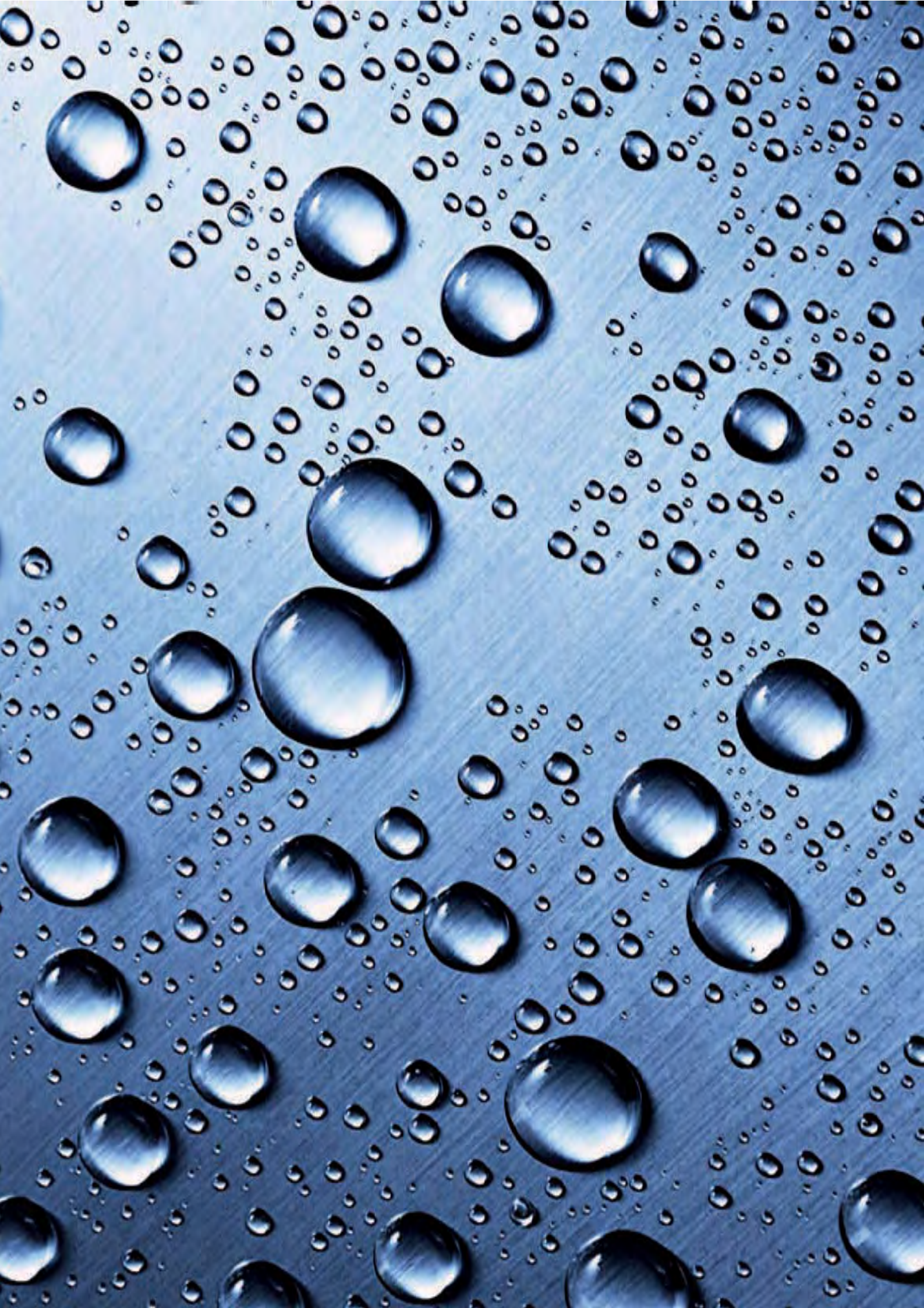




SUSTAINABILITY REPORT 2007







SABESP \ \ SUSTAINABILITY REPORT 2007

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MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

As normal in any activity related to the infrastructure, the characteristics of basic sanitation and water supply services are true challenges: economies of scale, need of significant long-term investments, large asset specificity and existence of sunk costs. In Brazil, where the government has assumed more costs and risks in the industry than the private sector, the scenario is much more complex. In the last quarter of the century, these characteristics caused the management model to change as a result of the problems faced by state-owned companies to make investments – whether due to failures in the planning of the transition from the state to the private-owned model, due to contractual and regulatory problems or due to the lack of coordination between government agencies.

Fortunately, it is already possible to observe over the last years a remarkable work in several government agencies to minimize these problems, boost the development of the infrastructure area and offer better quality of life to the population – that is, facilitate the growth of the Brazilian Human Development Index (HDI). In this scenario of challenges and changes, Companhia de Saneamento Básico do Estado de São Paulo (Sabesp) has been recognized in the Brazilian and foreign markets. Sabesp represents a solid example that the existence of a state-owned company managed with professionalism and efficiency is a reality and has been providing unequivocal evidences of investment capacity (the Company will invest R\$5.87 billion from 2007 to 2010).

Sabesp also records increasing net operating revenues – net operating revenues amounted to R\$6.0 billion in 2007, a growth of 8.0% as compared to the prior year. The net income grew from R\$779 million in 2006 to R\$1.05 billion in 2007, a growth of 34.6%, due to the efficient management of costs and expenses. Another positive news to the shareholders: the price of Sabesp's shares grew from R\$11.50 in 2002 to R\$41.13 in 2007. During the year, the Company paid the value of R\$734.8 million in connection with the Company's debts and raised new debts in the value of R\$222.5 million, resulting in a significant improvement in the remunerated debt/EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) ratio. In 2008, the Company will receive funds from the Inter-American Development Bank (IADB) for investments in the Tietê Project. These factors confirm the Company's economic and financial strength. In March 2007, the U.S. magazine, Forbes, ranked Sabesp among the 2,000 largest companies in the world (1,674th position), with a market value of US\$3.82 billion. Three other criteria were also taken into consideration for Sabesp's inclusion in the ranking: sales, assets and profits.

Also in 2007, Sabesp received the approval of the Company's adhesion to the Global Treaty, an UN initiative that proposes challenges to the corporate community to prioritize human rights, labor rights, environmental protection and corruption combat. The treaty, according to the UN Secretary-General, Ban Ki-Moon, "gathers governments, businessmen, workers and civil companies in the conviction that corporate practices based on universal principles can result in economic and social benefits". Sabesp is a part of the Bovespa Corporate Sustainability Index and comprises an international network together with governments, civil companies and companies to defend the sustainability, social inclusion and corporate citizenship.

The significant results accomplished by Sabesp reflect the Serra government's guidelines with respect to the state sanitation policy. It should also be mentioned that the Company's board of executive officers executes a dedicated, collaborative work, which allows the Company to achieve institutional progress and maintain a solid relationship with the Municipal Governments. The State and Municipal Governments also contribute to the well-being of the community.

After the creation of the Sanitation and Energy Regulatory Agency of the State of São Paulo (Arseps), in December 2007, the Company was faced with a new reality. The Company leaves the comfortable situation of lack of inspection and competition and also complies with legal requirements to operate in the electric energy area and in other market segments, in Brazil and abroad. The independence of the governing agency should prevail in a regulated environment. Sabesp operates in 366 of the 645 municipalities in the State of São Paulo, including the State capital. Sabesp also sells treated water and offers sewage treatment services in the wholesale market to six other municipalities in the São Paulo Metropolitan Region (3.3 million) by serving, directly or indirectly, more than 26 million consumers. In the last year, Sabesp renewed over 100 agreements in accordance with the new legislation. These agreements were renewed for a long validity period, 30 years, which reflects the Company's credibility.

GRI 1.1 Sabesp's goals are challenging: up to 2010, the Company will supply in the cities where it operates 100% of water treated, 84% of sewage collected and 82% of sewage treated. Sabesp has approximately 17,000 employees distributed in 14 Business Units. Sabesp also has a qualified team to plan and monitor water and sanitation work and also manage the expansion of the Company's water distribution network (exceeding 62,000 kilometers) and the sewage collection network (approximately 40,000 kilometers). These are challenges that Sabesp will overcome. This report, which contains details on the Company's growth, clearly sets out this matter.

Dilma Pena,
Chairman of the Board of Directors

MESSAGE FROM THE CEO

The year 2007 was one of important changes for Sabesp. Internal and external changes have imposed new challenges and opportunities to the largest sanitation company in Latin America and one of the largest in the world in terms of customers served.

First, a new regulatory framework was established for the sanitation industry, upon enactment of the Sanitation Law and the Energy and Sanitation Regulatory Agency of the State of São Paulo (Arsesp) Creation Law. The first law sets forth general guidelines for the industry regulation and governs the relationships between operators and government authorities, thereby reducing the potential regulatory risk and, consequently, capital costs. The second law creates for the first time, by means of the São Paulo State Government, a state regulatory agency in conformity with the best practices of independent regulation and technical excellence, which reduces legal problems.

Furthermore, Arsesp Law provides Sabesp with the possibility to enter into new markets, such as electric energy and solid waste, among others, with greater flexibility and efficiency. This factor brings new possibilities, in conformity with the recently established regulatory environment, where competition should replace the state monopoly.

There is no time to waste. Sabesp is already aware of the competitive environment and the need to comply with the external regulation requirements. Sabesp is prepared to leave the comfortable zone of the monopoly system and compete for markets based on the Company's efficiency and in line with the interests of the citizens and consumers.

Second, and in conformity with the regulatory environment, Sabesp has not spared efforts in 2007 to build a new relationship with the municipal governments. The unilateral relationship was replaced by a permanent and continuous communication and partnership with municipal authorities, including civil companies. The results achieved were extremely positive: 106 agreements renewed and 124 laws approved in the municipal legislative branch. The process is maintained in 2008 aiming at the contractual stability and security.

Third, Sabesp prepared an ambitious goal program for 2007-2010, that increased by twice the level of investments as compared to the 2003-2006 four-year period and based on which Sabesp intends to allocate funds in the approximate value of R\$6 billion. Such effort is focused on programs aligned with the strategic planning and on actions to correct the sanitation failures in the areas served by Sabesp, in particular with respect to the treatment of sewage and environmental sanitation.

At the same time, Sabesp prepared a financial and economic sustainability strategy in order to guarantee the Company's good risk rating and, consequently, guarantee the Company's financing and investment capacity. This measure resulted in a series of initiatives to increase revenues and reduce expenses, which results started to be noted in 2007 and should be responsible for the generation of the larger portion of results in the coming years.

Fourth, the environmental protection was not considered anymore as a supplementary item of the work program and became Sabesp's main mission.

Some important unfolding in connection with this turnaround in the corporate policy are: the approval of a new environmental policy, after one hundred-day public consultation and two public hearings; the creation of the environmental management department within the scope of an executive office, which duties were expanded to Information Technology and Environment; the strengthening of communication methods with non-governmental organizations, upon the creation, for example, of sustainability sessions, that permit a remarkable closer relationship of the Company with social and environmental sustainability efforts of non-governmental organizations, the government and the private sector companies; the acceleration by two years – from 2009 to 2007 – of the goal to be included in the Corporate Sustainability Index (ISE) of the São Paulo Stock Exchange (Bovespa).

In conformity with the purpose of sustainable use of water resources and in line with the goal of increase of revenues and diversification, Sabesp created a product and service platform by means of the Sabesp Environmental Solutions

program. In the environmental area, Sabesp intends to develop tools for the management of water consumption by large customers in order to encourage the efficient use in the social point of view. In the corporate area, such procedures add value to the Company's activity resulting in the increase of revenues and/or loyalty of customers and strengthening of Sabesp brand.

Fifth, Sabesp adopted a commercial and institutional proactive conduct with focus on the loyalty of the customer. Such fact resulted in at least three initiatives: the improvement of consumer services and rendering of services; the review of commercial rules in conformity with best consumer defense practices; and, mainly, the cooperation and work in partnership with the municipal governments. The Company demonstrates this new commitment by means of the inclusion of a customer satisfaction rate in the group of goals that governs the profit sharing paid to employees.

Sixth, a new method for relationship with the government and the various partners was created. Critical steps were implemented for the contractual and financial arrangement with the State Government, by means of a second amendment to the Obligation Recognition and Consolidation, Payment Commitment Instrument and Other Covenants, entered into in 2001, for payment of the debits existing between the parties. The agreement with the City of São Paulo that aims at ensuring the stability of the public services in Sabesp's largest operating market should also be mentioned.

Finally, Sabesp's growth and modernization presume a solid partnership with the supply chain by means of competition and innovation. With respect to the competition, Sabesp created methods to expand the portfolio of competitors and obtain cooperation from competition defense agencies in order to reduce the capacity of determination of prices by the sellers of goods and services. With respect to the innovation, Sabesp strengthened and expanded the technical cooperation agreements with state-of-art research and development centers in Brazil and abroad. Furthermore, Sabesp implemented innovation sessions and encouraged the dissemination of best

practices and technologies in the Company's business units. Sabesp's growth and sustainability mainly rely upon the systematic development of new products and technologies, which will maintain the Company in the worldwide leading position in innovation.

The assumption that the sanitation chain requires lower innovation levels if compared to other infrastructure segments was proved false. Several factors imposed a solid pace of technical progress in this segment, which required from Sabesp a considerable effort in research and development: the new competition system; the new possibilities of introduction of information technology and water and sewage treatment technologies; and, mainly, the highest environmental and waste treatment and final disposal standards.

Concerned with the increase of the operating efficiency, Sabesp prepared loss prevention and energy efficiency programs. The first program provides for the reduction of the loss percentage rate from 30% to 24% by 2010, with continuous growth up to 2018. The second program provides for the decrease of expenses with the Company's main input upon the optimization of processes and use of byproducts deriving from the production process. On one side, the Company's water resource potential allows the creation of small hydroelectric power plant (PCHs). On the other side, the biogas deriving from the processing of sludge from Sewage Treatment Plants (ETEs) allows the creation of small thermal plants (PCTs).

The new sanitation regulatory environment imposes significant challenges to Sabesp. In 2007, some critical measures were adopted for the successful overcoming of these challenges. The maintenance of the work program, in strict compliance with the corporate governance best practices and the guidelines of the José Serra administration, will allow Sabesp to strengthen its capacity of renewal and leadership in the sanitation area.

Gesner Oliveira
Sabesp CEO



Sabesp Headquarters in São Paulo

26 million

customers

THE COMPANY

The Company and its Operating Environment

Sabesp – Companhia de Saneamento Básico do Estado de São Paulo – is a publicly-held and diversified capital company. The controlling shareholder of Sabesp is the São Paulo State Government. The Company operates as a concessionaire in connection with the rendering of basic sanitation and environmental services to municipalities.

GRI 2.1, 2.2, 2.6

Sabesp's mission is to **Make public sanitation services accessible to all consumers in the State of São Paulo and offer high-quality services and products in domestic and foreign markets.** The Company's main guidelines are:

- The commitment to the environmental sustainability in a competitive and self-sustained manner.
- The balanced and efficient compliance with the policies adopted in connection with public services and the business.
- The performance of activities based on strict ethic standards and focused on the customer, in a competitive environment.
- The social and environmental responsibility.
- The defense of the sanitation industry.

The Company operates in 366 of the 645 municipalities in the State of São Paulo, with 14 business units in own head offices. Sabesp is responsible for the construction and operation of water, sewage and industrial effluent systems to 26 million people, including the supply of water in the wholesale market to six municipalities in the São Paulo Metropolitan Region, accounting for approximately 68% of the urban population of the State of São Paulo. Taking into consideration the population served, Sabesp is among the five largest sanitation companies in the world. Sabesp is among the 50 largest companies in Brazil in terms of gross revenues, with annual gross revenue of R\$6.4 billion in 2007 and shareholders' equity in the amount of R\$9.8 billion.

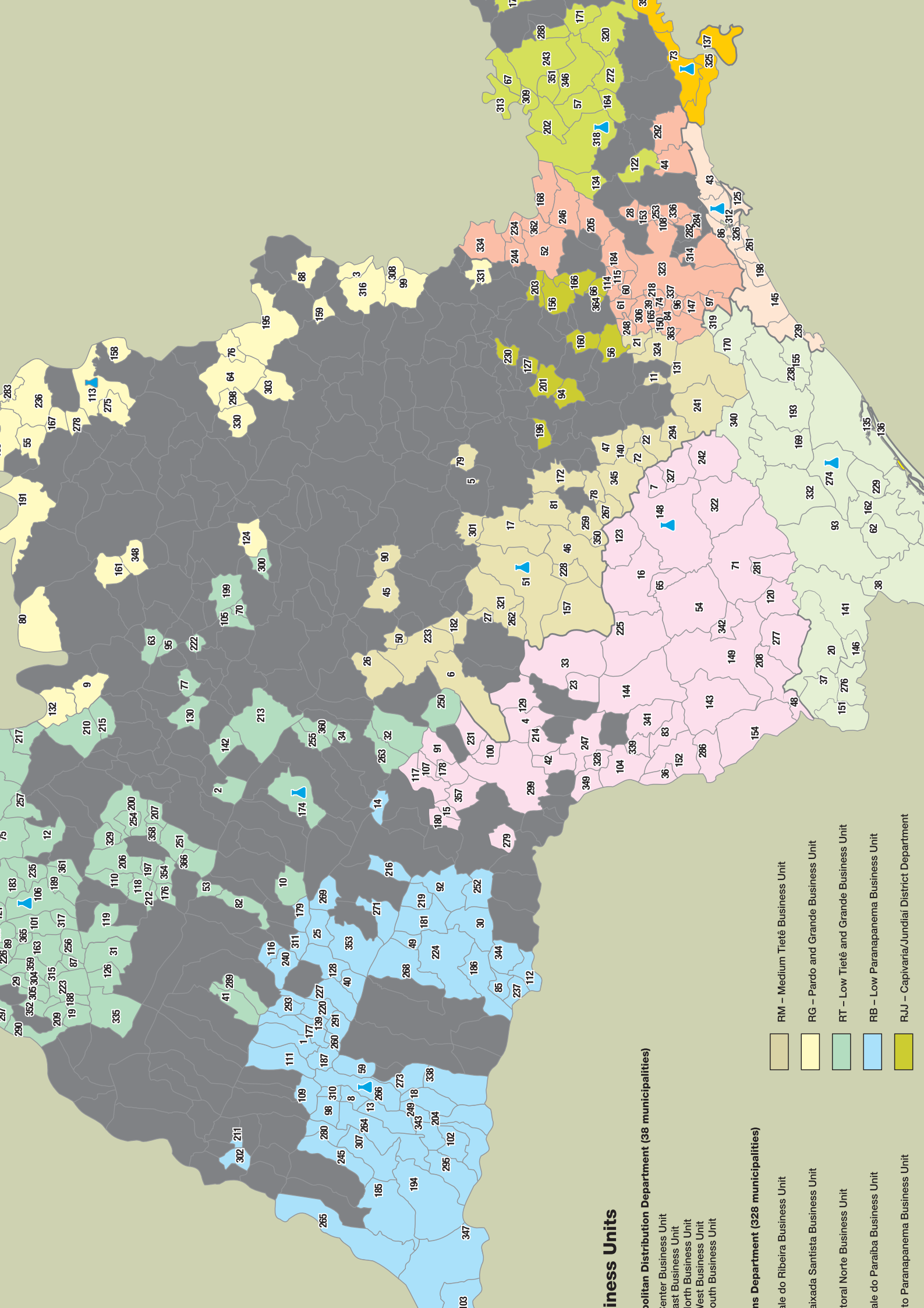
GRI 2.7, 2.8

Sabesp's efforts to improve the quality of the environmental sanitation in the municipalities have positive impacts on public health, environment, life quality and regional economic development. Due to this fact, Sabesp performs a key role in the sustainable development area. The Company has approximately 17,000 employees in 14 business units and a regional department in the state to fulfill this demand.

MAP OF THE MUNICIPALITIES SERVED BY SABESP

GRI 2.3, 2.4, 2.5

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



Business Units

Metropolitan Distribution Department (38 municipalities)

- Center Business Unit
- East Business Unit
- North Business Unit
- West Business Unit
- South Business Unit

Parapanema Department (328 municipalities)

- RM – Medium Tietê Business Unit
- RG – Pardo and Grande Business Unit
- RT – Low Tietê and Grande Business Unit
- RB – Low Paranapanema Business Unit
- RJJ – Capivaria/Jundiá District Department

91,000

liters per second
produced

THE COMPANY

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. The Company is implementing a structuring to expand its Operating Environment and, at the same time, be recognized as an environmental solution company.

Sabesp's work program, defined in conformity with the guidelines of José Serra's government, includes an ambitious Goal Plan and a Sustainability Program.



