremembé
43	Biritiba-Mirim	104	Fernandópolis	165	Jeriquara	230	Paulínia	293	Salmourão	352	Três Fronteiras
44	Bocaina	105	Fernão	166	Joanópolis	231	Paulistânia	294	Salto de Pirapora	353	Tupã
45	Bofete	106	Ferraz de Vasconcelos	167	Juquiá	232	Paulo de Faria	295	Sandovalina	354	Turiuba
46	Boituva	107	Flora Rica	168	Juquitiba	233	Pederneiras	296	Santa Albertina	355	Turmalina
47	Bom Sucesso de Itararé	108	Floreal	169	Lagoinha	234	Pedra Bela	297	Santa Clara d'Oeste	356	Ubatuba
48	Borá	109	Flórida Paulista	170	Laranjal Paulista	235	Pedranópolis	298	Santa Cruz da Esperança	357	Ubirajara
49	Boracéia	110	Flórida Paulista	171	Lavrinhas	236	Pedregulho	299	Santa Cruz do Rio Pardo	358	União Paulista
50	Botucatu	111	Franca	172	Lins	237	Pedrinhas Paulista	300	Santa Ernestina	359	Urânia
51	Bragança Paulista	112	Francisco Morato	173	Lorena	238	Pedro de Toledo	301	Santa Maria da Serra	360	Uru
52	Brejo Alegre	113	Franco da Rocha	174	Lourdes	239	Peruibe	302	Santa Rosa de Viterbo	361	Valentim Gentil
53	Buri	114	Gabriel Monteiro	175	Lucélia	240	Piacatu	303	Santa Mercedes	362	Vargem
54	Buritizal	115	Gália	176	Lucianópolis	241	Piedade	304	Santa Rosa de Viterbo	363	Vargem Grande Paulista
55	Cabreúva	116	Gastão Vidigal	177	Luiziânia	242	Pilar do Sul	305	Santa Saete	364	Várzea Paulista
56	Caçapava	117	General Salgado	178	Lupércio	243	Pindamonhangaba	306	Santana da Ponte Pensa	365	Vitória Brasil
57	Cachoeira Paulista	118	Guapiara	179	Lutécia	244	Pinhalzinho	307	Santana de Parnaíba	366	Zacarias
58	Caiabu	119	Guarani d'Oeste	180	Macatuba	245	Piquerobi	308	Santo Anastácio		
59	Caieiras	120	Guararema	181	Macedônia	246	Piracaia	309	Santo Antônio do Jardim		
60	Cajamar	121	Guareí	182	Mairiporã	247	Pirajuru		Santo Antônio do Pinhal		
61	Cajati	122	Guariba	183	Marabá Paulista	248	Pirapora do Bom Jesus				
62	Cajuru			184	Maracá	249	Pirapozinho				
				185	Mariópolis	250	Piratininga				
				186	Marinópolis						
				187	Meridiano						



Water Treatment Plant - Alto Cotia

**GRI 2.10** The focus and dedication of those employees have been recognized by the market and by society in several ways: the satisfaction rate of the Company's customers reached 80%; Sabesp was included in the Global Treaty (a UN initiative congregating the largest voluntary groups of social responsibility in the world); and remains a participant in the BM&FBovespa Corporate Sustainability Index (ISE), a portfolio which includes in its listing only companies that show a high level of commitment with sustainability and social responsibility. Moreover, the Company received several awards in 2008, including the following highlights:

- Pan-American Sustainable Development "Luis Wannoni Lander" Award, an international sustainability prize granted to the Tietê Project managed by Sabesp, from the Inter-American Association of Sanitary and Environmental Engineering (AIDIS);
- Corporate Excellence Award from Fundação Getúlio Vargas (FGV), which appointed Sabesp the best company in the Brazilian sanitation industry;
- Annual Balance Award, granted by Gazeta Mercantil, which appointed Sabesp the best company in the "Sanitation and Cleaning" industry;
- São Paulo State Management Quality Award (PPQG) - Level III - "State Governor Award for Management Excellence" - Government-Controlled Category, for its management model;
- National Sanitation Quality Award (PNQS) – Levels I, II and III;
- Anefac-Fipecafi-Serasa Award (Transparency Award) - Publicly-Held Category, for the accounting transparency of its balance sheet;
- Banas Management Quality Award, for the Company's high level of development and commitment to the quality system;
- E-Learning Award (National Reference) to Sabesp Corporate University;
- Human Being Award – Quality of Life, for the Program for the Support and Recovery of Addicted Employees (PARE);
- Golden Certificate: Tobacco-Free Environment;
- 19 de Março Award, in the Innovation category, for the Eletronic Auction System;
- Excellence in E-Government Award, in the G2B Category – Government to Business, for the Bidding Management System;
- IT & Government Award, in the E-Public Administration Category, for the Reference Price of Materials Database Project;
- The 100 Best Companies in IDHO 2008 (Human and Organizational Development Index);
- Probare Certificate of Ethics and Management Maturity Profile, granted to the Sabesp customer service center, for having met highly strict standards of efficiency in operations and human relationships.

## Indicator Table

Indicators	Unit	2004	2005	2006	2007	2008
<b>Service</b>						
Water Supply Rate		Tends to universal service <sup>(1)</sup>				
Sewage Collection Coverage Rate	%	78	78	78	79	79
Collected Sewage Treatment Rate	%	63	61	63	66	72
Resident Population with Water Supply	thousands of hab.	22,335	22,570	22,700	22,959	23,162
Resident Population Served with Sewage Collection	thousands of hab.	18,014	18,326	18,519	18,881	19,198
<b>Operating</b>						
Water Connections	thousand units	6,358	6,489	6,609	6,767	6,945
Sewage Connections	thousand units	4,747	4,878	5,002	5,167	5,336
Water Network Length <sup>(2)</sup>	km	57,320	57,999	61,469	62,318	62,582
Sewage Network Length <sup>(2)</sup>	km	36,435	37,181	39,126	40,608	41,312
ETAs (Water Treatment Plants)	units	195	201	197	198	206
ETEs (Sewage Treatment Plants)	units	431	440	446	461	464
Water Losses	%	34.0	32.4	31.9	29.5	27.7
Water Losses per Connection	liters / (connection x day)	549	520	511	467	432
Hydrometering Rate <sup>(3)</sup>	%	99.96	99.97	99.97	99.98	99.98
Water Production Volume	millions of m <sup>3</sup>	2,770	2,830	2,887	2,874	2,853
Water Micromeasured Volume in the Retail Market	millions of m <sup>3</sup>	1,248	1,313	1,363	1,392	1,404
Water Volume Billed in the Wholesale Market	millions of m <sup>3</sup>	251	259	263	274	285
Water Volume Billed in the Retail Market	millions of m <sup>3</sup>	1,441	1,500	1,544	1,573	1,596
Sewage Volume Billed	millions of m <sup>3</sup>	1,141	1,198	1,246	1,300	1,330
Number of Employees <sup>(4)</sup>	employees	17,735	17,448	16,978	16,850	16,649
Operating Productivity	connections / employee	626	651	684	708	738
<b>Financial <sup>(5)</sup></b>						
Gross Revenue	millions of R\$	4,642.5	5,356.3	5,984.0	6,448.2	6,838.8
Net Revenue	millions of R\$	4,397.1	4,953.4	5,527.3	5,970.8	6,351.7
EBITDA <sup>(6)</sup>	millions of R\$	1,926.5	2,285.6	2,446.1	2,698.9	2,840.3
EBITDA Margin	% of net revenue	43.8	46.1	44.3	45.2	44.7
Operating Income <sup>(7)</sup>	millions of R\$	1,327.6	1,689.6	1,804.0	2,048.0	2,114.0
Operating Margin	% of net revenue	30.2	34.1	32.6	34.3	33.3
Net Income (Loss)	millions of R\$	513	865.6	778.9	1,055.30	1,008.1
Net Margin	% of net revenue	11.7	17.5	14.1	17.7	15.9
Net Debt by EBITDA	multiple	3.60	2.79	2.45	1.93	2.20
Net Debt on Shareholders' Equity	%	87.3	75.3	65.8	53.4	59.5
Investment	millions of R\$	601	678	905	921	1,708.0
<b>Environmental</b>						
Reuse Water Volume on Treated Sewage Volume	%	-	-	-	0.84	0.75
Energy Consumption per m <sup>3</sup> of Water Produced	kWh/m <sup>3</sup>	-	-	-	-	0.655
Energy Consumption per m <sup>3</sup> of Sewage Treated	kWh/m <sup>3</sup>	-	-	-	-	0.388
Direct and Indirect Emissions of Greenhouse Gases	t CO <sub>2</sub> e	-	-	-	1,142,769	n/a
Recycled A4 Paper per Total A4 Paper Used	%	-	-	2.90	14.41	15.53
Quantity of A4 Paper per Employee	sheets / employee	3,045	2,751	2,893	2,829	2,846
Positive Public Perception of Sabesp's Environmental Responsibility <sup>(8)</sup>	%	-	-	-	-	66
Seedlings Planted <sup>(9)</sup>	units	45,174	88,026	50,253	127,118	125,573
<b>Social</b>						
Frequency Rate of Accidents with Leave <sup>(10)</sup>	accidents / million working hours	8.0	7.7	7.4	7.1	7.2
Amount Invested in Internal Social Programs <sup>(11)</sup>	millions of R\$	388	384	433	391	432
Amount Invested in Internal Social Programs <sup>(11)</sup>	% of net revenue	8.8	7.8	7.8	6.6	6.8
Amount Invested in External Social and Environmental Programs	millions of R\$	15	22	25	75	51
Amount Invested in External Social and Environmental Programs	% of net revenue	0.3	0.5	0.5	1.3	0.8
Positive Public Perception of Sabesp's Social Responsibility <sup>(8)</sup>	%	-	-	-	-	71

### Notes:

(1) 99% or more

(2) Does not include water pipelines, main sewage and outfall sewer

(3) Connections with hydrometer / total connections

(4) Number of own employees. Excluding employees allocated to other agencies

(5) Amounts at the end of the period

(6) EBITDA means earnings before interests, taxes, depreciation and amortization

(7) Excluding financial income and expenses

(8) Answer to a question included in the customer satisfaction survey

(9) Excludes seedlings planted under the environmental offset agreements and Conduct Adjustment Instrument

(10) Excluding accidents en route and occupational diseases

(11) Includes profit-sharing

## 2008 and 2009 Goals

In 2008, Sabesp met most of its goals established for the year, which are listed in table 2.

Seven of the 10 major goals were met: water and sewage connections; increase in the rate of collected sewage treatment; increase in the customer satisfaction rate; reduction of the number of reasonable complaints with Procon; ISO 14001 certification to four operating units; and investments.

Three goals were not fully met: renewal of concession agreements; EBITDA margin; and water losses measured by liters / (connection x day).

Two obstacles hampered the renewal of 80 agreements: 1. Certain legal and institutional issues that made difficult the contract formalization of the relationship between Sabesp and 20 municipalities in metropolitan regions; 2. Negotiations postponed due to municipal elections. Notwithstanding, 53 agreements were renewed and 58 authorization laws were approved, and such approval represents an essential step towards the renewal of the agreements.

The EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) margin goal was not met. The goal was 47.7%, but the EBITDA margin reached 44.7% at the end of the year, and one of the reasons for this was the fact that personnel expenses exceeded the amount planned. However, it is worth noticing that EBITDA reached R\$ 2.8 billion in 2008, which is 5.2% over the result obtained in 2007.

**Table 2 - 2008 Goals**

As dez principais metas para 2008	Goal	Achievement
1. Water Supply Rate New Water Connections (in thousands)	Tends to universal service 166.9	Tends to universal service 189.4
2. Sewage Collection Coverage Rate (%) New Sewage Connections (in thousands)	79.5 154.0	79.5 168.9
3. Collected Sewage Treatment Rate (%)	71.5	72.5
4. Water Losses (%) Water Losses (liters / (connection x day))	28.0 422	27.7 432
5. Contract Formalization of Relationship with Municipalities <sup>(1)</sup>	80	53
6. Customer Satisfaction Rate (%)	79	80
7. Reasonable Complaints submitted to PROCON <sup>(2)</sup>	2.76	2.46
8. EBITDA Margin (%)	47.7	44.7
9. ISO 14001 Certification	4	4
10. Investment (billions of R\$) <sup>(3)</sup>	1.6	1.7

(1) The goal includes 20 agreements with municipalities in metropolitan regions

(2) Per million customers

(3) The amount does not include commitments assumed with program contracts (R\$ 253 millions)



The water loss goal measured by liters / (connection x day) was not fully met, by virtue to delays in the procurement of works and services which included the implementation of loss reduction measures. However, the reduction achieved in 2008 was one of the highest in the last five years and is in line with the consistent trend towards loss reduction.

In addition to the result achieved, the establishment of Sabesp's 10 major goals helped to mobilize employees and supported a better identification by all the Company of the priorities for 2008. In other words, the initiative was valuable in itself and will be repeated in 2009.

The 10 major goals for 2009 are contained in table 3. There are two changes in comparison with 2008.

The first is the replacement of one of the goals in connection with customer satisfaction (the goal related to reasonable complaints submitted to Procon) by the work accident reduction goal. The inclusion of such goal aims at reinforcing the necessity of attention for the prevention of accidents by all the Company. The second change is the replacement of the goal related to ISO 14001 certification to operating units for the environmental management system implementation goal, an effort which will make possible the certification of new units in 2010. Ambitious goals will continue to direct Sabesp's work towards universal service, with quality in customer service, occupational safety, and economic, social, and environmental sustainability.



**Table 3 – 2009 Goals**

The 10 major goals for 2009	Goal
1. Water Supply Rate New Water Connections (in thousands)	Tends to universal service 158.8
2. Sewage Collection Coverage Rate (%) New Sewage Connections (in thousands)	80.1 160.0
3. Collected Sewage Treatment Rate (%)	73.7
4. Water Losses (%) Water Losses (liters / (connection x day)	26.0 397
5. Contract Formalization of Relationship with Municipalities	89
6. Customer Satisfaction Rate (%)	80
7. Reduction of the Number of Work Accidents <sup>(1)</sup>	177
8. EBITDA Margin (%)	47.1
9. Units with Environmental Management System (SGA)	26
10. Investment (billions of R\$)	1.65

(1) Maximum amount, not including accidents en route and without leave



Sewage outfall

## Acceleration of investments towards universal service

In 2008, Sabesp made investments in the amount of R\$ 1.7 billion, the highest volume in the last 10 years. The acceleration of investments is essential for the development of the infrastructure necessary to achieve universal sanitation services by 2018, in line with the Company's guidelines and vision.