SABESP IN THE CORPORATE SUSTAINABILITY INDEX

As of December 1, 2007, Sabesp was included in the 2007-2008 portfolio of Bovespa's Corporate Sustainability Index (ISE). Sabesp is the only company in the sanitation industry to be included in this index, consisting of shares issued by companies that show a high level of commitment with sustainability and social responsibility. ISE is used as a benchmark for socially responsible investments.

The index was created in 2005, based on the Triple Bottom Line (TBL) international concept, which evaluates, on integrated basis, environmental, social and economic and financial matters. Three other indicators were included in TBL's principles: corporate governance, the Company's general characteristics and the nature of the product.



97,000

kilometers of water
and sewage grids

THE COMPANY

Changes in the Regulatory Environment

GRI 2.9 The regulation governing the sanitation industry was significantly changed in 2007. The main changes were the enactment of Federal Law 11.445/07, which establishes nationwide basic sanitation guidelines, and the enactment of Supplementary State Law 1.025/07, which provides for the creation of the Sanitation and Energy Services Regulatory Agency (Arsesp).

The new regulatory environment of the industry improved the relationship between the service providers and the holders of basic sanitation services in the state or municipality, however the case may be.

Three improvements should be pointed out among the improvements introduced by Law 11.445/07 and the creation of Arsesp. Firstly, the integration between the investments made by the service provider and the priorities established by the holder of the services is consolidated.

In second place, the rendering of accounts becomes more efficient and transparent because the information on the management and growth of service rendering are systematically disclosed to the holder and the community.

In third place, the creation of an independent regulatory agency increases the safety of the investments and results in economic soundness and transparency in connection with the establishment of tariffs.

Sabesp is prepared with respect to the external regulation and operates with transparency and focused on the customer. For example, in Sabesp's website, the Company discloses information on the user account and a number of services, in addition to reports on water quality and availability. The Company also offers telephone lines for the customers who prefer to obtain information on this manner. The Company also offers an ombudsman office and relies upon the work developed by its community agents in several municipalities of the São Paulo Metropolitan Region to monitor the difficulties faced by the consumers.

The changes occurred in the regulatory environment presented new opportunities to Sabesp, both with respect to the geographical expansion and the development of new markets. Article 63 of Law n°. 1.025/07, issued by Arsesp, allows Sabesp to:

- Geographical expansion: conduct, in Brazil and abroad, any of the activities included in the Company's corporate purpose.
- Operate in new markets: drainage, urban cleaning, solid waste handling and electric energy services.



High Cotia Water Treatment Station.

Prospects of New Business

Together with the changes implemented in the regulatory environment, important procedures were adopted in 2007 towards the future operation in markets outside the State of São Paulo. Sabesp entered into a technical cooperation agreement with Companhia de Saneamento de Alagoas (CASAL), prepared agreements with Companhia de Águas e Esgotos da Paraíba (CAGEPA) and Companhia de Água e Esgotos do Rio Grande do Norte (CAERN), and also conducted surveys in connection with the automation of some production systems of Companhia Espírito-Santense de Saneamento (CESAN). In the foreign market, the Company started to provide services in Latin American countries.



Paiva Castro Dam.

Renewal of Concessions

In 2007, Sabesp performed program agreements for the rendering of sanitation services in 106 municipalities. Based on these agreements, which validity period is 30 years, the Company guaranteed the maintenance of the market upon the adequacy of the Company's relationship with the municipalities in conformity with the Sanitation Law.

In addition to the program agreements, the municipalities performed cooperation agreements with the São Paulo State Government, whereby the regulation and inspection of sanitation services is assigned to Arsesp.

The results obtained mainly resulted from the new relationship developed by the Company with the municipal governments. The premeditated policy of closer relationship with municipal officials was characterized by the holding of ten municipal meetings with the participation of almost all municipal governments served in the state. Furthermore, Sabesp actively participated in several public hearings conducted by the municipal governments and municipal houses of representatives. For purposes of improvement of the relationship channel with the municipal governments, a municipal government department was created in the Company's head office – a department exclusively focused on services to municipal governments.

The creation of such department was a requirement and an achievement. The majority of the former sanitation service rendering agreements was performed 30 years ago, a period in which the municipalities held few powers to influence contractual terms and conditions. The new regulatory environment offers conditions for a bilateral relationship, that is, a relationship of partnership. Sabesp has faith in this new type of relationship. The partnership with the municipal government offers benefits to both parties resulting in a win-win situation.

Agreements & Partnerships

In November 2007, Sabesp entered into an agreement with the São Paulo Municipal Government, which purpose was to ensure the institutional stability in connection with the rendering of basic sanitation and environmental services in this municipality, invest in mutual-interest projects and find solutions for the payment of financial obligations. This market accounts for approximately 50% of the Company's revenues. In February 2008, the term for conclusion of the phases was postponed to mid 2008.

In December 2007, the Company performed the "Second Amendment to the Agreement with the São Paulo State Government for the Settlement of Debts between the Parties". These debts are related to the rendering of water supply and sewage collection services payable by the state government to Sabesp and the dividends payable by Sabesp to the state government. This amendment gave rise to a new phase of relationship between Sabesp and the São Paulo State Government under a more modern and transparent corporate basis.

In March 2008, Sabesp entered into the Commitment Agreement with the São Paulo State Government for the settlement of the financial obligations related to the reimbursement of supplementary retirement and private pension benefits.

Sabesp operates on proactive manner to enter into debt installment payment agreements with a number of municipal governments and also to implement rendering of accounts to seek the recovery of credits and the reestablishment of commercial relationships.

Sabesp Environmental Solutions

The **Sabesp Environmental Solutions** program, launched in November 2007, consists of a platform of products and services offered to obtain customer loyalty and expand the large industrial, commercial and residential customer base.

The products and services of **Sabesp Environmental Solutions** are designed to large customers that wish to benefit from Sabesp's expertise and information technology resources in sustainability, environmental preservation and water resources management areas. The program has four basic guidelines:

- Differentiated products and services related to the protection of the environment and the reduction of costs to customers;
- Continuous development of solutions;
- Exclusive and customized services; and
- Complete solutions for water management.

The four products offered to the market in the first phase are: **Program for the Rational Use of Water (PURA)**, **Reuse Water**, **Program for Receipt of Non-Domestic Effluents (PREND)** and **Firm Demand Agreements**.

PROGRAM FOR THE RATIONAL USE OF WATER (PURA) – the purpose of the program is to implement technologies and concepts for the proper use of water, prevent waste and, consequently, reduce costs. The solutions to reduce water consumption involve a number of actions, such as leak detection and repair, replacement of the conventional equipment for economic equipment, studies related to the reuse of water and educational lectures. The PURA is very attractive as it offers a fast return on the investment for the customer.

REUSE WATER – a byproduct of sewage treatment plants that replaces the treated water in a number of urban, industrial and commercial activities with benefits, mainly economic ones. Companies may use the reuse water in the cleaning of yards, generation of energy, cooling of boilers and other equipments, dilution of chemical products and other activities that use water for non-drinking purposes. These measures reduce costs and contribute to environmental sustainability. Sabesp's reuse water production process is certified by ISO 9001:2000 quality management system in conformity with strict quality standards.

Each liter of reuse water used corresponds to a liter of water preserved in our water sources. The use of reuse water is an intelligent method to guarantee the access of future generations to a precious and critical life resource: drinking water.

REUSE WATER, ENVIRONMENTAL SOLUTION

During 2007, Sabesp negotiated the supply of reuse water with the Capuava Petrochemical Complex. The memorandum of understanding was signed in January 2008.

The project, called Aquapolo Ambiental, was designed to provide a portion of the effluent resulting from the sewage treated in the ABC Sewage Treatment Plant (STS-ABC) to the Greater ABC Petrochemical Complex for production of industrial water.

The total investment made in connection with the development of the Aquapolo Ambiental will be in the approximate amount of R\$130 million, financed by a group consisting of ten companies located in the Complex, which leading company is Petroquímica União – PQU. The total volume provided will be 600 l/s, with a potential for increase to 1,000 l/s, the latter equivalent to the supply of the City of Santos. The Aquapolo will be the largest reuse water project in Brazil and one of the largest in the world.

The project permits the support to the regional economic development without any competition in demand for drinking water, a rare resource in the region. The project represents a clear step forward in the offer of reuse water and the products of the Sabesp Environmental Solutions program.

PROGRAM FOR RECEIPT OF NON-DOMESTIC EFFLUENTS (PREND) –

developed to companies that wish to reduce the costs incurred in connection with the treatment of sewage and which, for this purpose, want to rely upon a company with proper infrastructure to receive and treat the sewage in a proper manner. Upon the adhesion to this program, the companies transfer to Sabesp the responsibility for the treatment and final disposal of the sewage, reduce their operating expenses and comply with the legal environmental pollution control requirements. The sewage can be collected in Sabesp's collection networks or by means of transportation trucks.

FIRM DEMAND AGREEMENTS – guarantee competitive prices and supply to customers that agree to solely use water coming from public network, resulting in the elimination of wells and purchase of water delivered through water trucks. This type already accounts for 5% of the water volume billed in the commercial and industrial areas.

The **Sabesp Environmental Solutions** program created exclusive service channels to ensure an efficient customer service. These channels are described in section “Customer Service Channels” in this report.

The second phase of the **Sabesp Environmental Solutions** program, scheduled to 2008, expands the offer and adds new products, such as remote and individual measurement. Other services – such as maintenance in private and public systems, installation of private treatment plants and advisory services – can be added in the future.



Santa Inês Lift Station.

OPERATING AND FINANCIAL INDICATOR TABLE

Quadro 01: Operating and Financial Indicator Table

OPERATING	Unit	2003	2004	2005	2006	2007
Water Supply Rate		Tends to universal service ⁽¹⁾				
Resident Population with Water Supply ⁽²⁾	thousands of hab.	21,324	22,335	22,570	22,700	22,959
Sewage Collection Coverage Rate	%	77	78	78	78	79
Resident Population Served with Sewage Collection ⁽²⁾	thousands of hab.	17,030	18,014	18,326	18,519	18,881
Collected Sewage Treatment Rate	%	61	63	61	63	66
Revenue Loss Rate	%	33.0	34.0	32.4	31.9	29.5
Loss Rate per Connection	liters/connectionxday	563	547	520	511	467
Number of Employees ⁽³⁾	employees	18,546	17,735	17,448	16,978	16,850
Registered Water Connections	thousand units	6,044	6,358	6,489	6,609	6,767
Registered Sewage Connections	thousand units	4,462	4,747	4,878	5,002	5,167
Water Production Volume	millions of m ³	2,820	2,770	2,830	2,887	2,874
Water Micromeasured Volume	millions of m ³	1,593	1,500	1,572	1,625	1,667
Water volume billed in the wholesale market	millions of m ³	346	251	259	263	274
Water volume billed in the retail market	millions of m ³	1,419	1,441	1,500	1,544	1,573
Sewage volume billed	millions of m ³	1,110	1,141	1,198	1,246	1,300
Water Network Length ⁽⁴⁾	km	51,902	52,399	53,052	56,911	57,714
Sewage Network Length ⁽⁴⁾	km	34,170	34,816	35,507	37,637	39,114
Operating Productivity ⁽⁵⁾	connection/company	566	626	651	684	708
Financial ⁽⁶⁾	Unit	2003	2004	2005	2006	2007
Gross Revenue	millions of R\$	4,307.5	4,642.5	5,356.3	5,984.0	6,448.2
Net Revenue	millions of R\$	4,130.8	4,397.1	4,953.4	5,527.3	5,970.8
EBITDA	millions of R\$	2,076.5	1,926.5	2,285.6	2,446.1	2,698.9
EBITDA Margin	%	50.3	43.8	46.1	44.3	45.2
Operating Income ⁽⁷⁾	millions of R\$	1,512.0	1,327.6	1,689.6	1,804.0	2,076.4
Operating Margin	%	36.6	30.2	34.1	32.6	34.8
Net Income (Loss)	millions of R\$	833.3	513.0	865.6	778.9	1,048.7
Net Margin	%	20.2	11.7	17.5	14.1	17.6
Net Debt by EBITDA	multiple	3.36	3.60	2.79	2.45	1.93
Net Debt on Shareholders' Equity	%	92.2	87.3	75.3	65.8	53.4

Notes: (1) 99% or more

(2) Excluding water supply in bulk, which accounts for more than 3.3 million habitants.

(3) Number of employees as of December 31 of each year. Excluding employees allocated to other agencies.

(4) Does not include water Pipelines, main sewage and outfall sewer.

(5) Number of registered water and sewage connections by employee.

(6) Amounts at the end of the period.

(7) Excluding financial income and expenses.



Cantareira System Reservoir.

5.87 billion

in investments,
from 2007 to 2010

CORPORATE MANAGEMENT

Planning, Goals and Investments

The Sabesp 2007/2010 Goal Plan defines the new challenges imposed on Sabesp in connection with the provision of sanitation services in the State of São Paulo. The plan was prepared after comprehensive discussions in the Company, upon the use of the Balanced ScoreCard (BSC). The process resulted in the commitment of all employees in a meeting held on May 31, 2007.

The goals, which seek the balance between operating and environmental compliance indicators, encompass the Company's main operating areas: water supply and sewage collection and treatment systems, a permanent loss reduction program and qualitative environmental goals. The table below summarizes the operating goals:

Table 2: Goal Program – 2007-2010

Corporate Goals – Water

		2007	2008	2009	2010	Total
Water	Number of connections x 1000	148.8	166.9	164.3	172.0	652.0
	% served	Universal service: 100%				

Loss Reduction

		2007	2008	2009	2010	
	liters / connection x day	511	461	421	393	361
	Revenue (%)	31.9	30	27	26	24

Water Supply: 2007-2010

Increase in water production capacity (1)	+ 11.0 m ³ /s
---	--------------------------

Corporate Goals – Sewage

		2007	2008	2009	2010	Total
Sewage	Number of connections x 1000	140.1	164.4	169.6	317.6	791.7
	% served	from: 78% ▶ to: 84%				

Sewage Collection and Treatment 2007-2010

Collection	+ 4.6 m ³ /s
Treatment	+ 9.3 m ³ /s
% treatment of the sewage collected	from: 63% ▶ to: 82%

Note: (1) Increase in the availability in production systems:

- RMSP-Alto Tietê (PPP) = 5m³/s;
- Guarapiranga = 2m³/s and Rio Grande = 0.5m³/s;
- Baixada Santista-Mambú/Branco = 1m³/s;
- Franca-Sapucai = 1m³/s;
- Other production systems = 1.5m³/s.

921 million

invested in 2007

CORPORATE MANAGEMENT

2007-2010 Investment Plan

Sabesp has prepared the following Investment Plan for the period from 2007 to 2010 to support the Goal Program:

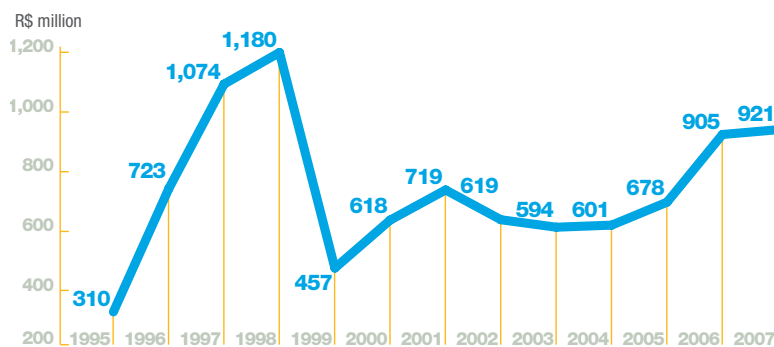
Table 3: 2007-2010 Investment Plan

Investments (R\$ millions)	2007	2008	2009	2010	Total
Water	336	563	622	755	2,276
Sewage	487	907	824	814	3,032
Other	137	104	145	176	562
Total Sabesp	960	1,574	1,591	1,745	5,870

Investments Made

In 2007, Sabesp invested the amount of R\$921.1 million. The chart below sets forth the historical investments made:

Investments



Note: 1999 – excluding assumption of the City of Osasco (R\$231 million)

2003 – excluding the transfer of sanitation services of the City of São Bernardo do Campo (R\$415 million)

Table 4 sets forth the investments in water and sewage made in the São Paulo Metropolitan Region and the Regional Systems.

Table 4: Investments by Region

Investments by Region – (R\$ million)			
Region	Water	Sewage	Total
São Paulo Metropolitan Region	288.6	251.2	539.8
Regional Systems	127.4	253.9	381.3
Total	416.0	505.1	921.1

The new water and sewage connections and the population served in 2007 are set forth in the Table 5.

Table 5: Water and Sewage Connections Performed and Population Served

		São Paulo Metropolitan Region	Regional Systems	Total
Water	Number of New Connections ¹	108.4	65.3	173.7
	Population Served ²	460	170	630
Sewage	Number of New Connections ¹	86.5	65.0	151.5
	Population Served ²	340	195	535

(¹) In thousands of units

(²) In thousands of habitants

São Paulo Metropolitan Region

The Metropolitan Executive Office is responsible for the São Paulo Metropolitan Region and the Bragantina region, totaling 38 municipalities. The water supply in this region is carried out by means of an integrated system consisting of eight production systems connected by the metropolitan water pipeline system, in addition to isolated systems. In 2007, the Company invested R\$288.6 million in the modernization of these systems. Table 6 sets forth some of the main work developed.

Table 6: Main Work in the São Paulo Metropolitan Region

Production System	Work	Status
Guarapiranga	Adaptation of WTS ABV Booster João XXIII, Southern Pumping Center	In progress
	Water Pipeline and Jd. S. Luiz – Jd. Ângela Pumping Station and Jd. Ângela Water Reservoir	In progress
Alto Tietê	Increase in the System's production (DAEE Agreement)	In progress
Alto Cotia	Recovery of the Cachoeira da Graça reservoir and recovery of raw water pipeline	In progress
Baixo Cotia	Refurbishment of water treatment plant	In progress
Cantareira	Duplication of Mutinga water pipeline – Vila Iracema	In progress
	Water pipeline and Guaraú – Jaraguá Pumping Station	In progress
Rio Grande	Vila Marchi Alvarenga Water pipeline	In progress

The sewage collection and treatment services are provided in this region by means of a main system consisting of five sewage treatment plants that serves a collection infrastructure consisting of networks, trunk sewers and diversion systems, in addition to isolated systems. The Company invested R\$251.2 million in a number of measures related to the improvement of the sewage sanitation system in 2007.



Barueri Sewage Treatment Station.

Regional Systems

The Executive Office of Regional Systems is responsible for the Santos Metropolitan Region, consisting of nine municipalities and the remaining municipalities in the coastal and countryside areas, totaling 328 municipalities. The water supply in the Santos coastal area is carried out by means of an integrated system that serves seven municipalities, in addition to two isolated systems. The other municipalities are served by isolated systems. The Company invested R\$127.4 million in 2007 to improve the water supply system in the Regional Systems. Table 7 sets forth two examples.

Table 7: Water Supply Works

Municipality	Water-related work	Status
Taubaté	Water treatment plant (ETA2)	completed
Botucatu	Water treatment plant and treated water pipeline	completed
Hortolândia	Water supply system (grid and reservoir)	completed

The sewage treatment system in the municipalities served by the Executive Board of Regional Systems is comprised by independent units. The Company invested R\$253.9 million in these systems, such as:

Table 08: Works in the Sewage Systems

Municipality	Sewage-related work	Status
Paulínia	Sewage treatment plant and final sewage discharge	completed
Itatiba	Sewage treatment system	completed
Piedade	Sewage treatment plant, sewage discharge and pumping system	completed
São Vicente	Trunk sewers, collection networks and sewage connections	completed
Ibiúna	Sewage treatment system	completed

Main Programs and Projects

The main programs and projects in progress in the Company are:

- Tietê Project
- Clean Wave Program (“Programa Onda Limpa”)
- Alto Tietê Public-private Partnership
- Permanent Loss Reduction Program
- Water Source Program (“Programa Mananciais”)
- Nature Operation: River Clean-up Program (“Operação Natureza: Programa Córrego Limpo”)

Each of the programs and projects are described below.

Tietê Project – Phases II and III

The purpose of the Program is to expand and optimize the sewage treatment system in the São Paulo Metropolitan Region upon the increase of the treated sewage volume in the sewage treatment plants.

TIETÊ PROJECT GOALS

- Increase the sewage collection rate of the urban population in the São Paulo Metropolitan Region to 84%;
- Increase the sewage treatment rate to 70% of the total sewage collected in the São Paulo Metropolitan Region;
- Increase the sewage treatment capacity by 9 m³/s;
- Transport approximately 4.5 m³/s of sewage to the Sewage Treatment Plants;
- Decrease the pollution level in the Billings water source;
- Decrease by 40 km the critical pollution slick in the Médio Tietê Basin.

Taking into consideration the complexity and size of the task, as well as the amount of resources involved, this Program was divided into phases.

The 1st Phase, performed between 1992 and 1998, was focused on the expansion of the collection (networks and connections) and treatment infrastructure by means of the construction of three new sewage treatment facilities (Parque Novo Mundo, São Miguel and ABC) and the expansion of an existing sewage treatment facility (Barueri).