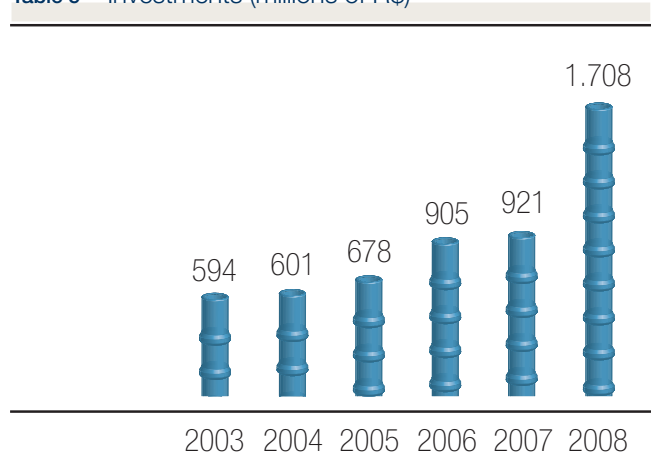
Table 4 details the allocation of investments.

Table 4 – Investment made in 2008

Investment made in 2008 (millions of R\$)			
	Water	Sewage	TOTAL
São Paulo Metropolitan Region	433	353	786
Regional Systems (Countryside and Coastal Regions)	170	752	922
<b>Total</b>	<b>603</b>	<b>1,105</b>	<b>1,708</b>

In the 2007-2008 biennium, Sabesp's investment reached approximately R\$ 2.6 billion, which represents more than twice the amount invested in the 2003-2004 period and also a growth of approximately 65% in comparison with the 2005-2006 biennium. Table 5 shows the historical evolution of investments, and table 6 sets forth the forecast for the 2009-2013 period.

Table 5 – Investments (millions of R\$)



Note: 2003 – excluding the transfer of sanitation services of the City of São Bernardo do Campo (R\$ 415 million)  
 2008 – excluding commitments assumed with program contracts (R\$ 253 million)



**Table 6 – Investment plan (millions of R\$)**

Investment Plan (millions of R\$)						
	2009	2010	2011	2012	2013	2009 - 2013
Water	577	590	664	653	668	3152
Sewage	860	948	835	867	827	4337
Others	214	213	254	228	231	1139
<b>Total</b>	<b>1650</b>	<b>1750</b>	<b>1753</b>	<b>1748</b>	<b>1725</b>	<b>8627</b>

In 2008, a total of 189,000 water connections and 169,000 sewage connections were made. The collected sewage treatment coverage increased from 66% in 2007 to 72% in 2008. Such significant achievement was obtained primarily as a result of investments in sewage treatment infrastructure made in recent years by the Tietê Project in the São Paulo Metropolitan Region.

The investments have also allowed a reduction of water losses. During 2008, the reduction was close to two percentage points: from 29.5% to 27.7% of billings. Such result explains why the water production volume was lower in 2008 than in 2007, in spite of the increase

in the number of water connections. Therefore, the reduction of water losses allows Sabesp to reduce the consumption of water resources, water treatment materials, and electricity.

The investments in reduction of water losses are critical for the Company's sustainability. Accordingly, the goal of universal sanitation service by 2018 includes an ambitious loss reduction project during the same period. Table 7 sets forth a summary of operating goals for the 2009-2018 period.

**Table 7 – 2009-2018 Goals**

	2009	2010	2011	2012	2013	2018
New Water Connections (in thousands)	159	158	149	159	159	787*
Water Supply	Tends to universal service					
Water Losses (%)	26	24	22	21	20	14
New Sewage Connections (in thousands)	160	225	179	167	154	915*
Sewage Collection (%)	80	81	82	83	85	90
Collected Sewage Treatment (%)	74	78	81	84	88	100

\* Goal accumulated from 2014 to 2018

The greatest challenge to universal service is the increase in sewage connection. The universal service goal by 2018 requires the achievement of a 90% level of collection. Universal service does not mean a coverage rate of 100% of domiciles, because some residences are located in places where the installation of networks is unfeasible and local solutions are adopted

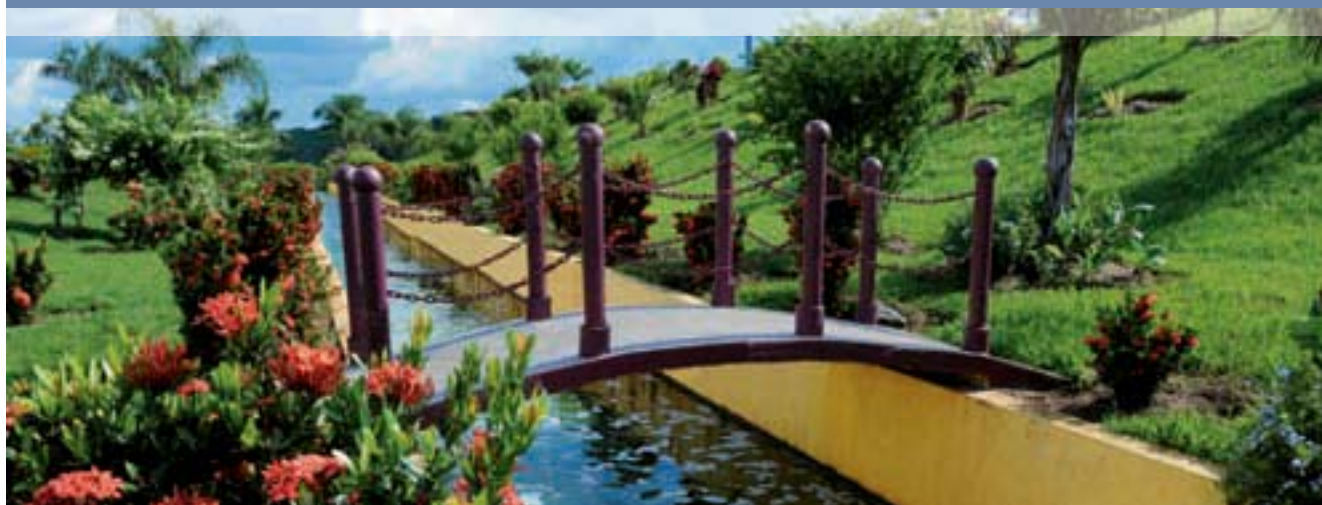
instead. Even achieving a 90% collection rate is a major challenge, because it requires incentives for families and companies to connect to sewage networks. Creating such incentives will depend on a combination of communication, environmental education, and law compliance inspection efforts. Therefore the partnership with the municipal governments is essential.

## Universal Service in the Baixo Tietê e Grande Business Unit

In 2009, all the 83 municipalities served by the Baixo Tietê Grande (RT) Business Unit will reach universal service in the urban sanitation coverage rate. There are ten sewage treatment plants constructions in progress and when finished will be added to the 100 plants already operating in the region.

A population of approximately 600,000 will benefit from the universal service, which will also be reached as a result of water loss prevention measures, such as detection of invisible leaks, replacement of connections, repairs in old networks, fraud detection programs, systematic replacement of hydrometers (both preventive and corrective), and on-line control of actual losses, thus allowing for faster and more efficient interventions in the systems.

Such measures make possible a loss level of only 113 liters/connection x Day, which amounts to approximately 9% of billings. This makes possible a reduction of production and water distribution costs, the postponement of investments in water and the resulting reallocation of resources to universal sewage collection and treatment services.



Sewage outfall - Jales



## Structuring Programs

In order to achieve universal service in the next 10 years, it will be necessary to maintain a high level of investment throughout the period. To make this possible, two challenges must be faced: 1. improve the investment schedule in order to optimize the use of human and financial resources and materials; 2. supplement the preparation of structuring programs, which contribute to a higher consistency and focus of investments.

A Structuring Program represents an integrated set of endeavors which significantly expands and improves sanitation services in a given region. This section contains basic information about the Sabesp Structuring Programs, summarized in Table 8, as well as the 2008 and 2009 highlights.

Table 8 – Structuring programs

Programs	Goal	Population served	Region served	Implementation period
Clean Wave	To increase sewage collection from 54% to 95% and collected sewage treatment from 96% to 100% in the Santos coastal region	2.95 million (fixed population = 1.6 million; floating population* = 1.35 million)	Santos Coastal Metropolitan Region (Santos, São Vicente, Praia Grande, Itanhaém, Peruíbe, Mongaguá, Guarujá, Cubatão, and Bertioga)	2007 - 2011
North Shore Clean Wave	To increase sewage collection from 36% to 85% and collected sewage treatment to 100%	600,000 (resident population = 300,000; floating population* = 300,000)	North Shore (Ubatuba, São Sebastião, Ilhabela, and Caraguatatuba)	2007 - 2015
Coastal Region Water Program	To ensure water availability in the Santos coastal region, North Shore, Ribeira valley, and South Shore	4.1 million (fixed population = 2.4 million; floating population* = 1.7 million)	North Shore, Santos coastal region, Ribeira valley, and South Shore	2008 - 2013
Tietê Project phase III	To increase sewage collection from 84% to 87% and collected sewage treatment from 70% to 84% in the São Paulo Metropolitan Region	1.5 million (sewage collection) and 3.0 million (sewage treatment)	São Paulo Metropolitan Region and the Tietê Basin	2009 - 2015
Metropolitan Water Program (PMA)	To ensure water supply in the São Paulo Metropolitan Region by increasing water production capacity by 13.2 m <sup>3</sup> (20% of the volume currently produced)	18.9 million	São Paulo Metropolitan Region	phase 1: 2006 to 2010 phase 2: 2011 to 2014
New Life	Protection and recovery of water sources	200,000 (direct benefit) and 18.9 million (indirect benefit)	São Paulo Metropolitan Region	2008 - 2012
Clean Stream	Clean-up and recovery of 100 rivers (42 in Phase 1 and 58 in Phase 2)	4 million	Municipality of São Paulo	phase 1: 2007 to 2009 phase 2: 2008 to 2010
Loss Reduction	Reduction of losses per billings from 29.5% to 13% in 2019	26.4 million	All municipalities	2009 - 2019

\* Source: Seade estimate

# 95%

The R\$ 1.2 billion investment up to 2011 will increase by 54% to **sewage collection ratio** and treat 100% of the collected sewage.



View of the Guarujá beach

## Onda Limpa (Clean Wave Program)

The Clean Wave Program will expand the sewage collection and treatment service to all the Santos coastal region. A population of approximately 3 million will be served, including the fixed and floating population, in the cities of Santos, São Vicente, Praia Grande, Guarujá, Itanhaém, Peruíbe, Mongaguá, Cubatão, and Bertioga.

The investment of R\$ 1.2 billion by 2011 will increase the sewage collection rate from 54% to 95% and allow the treatment of all the sewage collected, which implies a change in the sanitation level in the region. The program will help to:

- Recover the water pollution level of 82 beaches distributed along the 162.5 km of the region;
- Decontaminate rivers and canals
- Promote tourism, create jobs, and generate income in the Santos coastal region;

- Decrease the number of hospital internments due to water-transmitted illnesses;
- Decrease mortality rates, especially infant mortality rates.

In 2008, works were started in three lots of the program. During the year, Sabesp performed works in eight lots of the Clean Wave Program, located in eight municipalities in the Santos coastal region. A total of R\$ 418 million was already invested, which amounts to 35% of the works in the program as a whole. For 2009, 60% of the works are expected to be completed, including the start of operations of the Santos and Praia Grande outfalls and pre-operation of five out of seven sewage treatment plants under construction in the region.

# Praia Grande Sea Outfall: A Sustainable Project

During the execution of the works of the Clean Wave Program, Sabesp chose methods that minimize the environmental, economic, and social impacts.



Dragging the Sea Outfall - Praia Grande

**A good example to illustrate the efforts of Sabesp** is the construction of the third Praia Grande Sea Outfall. Normally, the approach used to overcome the breaking zone would involve the construction of a metallic bridge with interdiction of a large strip of the beach and the sea, for approximately one year. However, Sabesp opted to use a pioneering approach in South America. To overcome the breaking zone in the area of construction of the new sea outfall, a tunnel was made under the beach and the sea through the spiking of concrete pipes through a process known as Pipe Jacking (Shield). The tunnel is 705 meters in length and 8 meters in depth.

All the equipment used occupies an area of the well excavated for installation of the equipment, at the outset of the tunnel, without interdiction of beach or sea

areas. Therefore, beachgoers hardly even notice the works which are being performed underground. With such procedures, the construction time is decreased by half and the impacts of the work on the environment is dramatically reduced.

The outfall is 4 kilometers in length, has an outflow of 1,400 liters per second, and began to be constructed in January 2008. It will begin operations in October 2009, after the completion of the Pre-Conditioning Plant.

The total investment is R\$ 100 million, of which R\$ 45 million were invested in 2008. In addition, there is an investment in collection networks and lift stations in the amount of R\$ 90 million, of which R\$ 23 million were already invested.



Santa Tereza Voturuá Tunnel Reservoir - Santos São Vicente

## Onda Limpa Litoral Norte (North Shore Clean Wave)

The North Shore Clean Wave Program will expand sewage collection and treatment in the north shore, serving a population of 600,000 in the municipalities of Caraguatatuba, Ilhabela, São Sebastião, and Ubatuba. By 2015 the program will increase the collection rate from 36% to 85% and allow the treatment of 100% of the sewage collected, which will generate an improvement in the health and well-being of the population and economic development through increased tourism.

The investments in the amount of R\$ 260 million include the construction of 15 sewage treatment plants, constructions or repairs in 155 lift stations, construction of one pre-conditioning plant and of the sea outfall in Ilhabela, expansion of the pre-conditioning plant and of the sea outfall in São Sebastião, and construction or expansion of sewage systems in several districts in the four municipalities in the region.

The main achievements of the program in 2008 were the startup of ETE Porto Novo in Caraguatatuba and the start of works of the Ilhabela sea outfall and sewage

systems in São Sebastião and Caraguatatuba. For 2009, the completion of sewage systems in Ubatuba, Caraguatatuba, and Ilhabela is expected.

## Água no Litoral (Coastal Region Water)

Sabesp has been operating in several fronts, with short- and medium-term measures, to ensure the availability of treated water to the resident population in the São Paulo coastal region and also to the inflow of tourists, particularly in the summer, thus reducing the weaknesses of the system, with progressive gains in its reliability and expansion of the supply coverage rate.

The main set of medium-term measures is the Coastal Region Water Program. The total investment in the program is R\$1.1 billion by 2013. A population of more than 4 million will be served in the municipalities of Ubatuba, São Sebastião, Ilhabela, Caraguatatuba, Peruíbe, Itanhaém, Mongaguá, Praia Grande, São Vicente, Cubatão, Santos, Guarujá, Bertioga, Cananéia, Iguape, and Ilha Comprida.

In 2008, the works of the Mambu Branco system, which is located in Itanhaém and is one of the main projects in the Coastal Region Water Program, were started. The Mambu Branco system is comprised of one reservoir on the Branco River, collection of raw water, lift station, raw water pipeline, water treatment plant (ETA), storage center, and treated water pipelines. The system will be integrated to the existing ones, which serve Itanhaém, Peruíbe, Mongaguá, Praia Grande, and the continental portion of São Vicente.