The 1st Phase alone required investments in the amount of US\$1.1 billion. This is the largest recovery project financed by the Inter-American

Development Bank, which benefited not only the São Paulo Metropolitan Region but also the countryside of the State of São Paulo throughout the entire river waterbed in a length of more than 1,100 km.

As a result, collection rates grew from 66% in 1992 to 78% in 1998 and treatment rates grew from 24% to 63% in the same period. The pollution slick in the countryside of the State of São Paulo decreased by 120 Km and, currently, is possible to find fishes in the Anhembi region located in the Médio Tietê Basin.

The main purposes of the 2nd Phase, started in 2000 and scheduled to be completed in 2008, are to expand and optimize the sewage system in the São Paulo Metropolitan Region by prioritizing the use of the installed capacity in the 1st Phase, which will benefit a population consisting of 1.2 million persons. The work performed in the different phases of the program is listed in the table 9.

Table 09: Works of the Tietê Project – Phases 1 and 2

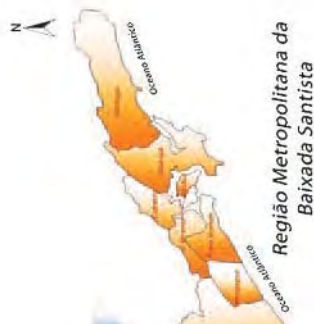
1st Phase	2nd Phase
Performed in 1992-1998	Performed in 2000-2007
1,500 km of collection networks	1,208 km of collection networks
250,000 residential sewage connections	135,000 residential sewage connections
352 km of trunk sewers and diversion systems	162 of trunk sewers and diversion systems
Investment of US\$1.1 billion	Investment of US\$500 million

The collection and treatment of the sewage of more than 1.2 million persons in the São Paulo Metropolitan Region will be feasible upon the implementation of these procedures. As a result, the reduction of Tietê river pollution levels will cause the reduction of the critical pollution slick in more than 40 km.

Clean Wave Program (“Programa Onda Limpa”)

The program, also called Environmental Recovery Program of the Santos Coastal Area Metropolitan Region, will serve approximately 3 million persons (fixed and floating population) in the municipalities located in the Santos Coastal Area Metropolitan Region – Santos, São Vicente, Praia Grande, Guarujá, Itanhaém, Peruíbe, Mongaguá, Cubatão and Bertioga –, which will increase the sewage collection coverage rate from 54% to 95% and the collected sewage treatment rate to 100%.

Sabesp received a financing from the Japan Bank for International Cooperation for the execution of this work. The values, terms and conditions of the financing are described in item “Financing” in this report.



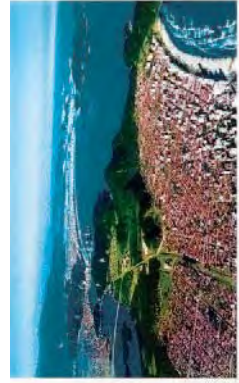
PROGRAM BENEFITS:

- Decontamination of Rivers and Canals
- Recovery of beach water pollution
- Increase tourism;
- Decrease in the number of hospital internments due to water-transmitted illnesses;
- Decrease in mortality rates, especially mortality;
- Increase in income;
- Job generation.

Praia Grande



Praia Grande, São Vicente, Santos and Guarujá



EPC Santos / São Vicente aerial view



Peruíbe	
Sewage grid and main sewers	282.5 km
Outlet pipelines	15.4 km
Connections	27,530 un
Lift stations	18 un

Ilhaeém	
Sewage grid and main sewers	283.5 km
Outlet pipelines	9.6 km
Connections	23,902 un
Lift stations	21 un

Mongaguá	
Sewage grid and main sewers	196.9 km
Outlet pipelines	16.3 km
Connections	23,600 un
Lift stations	26 un

Praia Grande	
Sewage grid and main sewers	178.4 km
Outlet pipelines	7.3 km
Connections	28,560 un
Lift stations	14 un

Santos/S.Vicente	
Land Interceptor and Outfall	2.7 km
PCS	5,300 /s
Outlet Pipelines	0.1 km
Lift stations (renewed)	2 un

Guarujá	
Collection grid and main sewers	71.5 km
Outlet Pipelines	5.8 km
Connections	8,680 un
Lift stations	6 un

Cubatão	
Collection grid and main sewers	33.0 km
Outlet Pipelines	10.6 km
Connections	3,682 un
Lift stations	5 un

Bertioga	
Collection grid and main sewers	49.2 km
Outlet Pipelines	4.5 km
Connections	4,600 un
Lift stations	6 un

Total	
Collection grid, Tronco e Interceção	49.2 km
Outlet Pipelines	4.5 km
Connections	4,600 un
Lift stations	6 un



Construction of Clean Wave Program, in Baixada Santista.

CLEAN WAVE PROGRAM IN NUMBERS

- 1.175 km of sewage collection networks, trunk sewers, diversion systems and discharges
- 120,000 residential sewage connections
- 101 sewage pumping facilities
- 7 sewage treatment plants
- 1 sewage offshore discharge system
- expansion and updating of the sewage offshore discharge integrated system of Santos/São Vicente

Among the benefits brought by the Program are: the improvement of sanitation conditions, recovery of rivers and channels, recovery of beach water pollution levels; growth in the number of tourists, increase in income and generation of jobs

Alto Tietê Public-Private Partnership

In the search for new sources of water to the greater-metropolis, Sabesp launched in 2007 the first public-private partnership of the sanitation industry, which purpose is to increase the production of water for the supply of the São Paulo Metropolitan Region by 5 m³/s. The expansion of WTS Taiaçupeba from 10 to 15 m³/s and the construction of four water reservoirs totaling 70,000 m³ with investment in the approximate amount of R\$300 million are among the work scheduled to be developed.

Permanent Loss Reduction Program

In the second six-month period of 2007, the structuring of the Water Loss Reduction Corporate Program was started in order to obtain water loss reduction in a faster and more consistent manner based on the integration and expansion of the initiatives existing in the Company's Business Units and the guaranteed availability of resources.

The purpose of the program, with a 10-year validity period, is to reduce the loss rate from 511 (end of 2006) to 280 liters/connection x day by the end of the plan in 2018. The equivalent rates for revenue loss will be reduced from 31.9% (end of 2006) to 18% (in 2018). In the end of 2007, significant results were achieved upon the reduction of losses to 467 liters/connection x day, equivalent to 29.5% of revenue losses.

Currently, the program is under the description stage and is focused on the municipalities and supply segments with greater loss rates in order to optimize the investment of resources. The consultation letter is scheduled to be completed in the first six-month period of 2008.

The Permanent Loss Reduction Program includes a number of measures such as infrastructure renovation, segmentation, research and repair of leaks and substitution of hydrometers. The improved management of the measures specifically the improvement of remote measuring, information technology systems and personnel development should also be pointed out.



Pedro Beicht Dam, High Cotia System.

Water Sources Program (“Programa Mananciais”)

The purpose of the program is to improve the conditions of water reservoirs located in the São Paulo Metropolitan Region and seek proper policies for the management of river basins. The priority areas will be the sub-basins of Billings and Guarapiranga, Alto Tietê-Cabeceiras, Juqueri-Cantareira and Alto and Baixo Cotia.

The Sanitation and Energy Department is responsible for the coordination of the work and the Municipal Governments of the São Paulo Metropolitan Region, the Sabesp and the Companhia de Desenvolvimento Habitacional e Urbano (CDHU) are responsible for the execution of the work.

The program’s measures include:

- Correction of the main sources of pollution of water bodies;
- Improvement of urban occupation standards;
- Improvement of population life quality and reduction of urban poverty;
- Improvement of the operating performance levels of public infrastructure services;
- Environmental protection and recovery;
- Prevention of improper occupation and incentive of uses compatible with environmental requirements;
- Technological updating and water treatment process improvement;
- Integrated management of sub-basins and technical studies adequate to this management.



Tenente Rocha River, São Paulo North End.

Investments in the amount of US\$281.8 million will be made by means of the funds deriving from the World Bank and the participants' remuneration. The investments are scheduled to be completed in 2013. Sabesp invests US\$125 million in this Program.

Nature Operation: River Clean-up program (“Operação Natureza: Programa Córrego Limpo”)

The program, launched in the week of the World Water Day (March 22), is a result of the partnership between the São Paulo State Government, by means of Sabesp, and the São Paulo Municipal Government. The purpose of the program is to change the current level of degradation of all rivers located in the State capital within 10 years. The first phase will clean up the main rivers in the City of São Paulo within two years with investments in the approximate amount of R\$200 million. This first phase will benefit 2.4 million persons and encompass an area of 204 km², that is, 25% of the population in the City of São Paulo. Of the 42 rivers selected for clean-up in this phase, 12 were already cleaned. The measures will be conducted at the same time in the five municipal regions and the final schedule estimates that 300 rivers will be cleaned within a period of 10 years.

GRI EC8 The program also provides for the development of an Environmental Education Program in the communities located in the rivers' region and the transformation of the area of eight rivers into riparian parks for public use, that is, a leisure option for the local population.

Technological Research Programs

Information Technology

A series of updating measures were also implemented in the Company's information technology systems in 2007.

With respect to the business support systems, the modernization of the commercial system was started. This modernization, when completed, will permit a significant reduction in customer service waiting period in the contacts with the Company.

With respect to the construction and repair work management system, Sabesp introduced an innovative technology through which the service orders are monitored by a small-sized manual computer with GPS. The several phases of the service are photographed and transmitted to the central corporate system for monitoring, customer service center information and service order termination control.

The new operating control system offers the most modern tools in terms of automation of the water distribution system in the São Paulo Metropolitan Region. The state-of-art SCADA system, connected to a Geographical Information System, allows safer interventions affecting the smallest number possible of consumers, when necessary.

The digital certification was implemented in the systems related to suppliers. The digital certification guarantees the identity of the participants in the Company's e-procurement sessions.

Various other measures were implemented in the Information Technology Governance area upon the installation or updating of a number of software. Some examples are: IT asset management, email content filter, Internet access control, access security, among others. In 2007, Sabesp's information technology systems were in compliance with the requirements of the Sarbanes-Oxley Act, which allowed the Company to receive the compliance certificate.

Technological Research and Development Programs

The table below sets forth the main development projects implemented in Sabesp:

Table 10: Status of Technological Development Projects in Sabesp in 2007

Project	Execution Company	Purpose(s)	Status
Use of effluents of sewage treatment systems in agriculture by means of water stabilization ponds and final chlorination.	Geochemical and Geophysical Research Center of the University of São Paulo (NUPEGEL)	Use of the nutrients contained in the effluents of sewage treatment systems in agriculture by means of irrigation.	In progress
Use of sludge deliquidification process between the processes to treat activated sludge.	CH2MHILL do Brasil Serviços de Engenharia Ltda.	The general purpose is the improvement of the operating efficiency by means of the increase in the sludge treatment capacity.	Final tests completed Under implementation (STS Barueri)
Disposal of sludges of water treatment plants (WTS) in sewage treatment plants (STS).	JNS Engenharia, Consultoria e Gerenciamento S/C	Verify the technical and economic feasibility of the launching and the effects on the biosolid and final effluent quality; prepare legislation proposal on the matter.	Under implementation
Development of studies, researches, projects, analysis and surveys in Sabesp's operating areas.	IPT – Instituto de Pesquisas Tecnológicas do Estado de São Paulo	<ul style="list-style-type: none"> • Survey and characterization of the consumer profile and final use of water by Sabesp's residential consumers; • Laboratory evaluation of components of building connections in PEAD; • Development of regulatory texts; • Updating and implementation of the failure register system; • On-site evaluation of leak measurement devices in building connections; • Standardization of components and procedures aiming at reducing water loss in distribution. 	In progress
Operational development	MACKENZIE	<ul style="list-style-type: none"> • Program for research and study of stabilization of the sludge deriving from the Taiacupeba Water Treatment Plant. 	In progress

Innovation Sessions

The innovation sessions represent a permanent place to promote the innovation of the Company's supply chain. The sessions are organized in order to allow the different segments to present their products, services and solutions in order to disclose to the group of units actual alternatives and experiences of different technologies and products. Such practice encourages competition in the main markets in which Sabesp purchases its products and services resulting in the reduction of costs and better rendering of services.

Eight sessions related to diversified subject matters were held in 2007. These subject matters comprised: filter press, telemetry in the reading of water meters, recycling of sludge deriving from water treatment plants and automation systems. In addition to the lectures, exhibitions of new equipments are carried out in order to provide users with actual information on their technical features together with the price determination policy, if applicable.

These events allow several companies, including foreign companies, to exchange information on new sanitation technologies and the Company's technical teams to obtain a significant expertise progress resulting in benefits to the population.

GRI 4.14 Communication

Sabesp's communication activities throughout 2007 showed the important meaning of the work conducted to maintain the Company's operating criteria: transparency, efficiency, relationship and responsibility.

SABESP IN THE MEDIA

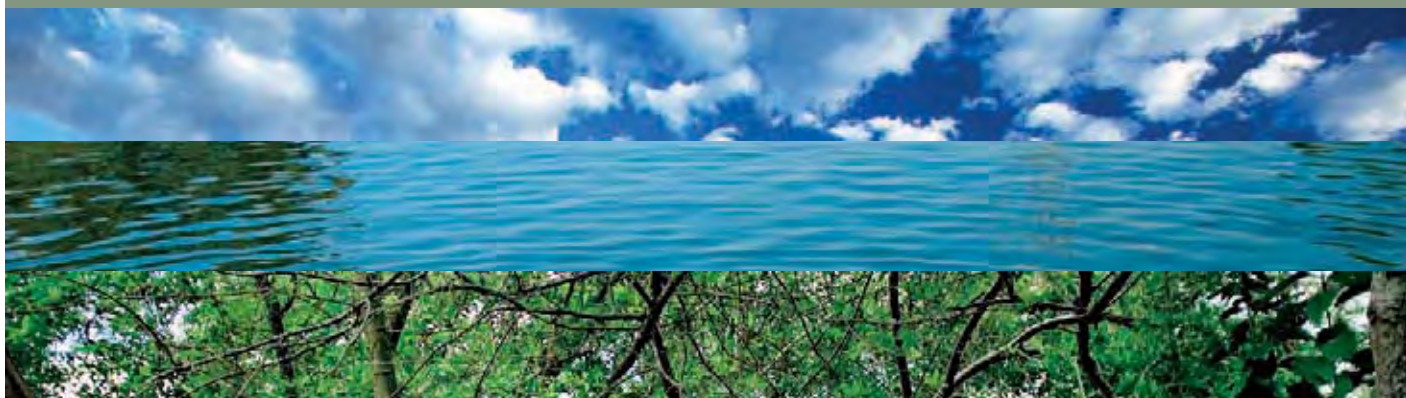
In the Public Relations area, Sabesp monitoring registered 24,000 articles, of which 20% (approximately 4,500) were positive, and solely 5%, a little more than 1,100, were negative to the Company. These numbers show the media interest in the Company in the sense of working together with Sabesp to disclose to the community not only articles related to operating matters but also articles and information on the Company's processes, products, services and technologies.

The relatively low number of articles unfavorable to the Company shows that, despite the growth of articles related to the defense of consumer rights, Sabesp is able to successfully fulfill the consumer demands and, therefore, prevents operating problems, which are normal in the Company's operating market, from affecting Sabesp's image and brand value.

One example of this successful use of advertising spaces is the work conducted by the Press Release Agency: a plan prepared so that Sabesp is able to provide at least two articles/releases to radio stations in the State of São Paulo on a daily basis, which articles/releases could be used, as they were used, by radio stations located in other states.

Among the achievements of Sabesp's Public Relations Department are: the successful use of advertising spaces, use of the information as an opinion-making tool, appreciation of the brand, close relationship with the community.

During 2007, more than 600 programs, in the majority favorable to the Company and with comprehensive use by radio stations, were produced among own productions and interviews.



Sabesp's Internal Communication department was probably one of the areas that most improved in 2007. All vehicles and tools used were encouraged and became tools to propose and not only to report the Company's facts. The purpose of this work is to inform Sabesp's employees and cause these employees to assume commitments in connection with the Company's planning, goals, work policies and services so that the employee becomes proud of working in the Company and acknowledges that the Company's achievements are also in fact the employee's achievement.

The Digital Communication area modernized and prioritized Sabesp website by means of the availability of spaces to disclose more news on the Company on efficient manner and continuous information on the that is considered as an example of achievement in terms of environmental sanitation programs.

In addition to the Company's home page, specific hot sites were created for Sabesp's most important programs, such as the River Clean-up Program – which, by means of partnership with the Municipal government, will clean the sources of water in the City of São Paulo – and the Sabesp Environmental Solutions – which basic guideline is the protection of the environment.

The marketing and advertising area also implemented a number of actions throughout the year based on a strict media plan.

Sabesp, by means of the 2007-2008 Summer Project, one amongst the Company's several campaigns, tried to alert about and guarantee the regular supply of water during school and summer breaks. Sabesp also participated in more than 500 events and meetings in order to build a solid commitment and dedication relationship with the community and strengthen its message and mission: promotion of life quality, a life treated by Sabesp with all due respect.

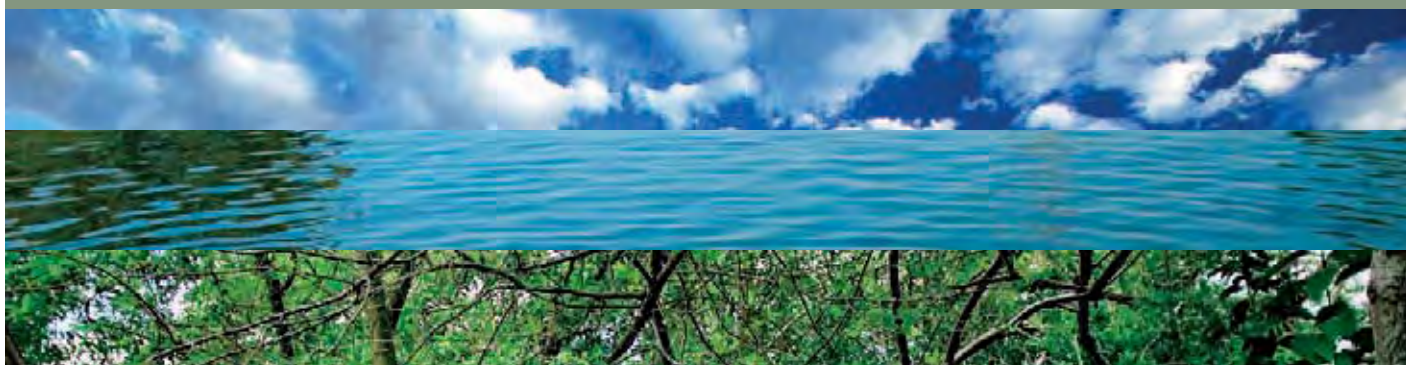
Social Responsibility Indicators

The adoption of social responsibility practices in Sabesp is monitored based on the Social Responsibility Management System, which is customized and designed to the Company to consolidate the data collection process in the Company's activity chain.

The data is inputted into the system by a network of 1,500 employees – representing all executive offices – and consolidated by the Social Responsibility Group. The data is consolidated in Sabesp's permanent database. This System allows the management and registration of social projects based on criteria established by the Brazilian Institute of Social and Economic Analysis (Ibase).

The system also allows the evaluation of the Company's Social Responsibility stage based on the matrix of the Ethos Institute Indicators, in accordance with the subject matters: 1- Values, Transparency and Governance; 2- Internal public; 3- Environment; 4- Suppliers; 5- Consumers and Customers; 6- Community and 7- Government and Civil Companies. The results of the Social Responsibility Indicators are disclosed to the Ethos Institute on annual basis. The Ethos Institute, in turn, issues the companies' performance report (see table below).

- In 2007, Sabesp served approximately 130,000 persons in the State of São Paulo by means of educational projects designed to the external community.
- In the Ethos Institute 2007 report, taking into consideration a zero to ten grade, Sabesp received high grades in connection with the subject matters: Community (9.25) and Consumers/Customers (9.23); received seven grade in connection with the subject matters: Internal Public (7.85), Government/Civil Companies (7.57), Values, Transparency and Governance (7.47); and finally identified Environment and Supplier as subject matters to be improved.
- In 2007, Sabesp was included in the Bovespa Corporate Sustainability Index (ISE).





Sewage Connection in Bertoga.

The various indicators are systematically evaluated for definition of goals and implementation of improvement measures. The following goals were established for 2007:

- the ISO 14.001 certification in connection with 10% of Water Treatment Plants (WTS) and Sewage Treatment Plants (STS) by 2010;
- Be recognized as a leading company in excellence in the National Quality Award (PNQ) by 2012;
- Be included in the ranking of best companies to work by 2010;
- Expand the scope and coverage of the OHSAS certification by 2010;
- Expand the coverage of the ISO/IEC-17025 certification (Sanitation Control Laboratory);
- Establish a quality model for the companies hired to provide construction work and services by 2009;

Moreover, the interface of these indicators with other tools is also carried out, such as the Global Reporting Initiative (GRI), the Global Treaty, the Millennium Goals and the SA 8000 Standard, which confirms that Sabesp is in an advanced stage with respect to the majority of its practices.

Operating Indicators

The Achievements in Operating Management

The total volume of water billed, including in the wholesale market, recorded a growth of 2.2% in 2007 as compared to 2006. With respect to sewage services, the Company recorded a growth of 4.3% in the volume billed in view of the expansion of sewage services, the greater volume of water billed and the new sewage treatment agreements entered into with the municipal governments that are currently water consumers in the wholesale market. These new agreements, in addition to being an additional source of income to the Company, also prevent the disposal of tons of sewage in the rivers in the São Paulo Metropolitan Region, with positive environmental effects.

table 11: Water And Sewage Volume Billed by User Category – millions of m³

	Water			Sewage			Water + Sewage		
	2006	2007	%	2006	2007	%	2006	2007	%
Water + Sewage	1.314,7	1.338,8	1,8	1.035,6	1.065,1	2,8	2.350,3	2.403,9	2,3
Commercial	148,0	151,2	2,2	135,3	138,4	2,3	283,3	289,6	2,2
Industrial	34,4	35,3	2,6	32,4	33,3	2,8	66,8	68,6	2,7
Public	46,7	47,4	1,5	37,4	37,8	1,1	84,1	85,2	1,3
Total retail	1.543,8	1.572,7	1,9	1.240,7	1.274,6	2,7	2.784,5	2.847,3	2,3
Wholesale	263,4	274,3	4,1	5,3	24,9	-	268,7	299,2	11,4
Total	1.807,2	1.847,0	2,2	1.246,0	1.299,5	4,3	3.053,2	3.146,5	

Table 12: Water And Sewage Volume Billed by Region – millions of m³

	Water			Sewage			Water + Sewage		
	2006	2007	%	2006	2007	%	2006	2007	%
Metropolitan	1,030.8	1,046.8	1.6	843.5	866.0	2.7	1,874.3	1,912.8	2.1
Regional (1)	513.0	525.9	2.5	397.2	408.6	2.9	910.2	934.5	2.7
Total retail	1,543.8	1,572.7	1.9	1,240.7	1,274.6	2.7	2,784.5	2,847.3	2.3
Wholesale	263.4	274.3	4.1	5.3	24.9	-	268.7	299.2	11.4
Total	1,807.2	1,847.0	2.2	1,246.0	1,299.5	4.3	3,053.2	3,146.5	3.1

Note: (1) Comprised by coastal and countryside regions.

The Company continues to expand its services and improve its operating indicators, as set forth in the table below, by means of the growth in the number of water and sewage connections, population served, loss rate and number of employees.

Table 13: Operating Indicators

Operating Indicators	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Water connections ¹	4,111	4,324	4,601	4,946	5,242	5,535	5,717	5,898	6,044	6,358	6,489	6,609	6,767
Sewage connections ¹	2,870	3,019	3,277	3,559	3,763	3,976	4,128	4,304	4,462	4,747	4,878	5,002	5,167
Population served ²													
Water	17.4	17.6	18.5	19.1	19.4	20.5	20.8	21.1	21.3	22.3	22.6	22.7	23.0
Volume	12.9	13.1	14.0	14.8	15.1	15.9	16.2	16.7	17.0	18.0	18.3	18.5	18.9
Volume billed													
Water market	315	357	368	388	393	318	322	339	346	251	259	263	274
Water in the retail	1,323	1,348	1,409	1,429	1,396	1,413	1,376	1,431	1,419	1,441	1,500	1,544	1,573
Sewage	975	993	1,036	1,066	1,058	1,070	1,054	1,105	1,110	1,141	1,198	1,246	1,300
Volume produced ³	2,434	2,527	2,521	2,593	2,665	2,679	2,650	2,778	2,820	2,770	2,830	2,887	2,874
Loss rate(%)	32.1	31.6	29.8	29.9	30.6	31.4	31.4	31.7	33.0	34.0	32.4	31.9	29.5
No. of employees ⁴	18,861	18,467	19,129	19,340	18,324	18,048	18,159	18,505	18,546	17,735	17,448	16,978	16,850
Operating production ⁵	370	398	412	440	491	527	542	551	566	626	651	684	708

Notes: (1) In thousands of units in the end of the period.
(2) In millions of habitants in the end of the period (excluding water supply in the wholesale market, representing more than 3.2 million habitants).
(3) In millions of m³.
(4) Number of employees as of December 31 of each year.
(5) Number of water and sewage connections by employee.

Quality Management Excellence

Excellence Program

Sabesp intends to be recognized as a company with “worldwide excellence standards in the rendering of environmental sanitation services”. For this purpose, the Quality Management Excellence Program is aligned with Sabesp’s Future Vision and the main purpose of this program is to integrate internal quality processes and maximize the effects of this program on the Company’s overall results.

The external audits performed in 2007 ensured the maintenance of the integrated certification in conformity with ISO 9001:2000 (quality) and OSHAS 18001:1999 standards (occupational health and safety, which assesses the rate and severity of occupational accidents). Also during 2007, the Company started the process to obtain the ISO 14.001 environmental management standard certification in connection with 10% of the Company’s operating units by 2010 (currently, there are 4 certified units) and ISO/IEC 17025 certification in connection with sanitation control laboratories of the Metropolitan Executive Office, in line with the system implemented.

Other relevant activity was the establishment of improvement groups by process, which comprise the areas related to the subject matters under the coordination of its Operating Environment. The purpose of these groups is the standardization of processes by means of the standardization and simplification of documents, indicators and management goals.

Taking into consideration the required integration of the certifications through management systems, one of the next challenges to be faced is NBR 16.001, related to Social Responsibility, which will contribute to the consolidation of the Social, Economic and Environmental Sustainability Corporate Guidelines.

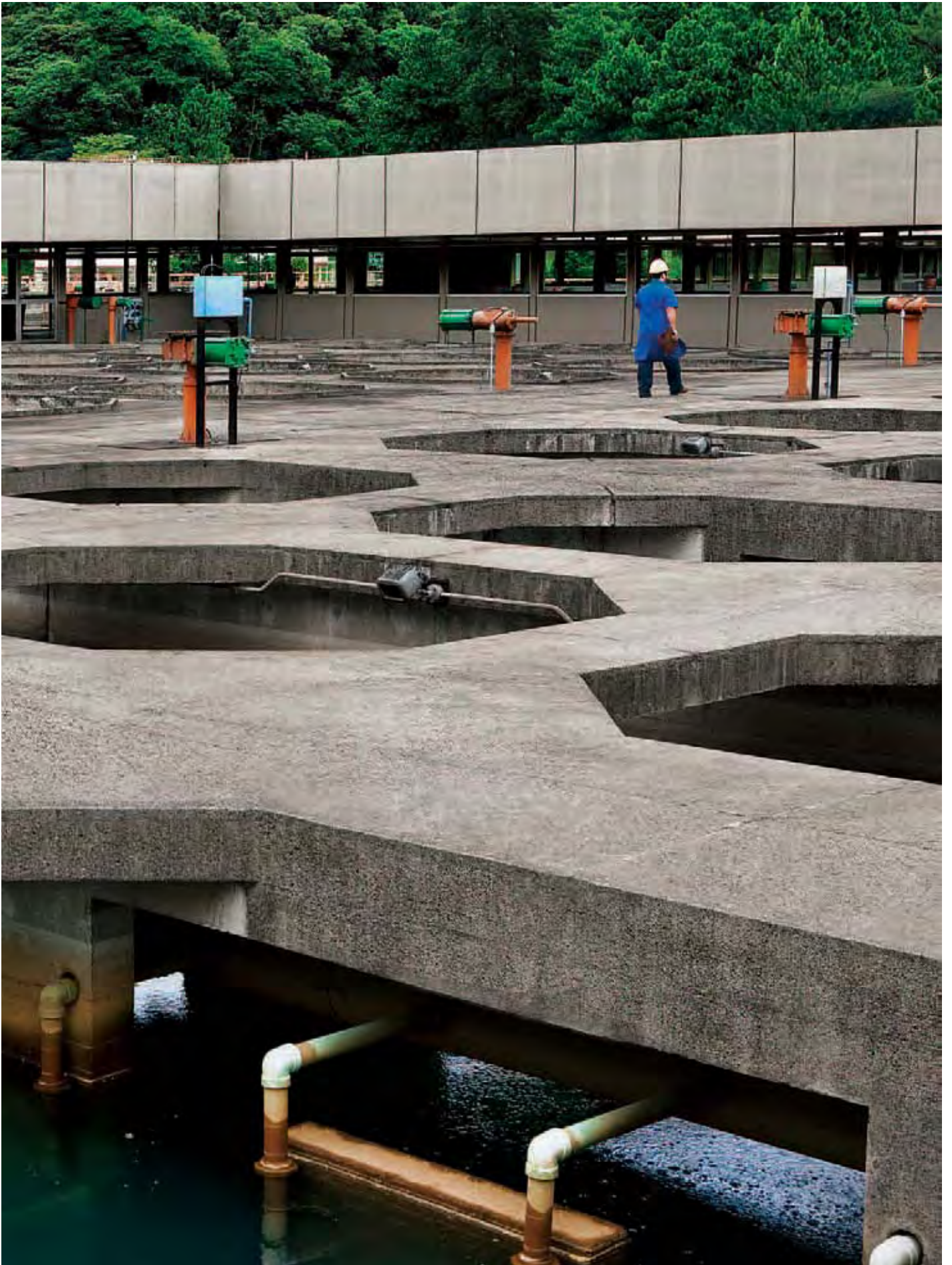
Accreditation of Laboratories

The process for accreditation of Sabesp's laboratories was expanded in 2007. Sabesp has accredited seven laboratories located in the municipalities of Presidente Prudente, Lins, Fernandópolis, Botucatu, Caraguatatuba, Santos and Registro, in addition to the accredited laboratories located in Franca, Itapetininga and São José dos Campos.

Currently, Sabesp owns 11 Accredited laboratories: the ten laboratories of the Executive Office of Regional Systems and the main laboratory of the São Paulo Metropolitan Region.

Upon Accreditation in conformity with ISO 17025, granted by INMETRO by means of external audit, Sabesp's sanitation control units demonstrate that activities are exercised based upon high quality standards and in compliance with strict requirements for analysis of the quality of the water provided to the Company's customers.

See indications in Map in page 10.



Water Treatment Station, Guaraú.

GRI 4.1 CORPORATE GOVERNANCE

Shareholders' Meeting

The Shareholders' Meeting is the ultimate decision-making body. The Annual Shareholders' Meeting is held in the first quarter of the year to audit and approve the financial statements; take resolution on the allocation of the net income for the year; elect the members of the board of directors and supervisory board; and, pursuant to the Company's bylaws, appoint the members of the Audit Committee, if any; and also establish the compensation of the members of the board of directors, supervisory board and board of executive officers.

Extraordinary Shareholders' Meetings are held during the year upon decision of the Board of Directors to take resolution on matters relevant to the Company. Three Extraordinary Shareholders' Meetings were held in 2007.

SABESP IN THE NOVO MERCADO SEGMENT OF BOVESPA

Sabesp was the first state-owned company to adhere to the Novo Mercado segment of Bovespa in April 2002, a segment targeted at companies with good corporate governance practices. The Company's procedures are in line with the rules in force, both in the Brazilian and the U.S. market. The adoption of the practices is continuously monitored and reinforced by a Corporate Governance verticalization program, which provides for internal lectures and training for the disclosure and strengthening of the basic principles.



GRI 4.3 Board of Directors

The board of directors, established since 1977, currently consists of ten members with joint term of office of one year. 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 shareholders have a direct channel to contact the Investor Relations Office by means of the Company's website (www.sabesp.com), "investors" option, in "contact" menu).

GRI 4.4 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.

Members of Sabesp Board of 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) and a bachelor degree in Geography from Universidade de Brasília. Ms. Pena is responsible for the Sanitation and Energy State Department and is the chairwoman of the boards of directors of EMAE, CESP and CPOS.



HUMBERTO RODRIGUES DA SILVA – Vice-chairman 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 Fundação Getúlio Vargas (FGV). He worked at GE Brasil from 1980 to 2002. He is currently the chairman of the boards of directors of GE Hydro Inepar and Synergy Group and a member of the board of directors of Avianca.



REINALDO GUERREIRO – Mr. Guerreiro is an independent member of the board of directors and member of the Audit Committee since January 2007. He holds a master degree in accounting and controllership and a bachelor degree in accounting from Faculdade de Economia e Administração da Universidade de São Paulo (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.



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 Universidade Estadual de Campinas (Unicamp). He was a member of the boards of directors of CET/SP, COHAB/SP and PRODAM/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 (FEA-USP). He was the planning secretary of the City of São Paulo and worked in the São Paulo City 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 São 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 (UPIS) and post-graduate 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.



FARRER JONATHAN PAUL LASCELLES PALLIN – Mr. Pallin is an independent member of the board of directors since June 2006 and coordinator of the Audit Committee. He holds an MBA from the Cranfield Institute of Technology (England). He is a chartered accountant in England and a registered accountant in Brazil. In

2004, He retired from PricewaterhouseCoopers (PwC), where he had been a partner since 1977. Currently, he is the chairman of the Advisory Board of Hospital Samaritano, where he was the chief executive officer. He was the chairman of the supervisory board of Arcelor Brasil S/A and Companhia Siderúrgica de Tubarão.



Paiva Castro Dam.

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.

Supervisory Board

The Company's supervisory board is elected at the Annual Shareholders' Meeting on annual basis. The primary responsibilities of the supervisory board are to monitor management activities, review the Company's financial statements and annual management report. The supervisory board is established on permanent basis since the Company's incorporation and currently consists of five active members and the respective alternates, of which one is the representative of minority shareholders.

Board of Executive Officers

GRI 4.2 Company's board of executive officers currently consists of six executive officers elected by the board of directors, of which one member is appointed as the Chief Executive Officer.



GESNER JOSÉ DE OLIVEIRA FILHO – CEO since January 2007. He was the chairman of the CADE (Economic Defense Council), Deputy Secretary of the Economic Policy Department of the Ministry of Finance, Chairman of the Legal and Economic Trends Institute, managing-partner of Tendências Consultoria Integrada, consultant

and arbitrator in the infrastructure regulation and competition protection, and Visiting Professor of the Columbia University Centre for Brazilian Studies (USA). PhD in Economics from University of California/Berkeley, a master degree in Economics from Instituto e Economia da Universidade Estadual de Campinas (Unicamp), a bachelor degree in Economics from Faculdade de Economia e Administração da Universidade de São Paulo (FEA-USP), and he is a professor at the Economics Department of Fundação Getúlio Vargas.



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 bachelor degree in Economics from Universidade de São Paulo, a PhD degree and a master degree in Economics from Universidade Estadual de Campinas (Unicamp). He is a

professor of the Instituto de Economia of 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 Escola Politécnica da 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 Region and Countryside, Project Officer of Ondeo Services do Brasil, Sanitation Officer of Suez Ambiental, CEO of Águas do Amazonas and Sanitation Services Officer of ETEP.

Internal Audit

The Internal Audit department is an independent body, which purpose is to evaluate the integrity, adequacy, effectiveness, efficiency and productivity of the information technology and internal control processes and systems. 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 activities of the Internal Audit department are supervised by the Audit Committee.

Ethics and Conduct Code

The Ethics and Conduct Code was approved by the board of executive officers and the board of directors in the beginning of 2006. Thereafter, the Code was disclosed to all employees, suppliers and other persons that have relationship with the Company. The document contains organizational values and ethical principles that guide the Company's behavior and contribute to the resolution of potential conflicts of interest.

ETHICS COMMITTEE – The Company's advisory, regulatory and educational body, consisting of executive representatives of the subject matters related to the committee after the preparation of the Ethics Code. Meetings focused on the analysis of complaints with greater frequency and proposals for changes in the processes were held in 2007.

Denouncement Channel

Sabesp's employees have an internal Denouncement Channel to denounce alleged illicit acts or violation of its Ethics and Conduct Code available by means of telephone, email and mail box. The board of executive officers and the Audit Committee monitor all denouncements and remediation measures recommended by the Internal Audit Department.

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 December 31, 2007 and the year ended December 31, 2006. Deloitte Touche Tohmatsu Auditores Independentes did not provide services not related to the Company's external audit during the year 2007.

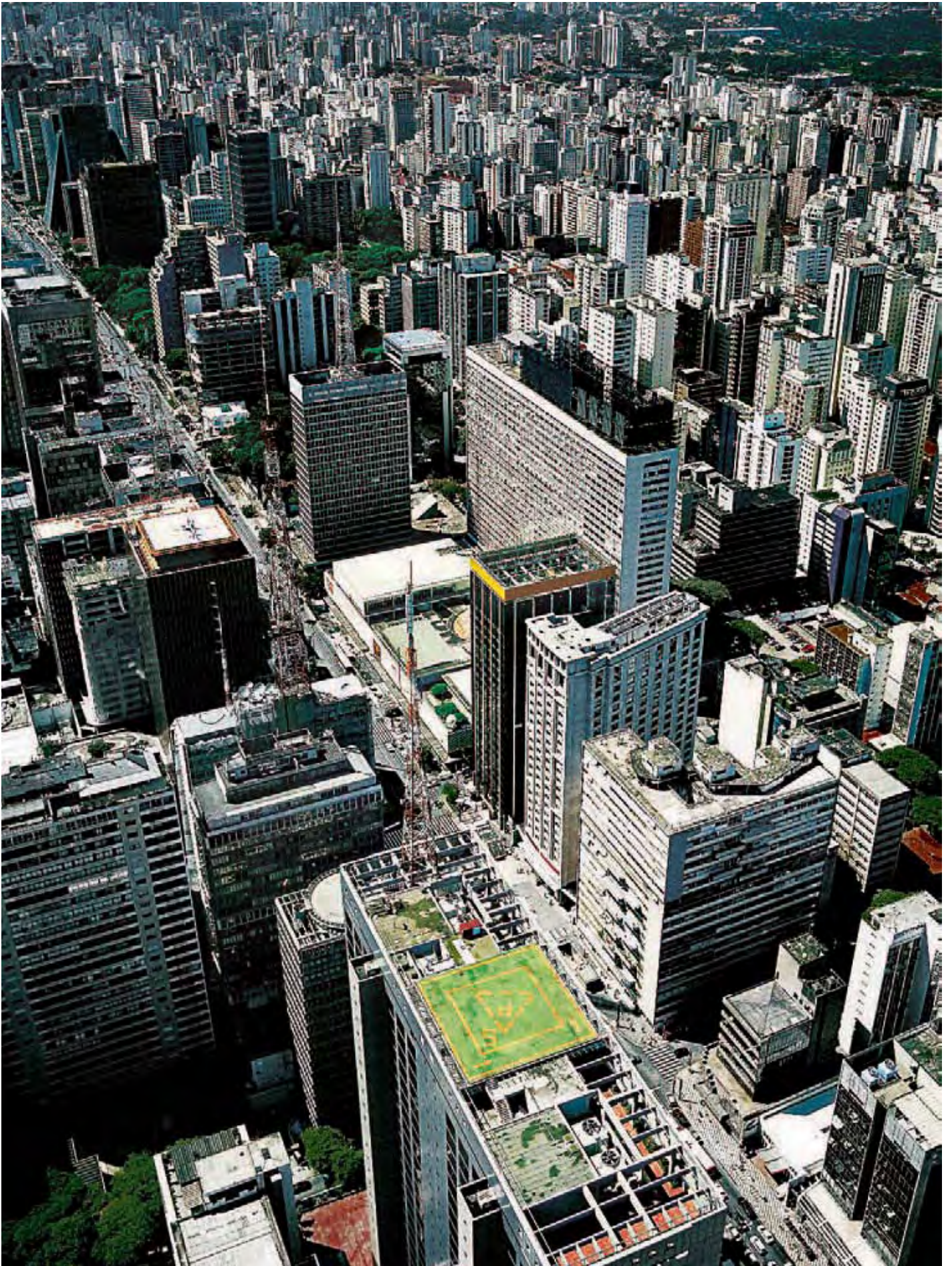
Risk Management and Internal Control

The second year of Sabesp's internal control evaluation was completed in 2007. During this period, in conformity with the U.S. Sarbanes-Oxley (SOx) Act, the controls related to financial risks were improved, mainly actions to continuously monitor the controls implemented for purposes of rationalization and automation of the controls. Moreover, necessary corrective measures were implemented to correct the two material weaknesses related to the year 2006.