The Coastal Region Water Program includes the construction of two new water reservoirs in Guarujá. Which will increase water storage by more than 40%, the related works were also started in 2008. The program also provides for ETA Jurubatuba, the works of which will start in 2009. The work will serve the municipality of Guarujá, including the District of Vicente de Carvalho. In addition, the implementation of ETA Antas in Mongaguá and the improvement of ETA Guaxinduba in Caraguatatuba, among other works, will resume.

## Summer Project

While investing to expand and improve the water supply infrastructure in the coastal region, Sabesp also adopts short-term measures to ensure water supply in the region during demand peak periods, when consumption increases to up to five times the average consumption.

The Summer Project balance results carried out from December 23, 2008 and January 4, 2009, shows that the set of measures was greatly successful.

In the north shore, there was a 10% increase in water production in comparison with the same period in 2007/2008. This ensured full supply during the 2008/2009 holiday season. This is fully demonstrated by the fact that water trucks performed only three emergency deliveries in 2008/2009, against 496 in 2007/2008,

In the Santos coastal region, the daily production during the 2008/2009 holiday season exceeded the production during the same period in 2007/2008 by 5%.

In the south shore, in Praia Grande, there was an increase in water pumping and other measures that made possible the growth in the city's supply capacity from 800,000 to 1.3 million persons. However, in certain locations of Ribeira valley (Ilha Comprida and Iguape), there were cases of shortage for a few hours.





Parque Novo Mundo Sewage Treatment Plant next to the Tietê River

## Projeto Tietê (Tietê Project)

The purpose of the Tietê Project is to improve the quality of water in the Tietê River Basin in the São Paulo Metropolitan Region through expansion of the sewage collection, deviation, and treatment structure. Started in 1992, the Tietê Project involves investments in the amount of US\$ 2.5 billion.

The first and second phases of the program helped the collection of sewage produced in the São Paulo Metropolitan Region to increase from 66% to 84% and collected sewage treatment from 24% to 70%. This means that currently approximately 13 million habitants of the Metropolitan Region have sewage collection (which is 4.5 million more than the population served when the Tietê Project was started), and more than 8.5 million have sewage treatment (6.5 million more than the population served when the Tietê Project was started). In addition, the pollution slick in the Tietê River decreased.

In 2008, the original schedule of the second phase of the project was completed, meeting all goals initially established; the main achievement was the completion of the Pinheiros system interconnections, which, together with the other projects included in this second phase, made possible an additional deviation of approximately 4,000 liters of sewage per second for treatment in the Sabesp plants. This represented a 40% increase in the volume of sewage treated.

Starting the third phase of the program, the first set of public bidding notices for the Tietê III Project was released in December 2008. For 2009, the procurement of the works within the scope of the December notices is expected, which includes 600 km of trunk sewers and collection networks.

## Programa Metropolitano de Água (PMA) (Metropolitan Water Program)

The purpose of the Metropolitan Water Program is to ensure the availability of treated water in the São Paulo Metropolitan Region and includes works of expansion of the water storage, production, and distribution infrastructure. The storage infrastructure will be expanded by 210,000 m<sup>3</sup>, and 44 water lift stations and 240 km of

pipelines will be constructed. The investment will reach R\$ 2.7 billion and will expand the water production and distribution capacity by 20%, increasing it from 66 m<sup>3</sup>/s to approximately 80 m<sup>3</sup>/s. The first PMA efforts were started in 2006, and the program will continue until 2014.



## Alto Tietê Public-Private Partnership

The Metropolitan Water Program includes the Alto Tietê public-private partnership (PPP). The election of the PPP will make possible to make a portion of the PMA investments with funds raised by the private partner, while maintaining water production and treatment under Sabesp management.

The purpose of the Alto Tietê PPP is to expand the production of ETA Taiapuêba. Accordingly, in June 2008, Sabesp entered into an agreement with CAB Sistema Produtor Alto Tietê, a special-purpose entity (SPE) formed by Galvão Engenharia S.A. and Companhia Águas do Brasil (CAB Ambiental) for a duration of 15 years. The investment will reach approximately R\$ 300 million, and the purposes of the administrative concession agreement signed by Sabesp and the SPE are:

Works: expansion of the Taiapuêba Treatment Plant, with increase in its current nominal capacity from 10 to 15 m<sup>3</sup>/s; construction of 17.7 km of pipelines; construction of four reservoirs with a total capacity of 70,000 m<sup>3</sup>; construction of a booster, lift stations, and ancillary works. The works are to be completed in 2011;

Service Provision: treatment and final disposal of sludge; maintenance of reservoirs; civil construction and electromechanical maintenance; ancillary transmission and delivery services; general services.



Water Treatment Plant - Taiapuêba



## Vida Nova (New Life Program)

The New Life Program includes the Water Sources Program and other projects focused on the improvement and preservation of water reservoirs in the São Paulo Metropolitan Region and on the urban development of those regions, particularly around the Guarapiranga and Billings water sources. Most resources will be invested in the creation of infrastructure to collect the sewage produced in the region and deviate it to treatment stations, thus avoiding its direct discharge in the water source. The program also includes measures for protection of green areas and urbanization of shanty towns, which will directly benefit 45,000 families.

As a whole, the program aggregates investments of approximately R\$ 1.2 billion from the State Government, municipalities in the region, and the Federal Government. Sabesp's interest is approximately R\$ 300 million. The New Life Program is coordinated by the Sanitation and Energy Department and involves activities of Sabesp, CDHU, and municipalities in the region.

## Córrego Limpo (Clean Stream Program)

The Clean Stream Program is a result of a partnership between the State Government, by means of Sabesp, and the São Paulo Municipal Government, and its purpose is to revert the level of degradation of rivers in the city of São Paulo. The complete schedule provides for the clean-up of 300 rivers within a period of 10 years, 100 of which by 2010. In the first phase, completed in March 2009, clean-up measures were performed in 42 rivers. The volume of sewage that ceased to be discharged in water streams amounts to the dejection produced by a city with a 350,000 population. The second phase, which is expected to be completed in 2010, provides for new measures in those rivers and in 58 others.



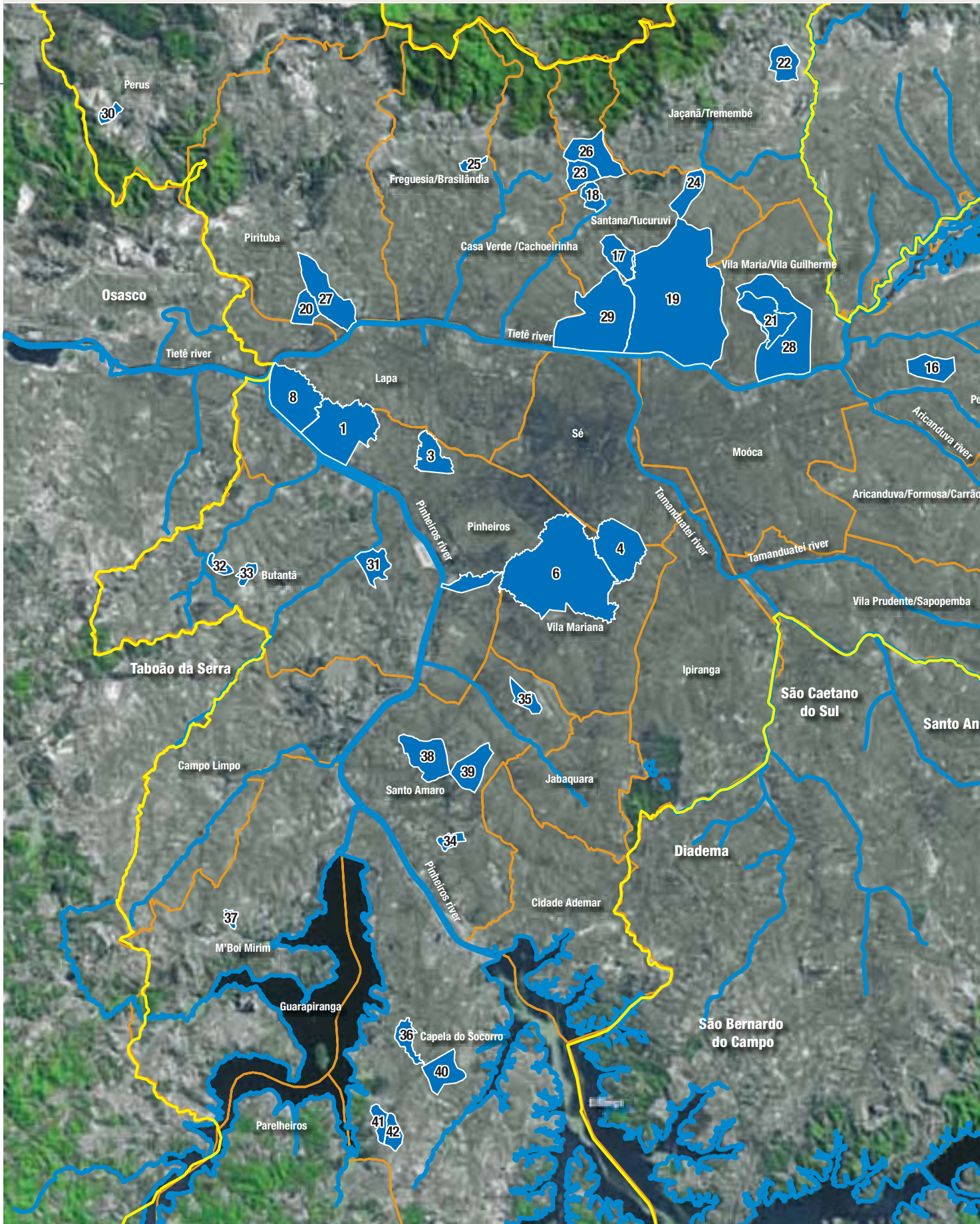
The program also produces social and environmental impacts, such as an improvement on general sanitation and local public health. Besides the streams recovery the affected regions buildings increased its market-value.

The Clean Stream Program is a major challenge, because, in addition to provide for the expansion of existing sewage collection networks and the elimination of unauthorized discharges of sewage in rivers and rainwater aqueducts, its success also depends on community participation. Without that participation, the maintenance and perennality of cleaned-up rivers will be in danger. Accordingly, an Environmental Education Project will be performed with the population in order to build its awareness of the importance of avoiding to discharge waste and rubbish on the streets or rivers, connecting to the sewage network, and performing maintenance of residential installations. In addition, eight regions in river environs will be transformed into riparian parks, thus providing more leisure and health to the population.

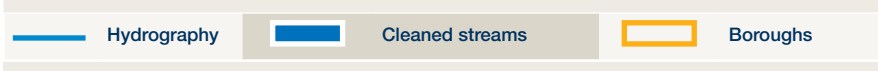
The indicator for tracking the results of the Clean Stream Program is the Biochemical Oxygen Demand (BOD). BOD is an indicator used to measure the organic pollution of water streams and is calculated based on a measurement of the oxygen needed by bacteria to consume organic matter. The more organic matter is in a body of water (and the more polluted it is), the more oxygen the bacteria will need to "clean" the pollution. Its measurement unit is mg/l (milligrams of oxygen per liter). The goals defined for the rivers prioritized by the Clean Stream Program target to reach BOD values below 30 mg/l; certain rivers were above 100 mg/l when the program started.



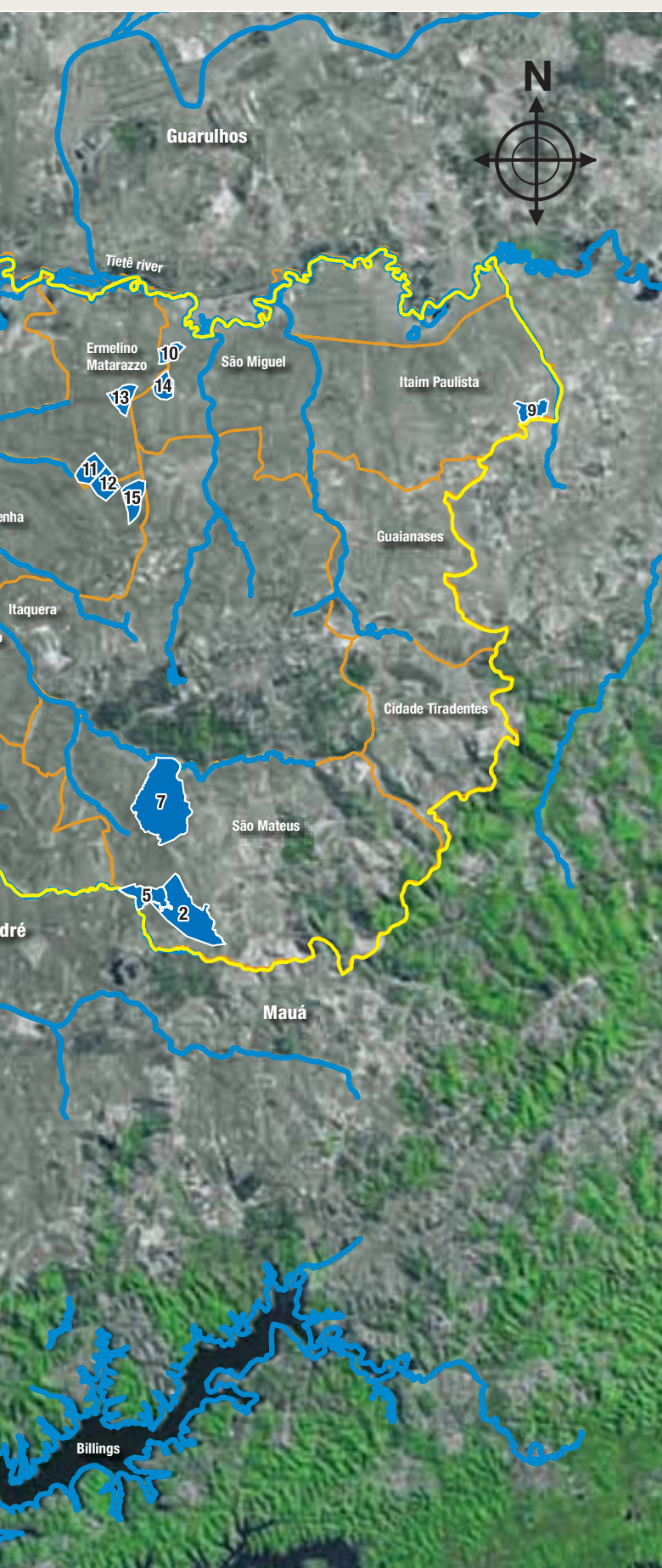
**Clean stream** – general location of the basins of the cleaned stream in the Municipality de São Paulo