The methodology used in the evaluation relied upon The Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Control Objectives for Information and Related Technology (COBIT) principles. A project for implementation of risk management control is currently in progress, within the corporate scope, by means of the identification and evaluation of strategic risks and the main processes of Sabesp. In 2008, the project also includes the extent of the evaluation of the strategic risks of Fundação Sabesprev.

Arbitration Clause

Pursuant to the *Novo Mercado* Listing Rules, the Arbitration Clause is binding upon the Company, whereby the Bovespa, the Company and its shareholders, officers, directors 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 Arbitration Rules and the *Novo Mercado* Participation Agreement. Pursuant to the Company's bylaws, the binding effect of the Binding Clause is limited to the exception applicable to the unavailable rights.



Paulista Avenue Aerial Photo.

SOCIAL RESPONSIBILITY IN RELATIONSHIPS

A company achieves greater results when it assumes a commitment to the social development of the communities where it operates. Sabesp genuine belief in this concept caused the Company to adopt equally responsible practices in its day-to-day activities and incorporate the concept of sustainability into its organizational culture.

The Company has a Social Responsibility Program that defines institutional guidelines in conformity with the Company's diversity and ensures the transparency in connection with the several measures adopted by the Company. An important part of this program provides for the maintenance of open channels with the several segments of the community to provide the information necessary to explain and disclose the Company's actions.

SABESP'S COMMITMENTS

GLOBAL TREATY

Also in 2007, Sabesp entered into the United Nations (UN) Global Treaty, which shows the Company's commitment, by means of an international corporate network, to the planet's sustainability issues.

The Treaty is based upon the respect for human rights, labor matters, the environment, transparency and combat of corruption. The Company's participation in the Treaty is verified through its commitment to incorporate these principles into its management strategies.

ABRINQ FOUNDATION

Sabesp, a Child-Friendly Company Against Child Exploitation

Sabesp's Ethics and Conduct Code establishes that all suppliers should be in compliance with the legislations in force, particularly with respect to the abolition of child and slave labor in the services performed. This conduct is in line with the requirements set forth by the Abrinq Foundation and, for four years, Sabesp was awarded with the Child-Friendly Company certificate.

GRI 4.11 BOVESPA'S "IN GOOD COMPANY" WEBSITE

Sabesp, together with the other companies with shares listed in the Bovespa, discloses its social and environmental projects in the "In Good Company" website, which contributes to strengthen the institutional image of a socially responsible company.

This website was designed to be a dissemination tool in the process for disclosure of the social and environmental practices developed by the listed companies and is accessed by 20,000 users/month.

Relationship with Customers

Sabesp currently supplies, directly or indirectly, treated water to more than 26 million consumers and collects the sewage of almost 19 million consumers in the State of São Paulo. Sabesp also enters into individual agreements with certain customers, such as the municipal governments, for the sale of water services in the wholesale market.

RESPECT FOR THE CUSTOMER

Sabesp shows respect for the customers when it:

- Gives priority in the services to elderly and pregnant consumers, persons with infants and physically-challenged persons in its branches;
- Facilitates the customers' access by providing several methods of customer services in a manner that the customer needs fewer or no visits to submit their requests;
- Prepares community participation programs in order to provide a comprehensive knowledge on the communities' needs;
- Conducts satisfaction surveys to measure Sabesp's performance and review its processes to improve the rendering of services and, consequently, increase the customers' satisfaction levels.

Sabesp maintains the social responsibility commitment inherent to its mission upon the offer of products and services within the parameters of social justice, with total respect for the consumer rights and continuous concern to inform and educate the citizens in connection with the responsible consumption of water. For any such purpose, the Company has a number of consumer service and contact channels. The list of these channels is included in the end of this report. Among these channels, we may mention the Virtual Branch and the Ombudsman Office.

VIRTUAL BRANCH: accessible through the Internet, the customers are able to request urgent and maintenance services, obtain a copy of the bill, verify the water consumption in the last 12 months, obtain information on the equipment reading dates in the consumers' residence and also obtain information on tariffs and services. In 2007, Sabesp started to implement the project to rebuild the Virtual Consumer Service Branch in order to offer more services by means of this channel (see highlight besides).

OMBUDSMAN OFFICE: a qualified, second-level escalation consumer service channel through which the consumers' complaints and problems arising from the relationship with the Company are received, analyzed and solved.

OMBUDSMAN OFFICE: CONSUMER SERVICE AND MEDIATION CHANNEL

Sabesp's Ombudsman Office exercises a role in the negotiation of conflicts between the Company and its customers. Upon the use of customer service and negotiation tools, the Company seeks the answer to two basic questions: how to better use the existing rules in order to fulfill the customers' needs and how to use the available systems in the search of alternatives to resolve the demands. The Company participated in projects that result in the better quality of the services rendered by means of the areas responsible for the customer service.

In 2007, 63,870 customers were served and 21,145 complaints were registered. These complaints are called Ombudsman Office procedures

The Ombudsman Office, in partnership with the Judiciary Branch, is developing the JEC/Digital, which offers a differentiated customer service in the Extraordinary Civil Courts system by seeking amicable resolutions for the customers' complaints, thereby avoiding the customers to file a lawsuit. In 2007, the JEC/Digital served 671 customers, with 606 hearings scheduled up to December 2007 and a percentage rate of 57.4% of agreements in the negotiation stage.

Other Company's important partnership, monitored and controlled by the Ombudsman Office, is the partnership with the Consumer Service Department (Procon). In 2007, the Company received 1,764 CIPs (Preliminary Information letters) from the Procon located in the State capital and 898 from a number of Procon located in the municipalities, resulting in 2,622 customers served in the preliminary stages of analysis. Only 298 FAs (Service Forms) were subject to questioning by Procon and, out of this total, it was not possible to reach an agreement with respect to only 114 cases.

THE FUTURE OF SABESP'S VIRTUAL BRANCHES

By the end of 2008, the consumers with overpriced and overdue bills that wish the first water and/or sewage connection or that had not received the monthly bills could seek automatic services through the Internet. It will be possible to change the delivery address and maturity dates of the bills in the near future.

Besides the Virtual Branch, available to all consumers, Sabesp has been developing an application designed to customers that manage a large number of properties so that these customers are able to control their bills through the Internet. In the Electronic Management of Bills, the customer will be informed about all new bills issued and will be able to control its own approval and payment flow by means of the tools, without Sabesp's interference. The consumer that elects to use this tool will enter into an use agreement with Sabesp and receive a username and password and, therefore, will have access to more benefits and services by means of the Virtual Branch. All these improvements were designed during the year 2007.

continuously seeks to build a closer relationship with its suppliers to ensure the alignment of principles and conducts set forth in the Company's Ethics and Conduct Code. The responsibility for the good management of public resources is a continuous concern reflected in Sabesp's engagement and procurement processes.

Relationship with Employees

"The officers, directors and employees, regardless of the hierarchical position, will perform their duties based on the ethical behavior, without prejudice to origin, race, gender, color, age or any other manners of discrimination." This is a commitment set forth in Sabesp's Ethics and Conduct Code and is reflected in the Company's transparent policies for human resource management and hiring, empowerment, evaluation, allocation and compensation processes. The description of the practices is included in the section "Social Performance Indicators" in this report.

Relationship with Suppliers

Sabesp is recognized by the transparent relationship with its suppliers. The new Law governing the basic sanitation industry (Law 11.445/07) places the Company in an environment in which commercial practices should take into consideration the provisions set forth in the competition defense legislation, in particular Law 8.884/94.

Accordingly, in year 2007, Sabesp widely disclosed its procurement plan to the market in order to encourage suppliers' competition. As a result, the Company intends to make more cost-effective and efficient investments and operate on more predictable and stable manner.

The Company prepared its "Competition Guidelines for Public Procurement Processes", which establishes the general guidelines to expand the portfolio of suppliers and encourage competition. Furthermore, the Company addresses the authorizations in public biddings and the potential imposition of barriers to the entry of competitors in the market.

Another initiative adopted by Sabesp was the execution of the technical cooperation agreement with the competition defense agencies: the Economic Monitoring Department (SEAE) and the Economic Law Department (SDE). The agreement provides for the exchange of information, technical support and preparation of analysis and studies in connection with the competition and economic regulation areas related to the basic sanitation industry.

The Sabesp E-Procurement System, a worldwide reference in public bidding, is continuously improved to encourage competition and make the procedure safer. Among the innovations are: the standardized message catalogue, the grouping of items in strategic lots, the five-minute period extension in the bidding stage, the external monitoring of the website and digital certification.

AWARDED TRANSPARENCY AND CONTROL

In 2007, all Sabesp's e-procurement processes started to be conducted using digital certification tools, both for bidders and buyers. During 2007, the Company conducted 829 e-procurement processes in the value of R\$671 million, with a reduction in costs of R\$56 million.

Sabesp's E-Procurement System was developed to ensure, by means of a fair negotiation process between the interested parties, the most cost-effective, safer, quicker, transparent and efficient agreement. All facts related to the process involving the accreditation of the bidders' agents, the prices of the original proposals, selection of bidders for the bidding stage, the bids offered, negotiation, accreditation, appeal and adjudication stages, and all messages sent by the Chat, are inputted into the system.

By means of this initiative, Sabesp was the first company offering the E-Procurement System in the State of São Paulo, and launched its e-procurement and e-engagement system in 2003 by means of the Internet. The E-Procurement System is continuously improved since 2003 always in order to encourage competition and make the application safer.

The initiative represents a milestone in the Brazilian public administration. Upon the implementation of security controls, Sabesp became the first state-owned company in Brazil to maintain an e-procurement system with digital certification in all stages of the public process.

In 2007, Sabesp's E-Procurement System received the 19 DE MARÇO AWARD, in the INNOVATION category; the EXCELLENCE AWARD IN E-GOVERNMENT, in the Government to Business (G2B) category and the IT & GOVERNMENT AWARD, in the e-Public Administration category.

The awards represent a recognition of the Company's efforts to seek the continuous improvement of its processes upon the improvement of its actions by means of the online relationship with the community and the suppliers, promotion of the transparency and assuming the leading position in the adoption of the best e-procurement practices in Brazil.



Relationship with Investors

Sabesp's shares are listed in the Novo Mercado segment of the São Paulo Stock Exchange (Bovespa) and in the New York Stock Exchange (NYSE). The Company has a dedicated team of executive officers, consisting of the Chief Financial and Investor Relations Officer (DRI), Superintendent, Manager and analysts to fulfill the needs of the financial community, the investor in general and the shareholders. The Investor Relations Department is a part of the Financial Executive Office, and the Chief Finance and Investor Relations Officer is the officer responsible for the area and the Company's spokesman in the communications with the financial community.

Sabesp has a specific page on the Internet designed to investors, which discloses the Company's main information to shareholders, in addition to conventional channels of customer service, channels to schedule visits to the Company and to schedule external and internal meetings with capital market analysts and investors, as well as the participation in events, seminars and conferences.

The Company discloses its quarterly results in the Brazilian Securities and Exchange Commission (CVM) and in the Securities and Exchange Commission (SEC) at the same time. After the disclosure of the results, the Company conducts conference calls, in Portuguese and English, with the participation of the Chief Finance and Investor Relations Officer to discuss and clarify doubts.

GOOD PRACTICES RESULT IN GOOD BUSINESS

The good corporate governance practices and the continuous interest on the Company have encouraged the coverage of the capital market analysts. Sabesp currently has ten recognized Brazilian and foreign institutions monitoring Sabesp's shares. In the Bovespa, the number of shares traded reached 4.7 billion, with an average daily trading volume of R\$15.3 million. In the NYSE, 81.2 million American Depositary Receipts (ADRs) were traded, equivalent to approximately 162.4 million shares, with an average daily trading volume of US\$13.6 million.

These initiatives provide the Company with differentiated visibility, transparency and liquidity, with positive effects on the Company's credit risk perception, thereby contributing to the institutional image and sustainability.



Children visit the Sabesp Station, at the Company's headquarters.

Relationship with the Society

Sabesp uses best efforts to obtain a close relationship and engage in discussions with all segments of the society, such as communities, Non-governmental Organizations and the Government because it believes that partnerships are critical to the sustainable development and the improvement of life quality. Accordingly, the Company has entered into partnerships with a number of entities representing the civil companies.

GRI 4.15 Two important initiatives that show the Company's efforts are the meetings held with community leaders and the community participation programs. The purpose of the two initiatives is to place Sabesp closer to the community, the residents' associations, leaderships, municipal governments, councils and representatives of the civil companies. The periodical meeting and visit program seeks to identify the demands, establish priorities and negotiate solutions. Sabesp has approximately 50 employees who, in the capacity of community agents, conducted 21 meetings with the communities involving a population of more than 2.4,000 persons in 2007. The Community Participation Program served a population greater than 41,000 persons by means of meetings and visits to the communities.

Sabesp's community actions, as well as the financing and sponsoring of social projects, are described in section Social Performance Indicators in this report.

GRI 4.14 SABESP'S COMMUNITY INVOLVEMENT

The purpose of this Program is to promote Sabesp's closer relationship with the community, local associations, low-income families, Non-governmental Organizations and Community Linked Associations.

Periodical meetings and visits are scheduled to identify the demands, establish priorities and negotiate solutions by encouraging integration and partnerships with civil companies. In 2007, 43,655 persons were served in the São Paulo Metropolitan Region.

Throughout 2007, the Meetings with Communities had the participation of 2,416 leaderships, such as: community residents' associations, municipal governments and sub-municipal governments, security councils and representatives of the civil companies. These meetings resulted in the identification of local demands and were also a place to disclose the Company's main actions, programs and investments in the State and region and to obtain return on the services rendered.

Communication and Customer Service Channels

Sabesp has a number of communication and relationship channels. Among these channels are:

Customer Service – 195: toll-free customer service telephone number, available 24/7 to receive operating and maintenance service requests.

Call Sabesp – 0800 011 99 11: toll-free customer service telephone number, available from Monday to Friday, from 7:00 am to 9:00 pm. The service is available from 8:00 am to 7:00 pm on Saturdays and from 10:00 am to 4:00 pm on Sundays to receive commercial service requests in the São Paulo Metropolitan Region.

Commercial Branches: consists of 342 branches that provide consumer services in person, distributed throughout the State of São Paulo. The consumers that seek these branches can request, in person or by means of telephone call, any type of service, clarify doubts and make complaints or denouncements. The business hour is established in accordance with the commercial features and practices of each municipality.

Branches located in Sé, Santo Amaro, Itaquera, São Bernardo do Campo and São José dos Campos Timesaving Units (“Postos Poupatempo”): branches that provide consumer services in person, from Monday to Friday, from 7:00 am to 5:00 pm and from 7:00 am to 1:00 pm on Saturdays. Toll-free customer service telephone number, by means of the Timesaving Unit (0800 772 36 33), to receive any service order.

Virtual Customer Service: Sabesp Portal (Internet page) and Sabesp Virtual Branch (www.sabesp.com.br).

Call Sabesp Environmental Solutions – 0800-771 24 82: implemented on November 06, 2007 to serve large customers or parties interested to request or obtain explanations on the products offered by Sabesp Environmental Solutions. Available from Monday to Friday, from 8:00 am to 6:00 pm.

Service to Large Consumers: available in the São Paulo Metropolitan Region, by means of exclusive telephone numbers and service. From Monday to Friday, from 8:00 am to 5:00 pm.

Mobile Branches: trailers or buses equipped with access to Sabesp’s commercial systems and that permit the provision of services to customers in several locations in the State of São Paulo. These branches display educational videos and have models of sanitation treatment facilities to teach the consumer on how to prevent and repair leaks.

Sabesp Ombudsman Office – 0800 055 05 65: toll-free customer service telephone number, available from Monday to Friday, from 8:00 am to 6:00 pm, to register problems in response to services already requested, send complaints, denouncements and praise.

SACE/TACE (External Commercial Customer Service System/External Commercial Customer Service Technician): an external commercial customer service technician who visits the customer home, carries out the electronic reading, prints, deliver bills and provides commercial customer services, clarify doubts and provides other services, such as register updating, issuance of a copy of the bills, leaking services, among others. The service is offered in the São Paulo Metropolitan Region (except for the municipalities of Santana do Parnaíba and Vargem Grande Paulista) and in the municipality of Franca.

CLM (Commercial, Reading/Micro Sewer): electronic reading conducted in the other municipalities served by the Company.

Specific Internet page for investors: contains information targeted at the shareholders, such as the Company’s balance sheets and quarterly results.

Denouncement Channel

In 2007, the Company received 181 denouncements, which were analyzed or are under analysis.



Arrival of the water at the Guarú Treatment Station, in São Paulo.

1.05 billion

reais in profits

ECONOMIC AND FINANCIAL PERFORMANCE INDICATORS

GRI EC1 The table below sets forth the market value generated and distributed by the Company in 2007.

Table 14 – Economic Value Added

Item	Amount (thousands of R\$)
A – Direct economic value added	
Revenues	6,632,967
B – Economic value added	
Operating costs	1,635,498
Employees' salaries and benefits	1,269,477
Payments to investors	987,478
Payments to the Government	1,077,152
Investments in community	27,109
Accumulated market value (A – B)	1,636,253

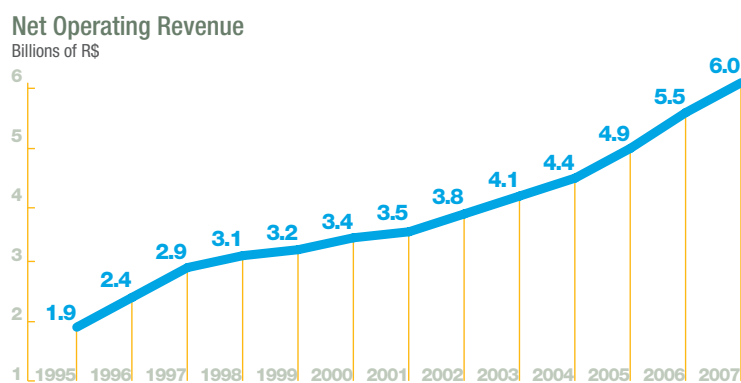
- Notes:
- a) **Revenues** – Consists of all operating, financial and non-operating income, interest and positive monetary and exchange variations.
 - b) **Operating costs** – Consists of operating costs and expenses, such as: materials in general, treatment materials, services, power and electricity, 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 Attributed to Equity, financial expenses (interest, fines and other financial expenses, monetary and exchange variations. Excluded retained earnings.
 - e) **Payment to Government** – Consists of Cofins/Pasep on operating and non-operating income, tax expenses, income tax on remittance abroad and current income and social contribution taxes. Excludes deferred income and social contribution taxes.
 - 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.
- Notes:
- 1. Non-operating expenses were not included in any of the items above and total R\$81.2 million.
 - 2. The methodology for preparation of this table is different from that used in the preparation of the DVA (Statement of Added Value) disclosed in the 2007 Financial Statements.

GRI EC4 The Company did not receive any financial support from the Government in 2007.

GRI EC4 Operating Revenues

The gross operating revenue totaled R\$6.4 billion, 7.8% greater than the prior year, due to the tariff restatement by 4.12% and the increase of 3.1% in the volume of water and sewage billed.

The net operating revenue totaled R\$6.0 billion, a growth by 8.0% as compared to the same period of the prior year.



Operating Income

The income as measured by EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) grew from R\$2.4 billion in 2006 to R\$2.7 billion in 2007, a growth of 10.3%. The EBIT (Earnings Before Interest and Taxes) recorded a growth by 15.1%, from R\$1.8 billion in 2006 to R\$2.1 billion in 2007.

The EBITDA in the total amount of R\$2,698.9 million (R\$2,446.2 million in 2006) consists of the operating income in the amount of R\$1,515.4 million (R\$1,240.7 million in 2006), increased by depreciation and amortization expenses in the amount of R\$622.5 million (R\$642.2 million in 2006) and financial expenses and net monetary variations in the amount of R\$561.0 million (R\$563.3 million in 2006).



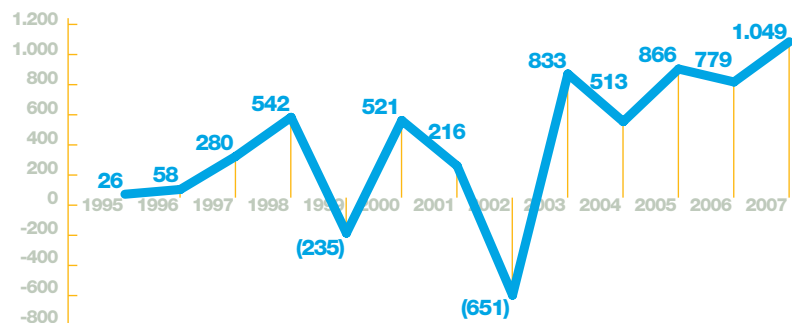
Santa Inês Lift Station.

Net Income

The net income reached R\$1.05 billion in 2007, a growth by 34.6% as compared to the prior year.

Net Income/Loss

Billions of R\$



Growth in Indebtedness

The Company paid a total amount of R\$734.8 million in debts and raised new debts in the amount of R\$222.5 million in 2007. The net debt balance was reduced by R\$512.3 million in total indebtedness. As a result, the remunerated debt/EBITDA ratio recorded a significant improvement, from 2.6 times in 2006 to 2.1 times in 2007. The foreign exchange exposure decreased from 23.3% to 21.9%. The net debt on EBITDA decreased from 2.45 times to 1.93 times. The net debt on shareholders' equity decreased from 66.5% to 53.4%.

Sabesp has been negotiating and already raised the following loans and financing in connection with the Company's programs to make the Multiannual Investment Plan feasible:

Environmental Recovery Program for the Santos Metropolitan Region

Japan Bank for International Cooperation (JBIC)

Financing agreement, backed by the Brazilian government, in the amount of 21.320 million Japanese yen, equivalent to approximately R\$338 million, allocated to the Environment Recovery Program for the Santos Metropolitan Region, called "Clean Wave", an investment of approximately R\$1.2 billion. As of this date, approximately 10% of the amount was disbursed.

National Bank for Economic and Social Development (BNDES)

Financing agreement, in the amount of R\$130 million, to provide a counter-guarantee to the Clean Wave Program. This value accounts for 10.8% of the actual total investment value.

Environmental Sanitation Program for Alto Tietê Water Sources

INTERNATIONAL RECONSTRUCTION AND DEVELOPMENT BANK (BIRD)

Financing, in the amount of US\$129 million, of the amount of US\$281.8 million of the total budget of the Water Sources Program, the general coordination of which is incumbent upon the Sanitation and Energy Department. The major portion of the resources financed, that is, US\$100 million, will be allocated to Sabesp, which counter-guarantee will reach US\$25 million, and reach, in this manner, the amount of US\$125 million of the total of the program. Sabesp received from Bird the drafts for the previous negotiation of the agreements in October and waits the approval of the Legislative Bill 1.145/07, which will authorize the state government to provide counter-guarantee to the Brazilian government in connection with this financing.

Integrated Environmental Recovery Program in the Billings Reservoir Water Sources

Japan Bank for International Cooperation (JBIC)

Sabesp has been negotiating the financing of a sanitation program in the City of São Bernardo do Campo for the environmental recovery of billings for the reservoir water source. The total amount invested in the Pro-Billings Program reaches US\$98.9 million. The portion allocated to Sabesp corresponds to 73.4% of the general budget, of which US\$55.9 million is financed by JBIC (56.5%) and US\$16.7 as counter-guarantee (16.9%).

The consultation letter was approved by the External Financing Commission (Cofix) in September 2007 and the execution of the agreement is scheduled to occur in 2008, on the commemoration of the 100th anniversary of the Japanese immigration.

Tietê Project – Phase II

Inter-American Development Bank (IADB)

The financing of the Phase II of the Tietê River Clean-Up Program, located in the São Paulo Metropolitan Region, is under final disbursement stage. Until December 2007, US\$197 million was disbursed, of the total of US\$200 million financed.

National Bank for Economic and Social Development (BNDES)

The BNDES finances a portion of Sabesp's counter-guarantee in Phase II by means of an agreement in the amount of R\$240 million. Until December 2007, approximately 90% of the financed amount was disbursed.

Tietê Project – Phase III

Inter-American Development Bank (IADB)

Sabesp delivered a financing request to IADB in the amount of up to US\$600 million in connection with a total investment estimate of US\$800 million for the maintenance of the Tietê River Clean-Up Program in the São Paulo Metropolitan Region

In 2008, Sabesp should receive authorization from the Cofix of the Ministry of Planning to negotiate a financing with IADB.



Barueri Sewage Treatment Station.

Sanitation for All Program (“Programa Saneamento Para Todos”) (PAC 2007)

In 2007, a total of 21 projects in several municipalities in the State of São Paulo were selected by the Ministry of Cities. Of these, 20 agreements, with total financed value of R\$484 million, were entered into with Caixa Econômica Federal (CEF), and an agreement, with the financed value of R\$130 million, was entered into with BNDES. In total, R\$614 million was raised under financing for a total investment of approximately R\$715 million.

Sanitation for All Program (“Programa Saneamento Para Todos”) (PAC 2008)

In August 2007, the Ministry of Cities selected 81 Sabesp’s projects in connection with municipalities located in three metropolitan regions in the State of São Paulo, with a total investment value of R\$960 million and financed value of R\$800 million. In March 2008, the Ministry of Cities approved all projects which are currently under contracting process. The financial agents of these projects will be Caixa Econômica Federal, with 71 projects and a financed value of R\$625 million, and BNDES, with 10 projects and a financed value of R\$175 million.

The Ministry of Cities conducted a second selection process in October 2007. In this process, the Company registered 116 proposal letters,

equivalent to a total financed value of R\$245 million, of which 22 proposal letters were selected, corresponding to a total investment value of R\$137 million and a financed value of R\$126 million. The final approval and contracting of these financings are scheduled to occur during 2008.

Loans

In 2007, Sabesp did not have access to the Brazilian or foreign capital markets. In this period, the Company paid the value of R\$333.7 million related to loans raised in the Brazilian capital markets.

Also in 2007, Sabesp started to negotiate with IADB the contracting of a loan, under A/B Loan type, in the value of up to US\$250 million. The funds deriving from this loan will be used in the Company's investment program, particularly in the conclusion of additional construction work of the Tietê Project – Phase II and the acceleration of the beginning of the construction work of Phase III, as well as in the renegotiation of falling due debts during 2008. The inflow of funds is estimated to begin in the first six-month period of 2008.

Transfer of Funds

River Basin Clean-UP National Program (PRODES) of the National Water Agency (ANA)

Sabesp's STS Taubaté/Tremembé, under construction, was approved to participate in the selection process of the River Basin Clean-Up Program (Prodes/2007).

In October 2007, an agreement for the concession of financial support in connection with the treated sewage was executed. The volume of funds transferred will correspond to R\$16 million, of which R\$13 million will derive from the Brazilian Government General Budget (OGU) and R\$2.8 million will derive from the Committee for Integration of the Paraíba do Sul River Basin (Ceivap).

Capital Markets

In 2007, Sabesp's shares traded on the São Paulo Stock Exchange (Bovespa) recorded a basic appreciation by 12%, a price of R\$41.13 at the end of the year. The shares were traded in all trading floors, with an average daily trading volume of R\$15.3 million, a growth of 37% as compared to 2006. The average daily trade volume was 49% greater than the prior year.

Sabesp's ADRs traded on the New York Stock Exchange (NYSE) recorded a price of US\$47.00 at the end of the year, a basic appreciation of 39%. 81 million ADRs were traded, more than US\$3.4 billion in funds transferred in 2007. The average daily trading volume was US\$13.6 million, a growth of 74% as compared to 2006.

In June 2007, Sabesp conducted a reverse split of shares, at the ratio of 125 shares to 1 share. These shares were traded on the Bovespa in lots of thousand shares until June 2007. The reverse stock split also affected the shares traded on the U.S. markets as each ADR traded on the NYSE until June 2007, at the ratio of 1 ADR to 250 shares, started to be traded at the ratio of 1 ADR to two shares. The reverse stock split caused Sabesp's shares to be more proper from the market point of view, which facilitated the comparison of Sabesp's shares with other shares available in the market and the trading method.

The Company, five years after the beginning of trading of the shares on the Novo Mercado segment of the Bovespa and on the NYSE, and three years after the second offer of shares, recorded the following growth:

Table 15: Changes on Shares and ADRs

	2002	2007
Bovespa – SBSP3		
Price of the shares (R\$)	11.50	41.13
Average daily trading volume (R\$ million)*	4.4	15.3
Average daily trades*	223	588
Free Float on the Bovespa (%)	26.5	27.2
NYSE – SBS		
Price of the ADRs (US\$)	6.45	47.00
Average daily trading volume (US\$ million)*	0.6	13.6
Outstanding ADRs (million)	2.3	25.8
Free Float on the NYSE (%)	2.0	22.5

* The year 2002 takes into consideration the period from April to December with respect to the shares traded on the Bovespa and from May to December with respect to the ADRs traded.



Barueri Sewage Treatment Station.

ECONOMIC AND FINANCIAL PERFORMANCE INDICATORS



High Cotia Water Treatment Station.

During the year 2007, the shareholders received dividends related to the year 2006 in the value of R\$9.51 per lot of thousand shares. For the year 2007, the board of directors proposed a distribution of dividends in the value of R\$300.7 million, which accounts for 28.7% of the net income and is equivalent to, approximately, R\$1.32 per share.

Sabesp has BB- corporate credit rating in the international market rating list of the risk rating agency Standard & Poor's (S&P), A+(bra) in the Brazilian rating list of S&P and Fitch Ratings. The corporate rating assigned by Fitch was BB in connection with the issuance of Eurobonds with maturity date in 2016. Based on Fitch's opinion, the rating prospect is stable. Based on S&P's opinion, the rating prospect is positive due to the strengthening of indicators and Sabesp's financial profile.

Cost Reduction

The executive group for the management and reduction of costs and expenses created in 2007 acted in two ways:

1. Cost and Expense Management

Development of information tools and support of the management decision-making process, in particular in connection with two measures:

- (a). The expenses are budgeted for a period of five years. This procedure allows a more accurate planning with respect to the several executive offices and the establishment of goals in the medium term for the reduction of costs, among other savings.
- (b). Development and disclosure of a cost management automated system, together with the training of employees, to allow regional managers to carry out a detailed analysis of the costs incurred in connection with the Company's various departments and executive offices.

2. Cost and Expense Reduction

Specific projects have been created based on the mapping of accounts. The main areas of operation were:

- (a). **Reduction of personnel costs:** the human resource management plan was structured and submitted to the applicable state agencies, which includes a Voluntary Resignation Program, a public hiring process and a career management plan. The plans will be maintained throughout 2008.
- (b). **Reduction of Electric Energy Costs:** measures focused on the reduction of electric energy costs were implemented. See details in table in page 72.
- (c). **Reduction of Vehicle Fleet Expenses:** the public bidding for replacement of 50% of the Company's own vehicles for a leased fleet of vehicles was approved.
- (d). **Other Short-term Measures:** some accounts in lower amounts were also analyzed to identify possibilities for reduction of indirect expenses. In particular, the telephone master plan was maintained for the implementation of the VoiP system, which reduces the expenses incurred with long distance telephone calls.

The cost reduction program will be maintained in 2008 and will follow the Balanced Scorecard (BSC) method.

Electric Energy Costs Reduction

In 2007 the following measures were adopted to reduce the costs incurred with electric energy: the optimization of the several operating and administrative facilities in connection with the agreements entered into with electric energy utilities, with an estimated savings of R\$8 million/year; studies for the migration of other consumer units to the Free Market; and studies for the use of the existing electric energy generation potential in Sabesp's facilities (hydroelectric and biomass).

Since the migration of 11 large facilities to the Free Market in 2004, Sabesp recorded the following cost savings:

Table 16: Energy Savings from 2004 to 2007

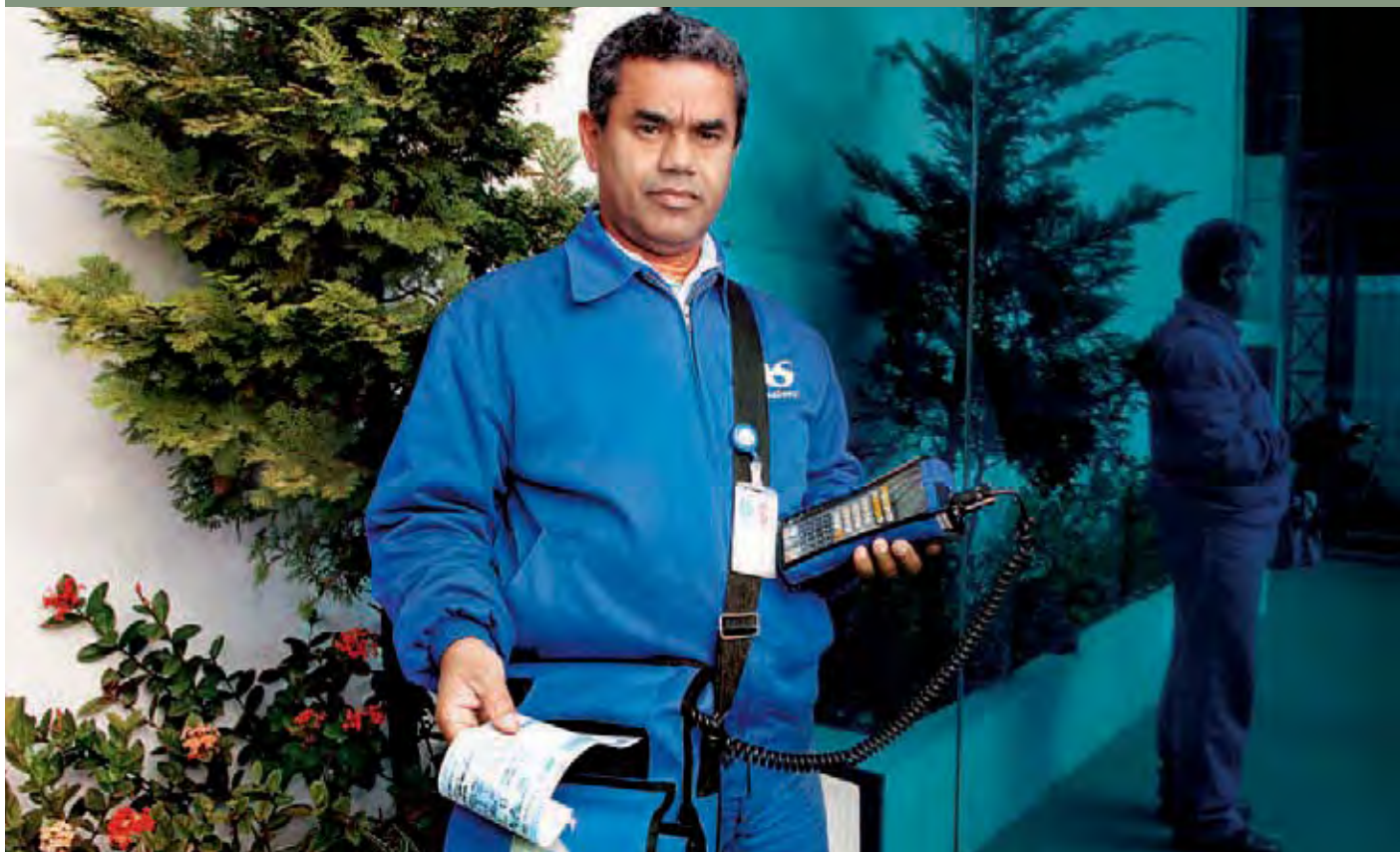
Year	2004	2005	2006	2007	Accumulated
Saving (R\$ million)	9.4	24.9	31.6	40.0	105.9

Tariffs

Tariffs are divided into two categories: residential and non-residential. The calculation of tariffs takes into consideration the costs associated with the provision of basic sanitation services, depreciation, allowance for doubtful accounts, amortization of expenses and proper earnings on investments. The residential category is subdivided into basic, social and shanty town residential. The tariffs charged in the social subcategory are applied to the residences of low-income families, persons unemployed for up to 12 months and collective houses. The tariffs charged in the shanty town subcategory are applied to the residences located in areas characterized by the lack of urban infrastructure. These two subcategories were created as a manner to provide support to low-income consumers upon the charging of lower consumption tariffs.

The non-residential category includes: commercial, industrial and government consumers; not-for-profit entities, which tariff charged corresponds to 50% of the non-residential tariff in effect; and government agencies that entered into a water loss reduction agreement, which tariff corresponds to 75% of the non-residential tariff in effect.

There are four consumption classes for each category of consumers, except for social residential and shanty town residential, which have five classes of volume used. For purposes of calculation of the bill/invoice, the Company takes into consideration that the volume of collected sewage in the period corresponds to the volume of water billed by Sabesp and/or used from own system, as measured or evaluated by Sabesp.



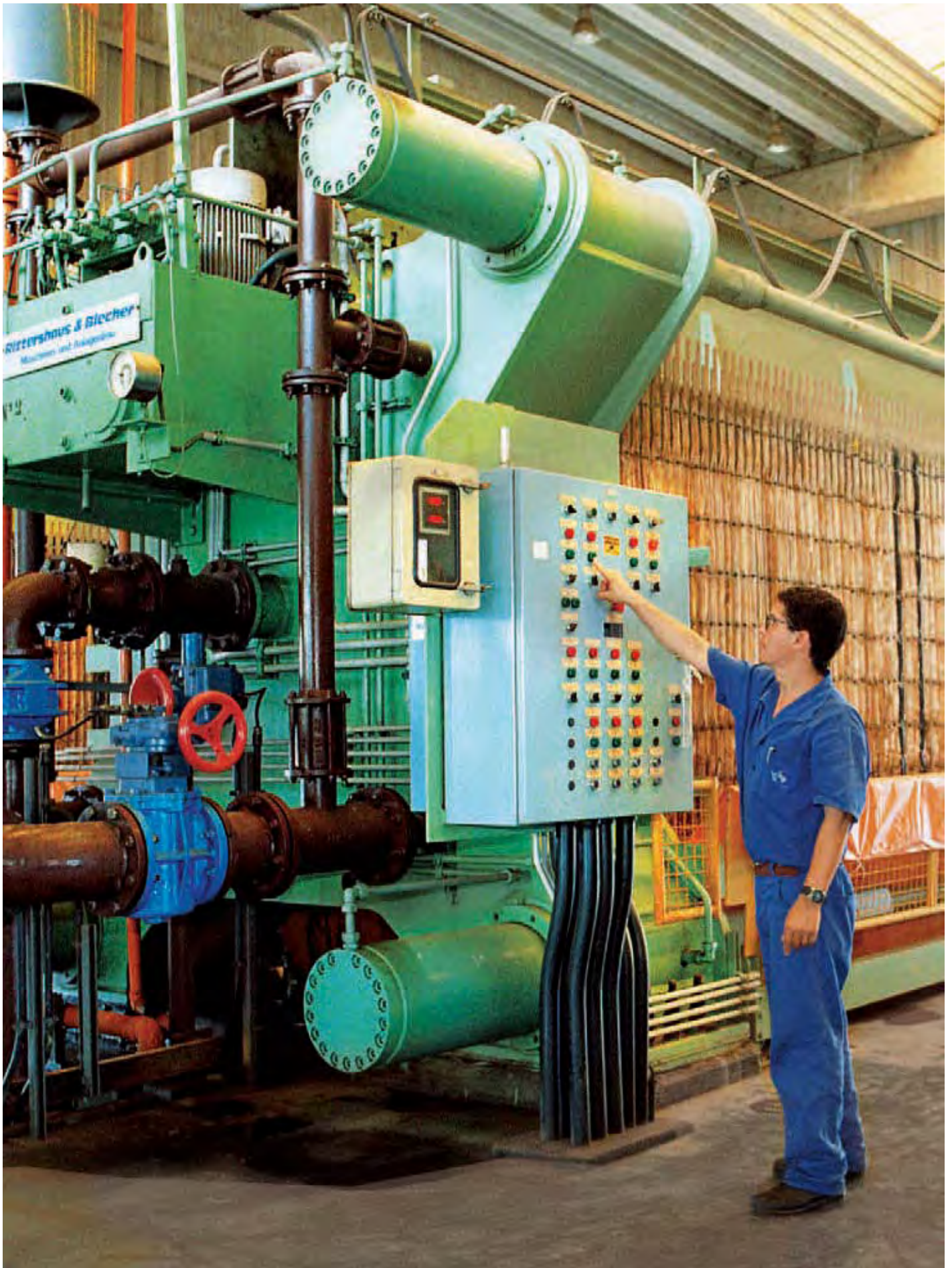
External Commercial Service Technician (TACE).

For purposes of compliance with the Brazilian basic sanitation policies, in particular in what concerns Article 39 of Federal Law 11.445/07, and out of respect for the consumers, Sabesp started to disclose the tariff adjustment within 30 days prior to the effective date.

The bills/invoices for the services rendered by the Company are collected on monthly basis, and a Tariff Decree sets forth the criteria for billing and collection of the services and the method for disclosure of this information. The tariffs are published on the Official Gazette of the State of São Paulo, the Internet and the consumer service centers.

As of September 10, 2007, the tariffs related to water supply and sewage collection services were restated by 4.12% on a non-straight line basis, except for those related to consumption exceeding 20m³/month of the non-residential consumption categories, which were restated in accordance with the IPCA disclosed by the IBGE, accumulated from August 2006 to July 2007. This index was 3.74%.

The differentiated adjustment was applied to balance the participation between the several consumption classes, compensate the annual inflation and also maintain Sabesp's capacity to bear the costs and expenses deriving from the rendering of basic sanitation services.



Press Filter: Equipment that transform sludge in fertilizer.