**Caption**



## 42 Streams cleaned during phase 1



Stream	Borough	Benefited population (inhab.)
1 Boaçava	Lapa - Pinheiros	20,973
2 Cipoaba - Parcial	São Mateus	30,000
3 Corujas- Parcial	Pinheiros	14,000
4 Lago da Aclimação	Vila Mariana	52,000
5 Rodrigo de Lucena	São Mateus	6,204
6 Sapateiro	Vila Mariana	94,000
7 Venda Velha	Aricanduva - Vila Formosa	9,100
8 Vila Hamburguesa	Lapa	1,409
9 Armênio Soares	Itaim Paulista	7,700
10 Cruzeiro do Sul - Parcial	São Miguel	35,000
11 Franquinho - Parcial	Penha	7,700
12 Franquinho - Parcial	Penha	10,000
13 Itapegica - Parcial	Ermelino Matarazzo	12,000
14 Limoeiro - Parcial	São Miguel	6,640
15 Ponte Rasa - Parcial	Penha - Ermelino Matarazzo	14,168
16 Rincão - Parcial	Penha	18,656
17 Água Preta	Santana - Tucuruvi	13,200
18 Buraco da Onça	Santana - Tucuruvi	7,200
19 Carajás - Parcial	Santana-Tucuruvi-Vila Maria-Vila Guilherme	75,000
20 Charles de Gaulle	Pirituba	8,500
21 Da Biquinha	Vila Maria - Vila Guilherme	36,000
22 Flor de Maio	Tremembé - Jaçanã	7,500
23 Horto Florestal - Ciclovía	Santana - Tucuruvi	5,200
24 IPESP	Santana/Tucuruvi	14,000
25 Jardim Elisa Maria	Freguesia - Brasilândia	4,800
26 Lago Horto Florestal - Parcial	Santana - Tucuruvi	5,600
27 Toronto	Pirituba	8,000
28 Novo Mundo	Vila Maria - Vila Guilherme	86,000
29 Tenente Rocha	Santana-Tucuruvi-Casa Verde-Cachoeirinha	40,000
30 Vale do Saber	Perus	4,500
31 Caxingui	Butantã	12,000
32 José de Araujo Ribeiro	Butantã	6,300
33 Nascente do Sapé	Butantã	11,150
34 Cemitério Campo Grande	Santo Amaro	3,000
35 Invernada	Santo Amaro	3,100
36 Iporanga - Esmeralda	Capela do Socorro	21,000
37 Kagohara - Itupu	Cidade Ademar	7,000
38 Parque Severo Gomes	Santo Amaro	16,000
39 Parque do Cordeiro	Santo Amaro	2,800
40 Rio das Pedras - Parcial	Capela do Socorro	38,000
41 Tanquinho - Parcial	Capela do Socorro	1,200
42 Tanquinho - Parcial	Capela do Socorro	1,356

## Sabesp recovers the Tenente Rocha River

Located in the North End of the city of São Paulo, next to Campo de Marte, in the district of Santana, the Tenente Rocha River belongs to the first phase of the Clean Stream Program. The clean-up of this river benefited a population of 40,000. The area of the basin is 3.96 km<sup>2</sup> and its open-air length until it reaches the Tietê River is 3,600 meters. A total of R\$ 224,000 was already invested by now.

Benefits are visible. Previously filthy, with sewage and bad smell, the river began to contain fish. The index used to measure the pollution of water streams, known as Biochemical Oxygen Demand (BOD), provides evidence of the success of the program; in the beginning, the river had a 101 mg/l BOD, and currently a 4 mg/l BOD.

The river recovery and clean-up are being performed through improvement of the sewage systems, standardization in sewage connections, and clean-up of the environs. Sabesp's work includes to monitor water quality every two weeks, perform evaluation and screening of collection networks and network projects, and build awareness among the population by holding meetings on the Company's activities with the Residents' Association.



Tenente Rocha Stream

# Reurbanization Program

Started in 2005, the Nova Paraisópolis Reurbanization Program is the result of a partnership between Sabesp and the São Paulo Municipal Government to improve life conditions in the Paraisópolis, Jardim

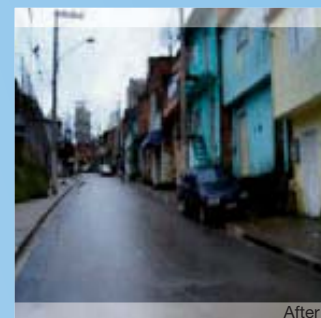
Colombo, and Porto Seguro areas. The works of the project comprise the paving and resurfacing of roads, alleys and stairs, the channeling of rivers, and the construction of more than 54 kilometers of water networks and 57 kilometers of sewage networks. Sabesp invested R\$ 4 million in the project during 2008. By the end of 2010, more than R\$ 38 million will be provided to perform all the basic sanitation works.

In the first phase, which was performed from September 2005 to August 2007, 2,000 water connections and 1,200 sewage connections were made. The second phase of the project was started in May 2008. A total of 7 kilometers of water networks and 5 kilometers of sewage networks were implemented, comprising other 1,400 water connections and 1,000 sewage connections. Also, 725 hydrometers were replaced, which caused a 15,000 m<sup>3</sup> increase in the amount of water used during the year, sufficient to serve a population of approximately 1,000 for one month.

The purpose of the measures arising from the partnership between SEHAB (Municipal Housing Department) and Sabesp is to promote the access of families living in the region to basic infrastructure and better environmental, housing, and health conditions. There will be 12,000 additional water connections and 9,000 additional sewage connections by 2010, which will significantly contribute to water loss reduction in the region.



The purpose of the partnership between SEHAB and Sabesp is to promote the access of the families who live in the region to the basic infrastructure and best environmental, housing and health conditions



Before

After

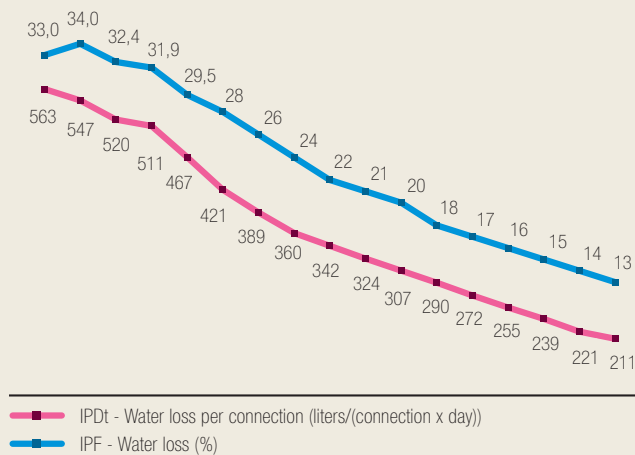
Manoel Antonio Pinto Street



## Redução de Perdas (Loss Reduction Program)

The purpose of the corporate water loss reduction program integrates and expands the existing initiatives in the Company's Business Units, aiming at accelerating and increasing the consistency of such efforts. The structuring of the program was started in the second half of 2007 and completed in 2008. The program provides for investments of approximately R\$ 3 billion during 11 years (2009-2019). Its goal is to reduce the loss rate from 432 liters per connection x day (as of December 2008) to 211 liters per connection x day, which amounts to decrease the water loss rate from 28.0% (as of December 2008) to 13% in 2019, a figure comparable to international standards.

**Table 9 – Goals of the corporate loss reduction program**



The water volume losses reduced from 29.5% to **27.7%** in 2008

It should be emphasized that such statistics are Sabesp averages, and therefore include highly-complex metropolitan regions with high levels of losses. On the other hand, certain Sabesp units already show rates comparable to the international standard, such as the Baixo Tietê (10%), Vale do Ribeira (14.3%) and Pardo e Grande (17.4%) business units.

In 2008, the reduction was 35 liters / (connection x day), the second highest in the last five years. Such water saving is sufficient to supply a city with a population of 600,000 for one year.

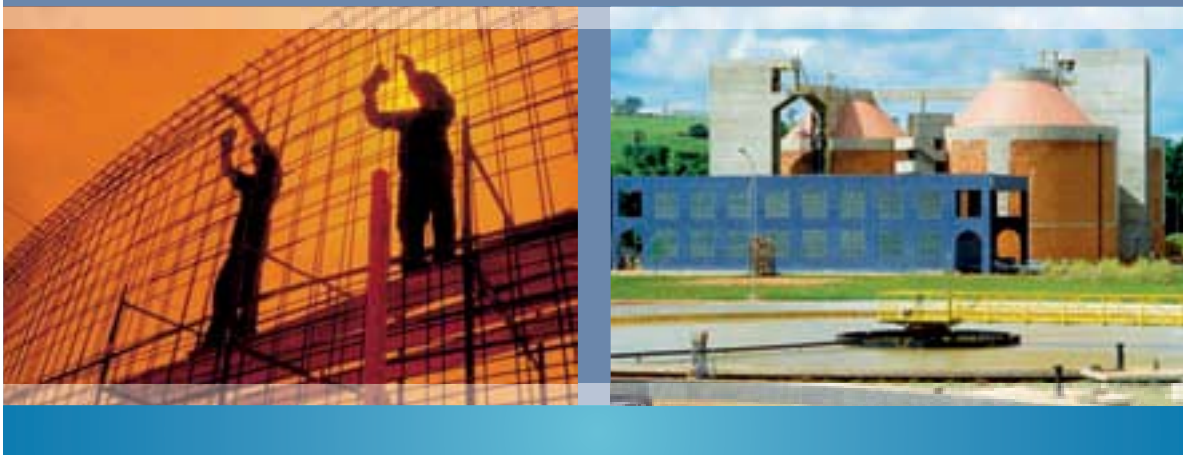
The work plan for 2009 is focused on continuing efforts to raise funds and measures such as infrastructure renovation, segmentation, research and repair of leaks, and substitution of hydrometers in municipalities in the countryside and coastal regions and in the supply segments in the São Paulo Metropolitan Region with the most significant loss rates.

## Lease of assets

In November, Sabesp promoted its first public bidding for the lease of assets to perform works in the integrated sewage deviation and treatment system in the municipalities of Campo Limpo Paulista and Várzea Paulista. The contractor will invest R\$ 112.3 million in the construction of 33 km of pipelines, interceptors and outfalls and a sewage treatment plant. The works are expected to be completed in approximately 30 months. After completion, Sabesp will lease the assets for 192 months.

Similarly to the PPP, the lease of assets attracts private financing for investments in the expansion of sanitation services. Under a lease of assets, the contractor performs the works and is in charge of raising funds for the investments. During the contract term, the partner company is the owner of the assets. Sabesp leases the new assets for a certain period against the payment of a monthly amount to the private company. Upon expiration of the lease agreement, the asset built is transferred to Sabesp by operation of law, without further charges. Thus Sabesp expands its investment capacity with more cost-effective funds obtained by the private partner and positive impact on its indebtedness level.

Sabesp also released a second public bidding notice for lease of assets. The purpose of the notice is the Sapucaí Mirim production system, in the municipality of Franca. The amount estimated for performance of the works is R\$ 74 million. Finally, the public bidding notice for lease of assets for the performance works in the Melvi Production System, in Praia Grande, and the Deviation and Treatment System, in Campos do Jordão, is currently being prepared. The goal is that such public biddings are carried out before the end of 2009.



Franca Sewage Treatment Plant



GRI EC9

## Direct and Indirect Economic Impacts of Investments in Sanitation

Aside from the significant positive impact of sanitation on public health and on the environment, which are both critical for social and economic development, investments in sanitation have an important impact on economy.

The initial effect is generated by the creation of jobs related to infrastructure works, which usually demand a large contingent of technicians and unskilled labor. This has a positive impact on the level of employment and distribution of income.

Moreover, there is the indirect effect generated by the creation of jobs on the supply chain, which is affected by investments in sanitation. In addition, the income related to those new direct and indirect jobs enhances the consumption of goods and services as a whole, which generates new jobs in several industries, such as foodstuffs, clothing, and transportation. In accordance with Professor Fernando Sarti, a researcher at Industrial Economics and Technology Group, Instituto de Economia da Universidade Estadual de Campinas (NEIT-IE-UNICAMP), a recent UNICAMP study found that the investment of R\$ 1 billion in sanitation can generate 42,000 new direct and indirect jobs and increase the production of economy by R\$ 1.68 billion.

Investments in sanitation also generate development and wealth in other manners. The programs which aim at raising the sewage collection and treatment rate in the São Paulo State coastal region will increase water quality in beaches, thus promoting tourism in the region, whose impact on the creation of jobs and generation of income will be significant. Similarly, the Clean Stream Program, which aims at recovering rivers in the city of São Paulo, also results in appreciation of real estate properties located on the environs of the rivers, and therefore generates an effect on wealth which also has a positive impact on economy.



Clean Wave Program works – Itanhaém





# Sustainable Growth

One of the biggest Sabesp challenges to reach economic long-term sustainability is **contractual and market stabilization**

## Contractual and market stability



Guaraú Water Treatment Plant

In line with the “Growth with Stability” guideline, one of the major obstacles for Sabesp to achieving economic sustainability in the long term is contractual and market stabilization. The next sections set forth the results achieved in 2008 and the goals for the upcoming years in connection with renewal of concessions and contract formalization of service provision in the municipality of São Paulo and in municipalities to which Sabesp provides water on a wholesale basis.



# 53 municipalities signed program contracts with 30-year terms in 2008

## Contract formalization with municipalities

In 2008, Sabesp signed program contracts with 53 municipalities, making up a total of 160 since 2007. In addition to the contracts, which are for a term of 30 years, such municipalities have signed cooperation agreements with the São Paulo State Government, delegating the regulation and inspection of service provision to Arsesp<sup>2</sup>.

The regulatory framework of the industry establishes that all municipalities will have to standardize their contractual status by 2010. For such purpose, in addition to the agreements renewed in the 2007-2008 biennium, Sabesp will need to renew other 163 agreements in order to meet its goal of achieving full compliance with the regulatory framework by the beginning of 2010. The goal for 2009 is to renew other 89 agreements.

Such goal includes agreements in metropolitan areas, which are expected to be the focus of major efforts. The challenges for 2009 are: 1) to maintain the pace of renewals in the countryside and coastal regions; 2) to overcome legal and institutional difficulties in metropolitan regions.

There are also agreements with 42 other municipalities with expiration only after 2010.

Table 10 – Contract renewal goals

Item	2007	2008	2009	2010	TOTAL
Renewed agreements	107	53			160
Goal – Municipalities to be renewed			89	74	163

<sup>2</sup> The Municipality of Lins opted for a municipal regulatory agency.