SOCIAL PERFORMANCE INDICATORS

The Company's staff consists of 16,850 employees, of which 81.5% are male and 18.5% are female, with an average period of 16 years working in the Company. There is a concentration of 66.9% of the employees above the age bracket of 40 years. 44% of the employees have high school degree and 32.2% of the employees have college degree.

The tables below set forth a comparison with respect to gender, position and race for 2006 and 2007.

Table 17: Distribution of Employees by Gender

	Dec 2006	Dec 2007	% change
Number of employees*	16,978	16,850	-0.8%
Male	13,835	13,733	-0.7%
Female	3,143	3,117	-0.8%

(*) Excluding 75 employees allocated to other agencies.

Table 18: Distribution of Employees by Position, Gender and Race

	MALE			FEMALE			TOTAL		
	Dec 2006	Dec 2007	% change	Dec 2006	Dec 2007	% change	Dec 2006	Dec 2007	% change
White	11,681	11,588	-0.8%	2,706	2,680	-1.0%	14,520	14,268	-0.8%
Black and Multi-racial	1,969	1,948	-1.1%	328	329	0.3%	2,164	2,277	-0.9%
Yellow	162	162	0.0%	106	105	-0.9%	268	267	-0.4%
Indigenous	1	1	-	-	-	-	1	1	-
Non-declared	22	34	54.5%	3	3	0.0%	25	37	48.0%
Total	13,835	13,733	-0.7%	3,143	3,117	-0.8%	16,978	16,850	-0.8%

Table 19: Distribution of Employees by Race

Race	Managers		College students		Administrative and technical		Operating	
	M	F	M	F	M	F	M	F
White	433	104	1,647	888	4,323	1,606	5,196	82
Black and Multi-racial	21	5	131	89	669	206	1,129	29
Yellow	14	1	89	52	46	52	13	-
Indigenous	-	-	-	-	01	-	-	-
Non-declared	-	-	03	-	05	03	13	-
Total	468	110	1,870	1,029	5,044	1,867	6,351	111

M = Male; F = Female.

Sabesp, as a mixed-capital company, is required to conduct a public selection process for the hiring of employees and allocates 5% of the positions offered to physically-disabled individuals, in conformity with Decree 3.298/1999.

The Company is recognized for the offer of work opportunities to physically-disabled individuals and was awarded with the Community Linked Company certificate in 2005, granted by Avape.

In 2007, Sabesp had 52 physically-disabled employees working in the rendering of services in the customer service centre of the São Paulo Metropolitan Region and in the branches of the Sé, Itaquera, Santo Amaro and São Bernardo do Campo Timesaving Units.

Sabesp offers special daycare support by means of the reimbursement of expenses incurred with rehabilitation institutions and special schools for employees with physically or mentally-disabled children or dependants.

Ethics and Conduct Code

Sabesp's priority is to conduct operations on transparent, equitable and fair manner with respect to professional relationships, corporate governance practices and the communications with all publics involved. This commitment is the basis of all actions adopted by the Company and is supported by its **Ethics and Conduct Code**.

The **Ethics Code**, besides guiding the personal and professional conduct of all Company's employees, regardless of the position occupied or title held, also regulates the Company's relationship with different interested groups. The **Ethics Code** is based on six Sabesp's **ethical values** related to the society, the **environment**, the **individuals**, the **integrity**, the **competition** and the **citizenship**.

Sabesp invests significantly in the disclosure of the Code. All employees receive a copy of the Code and sign a commitment instrument. The Company holds lectures and offers distance-learning courses on social responsibility, ethics and the Code itself, which is also available on the intranet, with unlimited access, in versions accessible by groups with different education levels.

The Code is part of the procurement processes conducted in connection with the selection of service providers and suppliers. Disciplinary and/or legal measures are applied to events in which participants of the supply chain violate the commitments set forth in the Code. The full text of the Code is available to all interested parties on the Company's website in the Internet.

The Ethics Committee, consisting of representatives of the Company's strategic departments, is responsible for the application, updating, relevance and adequacy of the Code.

SOCIAL PERFORMANCE INDICATORS



Barueri Sewage Treatment

Sabesp offers a Denouncement Channel and a Corporate Procedure for Investigation of Responsibilities to ensure the compliance with the Code. Sabesp also received external denouncements, through the Commercial System, the Ombudsman Office and personal customer service.

All denouncements result in the preparation of final investigation reports, which are submitted to the Company's senior management, to support the decision-making process. These reports are also submitted to the Audit Committee, the body representing Sabesp's board of directors, and to the Ethics and Conduct Committee.

Upon assumption of the responsibilities, such assumption results in penalties in several levels, in accordance with the seriousness of the situation verified. The events that represent systemic internal control failures are corrected by Sabesp's units, upon the implementation of procedures and routines used to reverse, minimize or eliminate the event.

- In 2007, 182 denouncement cases were registered, of which 37% is completed and 63% is under analysis. These denouncements refer to:
- 44%, alleged failures in water and sewage connections;
- 34%, denouncements related to improper behavior, such as moral coercion, discrimination, harassment and unfair treatment, among others;
- 20%, events involving several administrative proceedings, such as improper use of vehicles, product inventory, bidding and procurement processes;
- 2%, alleged discrepancies in the management of agreements for construction work and rendering of services by contractors.

SOCIAL PERFORMANCE INDICATORS



Customer Service.

Organizational Climate

Sabesp's commitments to its internal public are the basis of the corporate strategies. Accordingly, the human resources management model is designed to offer favorable conditions and a work environment that encourage the good performance of the employees.

In this regard, the employees' satisfaction and commitment to the Company are critical factors to Sabesp. As such, the **Organizational climate Survey** monitors the employees on annual basis. The participation in such survey is voluntary and confidential. The survey is applied and the answers are consolidated by an external consulting company hired by the Company. In 2007, the percentage rate of answers was 71%, and the favorability index was 65 points. This result shows a continuous and significant growth in the favorability index that scored 59 points in 2005. The results suggest that the Company sets out challenging goals based on the employees' expectations. The employees prepare action plans and contribute to the achievement of the good internal organizational climate, a key element to maximize corporate results and business strategies.

The goal for 2010 is to be included in the ranking of the best companies to work, with a favorability index of 71 points.

Competence-Based People Management

The human resources management model based on skills adopted by the Company has the active participation of all employees. The model encourages the performance, the skills and the investment in the continuous improvement and professional development, and facilitates the promotion of the diversity and life quality of employees and volunteers. The employees participate by means of the Strategic Human Resources Committee, consisting of representative of all executive offices. The Strategic Human Resources Committee operates as a decision-sharing discussion panel and a communication channel between the Company and the employee.

The model is used in the Selection, Development, Evaluation and Compensation processes to encourage the continuous learning and the exchange of experiences in the work environment, thereby contributing to a better corporate performance.

GRI LA12 All employees are submitted to analysis in the Evaluation Based on Skills implemented in the Company, which encourages the development, promotes the career growth and results in performance improvement plans.

Since June 2002, the date of implementation of the Compensation Plan Based on Skills, Sabesp adopts a regional salary system, which takes into consideration the average salary in the market, defined based on surveys conducted in all regions in which the Company operates. Accordingly, two salary tables were prepared.

Region 1 Table – Units in the São Paulo Metropolitan Region, Business Unit in the Vale do Paraíba region and Business Unit in the Santos coastal region.

Region 2 Table – Other Business Units in the countryside and coastal regions of the State of São Paulo, in which the salary values are calculated at the percentage rate of 80% of the values payable in Region 1.

GRI LA1 The salary table for the countryside and coastal regions (except for the regions of Santos, São José Campos and management and supervisory positions) is 20% lower than the salaries paid in the São Paulo Metropolitan Region.

Table 20: Number of Employees by Region

Number of Employees by Region	
Region 1 – São Paulo Metropolitan Region, S. J. Campos and Santos	12,024
Region 2 – Regional Systems, except for São José dos Campos and Santos	4,901
Total employees	16,925

Note: including employees assigned to other units.

The collective bargaining process is other important tool used in the Company's participative management. Sabesp negotiates with trade unions in order to reach an agreement between the employees' requirements and the Company's possibility to fulfill such requirements.

The Profit Sharing Plan was included in the 2006/07 Collective Bargaining Agreement, representing a basic payroll distributed in accordance with the goals achieved. The Profit Sharing was 250% to the lowest salary and 80% to the highest salary. The goals that aim at the commitment of employees to the corporate challenges are defined in this program. The fundamental principles are the achievement and improvement of the Company's financial and operating results so that the goals established take assess the corporate performance based on economic and financial, operating and administrative aspects.

In 2007, the annual promotion plan was implemented. Based on the evaluation applied to all employees, 7,655 employees were promoted, in all categories of positions, which represented a career promotion of 45% of the Company's staff.

Sabesp is in compliance with a specific legislation in connection with the selection and hiring of employees upon the performance of a Public Selection Process for the search of skilled and qualified employees committed to the development and achievement of the strategic goals.

In 2007, Sabesp conducted two public selection processes to hire qualified trainees to fill 702 positions. 9,207 candidates participated in the process.

Training and Development: The Sabesp Corporate University (UES)

GRI LA11

The University is responsible for the institutional teaching-learning process available to employees, family members, suppliers, service providers, communities and the population in general. This approach allows the alignment between the Company's goals and the personal development and growth.

GRI LA10

To disseminate knowledge more easily, to the highest number of people possible, the University adopts the interactive and long-distance learning methodologies, with investment of R\$6.5 million, resulting in 102,000 participations in development activities corresponding to 48 hours/person of training. .

The Educational Partnership Program provides for the execution of an agreement between Sabesp and 150 private teaching institutions to offer a better education for Sabesp's employees and their legal dependants. The agreement provides for the granting of discounts to employees and dependants in graduation, post-graduation, elementary, high school, technical, child education, language, night and alphabetization courses.

SOCIAL PERFORMANCE INDICATORS



Water and Sewage Products Quality Control Department (TOQ), in Santana.

PROFESSIONAL DEVELOPMENT AT SABESP UNIVERSITY

TECHNICAL AND PROFESSIONAL COURSES: mainly in the Environment, Environmental Management and Chemical areas, with per capita learning hours of 1,200 hours, with 252 sponsored employees, representing an important investment in the training of operating employees for the rendering of services to customers.

POST-GRADUATION AND MBA COURSES: 254 sponsored college degree employees, in order to guarantee the specialization of employees in the main matters involved in the business. The essays and final papers of Sabesp's strategic interest are included in the "Knowledge Database".

OCCUPATIONAL HEALTH AND SAFETY: 44,000 participants mainly in courses related to Safety Principles in Confined Spaces, Safety in Ditch Shoring and CIPA.

ENVIRONMENT AND SOCIAL AND ENVIRONMENTAL RESPONSIBILITY: with 1,885 participants, strengthens the knowledge and the culture of a company that seeks environmental solutions.

DISTANCE LEARNING: with 350 courses and 7,685 participants/year, focused on skills, ethics, environment and quality.

SOCIAL PERFORMANCE INDICATORS



Barueri Sewage Treatment Station.

Occupational Safety and Health

The purpose of the management of the occupational safety and health is to guarantee safer work conditions, promote the valuation of work processes and add values to the company by means of its employees and third parties. This aspect was certified upon the maintenance of the integrated certification, based on ISO 9001:2000 (quality) and OSHAS 18001:1999 (occupational safety and health) standards, occurred in 2007.

GRI LA8 The Company invested in the purchase of individual and collective protection equipments and hired a company specialized in occupational safety and medicine engineering to prepare the PPRA (220), health hazard report (1,700), PCMSO (23) and environmental technical reports (119) to reduce the number of work accidents and disseminates the culture of prevention.

GRI LA6 In 2007, the Company created the Occupational Safety and Health Technical Group, which was established to be a representative technical body prepared to discuss Occupational Safety and Health matters and review Safety Procedures. Moreover, the Company expanded the offer of courses and lectures with focus on the prevention of work accidents.

GRI LA8 LIFE QUALITY PROGRAM

Sabesp's Life Quality Program, called Happy Life ("Viver Feliz"), is a joint initiative of the Company and Sabesp Foundation. The main purpose of this program is to build a work environment with productivity, life quality and well being.

The Program was launched in 2007 and includes 16 actions, divided into four modules: Health, Social and Integration, Leisure and Safety. The main actions are:

NON-SMOKING ENVIRONMENT – aims at fully protecting the persons against the risk of exposure to smoke-related diseases. In 2007, the Company received the Tobacco-Free Environment certificate – Silver Category.

LABOR WORKOUT – pilot program implemented in two Company's units, with high level of participation and acceptance.

PARE – Program for the Support and Recovery of Addicted Employees – Seeks to build the employee's awareness about the need to change his behavior to stop the addiction. In 2007, 273 employees participated in this program.

LIFE ACHIEVEMENT AWARD

This annual program is one of the most important institutional programs created to appreciate and recognize the services provided by the employees that dedicate 10, 15, 20, 25 and 30 years to the Company. In the 2007 edition, the Program awarded approximately 8,000 persons, among employees and family members.

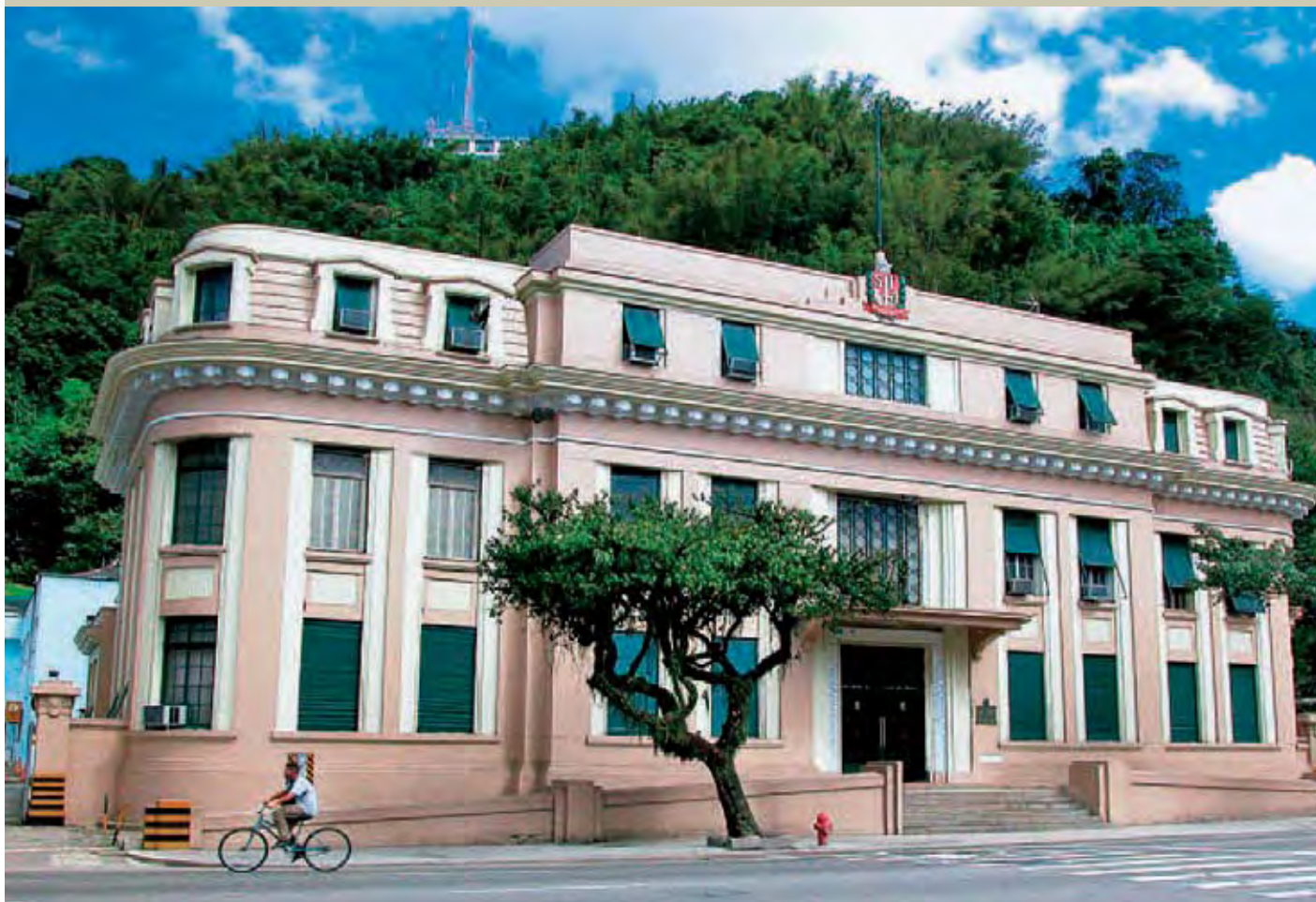
The Life Achievement Award, based on the opinion of all persons awarded, is not only a way to recognize the work performed by the employees but also to highlight his/her career in a company that has one of most noble and important missions: take care of the health and life quality of the population in the State of São Paulo.

Sabesprev Pension Plan

The Sabesp Social Security Foundation (Sabesprev) is a closed-end supplementary private pension entity, not for profit, which main purpose is to manage social security and services benefit plans. Sabesp contributed with the value of R\$15.9 million in private pension to Sabesprev in 2007 and, accordingly, guaranteed to employees the opportunity to enjoy the private pension benefits supplementary to the benefits granted by the National Institute of Social Security.



Above: Film "Onde Andará Dulce Veiga?" Next: Saturnino de Brito Palace –Regional Sanitation Museum



Investments in Cultural Projects

Sabesp invested, by means of tax incentives, R\$10 million in projects supported by Rouanet Law (Federal Law 8.313/91, of December 23, 1991) and Audiovisual Law (Law Federal 8.685, of July 20, 1993, which wording was amended by Law 11.437/2006). Among the various projects are: XXXVII Winter Festival of Campos do Jordão (*“XXXVII Festival de Inverno de Campos do Jordão”*), Bem Te Vi Project (*“Projeto Bem Te Vi”*), Art Gallery Station (*“Estação Pinacoteca”*), Digital Record and Catalog of the Audio Documentation – Image and Audio Museum (*“Digitalização e Catalogação da Documentação Sonora Museu Imagem Som”*), Four Hundred Against One (*“Quatrocentos Contra Um”*), Alice’s House (*“A Casa de Alice”*), The Villa Poet (*“O Poeta da Vila”*), Where is Dulce Veiga (*“Onde andará Dulce Veiga”*).

It should also be mentioned the maintenance of the recovery of the historical, architectural and documentary collection related to basic sanitation, with visits to the “Palácio Saturnino de Brito” Sanitation Regional Museum, in order to preserve the history of the basic sanitation in Santos Coastal Region.

SOCIAL INVESTMENT AND INSTITUTIONAL SUPPORT



Social Programs

In 2007, Sabesp benefited approximately 1,100 persons in the State of São Paulo by means of its social projects focused on the external community in the education, health, eradication of hunger, sport and culture areas.

Sabesp also participated in a number of events, including public utility events, exhibit fairs, parades, meetings and ceremonies, among others, upon the distribution of water to an estimated population of more than 1m million participants, by means of water trucks or in glasses with the Company's logo. On the other hand, the Company was present in the media (printed, virtual, radio stations, stands and others) by means of the inclusion of the Company's logo in prisms, banners, portal frames and support ads.

Sabesp Maintenance Workshop – Guarapiranga Unit.

Apprentice Program (“Programa Aprendiz”) – Employment Partnership

Through the Apprentice Program, Sabesp provides 599 youngsters with the opportunity to work in the Company and contributes to the development of the citizenship and insertion in the formal labor market by generating educational opportunities and providing professional training.

The Program is jointly conducted by Senai and Sabesp, which provides the apprentices with professional skills that aligns the professional experience with a theoretic education so that the apprentices are ready to work in the support to the administrative, accounting, financial and human resources areas in the market companies.

SUPPORT TO THE CITIZEN CHILDREN INSTITUTE (“INSTITUTO CRIANÇA CIDADÃ – ICC”)

Sabesp is the co-sponsor of the Citizen Children Institute (ICC), which Mission is to invest in the education of youngsters coming from low-income and marginalized families by promoting education, culture and support, in the São Paulo Metropolitan Region and in the City of Guarulhos. The ICC has 14 educational units, such as daycare centers and elementary school for children up to 6 years, supporting classes for children and teenagers between 5 and 18 years, work initiation center for youngsters from 15 to 20 years and income generation courses for parents, such as a bakery workshop, crochet, fabric painting, etc.

In 2007, the Program benefited approximately 5,000 persons, of which 1,360 children in 9 elementary daycare centers, 2,380 children and teenagers in 3 circus schools and the Culture Center, 600 youngsters in the Work Initiation Centers, 700 youngsters in the Solidarity Centers and more than 1,000 participants in the Our Community project.

The support to the ICC initiatives is Sabesp’s manner to contribute to the social, cultural and artistic development of poor youngsters and enhance the Company’s corporate role based on a participation model and social commitment in the São Paulo State environment.