Guarapiranga Dam

## São Paulo

Sabesp and the São Paulo Municipal Government (PMSP) made advancements towards contract formalization of their relationship. The Agreement signed with the São Paulo Municipal Government in November 2007 brought about important results. First, it provided for a reestablishment of the flow of payments of the municipality's accounts, which reached a total of R\$ 121.6 million in 2008. This reflects a significant improvement in the delinquency rate, which decreased from an average of more than 80% in the 2005-2007 triennium to less than 5% in 2008. The process was facilitated by the implementation of the Electronic Account Management System, which ensures the monitoring and control of volumes consumed at each unit in the Municipality. Second, the Agreement provided for investments in joint programs of the São Paulo Municipal Government and Sabesp, such as the Clean Stream Program, the Rational Water Use Program (PURA), the Integration Park, and others.

In December 2008, the São Paulo City Council approved Bill 558/08, in the first reading, which authorizes the Executive Branch to enter into program agreements with the State of São Paulo, Arsesp and Sabesp. The final approval still depends on a second Plenary vote.

The main challenge for 2009 is to complete the process for contract formalization in this market, which is the Company's most important market. The achievement of this goal will depend on the advancement of the legal and institutional discussion on the format of sanitation service agreements in metropolitan regions, the approval of Bill 558/08, and the financial agreement, which includes the offset of debts owed by both parties.

## São Bernardo do Campo

In November 2008, the São Bernardo do Campo City Council approved the new agreement signed by Sabesp and the municipality. The new agreement involves two major dimensions: 1) it extends the term for equalization of tariffs charged in the Municipality with the tariffs practiced in the São Paulo Metropolitan Region (SPMR) from 6 to 8 years; 2) it increases the scheduled investments for the 2008-2012 period from R\$ 380.9 million to R\$ 508.6 million.

## The agreement between São Paulo and Sabesp has allowed investments in en programs such as Clean stream, Rational Water Use (PURA) and Integration Park

### São José dos Campos

The execution of the agreement between Sabesp and the municipality of São José dos Campos was an important achievement in 2008. The renewal process was marked by transparency, with seven public meetings being held in several spheres. After discussions, the Municipal Sanitation Plan was established, with guidelines and service goals. In order to meet the goals established, which include universal sanitation service in the municipality by 2012, the agreement signed for the next 30 years provides for investments in the amount of R\$ 534.8 million.

### Wholesale customers - Municipal Administration Offices

The year 2008 was marked by the discussion of joint measures to accelerate the achievement of universal sanitation service in the São Paulo Metropolitan Region. This section describes the advancements in the negotiations with Guarulhos and Diadema.

#### Guarulhos

In December 2008, Sabesp signed an agreement for deviation and treatment of 20% of the sewage generated by the city of Guarulhos. The total revenue of the Company during the five years of duration of the agreement will increase by approximately R\$ 58 million. In 2009, Sabesp will seek to complete the negotiation with Guarulhos for sewage collection and treatment in the central area of the Municipality. After works are completed, it will be possible to treat 27% of the sewage generated in the municipality.

#### Diadema

In December 2008, the São Paulo State Government, Sabesp, the Municipality of Diadema and Companhia de Saneamento de Diadema (SANED) signed a memorandum of understanding, wherein the parties stated their intent to complete negotiations to settle the existing debt with Sabesp and to develop an operating structure shared between Sabesp and the Municipality for operation of water and sewage services. It is expected that such negotiations will be completed in 2009.



# Financial settlement



Guaraú Clarifier

The “Growth with Sustainability” guideline also refers to the need to accelerate negotiations towards financial settlements with the São Paulo State Government and municipalities to which Sabesp provides water on a wholesale basis, aiming at reducing the uncertainty of payments, enhancing transparency in relationships, and building the desired cooperation and partnership environment to accelerate investments in sanitation.

The amount settled in 2008 exceeded R\$ 1.3 billion, of which R\$ 390.0 million refer to the payment for water and sewage services and R\$ 915.3 million to the reimbursement of additional retirement and pension benefits, both previously due by the São Paulo State Government, and R\$ 44 million resulting from negotiations with wholesale customers.

## **Consolidation of the new method for relationship with the São Paulo State Government**

It is possible to highlight two important advancements occurred in 2008 in connection with the outstanding debts that have historically marked the relationship between Sabesp and the São Paulo State Government (GESP). First, the covenant agreed upon in December 2007, under the Second Amendment to the GESP Agreement, was put into practice. The Second Amendment sought the settlement of outstanding debts for sanitation services in the aggregate amount of R\$ 390 million. Moreover, Sabesp paid R\$ 559.3 million to the State by way of interest on shareholders’ equity for the period between March 2004 and December 2007, which were retained by the Company by virtue of outstanding debts owed by the São Paulo State Government.



Second, in November 2008, the Third Amendment to the GESP Agreement was signed, for outstanding debts related to the reimbursement owed by the State to Sabesp by virtue of the payment to former employees and pensioners set forth in Law 4819/58. In connection with the reimbursement of such benefits, the State confessed a debt of R\$ 915.3 million. In that same amendment, Sabesp provisionally accepted the Alto Tietê Reservoirs, valued at R\$ 696.3 million, by way of settlement of a portion of the payment.

In addition, R\$ 409 million in the reimbursement debt owed by the São Paulo State Government will be reassessed by the State Attorney General, by virtue of certain disagreements which prevented the acknowledgement of such amount by the Government.

Note 6 - Balances and Transactions with Related Parties to the Financial Statements contains additional information about this issue.

### **Negotiations with São Paulo**

As regards the municipality of São Paulo, the negotiations are described in the Contractual and Market Stability section.

### **Debt settlement with wholesale customers**

The balance of accounts receivable from municipalities to which Sabesp provides water on a wholesale basis to Sabesp exceeds R\$ 1.2 billion. The amounts related to water supply in the wholesale market and damages for taking over concessions are being challenged in several lawsuits filed by Sabesp.

The balance for water supply in the wholesale market is R\$ 1.1 billion, and the main debtors are Guarulhos, Santo André, Mauá, and Diadema. Debts related to damages for taking over concessions in Diadema and Mauá reach R\$ 149 million.

In 2008, total recovered credits resulting from court-ordered debt payments and agreements was R\$ 44 million. Of this total amount, R\$ 30.8 million result from court-ordered debt payments related to the municipality of Guarulhos. Also in 2008, the last installments for settlement of debts owed by the municipality of Mogi das Cruzes, under an agreement signed in 2007, were paid. In December 2008, the municipality signed a new agreement with Sabesp.

The Company also started negotiations with Diadema in order to find a joint solution for recovery of the amounts owed. The 2009 goal is to continue the negotiations in progress and resume halted negotiations. In the event of any resistance against the continuance or resume of negotiations, the strategy will be to intensify measures to recover outstanding debts.

# Corporate Modernization

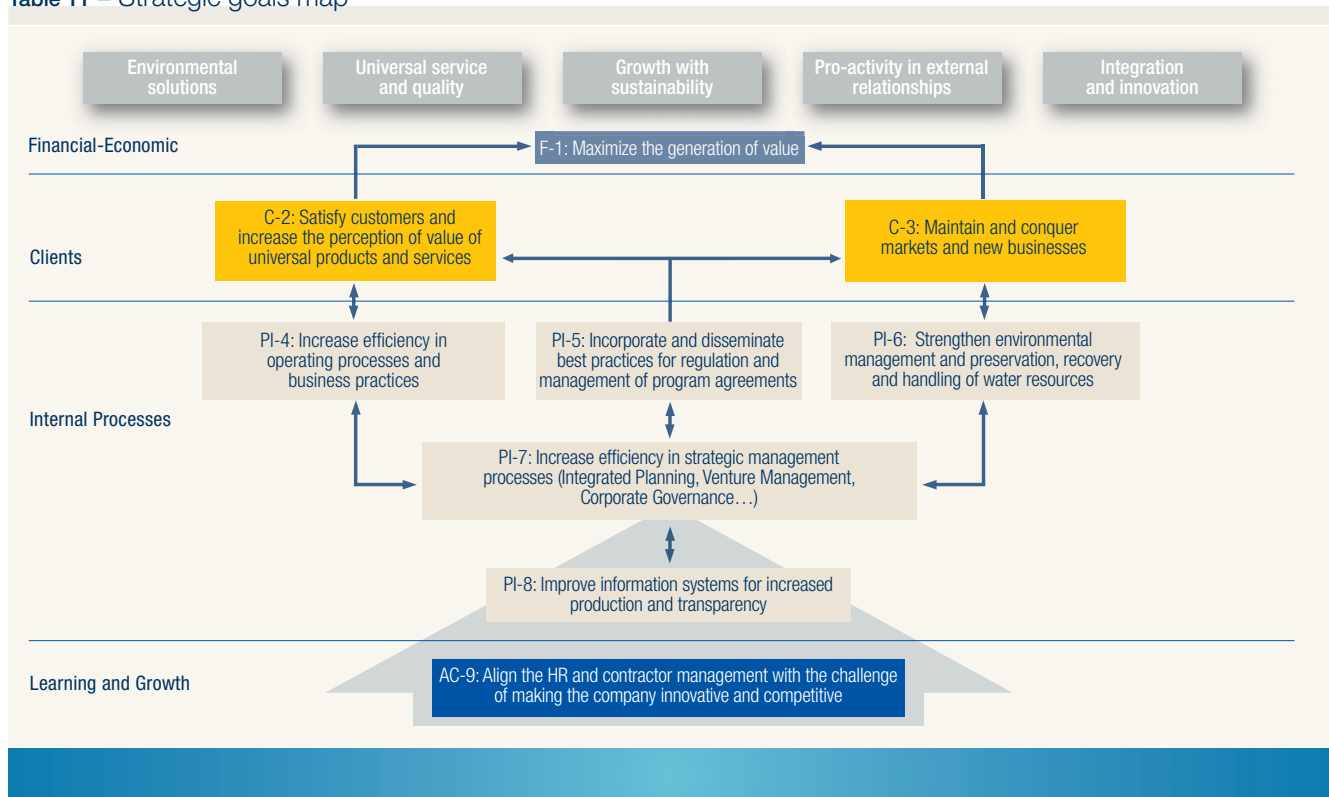
The “Integration and innovation” guideline establishes that Sabesp must seek increase in productivity from the synergy achieved with enhanced integration of processes, sharing of resources and structures, and focus on innovation.

Accordingly, Sabesp has been working on five major initiatives: strategic planning, value-added management (VAM), integrated corporate management system, adequacy of personnel, and corporate restructuring. The next subsections describe the advancements in connection with each point.

## Strategic Planning

For the first time since the 2004 implementation of the Balance Score Card (BSC) strategic planning management tool, the strategic guidelines, mission, vision, and strategic map were revised. The new guidelines, as well as the mission and vision, were presented in the introduction to this report. The table below sets forth in detail the new strategic map for the Company, with a reduction of the number of strategic goals from 19 to 9.

**Table 11 – Strategic goals map**







## The Profit Sharing Program increased the **commitment** of associates based on earnings-focused target setting

Another highlight was the expansion of the planning horizon from 5 to 10 years. Accordingly, the vision established for “Sabesp in 2018” is beginning to materialize in goals, works, programs, and corporate measures.

Another important initiative was the inclusion of the Company’s ethical values, which are an integral part of the Sabesp Ethics and Conduct Code in its strategic guidelines. The ethical values are detailed in the Corporate Governance section.

In order to increase the commitment of employees, the Profit-Sharing Program (PPR) was integrated more comprehensively into the strategic planning. Such integration between planning and the PPR was established in various ways:

- Goals in connection with finance, customer satisfaction, renewal of concessions with municipalities, and implementation of environmental management systems now have direct impact on the PPR of all employees;
- Employees working in support activities will now have their own result-oriented goals.

For 2009, the major challenge in strategic planning is to accelerate the works of the nine groups which represent the strategic goals and which have not performed satisfactorily in 2008.

<sup>3</sup> Areas of back-office activities are segments of the Company that do not directly deal with the services rendered to customer. A few examples are legal, IT, and HR departments.



Water Treatment Plant - Guaratú

## Commitment to goals in business units

In 2008, all the areas of the Company took part in commitment events for the goals established for the year. Senior management held technical meetings at business units. The cycle of meetings helped to improve the planning process in the following points:

1. Promotion of a goal-oriented culture at Sabesp;
2. Identification of the major obstacles to meeting goals;
3. Survey of the major demands from each area in the company.

The identification of the demands from business units contributed to the establishment of the 2009 goals. Action plans for meeting demands were presented during the first strategic planning immersion session. The 2009 cycle of commitment meetings has already begun.



## Value-Added Management (VAM)

First among Brazilian government companies, Sabesp started in August 2008 the implementation of Value-Added Management (VAM). Such approach is expected to promote the logic of generation of value in the various levels of the company, thus increasing efficiency in the use of its production resources, without relinquishing, however, its strong social commitments. VAM is an important step for the construction of a modern and competitive company focused on the improvement of quality of living in society.

The project, with a total duration of 18 months, provides for the implementation of the approach in

three pilot units. In the countryside region, the works in the Alto Paranapanema Business Unit, based in Itapetininga, are already to be completed. In the Central and South Business Units, located in the city of São Paulo, the implementation will occur in 2009. Those units will serve as a model for dissemination of the VAM approach in other units of the company.

A total of 200 employees were trained in 2008, and other 400 are expected to be trained in 2009.

The intent is to gradually incorporate the VAM approach in financial management, project evaluations, and establishment of corporate goals.



## Corporate Management Integrated System

The engagement of a Corporate Management Integrated System is an important step to improve information management within Sabesp. In general, the system is a software platform developed to integrate the various departments of a company, allowing for the automation and storage of all business information. Among other improvements, its implementation will make possible to reduce the number of systems and the limitations to data integration and to review the mapping of corporate processes.

Of all the strategic projects, however, this one made the least progress. Management understood that, in order to avoid reworking, the organizational restructuring of the company, which is already in progress, should be performed first. After such restructuring is completed, the project will resume.

### Adequacy of personnel

The restructuring of the employees of Sabesp meets the Company's need to adjust to its commitment to universal sanitation services by 2018 in the 366 municipalities in which it operates in the State of São Paulo and the possibility that the Company starts to explore new markets, such as drainage, solid waste, and energy.

Renewal implies the hiring and training of employees to replace those who are retiring. Adequacy provides for the hiring of employees to occupy job positions to be created as a result of the opening of new water and sewage treatment plants and to meet the demands resulting from the creation of new areas. Accordingly, in 2009, the first comprehensive public selection process

since 2001 will be carried out, with the creation of 1,771 positions in the various municipalities served in the State of São Paulo.

The selection process is included in the Company personnel renewal strategy. In the context of such restructuring, a Conduct Adjustment Instrument (TAC) was signed in February 2009, which includes termination of all employees retired under the INSS scheme from Sabesp's permanent personnel, in compliance with the guidelines issued by the State Public Prosecution Office. In order to ensure the quality of the services provided to the population, the termination of 2,250 retirees will be performed gradually from 2009 to 2011.

Always ensuring continuity in the supply of utilities, Sabesp will start by terminating those retirees who wish to leave the Company immediately and those entitled to additional retirement benefits under the pension plan related to the Company (Sabesprev). In addition, Sabesp will ensure to retirees the portion payable by the company for maintenance of the Health Plan for a period of six months following termination.

### Corporate Restructuring

The purpose of corporate restructuring is to improve efficiency in the coordination and flow of managerial information. During 2009, the organization chart, the model and structure of business units, the level of centralization, and the juxtaposition of roles, among others, will be reviewed. The project will be completed in 2010. The restructuring is within the context of expansion of possibilities of activity and repositioning of the Company vis-à-vis the regulatory framework, which will be described in the next section.



# Challenges and opportunities

New legislation allows Sabesp to develop new businesses and **operate nationwide and abroad**



Atibainha Dam - Cantareira System



## Repositioning vis-à-vis the new regulatory framework

The year 2008 was marked by the start of the effective operation of the São Paulo State Sanitation and Power Regulatory Agency (ARSESP), created under Supplementary State Law 1025 of 2007. External regulation is one of the major changes introduced by the new regulatory framework for the sanitation industry, which is in force since the enactment of Federal Law 11445 of 2007.

The new legislation introduced challenges and opportunities to Sabesp. The “Proactive conduct in external relationships” guideline establishes that the company must respond quickly to the requirements of the new legislation and benefit from new opportunities. Challenges include the restructuring of internal processes, the standardization of approaches used in different areas, the establishment of an information flow capable of responding to regulatory requirements, and the need to promote a regulatory culture in the Company. Opportunities include the possibility to expand its activity to other territories and to enter into markets such as drainage, urban cleaning services, handling of solid waste, and energy.

In an environment of increased competitiveness, it was necessary to promote a quick and profound change in Sabesp. New areas were created in order to adjust the corporate culture to the new scenario. In 2007, the environmental management department was created; it is responsible for introducing the environmental issue in all the activities of the company and to promoting the preservation of water resources and the environment. The main advancements and challenges in this area are described in the Environmental Management chapter. In addition, the Regulatory Affairs area was created, and the first steps were taken to structure the New Business and R&D areas. The next topics describe the initiatives carried out in order to respond to recent demands.



## Regulatory affairs

In 2008, Sabesp structured its Regulatory Affairs Area, which is comprised of a Department and a Committee. The main purpose of this area is to implement best regulatory practices and to promote a regulatory culture in the Company.

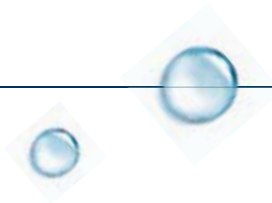
The first challenges have already been faced. In order to enhance transparency in its relationship with customers, Sabesp sent for the first time management reports on service provision to each municipality under a renewed agreement. Each report presents a comparison between the annual goals and the results achieved during that year, the amount of investments, and also a customer satisfaction survey in the municipality. Therefore, it is an important tool to follow up services, both to the municipality and to the regulatory agency.

In the major customers segment, one important challenge is the increase in the competitive capacity of the Company. Today Sabesp faces competition from artesian wells and delivery of water by water trucks. In 2008, the Company started a technical discussion with Arsesp to achieve freedom of negotiation in competitive segments, such as shopping malls, factories, and hotels. It was proposed that the regulatory agency would only establish the maximum price that the concessionaire could practice, but the actual selling price would be fixed by the Company. Thus Sabesp could adopt a more aggressive strategy for customer recovery and loyalty.

Another new task is the interaction with Arsesp in the preparation of regulations. In 2008, sanitation service regulations and sanctions and penalties were established. The implementation of clear rules in customer service and penalties in the event of default tends to enhance the quality of services even further.

In 2009, the Sabesp regulatory affairs area will work in three very important fronts in its relationship with the regulatory agency. First, Sabesp will send a proposal for a regulatory accounting model. The accounting for regulated services separately from non-regulated services is critical to expand the company to new competitive services and markets, as well as to provide a basis for discussion of future tariff adjustments.

Second, the current tariff structure will be revised by the regulatory agency. Sabesp argues for a simplified tariff structure and intends to send a study on the issue to the regulatory agency before the end of 2009. Finally, Sabesp will propose a mix of regulatory indexes for a detailed follow-up of the performance of concessions. The indexes will measure operating and financial performance and quality of services.



## Tariffs

In accordance with the Basic Sanitation Law, which establishes that the regulation of new tariffs must be performed by an independent regulatory entity, adjustments were approved under Arsesp Resolutions in 2008. As of on September 11, 2008, the tariffs related to water supply and sewage collection services were adjusted by 5.10% on a non-straight line basis, except for the municipality of Lins, which is under a municipal regulation.

## New businesses

The year 2008 was a mark in the diversification of the activities of the Company. First, its first partnership with the private sector was signed, to operate in the municipality of Mogi Mirim. In August 2008, Sabesp formed a special-purpose entity (SPE) with the companies OHL Médio Ambiente Inima, Técnicas y Gestion Medioambiental (TGM), and Estudos Técnicos e Projetos ETEP Ltda.

SESAMM – Serviços de Saneamento de Mogi Mirim S/A will provide the implementation of the sewage collection system and operation of the sewage treatment system, including disposal of the solid waste generated.

In addition, three new technical cooperation agreements between Sabesp and other state sanitation companies were signed: with Cagepa from Paraíba, with Corsan from Rio Grande do Sul, and with Cesan from Espírito Santo. Together with the agreement signed with Casal from Alagoas in 2007, there are already four cooperation agreements established by Sabesp.

The cooperation proved to be a useful mechanism not only for the exchange of experience, but also for the creation of a favorable environment for the development of partnerships and marketing of new products and services.

Sabesp also negotiated its first international agreement with Instituto Costarricense de Acueductos y Alcantarillados (Aya) from Costa Rica, signed in January 2009. The next step is to strengthen the partnership through an agreement for provision of services and marketing of technologies developed by Sabesp.

From such pioneering experiences, the New Business Area was formatted and will be comprised of a Department and an Executive Committee. In 2009, the goal is to multiply projects in partnership with other governmental and private companies. Sabesp will seek to intensify the sale of technology services, not only in the State of São Paulo, but also in other regions in Brazil and abroad. Sabesp made advancements in the negotiations for the Aquapolo Ambiental Project with the Capuava Petrochemical Complex and the business group which includes Ecosama. It is expected that the Aquapolo Ambiental Project becomes feasible before the end of the first half of 2009.





Water Treatment Plant feeder pipe - Alto Cotia

## Cooperation agreements drive new businesses:

**Shared procurement:** A joint organization between two or more governmental companies of a process of price database for procurement of inputs and products. Such procedure generates material gains of scale, increased power of negotiation with suppliers, and consequently cost reduction. Shared procurement also stimulates increased quality and scale in the supply chain, with positive impacts on technical progress and on Brazilian industry.

Within the scope of a cooperation agreement signed in 2007, Sabesp and Casal (Companhia de Saneamento de Alagoas) carried out a shared procurement process, under which the Alagoas company acquired 54,000 hydrometers, using the Sabesp price database system.

**Aqualog:** Developed by Sabesp, Aqualog automates the water treatment process and monitors operational data from water collection and distribution reservoirs. The implementation of Aqualog improves the reliability of the water quality and generates economy of energy and chemicals. The Aqualog technology is exclusively owned to Sabesp, which may license it to governmental and private companies.

The technical cooperation agreement with Cesan developed into a specific agreement for the development of an automation project for water production systems in the municipalities of Nova Venécia and Viana (State of Espírito Santo) through implementation of Aqualog. The first phase of the project is already in progress, and the second phase is expected to be started before the end of 2009.

**Loss reduction program:** Involves identification and localization of deficiencies in the water supply infrastructure and performance of multiple measures for improvement of the distribution network. It also involves the fraud detection program and the update of the master file of users, in order to reduce clients default level with Sabesp.

Casal (State of Alagoas) and Sabesp are creating a loss reduction program to be implemented in the Municipality of Maceió, which is expected to generate important economies and to increase the availability of water to the population of Alagoas. The investments forecasted for the program are in the amount of R\$ 20 million.

## R & D & I

Continuing the process of adjustment to the opportunities opened by the new regulatory framework, the challenge in 2009 will be to structure the new Research & Development & Innovation area, the purpose of which will be to organize and expand the efforts in technological research and innovation.

Sabesp will update its Technological Development Policy and establish an Intellectual Property Policy. The strategy of appropriation of intellectual property rights will provide a basis for the technological and innovative development at Sabesp, and also for cooperation with Brazilian and foreign partners.

In addition, Sabesp will sign a cooperation agreement with Fapesp to expand investments in sanitation research. In 2008, R\$ 3.5 million were invested in R&D. The Partnership Research for Technological Innovation (PITE) will increase the investment to R\$ 25 million from Sabesp and R\$ 25 million from Fapesp during five years.

Research lines selected focus on minimization of environmental impact of the Company's activities, energy efficiency, and development of sustainable technologies for sewage treatment and sludge disposal. Through the partnership, Sabesp will take a major leap in research, technology and innovation, thus ensuring efficiency and competitiveness on the mid- and long-term.



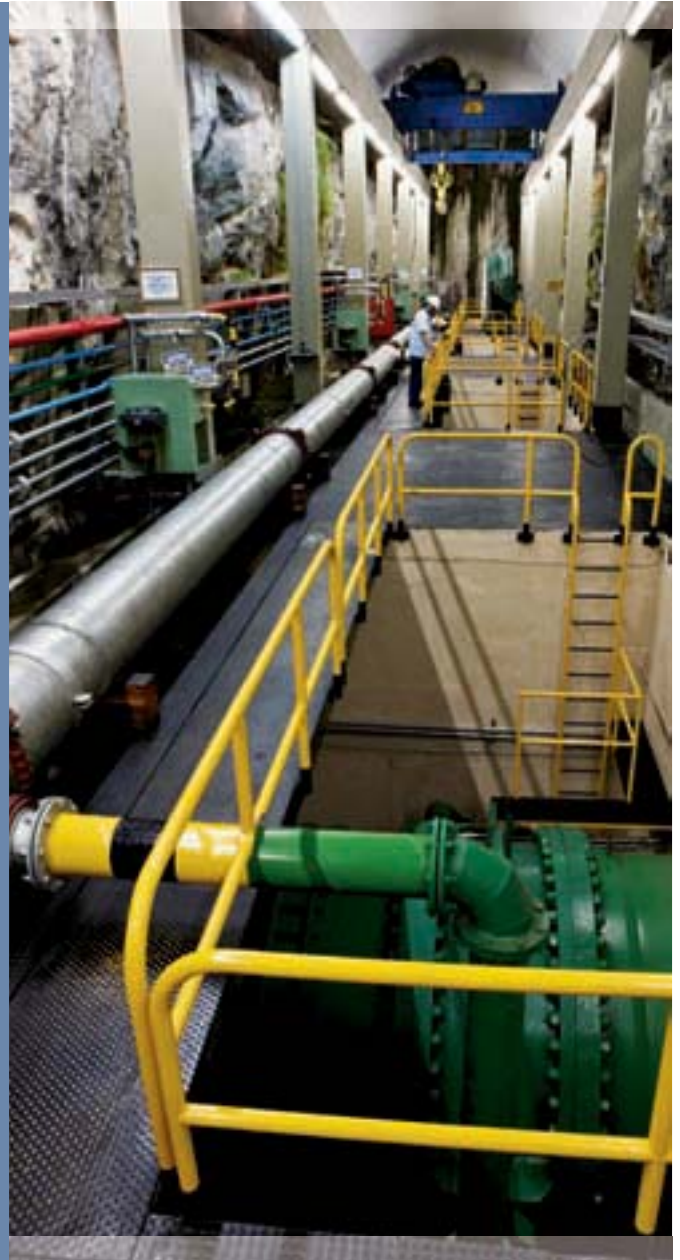
Water Treatment Plant - Guaratú

## Continuity of Innovation Sessions

Started in 2007, the innovation sessions program continued in 2008, covering a wide spectrum of issues, such as materials, technologies, equipment, and products for water and sewage treatment. The eight sessions held during the year congregated experts from the academic and industrial milieu, including lecturers from abroad. Beginning on the second half of the year, participation was extended to external guests, thus expanding the disclosure and sharing of expertise in innovation.

## DAE Magazine

DAE magazine was published again in 2008. The magazine publishes articles in the interest of the technical and scientific community in the sanitation, water resources, and environment areas. Three issues of the magazine were published, and its editorial board was formed. In addition, DAE magazine is now available online: [www.revistadae.com.br](http://www.revistadae.com.br).



Stª Inês Pumping Station

## Sabesp Environmental Solutions

The Sabesp Environmental Solutions Program consists of a platform of products and services offered to obtain customer loyalty and expand the major customer base of the Company. Through the new services, customers benefit from Sabesp's expertise and technology in sustainability, environmental preservation and water resources management areas. Thus Sabesp is increasing its competitive capacity in the segments which are most explored by alternative water suppliers.

In 2008, two new products were incorporated into the platform: individual and remote water measurement. The first results of the Sabesp Environmental Solutions Program are described below.

**Firm Demand Agreements:** Under a loyalty agreement with Sabesp, companies benefit from special tariffs and consumption management systems, thus reducing costs. Companies also rely on special services and supply guarantees.

In 2008, 54 new agreements were signed. Those agreements involve a loyalty water volume of 400,000 m<sup>3</sup>/month and R\$ 35 million/year in billings. If sewage volumes are included, loyalty billings reach approximately R\$ 60 million/year.

### **Program for Receipt of Non-Domestic Effluents**

**(PREND):** Currently, one of the major concerns of companies is the destination of effluents from the production process. In order to meet that need, Sabesp prepared to receive and treat non-domestic effluents from industrial plants. Sabesp collected 15.3 million m<sup>3</sup> in effluents in 2008, which amounts to 1.3 million m<sup>3</sup>/month. This effort resulted in R\$ 111 million in billings.

### **Program for the Rational Use of Water (PURA):**

Solutions to reduce water consumption involve actions such as leak detection and repair, replacement of the conventional equipment by economic equipment, studies related to the reuse of water, and educational lectures.

**Reuse Water:** Reuse water is produced from sewage treatment and may be used for cooling of equipment, in industrial processes, and other non-drinking purposes. The use of reuse water helps in the expansion of the offer of water for public supply and in the preservation of the environment. Sabesp's reuse water production process is certified by the ISO 9001:2000 quality management system in conformity with strict quality standards.



Reuse Water Program



Visit to the Water Treatment Plant - Alto Cotia

## Pura promotes water savings in schools

In 2007, an agreement was signed with the São Paulo Municipal Government for implementation of the Program for the Rational Use of Water (Pura) in 2,800 properties of the Municipal Government. In 2008, 240 municipal schools were adapted with economic toilets and taps, made of a much more resistant material which is fit for intensive public use. In addition, leak surveys were performed in the external environment of schools, 500,000 explanation leaflets were distributed to students, and an environmental education course was offered to 1,500 education employees in charge of consumption management. In 2009, 181 schools have already been adapted.

The schools adhering to the Pura showed a 26% economy in water consumption between January 2008 and January 2009, which amounts to approximately 21 million liters of water.

The maintenance of the stipulated consumption levels will allow the State Education Department to include the selected schools in a differentiated tariff category, which is 25% lower than the regular governmental tariff. The São Paulo State Government also adhered to the Pura. In late 2008, 350 state schools signed an agreement with Sabesp to be included in the program.



Currently, the Sewage Treatment Plants in the São Paulo Metropolitan Region have a reuse water production capacity of 320,000 m<sup>3</sup>/month. Of that capacity, we already supply 100,000 m<sup>3</sup>/month to current customers. Sabesp's largest customers are Santer, which consumes 40,000 m<sup>3</sup>/month in the paper and pulp production process, and the São Paulo Municipal Government, which consumes 17,000 m<sup>3</sup> of reuse water per month in the cleaning of streets and monuments, irrigation of gardens, and clearance of rainwater aqueducts.

In 2008, Sabesp signed a memorandum of understanding for reuse water supply with the Capuave Petrochemical Complex. A maximum supply of 1,000l/s is expected, which amounts to the consumption of a city the size of Santos. Such supply will be made possible by the Aquapolo Ambiental Project. The New Businesses topic contains additional information on the project.

**Developer's manual:** The purpose of these materials is to guide developers, architects, and constructors in the State of São Paulo in connection with the criteria used by Sabesp for the proper connection of real estate developments to the public water and sewage systems.

**Remote Measurement:** The remote measurement service allows for online monitoring of hydrometer consumption in real time. The consumption history is presented in charts in accordance with the period established by the customer. In addition, the system provides alerts on leaks and consumption peaks by e-mail and cell phone messages. Real-time consumption management allows for quicker decision-making, which increases the logistic efficiency of responses, and also reduces the waste of water.

The project was started as a pilot in May 2007, and currently there are 2,021 monitoring points installed at customers, 120 of which are at major customers and 1,901 at buildings owned by the São Paulo Municipal Government, under the agreement signed between the entities. Internally, the system is also used for management of operating equipment, with 40 devices installed.



# Individual Measurement

In 2008, Sabesp launched a technology which allows for a separate measurement of the individual consumption of each apartment in a condominium. Known as “individual measurement”, the new technology meets an old request from many apartment owners and may become an important economic stimulus to the rational use of water.



**The first to adopt this solution was Conjunto Habitacional Nova Imagem**, a building developed in the municipality of Francisco Morato by Companhia de Desenvolvimento Habitacional Urbano (CDHU). Individual measurement satisfied 70 residents of the building who were interested in this alternative to solve supply problems and provide a fair division of expenses. Already in the first delivery of bills after implementation of individual measurement, there was a 10% reduction of consumption in the building, and the great concern of residents with the rational use of water was perceivable.



The model used by Sabesp was developed from a partnership with the Center for Development and Documentation of Housing and Urban Infrastructure, which is related to Escola Politécnica da Universidade de São Paulo. That union resulted in the “ProAcqua” Program, which is responsible for training and certifying professionals and companies for individual measurement services.

The ProAcqua certification of companies allows condominiums to choose a service provider in the market to adapt the installations in the building to individual measurement. Thus there is competition between service providers, which results in attractive end prices.



The “Proactive conduct in external relationships” guideline establishes the expansion of Corporate Governance. This must be an ongoing challenge for a Company that was the first government-controlled corporation in Brazil to adhere to the BM&FBovespa Novo Mercado, in April 2002, and that simultaneously listed its shares in the New York Stock Exchange.





# 99

representatives of stakeholders have collaborated in the preparation of this report

## New bylaws

In 2008, Sabesp went through a major revision of its bylaws, including adjustments and changes which strengthen its commitment with good governance. The main purposes of the revision of the bylaws were:

- Adjustment to the legislative changes introduced in the law that created the Company, which allowed to Sabesp the corporate flexibility to create subsidiaries and participate in other companies, as well as to expand its scope of business scope to new segments such as energy, drainage and handling of urban rainwater, urban cleaning services, and handling of solid waste;
- Facilitation of participation of shareholders in General Shareholders' Meetings;
- Expansion of the authority and strengthening of the Board of Directors;
- Prohibition of appointment of the CEO of the Company who is also a director as the chairman of the Board of Directors;
- Use of the available multimedia technologies, allowing for meetings to be held by conference call, with the same legal validity and effectiveness of meetings in person;
- Establishment of a strong defense mechanism for managers and employees of the Company, offering them legal support in the event of their actions taken for the benefit of the Company being challenged, including with the possibility of hiring of external counsel for their individual defense.



GRI 4.14

## Engagement with Stakeholders

The first Engagement with Stakeholders panel, held on February 3, 2009, in São Paulo, congregated 99 guests among customers; representatives of customers; investors; federal, state and municipal governmental spheres; shareholders; communities, NGOs, trade unions, and universities; customers; internal audience; suppliers and partners; and regulatory agencies.



The chairman of the Board of Directors and the CEO of the Company presented an overview of the Company's activities in the last year and emphasized the relevance of the event for the Company as a further advancement in the process of involvement with various stakeholders. They also spoke on Sabesp's challenges after the changes in the regulatory framework for the industry.

The purpose of the meeting was to identify the perception of the 2007 Sustainability Report by stakeholders and to collect information which helped in the preparation of this report.

Two dynamics were performed during the event. The first served to assess the 2007 Report, which was seen as overly conceptual by the participants. The result of the assessment work also revealed the need of more transparency in the rendering of accounts and showed a lack, in the 2007 report, of future forecasts and of references to compare the figures presented with figures for previous years. Another gap found was the lack of reports on projects carried out by Sabesp in the social and environmental sphere and on the commitment and relationship of the Company with stakeholders.

The purpose of the second dynamics performed out during the meeting was to collect suggestions from stakeholders for preparation of this report. The result of such activity served to indicate 12 issues to be assessed by the Company and addressed, if possible, in this report. Four of the issues identified were prominent, with a rate of citation in excess of 55%: Governance and strategy for sustainability (18% of citations); Human Resources: development, training, and valuation (14%); Environmental management (13%); and Environmental education for Sabesp's relationship audiences (13%).



Building the Stakeholders Panel

As a result of that first Engagement Panel, new opportunities of dialogue with stakeholders were established and points addressed during the meeting were incorporated into this report. One of the main demands from stakeholders is related to a clearer explanation by the Company of its major challenges and goals, and three points may be highlighted in this regard. First, the report presents a rendering of accounts for the 10 major goals announced in 2008. This is a new mechanism in Sabesp's relationship with its various audiences, which now have a better understanding of the effectiveness with which the Company faces its challenges. Second, the 10 major goals for 2009 are announced, in order to ensure a continued the follow-up. Third, the Company is also announcing its operating goals up to 2018, when it expects to achieve universal service in the municipalities where it operates.

In addition to goals, the main structuring projects which comprise the Company's program portfolio are also listed, as well as their targets, population served, and timeframe. Other, more specific demands from the various stakeholders were contemplated in the report, such as: information on environmental solutions; details on concessions; and approaches on environmental education. Another demand from the stakeholders refers to further information on Environmental Management. Accordingly, the Company sought to systematize certain data, such as Direct and Indirect Emissions of Greenhouse Gases. As shown in the Indicator Table, a good part of the information is available only for 2008, which reflects recent efforts towards systematization of such information and represents an important challenge for the Company.

# Members of the Board of Directors

## GRI 4.2 / 4.3 / 4.4 Board of Directors

In 2008, the Board of Directors consisted of 11 members with joint term of office of two years, with reelection allowed. The chairman position and the CEO position are held by different persons. Among the directors, three members are independent in accordance with the Novo Mercado Listing Rules, of which one is elected by the minority shareholders.

The Company's bylaws provides for the participation of one director elected by the employees in the Board of Directors, with a term of office similar to the other directors.



Dilma Seli Pena

Chairwoman of the board of directors since January 2007. Ms. Pena holds a master degree in public administration from Fundação Getúlio Vargas (FGV/EAESP) and a bachelor degree in Geography from Universidade de Brasília. Ms. Pena started her career as a federal civil servant in 1976, as a planning and research technician with Instituto de Pesquisa Econômica Aplicada (IPEA). Ms. Pena was Sanitation officer at the Urban Policy Department of the Ministry of Planning, officer of Strategic Investments at the Ministry of Planning, and officer of the National Water Agency. Ms. Pena held the position of Deputy secretary at the São Paulo Economy and Planning State Department. Ms. Pena is responsible for the Sanitation and Energy State Department and also is the chairwoman of the Boards of Directors of CESP and EMAE since January 2007. Ms. Pena has published several articles, papers, and books on the areas of sanitation, water resources, and planning.



Gesner Oliveira

He is a member of the Board of Directors since July 2008 and CEO since January 2007. He is a member of the Board of Directors of Companhia Energética de São Paulo (CESP) and a professor at the Economics Department of Fundação Getúlio Vargas. He was Visiting Professor at Columbia University (USA) (2006). He was the chairman of the Economic Defense Council (CADE) (1996-2000). Deputy Secretary of the Economic Policy Department of the Ministry of Finance (1995). Interim Secretary of the Economic Monitoring Department of the Ministry of Finance (193-1995). Chairman of the Legal and Economic Trends Institute, managing-partner of Tendências Consultoria Integrada, consultant and arbitrator in the areas of infrastructure regulation and competition protection. PhD in Economics from University of California/Berkeley, a master degree in Economics from Instituto e Economia da UNICAMP, and a bachelor degree in Economics from Faculdade de Economia e Administração da Universidade de São Paulo (USP).



Humberto Rodrigues da Silva

Mr. Silva is a member of the Board of Directors since January 2007. Mr. Silva holds a post-graduate degree in methodology and urban and municipal development projects from Escola Nacional de Serviços Urbanos (ENSUR). Mr. Silva holds a bachelor degree in public administration from Escola de Administração de Empresas de São Paulo (FGV). Mr. Silva is the deputy secretary of the Civil Office of the São Paulo State Government.



Alexander Bialer

Mr. Bialer is an independent member of the Board of Directors since April 2003, representing the minority shareholders. Mr. Bialer holds a bachelor degree in Mechanical Engineering from Instituto Tecnológico da Aeronáutica (ITA), and a specialization degree in system administration from EAESP/FGV. He is currently the Chairman of the Executive Board of the Synergy Group and a member of the Boards of Directors of ROMI, AVIANCA and Andritz Hydro Inepar. He was Business Development Officer at GE in Brazil and Latin America, and retired in 2002. He also collaborated with AVON, Máquinas Piratininga and ASEA.



Roberto Yoshikazu Yamazaki

Mr. Yamazaki is a member of the Board of Directors since January 2007. He holds a bachelor degree in business administration. Mr. Yamazaki was the deputy secretary of the São Paulo Finance Department from 2006 to January 2007 and coordinator of the São Paulo State Financial Administration from 2003 to 2006. He is the technical advisor of the São Paulo State Finance Department.



Manuelito Pereira  
Magalhães Júnior

Mr. Magalhães Júnior is a member of the Board of Directors since January 2007. He holds a master and a bachelor degree in Economics from Instituto de Economia da UNICAMP. He is a member of the Boards of Directors of CET/SP and PRODAM/SP. He was a member of the Board of Directors of COHAB/SP. He is the Planning Secretary of the City of São Paulo.

Francisco Vidal Luna

Mr. Luna is a member of the Board of Directors since July 2007. He holds a PhD in Economics from Faculdade de Economia e Administração da Universidade de São Paulo (USP). He was the Planning Secretary of the City of São Paulo and worked in the São Paulo State Finance Department and in the Ministry of Planning. He was the Chief Executive Officer of Banco Inter American Express S.A., member of the Board of Directors of the Brazilian National Bank for Economic and Social Development (BNDES) and Special Secretary of Economic Affairs of the Planning Department of the Brazilian government. He is the Economy and Planning Secretary of the São Paulo State Government since January 2007.

Mário Engler  
Pinto Junior

Mr. Pinto Junior is a member of the Board of Directors since March 2006 and a member of the Audit Committee since June 2006. Mr. Pinto Junior holds a bachelor degree in Law from Faculdade de Direito da Universidade de São Paulo in 1979, where he is currently a Commercial Law Ph.D. student. He is the active holder of the position of Public Attorney for the State of São Paulo Public Attorney's Office since 1984, and currently exercises his position as Chief of Legal Advisory Services of the Finance Department.



Antero Paes de  
Barros Neto

Mr. Barros Neto is a member of the Board of Directors since May 2007. He is a journalist and lawyer. He holds a bachelor degree in Law from União Pioneira de Integração Social (UPIIS) and postgraduate degree in Constitutional Law from IDP in Cuiabá (MT). He was municipal representative in Cuiabá from 1982 to 1986 and a congressman from 1986 to 1990. He was the secretary of the Civil Office and Social Communication of the State of Mato Grosso in the period from January 1994 to April 1998. He was a senator from 1999 to January 2007 and held the positions of alternate chairman and alternate secretary in the Senate's presiding committee.

Jerônimo Antunes

Mr. Antunes is an independent member of the Board of Directors since April 2008 and Coordinator of the Audit Committee. He has a bachelor degree in Business Administration and Accounting. Mr. Antunes holds PhD and master degrees in Controllershship and Accounting from Universidade de São Paulo, where he has been working as professor in the Department of Accounting and Actuarial Sciences of Faculdade de Administração, Economia e Ciências Contábeis da Universidade de São Paulo – FEAUSP since 1999. He is a professor in several MBA courses offered by Fipecafi, FIA, and other institutions. Mr. Antunes works as an independent auditor since 1977, and is enrolled as Technician-in-Charge Partner of Antunes Auditores Associados with the Brazilian Securities and Exchange Commission – CVM. He was an officer of IPECAFI, IBRACON, and ANEFAC.

Reinaldo Guerreiro

Mr. Guerreiro is an independent member of the Board of Directors and member of the Audit Committee since January 2007. He holds PhD and master degrees in Accounting and Controllershship and a bachelor degree in Accounting from FEA-USP. He is a consultant specialized in financial management. He worked in a number of projects in the financial management, costs, budgetary and information technology systems areas in several companies.

## Audit Committee

The Board of Directors is supported 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 method of operation of this Committee are defined in its internal regulation, available at the Company's website.

<b>Jerônimo Antunes</b>	Coordinator
<b>Mário Engler Pinto Junior</b>	
<b>Reinaldo Guerreiro</b>	

## Supervisory Board

The supervisory board is established on a permanent basis since the Company's incorporation and currently consists of five active members and their respective alternates, of which one is the representative of minority shareholders.

Active Member	Alternate Member
<b>Aflio Gerson Bertoldi</b>	<b>Deraldo de Sousa M. Junior</b>
<b>Emília Ticami</b>	<b>Net Nazareno Sígolo</b>
<b>Jorge Michel Lepeltier (*)</b>	<b>Alexandre Luiz O. de Toledo</b>
<b>Maria de Fátima A. Ferreira</b>	<b>Tomás Bruginski de Paula</b>
<b>Sandra Maria Giannella</b>	<b>Vanildo Rolando Neubauer</b>

(\*) – Representative of minority shareholders

# Members of the Board of Executive Officers

## Board of Executive Officers

The Board of Executive Officers consists of six members with joint term of office of two years, with reelection allowed. The Officers are elected by the Board of Directors, of which one member is appointed as the Chief Executive Officer.



**Gesner Oliveira**

CEO since January 2007. He is a member of the Boards of Directors of Sabesp and Companhia Energética de São Paulo (CESP) and a professor at the Economics Department of Fundação Getúlio Vargas. He was Visiting Professor at Columbia University (USA) (2006). He was the chairman of the Economic Defense Council (CADE) (1996-2000). Deputy Secretary of the Economic Policy Department of the Ministry of Finance (1995). Interim Secretary of the Economic Monitoring Department of the Ministry of Finance (1993-1995). Chairman of the Legal and Economic Trends Institute, managing-partner of Tendências Consultoria Integrada, consultant and arbitrator in the areas of infrastructure regulation and competition protection. PhD in Economics from University of California/Berkeley, a master degree in Economics from Instituto e Economia da UNICAMP, and a bachelor degree in Economics from Faculdade de Economia e Administração da Universidade de São Paulo (USP).

**Marcio Saba Abud**

Mr. Abud is the Company's Corporate Management Officer since January 2007. He holds a bachelor degree in Economics from Faculdade de Economia e Administração da Universidade de São Paulo (FEA/USP). He has broad experience in the financial area and in several segments of the Brazilian and foreign markets. He held the position of Vice-President of Banco Westlb do Brasil S/A from April 1987 to January 2007.



Rui de Britto Álvares  
Affonso

Mr. Affonso is the Company's Chief Financial and Investor Relations Officer since July 2003. He holds a PhD degree and a master degree in Economics from Universidade Estadual de Campinas (UNICAMP). He holds a bachelor degree in Economics from Universidade de São Paulo (USP). He is a professor of Instituto de Economia of Universidade Estadual de Campinas (UNICAMP) since 1986. He held several positions in the State Government.



Paulo Massato  
Yoshimoto

Mr. Yoshimoto is the Company's Metropolitan Region Officer since February 2004. He holds a bachelor degree in Civil Engineering from Escola de Engenharia de Lins. He works in Sabesp since 1983 and held the following positions: Executive Assistant of the Operations Office and Head of water production, maintenance, planning and operating development department for the metropolitan region.



Umberto Cidade  
Semeghini

Mr. Semeghini is the Company's Regional System Officer since January 2007. He holds a bachelor degree in Electric Engineering from Faculdade de Engenharia Industrial (FEI). He was the Planning Secretary of the Ministry of Transportation and held the position of Officer in Gerentec Engenharia. He previously worked in Sabesp and held the positions of Head of Production and Metropolitan Officer from 1986 to 1992.



Marcelo Salles  
Holanda de Freitas

Mr. Freitas is the Company's Information Technology and Planning Officer since January 2007. He holds a bachelor degree in Civil Engineering and post graduate degree in Sanitation from Universidade de São Paulo (USP). He holds a specialization degree in business administration from IBMEC. He was the Vice-President of the Company's Metropolitan and Countryside Region, Project Officer of Ondeo Services do Brasil, Sanitation Officer of Suez Ambiental, CEO of Águas do Amazonas, and Sanitation Services Officer of ETEP.

## GRI 4.5 Compensation of Managers

In accordance with the Brazilian corporate law, the aggregate compensation to be paid to the members of the Board of Directors, the members of the Supervisory Board, and the Executive Officers is established by the general shareholders' meeting.

In 2008, the compensation, including benefits, paid to the members of the Board of Directors and the Executive Officers was R\$ 2.4 million. In addition, an amount of R\$ 0.9 million for the Bonus Program was provisioned in the period from January to December 2008.

### Internal Audit

The Internal Audit department is an independent body, which purpose is to evaluate the integrity, adequacy, effectiveness, and efficiency of the information technology and internal control processes and systems, and also to participate in the improvement of corporate management, risk management, and corporate governance. The Internal Audit department has access to all documents, physical and logical records, system, facilities, and individuals involved in the Company's activities under inspection for the proper fulfillment of its duties. The department audits engineering, information technology, operations, accounting, and investigation of responsibilities related to frauds or nonconformities. The activities of the Internal Audit department are supervised by the Audit Committee.

## GRI 4.8 Ethics and Conduct Code

At Sabesp, the social responsibility movement is assumed as a most important commitment in order to improve its business practice and contribute to the fulfillment of its mission, which is based on ethical management and sustainability and relies on its Ethics and Conduct Code as its main guiding reference.

For Sabesp, the Ethics and Conduct Code, built through an extensive participation process, summarizes the set of principles and rules followed throughout its existence and defines the how the Company will establish its relationship with its various stakeholders: managers, employees, customers, suppliers, shareholders, community, and the society as a whole.

The adoption of the Ethics and Conduct Code is critical for Sabesp to consolidate and enhance its reputation already established as a socially responsible company.



In 2008, the revisited **Ethical Values** of Sabesp were incorporated into the Strategic Planning: regard for the society and the customer, regard for the environment, regard for people, integrity, competence, and citizenship

This year, the Ethics and Conduct Committee advanced several proposals to solve complaints and violations of the Code, including: the dissemination to managers of the concept of moral harassment, through distribution of books on the subject; the preparation of communications related to attention issues in the use of the vehicle fleet; a revision of the Corporate Procedure on Danger and Hazard; preparation of the Corporate Procedure for Conduct Regulation Concerning Gifts and Donations; and expansion of electronic auction.

**GRI HR4** In 2008, 90 complaints were recorded in connection with discrimination, in comparison with 62 recorded in 2007.

## Denouncement Channel

To ensure compliance with the Ethics and Conduct Code, Sabesp's employees have an internal Denouncement Channel and a Corporate Procedure for Investigation of Responsibilities, and also receives external denouncements through the Ombudsman Office and the Customer Service. The internal channel is also prepared to receive anonymous denouncements.

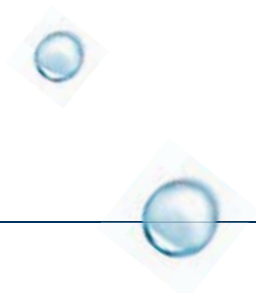
**GRI HR4** The results of investigations of denouncements are forwarded to the Audit Committee, and are also reported to the Ethics and Conduct Committee in the event of denouncements related to behavior.

In 2008, 232 denouncement cases were recorded, of which 31% are completed and 69% are under investigation. Such denouncements refer to:

- 39%, alleged failures in water and sewage connections;

**GRI HR4** • 43%, denouncements related to improper behavior, such as moral coercion, discrimination, harassment and unfair treatment, among others;

- 17%, events involving several administrative proceedings, such as improper use of vehicles, product inventory, bidding and procurement processes;
- 1%, alleged discrepancies in the management of agreements for construction work and rendering of services by contractors.



**GRI SO2** In 2008, Business Units participated in risk evaluations related to administrative nonconformity cases, violations of the Ethics and Conduct Code and/or alleged corruption. Those cases were examined in proceedings for investigation of responsibilities in accordance with the specific Corporate Procedure.

**GRI SO3** Also in 2008, 100% of Business Units in the Metropolitan Region, as well as 30% of Business Units in the Countryside and Coastal Regions, had training for renewal of knowledge on the issue. Approximately 370 employees directly or indirectly involved with the issue have been trained; most of them are managers and supervisors with a specific role of multiplying knowledge among employees within their areas of activity.

**GRI SO4** As a result of the investigation of responsibility processes, the Units committed to Action Plans focused on the improvement of work processes, adjustment of internal control, and revision of operating and corporate procedures. Penalties were applied to employees, service providers and suppliers when necessary; also, processes have been started for reimbursement of amounts to Sabesp.

## Relationship with Independent Auditors

The Company abides by the principles that maintain the independent auditor independence: not to audit its own work, not to exercise management duties and not to defend the customer. Deloitte Touche Tohmatsu Auditores Independentes exercised the role of the Company's independent auditor for the period ended March 31, 2008. PricewaterhouseCoopers exercised the role of the Company's independent auditor for the period ended December 2008. Neither Deloitte Touche Tohmatsu Auditores Independentes nor PricewaterhouseCoopers provided services not related to the Company's external audit during the year 2008.

## Risk Management

In 2008, Sabesp made progresses in Corporate Risk Management (CRM) by expanding further and further its Governance practices. CRM is a response to ensure in a proactive manner the identification, assessment, evaluation, treatment, and ongoing monitoring of risks. Coordinated by Internal Audit, the project is also aimed at creating corporate mechanisms to minimize uncertainties, maximize opportunities and thus increase the Company's capacity of creating value. The project also includes the evaluation of strategic risks of Fundação Sabesp.

In 2008, we developed the phases of structuring, mapping, and assessment of strategic and business risks. The completion of CRM also involves the following steps:

- Maintenance and follow-up of risks, controls, and action plans;
- Establishment of risk management policies;
- Identification of risk management software; and
- Dissemination and empowerment of personnel.

### Internal Controls

In 2008, the Company continued the internal control tests for maintenance of the certification in compliance with the U.S. Sarbanes-Oxley (SOx) Act. The results of evaluations indicated that there was an improvement in controls associated to financial risks, with a rationalization of processes.

The methodology used in the evaluation relied upon COSO (The Committee of Sponsoring Organizations of the Treadway Commission) and COBIT (Control Objectives for Information and Related Technology) principles.

Towards an improvement of organization tools and operating processes, the year 2008 was marked by the continued monitoring of performance indicators, focused on the identification of critical points that

need intervention to maintain and increase revenues, reduce expenses, and optimize the management of administrative and operating processes and works. The Company's managers proposed action plans for improvement of internal controls. Such plans were reported to the Audit Committee and to senior management.

### Arbitration Clause

Pursuant to the Novo Mercado Listing Rules, the Arbitration Clause is binding upon the Company, whereby the BM&FBOVESPA, the Company and its shareholders, managers, and members of the Supervisory Board agreed to resolve, upon arbitration, any and all dispute or claim arising out among each other, whether related to or arising out of, in particular, the enforcement, validity, effectiveness, construction, violation and effects of the provisions set forth in the Brazilian Corporate Law, the Company's Bylaws, the rules issued by the National Monetary Council, the Central Bank of Brazil and the Brazilian Securities and Exchange Commission, as well as the other rules applicable to the operation of the capital markets in general, in addition to those contained in Novo Mercado Listing Rules, the Novo Mercado Participation Agreement and the Market Arbitration Chamber Arbitration Rules, to be submitted to the Market Arbitration Chamber created by BM&FBovespa, in accordance with the Rules issued by that Chamber, subject to the exception applicable to the unavailable rights.

# Financial and Economic Performance

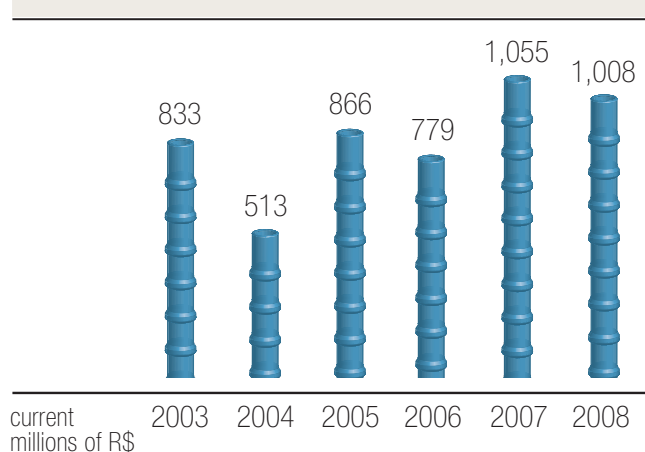


Barueri Sewage Treatment Plant

Net income was R\$ 1,008 billion in the year, which is slightly lower than the R\$ 1,055 billion recorded in 2007. Such decrease was influenced primarily by the effect of the devaluation of the Brazilian real against the US dollar on the debt denominated in foreign currency. The settlement of outstanding debts owed by the São Paulo State Government helped to moderate the impact of the exchange rate. Such result strengthens the economic and financial principles of the Company, in line with the “Growth with Sustainability” strategic guideline.



**Table 12 – Net income**



### Effects of the crisis

The effects of the deterioration of the macroeconomic scenario on Sabesp tend to be moderated by two factors. First, the Company has a stable revenue, with a low elasticity-GDP. Second, being a government-controlled corporation, Sabesp has access to both governmental funding, which offers attractive rates and longer maturities, and to the domestic and international capital markets. Such factors contribute for the maintenance of the Company's economic and financial strength and for the preservation of its multiannual investment plan.

**GRI EC1 Table 13 – Direct economic value added**

Item	Amount (thousands of R\$)
<b>A – Direct economic value added</b>	
Revenues	7,833,581
<b>B – Economic value distributed</b>	
Operating Costs	1,807,775
Employees' salaries and benefits	1,454,869
Payments to investors	824,187
Payments to the Government	1,094,382
Investments in community	40,630
<b>Accumulated market value (A – B)</b>	<b>2,611,738</b>

**Notes:**

- (a) Revenues – Consists of all operating, financial, and other operating income, interest and positive monetary and exchange variations, and revenues in connection with the construction of own assets
- (b) Operating costs – Consists of operating costs and expenses, such as: materials in general, treatment materials, services, power and electricity, general expenses and employees' training courses. Excludes depreciation and amortization expenses and write-off of credits
- (c) Employees' salaries and benefits – Consists of salaries and related charges. Includes amounts paid to government agencies (employees' charges and taxation)
- (d) Payment to investors – Consists of Interest on Shareholders' Equity, financial expenses (interest, fines, and other financial expenses), monetary and exchange variations. Excludes retained earnings
- (e) Payment to the Government – Consists of Cofins/Pasep on operating and non-operating income, tax expenses, income tax on (sic)
- (f) Investments in community – Consists of institutional support, sponsoring of events, reception, exhibits and tax incentives distributed in the education, culture, health, sport, hunger eradication and food security areas.

**Remarks:**

- (1) Other operating expenses were not included in any of the items above and total R\$ 173.4 million
- (2) The methodology for preparation of this table is similar to that used in the preparation of the SAV (Statement of Added Value) disclosed in the 2008 Financial Statements, except for financial expenses, monetary/exchange variations, and income tax, which contemplate the amounts actually paid rather than the amounts provided.