In 2007, Sabesp contributed with the value of R\$1.2 million to ICC as institutional support.

Sabesp Open to Community

Sabesp opens the doors to the community, customers, students and children, in its facilities and in the showroom stand, where Sabesp Station is located. The stand has 350 m² and more than 300 monitored visits were conducted in 2007 in this space with the participation of approximately 13,000 persons who received information on water cycle, sanitation history and rational use of water, among other matters.

More than 403 visits were also conducted in 2007 in Sabesp's facilities, such as Guaraú, Santa Inês Station and Paiva Castro Station. Only the visits to these facilities had the participation of a public of approximately 14,000 persons. Moreover, the "One Day in Sabesp" Program counted with the participation of 775 children of employees in 18 monitored visits to the Company's facilities.

VOLUNTARY SOLIDARITY IN THE WINTER CLOTHES CAMPAIGN ("CAMPANHA DO AGASALHO")

The purpose of the Winter Clothes Campaign, sponsored by the State Government Social Fund, is to collect clothes and blankets. Sabesp participates in the campaign by means of the participation of employees and partnerships with municipal governments, social funds or assistance departments. The material collected is delivered to assistance entities or directly to poor individuals.

Since the beginning of the campaign in Sabesp, the employees seek to succeed every year. In 2007, the total items collected was 5,621,929, 10% greater than the total volume collected in 2006.

Inclusion In College Education

Another remarkable example of the volunteer work in Sabesp is the “Educar Leste” program created in 2002 in partnership with Educafro NGO. The program consists of a pre-college community course designed to low-income population. The work is developed by volunteers selected among Sabesp’s employees and the community to perform the key role of teachers and coordinators. The students are members of the community in general, employees and employees’ children. The main purpose of the work is the social inclusion of the individual by providing opportunities to have access to college education. More than 450 persons participated in the project.

Volunteer Programs

In the commitment assumed by Sabesp towards the development of the society, Sabesp invested in a number of different projects that mainly relied upon the potential of its employees to embrace ideals and join efforts in the benefit of social and environmental issues in order to cause the necessary changes for the creation of a peaceful environment in a sustainable world.

Sabesp currently has a large network of volunteers working in the most diversified number of projects, distributed in all Units, throughout the State of São Paulo.

Criteria for Financial Support

In order to set out the criteria used in the voluntary allocation of financial resources and/or cash, on planned manner and in line with the public interest, the Company created the “Institutional and Financial Support Counselor” in 2007. The Company’s social actions, including those supported by tax incentive laws, have the obligation to add value to the Sabesp brand and are particularly focused on the preservation, recovery and sustainability of the environment.

Annual Social Balance Sheet / 2007

1 - Calculation Basis		2007 Amount (thous. R\$)		2006 Amount (thous. R\$)			
Net revenue from sales and services (RL)		5,970,842		5,527,333			
Operating profit (RO)		1,515,447		1,240,712			
Gross payroll (FPB)		1,171,991		1,176,252			
2 - Internal Social Indicators		Amount (thous. R\$)	% on FPB	% of RL	Amount (thous. R\$)	% of FPB	% of RL
Meals		88,622	7.56	1.48	82,195	6.99	1.49
Mandatory payroll charges		108,271	9.24	1.81	116,770	9.93	2.11
Pension fund		58,788	5.02	0.98	60,070	5.11	1.09
Health		85,185	7.27	1.43	79,725	6.78	1.44
Occupational safety and health		7,343	0.63	0.12	5,704	0.48	0.10
Education		849	0.07	0.01	746	0.06	0.01
Culture		705	0.06	0.01	732	0.06	0.01
Professional training and development		5,365	0.46	0.09	6,194	0.53	0.11
Daycare centers or nursery allowance		1,491	0.13	0.02	1,550	0.13	0.03
Profit sharing		47,734	4.07	0.80	75,975	6.46	1.37
Other		3,125	0.27	0.05	3,335	0.28	0.06
Total internal social indicators		407,478	34.77	6.82	432,996	36.81	7.83
3 - External Social Indicators		Amount (thous. R\$)	% of RO	% of RL	Amount (thous. R\$)	% of RO	% of RL
Education		1,574	0.10	0.03	2,000	0.16	0.04
Culture		16,376	1.08	0.27	15,116	1.22	0.27
Health and sanitation		1,249	0.08	0.02	287	0.02	0.01
Sports		958	0.06	0.02	753	0.06	0.01
Hunger eradication and food security		0	0.00	0.00	0	0.00	0.00
Other		6,952	0.46	0.12	5,776	0.47	0.10
Total contributions to society		27,109	1.79	0.45	23,932	1.93	0.43
Taxes (excluding payroll charges)		1,136,948	75.02	19.04	1,035,912	83.49	18.74
Total external social indicators		1,164,057	76.81	19.50	1,059,844	85.42	19.17
4 - Environmental Indicators		Amount (thous. R\$)	% of RO	% of RL	Amount (thous. R\$)	% of RO	% of RL
Investments related to the Company's production / operation		136	0.01	0.00	80	0.01	0.00
Investments in external programs and/or projects		48,077	3.17	0.81	1,461	0.12	0.03
Total environmental investments		48,213	3.18	0.81	1,541	0.12	0.03
With respect to the setting of "annual goals" to minimize waste, consumption in general in production/operation and expand the efficiency in the use of natural resources, the Company		() does not have goals			() does not have goals		
		() fulfills 51 to 75%			() fulfills 51 to 75%		
		() fulfills 0 to 50%			() fulfills 0 to 50%		
		(x) fulfills 76 a 100%			(x) fulfills 76 a 100%		
5 - Staff Indicators		2007	2006				
No. of employees at end of period		16,850	16,978				
No. of hiring in the period		47	150				
No. of outsourced employees		0	0				
No. of interns		337	350				
No. of employees over 45 years of age		8,986	8,482				
No. of female employees		3,117	3,143				
% of management positions held by female employees		19.03%	17.07%				
No. of black employees		2,277	2,164				
% of management positions held by black employees		4.50%	3.56%				
No. of physically-disabled employees or employees with special needs		52	34				

SOCIAL INVESTMENT AND INSTITUTIONAL SUPPORT

6 - Material information on the exercise of corporate citizenship	2007	2008 Goals
Ratio between the highest and the smallest compensation in the Company	29.66	nd
Total number of occupational accidents	351	276
The social and environmental projects developed by the Company were defined by:	() officers (x) officers and middle managers () all employees	() officers (x) officers and middle managers () all employees
The safety and health standards in the work environment were defined by:	(x) officers and middle managers () all employees () all + Cipa	(x) officers and middle managers () all employees () all + Cipa
With respect to the trade union freedom, the right to collective agreement and the internal representation of employees the Company:	() does not get involved (x) follows ILO standards () encourages & follows ILO	() will not get involved (x) follows ILO standards () encourages & follows ILO
The pension fund includes:	() officers () officers and middle managers (x) all employees	() officers () officers and middle managers (x) all employees
Profit sharing includes:	() officers () officers and middle managers (x) all employees	() officers () officers and middle managers (x) all employees
In selecting suppliers, the same ethical and social and environmental responsibility standards adopted by the Company:	() are not considered () are suggested (x) are required	() will not be considered () will be suggested (x) will be required
With respect to the participation of employees in voluntary work programs, the Company:	() does not get involved () supports (x) organizes & encourages	() will not get involved () will support (x) will organize & encourage
Total number of complaints and criticisms of consumers according to Ombudsman Office:	in the company 21,145 in Procon 2,662 in Express Court 671	in the company nd in Procon nd in Court nd
% de reclamações e críticas atendidas ou solucionadas:	in the company 97.1 in Procon 95.71 in Express Court 57.42	in the company nd in Procon nd in Court nd
Total value added to be distributed (thous. R\$):	In 2007: 3,986,473	In 2006: 3,649,357
Distribution of Value Added (DVA):	28.6% government 27.6% employees) 7.5% shareholders 17.5% third parties 18.8% withheld	28.4% government 31.4% employees) 7.4% shareholders 18.9% third parties 13.9% withheld

7 - Other Information

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

"Our Company appreciates and respects the internal and external diversity."



Conservation Area in the Cantareira Water Treatment Station.



ENVIRONMENTAL MANAGEMENT



Sabesp's Environmental Policy, created in 1998, was reviewed in 2007 to establish the new guidelines for the environmental management and cause Sabesp to be recognized as an environmental solutions company, the Company's natural vocation due to the line of products and services offered to the market.

GRI 4.14 In the preparation of the new Policy, the Company was supported by the direct participation of the society. Two public hearings were conducted and the basic text was available for comments on the Internet.

The policy, among other guidelines, defines a corporate performance taking into consideration the environment on systemic manner, which permits the integrated planning and the sustainability of the processes, at economic, environmental and social levels, and the sustainable use of natural resources. The complete description of the Environmental Policy is disclosed on the Company's website (www.sabesp.com.br), in the Environment option.

Seedling Plantation.

Environmental Purposes and Goals

In the beginning of 2007, Sabesp adopted a new management model and proposed the inclusion of the environmental management matter in the Company's strategic goals. The Company established the following environmental goals for purposes of achievement of this goal, in line with the Environmental Policy:

- Obtain the ISO 14001 certification, in connection with 10% of the operating units, by 2010, corresponding to 65 water and/or sewage treatment plants.
 - Expand the opportunities of participation in the carbon market.
 - Maximize the use of opportunities in the efficient generation of energy.
- GRI ENS**
- Prepare the Environmental Report in 2008. Throughout 2007, the Company started to adopt actions towards the design of an environmental accounting system for purposes of improvement of the Company's balance sheet in a manner in which the environmental investments not inherent to the Company's own business are properly allocated and disclosed. We included the calculation of the total water collected by water source, water sources significantly affected by the collection and percentage of water recycled and reused in this balance sheet.
 - Search for alternatives of recycling and final disposal of sludge deriving from ETAs and ETEs by means of partnerships with research institutions and the Cetesb environmental agency.



SUSTAINABILITY SESSIONS

A new type of event created for the presentation of ecology, leisure, sports, cultural, scientific, social and artistic projects that foster sustainability and are worth to be disclosed in order to inspire similar projects or that seek implementation by means of partnerships and sponsorships. Upon the performance of these sessions, Sabesp wishes to open a channel for discussion with society in general and seeks to advertise important matters for the improvement of life quality and environmental preservation in the media.

- GRI 4.14** The matter discussed in the 1st session, held in November 2007, was the part of Tietê River passing through the metropolitan region of São Paulo. Instituto Navega São Paulo, created by the plastic artist Eduardo Srur and Sabesp itself participated in the session. The 2nd session discussed the recycling of the used frying oil into raw material for the production of biodiesel, soap, paints and other products, alternatives that prevent the prejudicial effect of the oil in water sources and the clogging of the network. New monthly sessions are scheduled to be held in 2008.

Visit to the a à Cantareira Water Treatment Station.

Environmental Management Network

In 2007, Sabesp started to implement a process of changes for the alignment of the organization structure with focus on environmental matters. The challenge is considerable taking into consideration the Company's size, diversity and decentralized business management.

The Environmental Management was assigned to the new Information Technology, Development and Environmental Executive Office. The Environmental Management Department was included in this executive office. An Environmental Legal department was also created.

In order to establish an integrated operation and manage the specific environmental requirements of each region in which Sabesp operates, Sabesp is implementing "Environmental Management Centers" (NGA) in each Business Units. These centers will act as environmental management operating agents in order to improve the flow of information. Accordingly, the various environmental actions and programs are developed by the several decentralized Business Units (UNs), which are also responsible for the implementation of the Environmental Policy.

ISO 14001 Certification

The ISO 14001 certification is a goal that the Company wishes to accomplish. The goal of the 1st phase of the program is to obtain certification in connection with 10% of the operating units by the end of 2010. This percentage rate corresponds to 65 Water Treatment Plants (ETAs) and/or Sewage Treatment Plants (ETEs). The Company intends to take into consideration the several geographic regions and the diversified types of treatment processes in the selection of the plants.

Sabesp currently owns four certified Sewage Treatment Plants, located in the São Paulo Metropolitan Region (City of Salesópolis – head office and Remédios –, Arujá and Biritiba Mirim), that are used as pilot project.

The environmental certification is added to other certifications granted to the Company, such as the ISO 9000 related to quality management systems, OHSAS 18001 related to health and security matters and ISO TC 17025 related to laboratory tests.

Environmental Compliance Management

The management of environmental compliance is mainly related to the compliance with the Conduct Adjustment Instruments (TACs) and Legal Agreements and to the good standing of environmental licenses and water resources use right concessions of part of the existing operating complex.

Sabesp is committed to the compliance with environmental requirements. Sabesp, focused on the improvement of the management of these matters, changed its structure and internal procedures by seeking to operate in a proactive and preventive manner. Sabesp is dedicated to cooperate with the inspection authorities and the Public Attorney's Office with which the Company has assumed commitments and entered into conduct adjustment instruments.

Sabesp started to implement actions focused on the training of experts and internal technical assistants in order to standardize the approach and provide support to legal activities on efficient, effective and corporate manner.

The activities required are implemented based on strict technical and administrative standards in order to take into consideration the environmental requirements. The fulfillment of the financial obligations arising from the agreements and conduct adjustment instruments is set forth in the budget planning.

Taking into consideration the need of periodical renewal of the licenses and concessions, Sabesp has been improving its management tools to monitor its activities and facilities with respect to the compliance with technical requirements related to the licenses and concessions in force and to the need of standardization of the existing operating complexes. With respect to the Company's new projects, the analysis of the environmental feasibility and compliance is present in the design, implementation and operation stages.



High Cotia Water Treatment Station.

Participation in Water Resources Committees

The water resources committees encompass all segments directly or indirectly involved in the shared management of water resources, with the participation of the Brazilian government, users and civil companies. Therefore, the committees facilitate the integration of institutions and the planning of actions.

Given the important nature of the active and qualified participation of Sabesp's representatives in plenary sessions and Technical Committees, Sabesp established guidelines for the Company's institutional representation. In 2007, the Company prepared the first information document for this purpose, called "Guidelines for institutional representation before federal and state agencies of water resources management", containing the representation principles, the instructions for appointment of representatives and the responsibilities involved, among other matters, which makes possible the consistent and organized operation of these sessions.

GRI 4.14 Sabesp is a member in 26 River Basins State Committees, three River Basins Federal Committees, 74 State Technical Councils and one Federal Technical Council and has held meetings and received visits from members of the committees.

Environmental Education

The **Environmental Education** projects designed to the community disclose concepts, on fun and interactive manner, by means of theater plays, dance, music, mimics, drawing workshops and books. These projects are mainly targeted at children, students of public and private schools, teachers and low-income communities. Among these projects are: Sabesp in Schools (“Sabesp nas Escolas”), Sabesp Club (“Clubinho Sabesp”), Sabesp Teaches (“Sabesp Ensina”), Citizenship Education (“Educando para a Cidadania”) and Monitored Visits (“Visitas Monitoradas”), with the participation of 790,000 persons in 2007

ENVIRONMENT EDUCATION PROGRAM

In 2007, Sabesp started the preparation of the Organizational climateal Education Program, which purpose is to disseminate the environmental sanitation culture to employees and the different public of the Company’s interest, resulting in an articulated, integrating and strategic discussion on the environmental matter in the Company. The process will directly involve 900 managers and employees, in all executive offices of Sabesp, in the training scheduled to be held during 2008. The training will permit the selection of 100 employees who will receive additional training to act as disseminating agents of the Environmental Education in Sabesp.

Cleaner Production

The strategy adopted by Sabesp is to perform its activities aiming at the accomplishment of environmental efficiency gains in connection with the use of natural resources and electric energy products. The Program for the Rational Use of Water (Pura), the Energy Efficiency programs and the Loss Control programs are examples of this strategy.

In this regard, Sabesp participated in the creation of the São Paulo State Discussion Panel of Cleaner Production in 2002 and is an active member of this panel. In September 2005, Sabesp signed the International Declaration of Cleaner Production of the United Nations Environment Program (UNEP). In 2007, Sabesp included the Cleaner Production program as an area for knowledge within the scope of the Sabesp Corporate University which strengthened even further Sabesp's performance in this area.

CARBON EMISSION MANAGEMENT

GRI EN18 Sabesp defined the expansion of the opportunities to participate in the Carbon Market as one of its corporate goals. For that, Sabesp decided to (1) participate in the Carbon Disclosure Project (CDP) in 2006 and 2007, and (2) publish a public notice for the performance of the first inventory of emissions of gases of greenhouse effect, together with a feasibility study of projects capable of generating credits from certified reductions of emissions, emission control and carbon reduction. At the same time, Sabesp continuously invests in training so that its technical and management staff is able to work with efficiency in this new and important global challenge.



Good Environmental Practices

Planting Program and Seedling Nursery

Sabesp maintains the plant nurseries of Jaguari (Vargem), Morro Grande (Cotia) and Jales, which total production capacity is 25,000 plants per month (approximately 300,000 plants per year). The majority of the plants is used in the planting of permanent conservation areas (APP) surrounding the water reservoirs and recovery of ciliary forests. Strict technical criteria are applied in the production of plants by means of collection and treatment of seeds and cuttings of native tree.

Forest Recovery

Verde Vida Program

Aims at the recovery of the ciliary forest of Canoas River in Franca and Paraíba do Sul River in municipalities of the Paraíba Valley, in partnership with the local community and civil organizations. These initiatives resulted in the planting of 17,000 plants in 2007, totaling more than 127,000 plants planted since 2001. Other 74,000 plants are scheduled to be planted in 2008, in partnership with the municipal education departments, including schools mainly in the environmental recovery areas.

In the Paraíba Valley, the program encompassed the municipalities of São José dos Campos, Pindamonhangaba, Roseira, São Luiz do Paraitinga, Canas and Arapeí. Over the last seven years, Sabesp implemented, in all these cities, the planting of 70,000 plants. Other 74,000 plants are scheduled to be planted by 2008, together with the Municipal Education Departments, comprising schools, preferably in conservation areas.

GRI EN26 Recovery of the Cantareira System

The construction work of the Cantareira System required the leveling of ground causing significant environmental impacts. Since 1996, the Company develops a project for recovery of the ground and reforestation of the areas damaged surrounding some water reservoirs in the Cantareira System. Over the last 10 years, 500,000 plants were planted, amongst which mainly native plants of the Mata Atlântica.

Biosolids

The Biosolids Project aims at developing proper treatment for the sludge deriving from sewage treatment plants so that such sludge is transformed into fertilizer and soil conditioner for agricultural use. Upon the adoption of this measure, Sabesp avoids the disposal of sludge in landfills, which are increasingly restricted and incur high operating costs, and transforms the main residue of its operations into a useful product.

During 2007, 16,109 tons of biosolid was used in approximately 400 hectares of agricultural land in the Franca region.

Solid Waste Reduction and Disposal Project

Sabesp, aiming at the reduction of the waste produced in the Company, developed the Responsible Solid Waste Reduction and Disposal Project in 2002 in the Ponte Pequena Administrative Complex, which had 1,064 employees. The main actions performed were the selective disposal of paper, the exclusion of certain disposable items from the restaurant and the composting of 120 kg/ day of organic waste generated in the Company, including restaurant cooking leftovers and coffee grounds from automatic coffee machines. With respect to the disposal of waste, the Company recorded an average reduction of 65% as compared to the volume sent to landfills in 2002 (from 837 kg/day to 293 kg/day and from 786 g/employee to 275 g/employee).

The 2nd phase of the project, still under implementation process, was started in 2007 in the Costa Carvalho Administrative Complex with an initial reduction goal established at 30% of waste generation in 2008.

Among the activities planned are:

- Development of infrastructure for selective disposal;
- Visual communication plan;
- Building of a composting yard;
- Creation of stand for delivery of recycling material and used cooking oil brought by the employees;
- Building of a new recycling material storage center with recycled materials;
- Standardization in the disposal of other waste; and
- Environmental education.

After these two large units, Sabesp's largest administrative complexes, the project will be expanded to all Company's facilities upon the consolidation of individual experiences existing in the various Business Units.

Recycled Paper

Sabesp uses approximately 2.4 million recycled paper sheets per month (approximately 12 t paper/month), which results in the preservation of 288 trees. The paper is used in the printing of mails related to administrative activities and monthly water and/or sewage services bills.

The use of recycled paper, which does not represent an additional cost to the customer, results in a significant environmental achievement, including with economy of water, electric energy and chemical products used in the regular white paper production process. The Company is continuously replacing the A4 white paper for recycled paper in the printing of internal communications, notices, official letters and personal cards, among others.

GRI EC8 Integration Park

The construction of the Integration Park is taking place in the land parcel under Claro River water pipeline. The Park is being built to provide the population residing between the districts of Sapopemba and São Mateus with better life conditions. After conclusion, several streets will be connected, between the districts of São Lucas and Jardim Santa Adélia, thereby facilitating the day-to-day activities of the region residents, who may, in this manner, use the infrastructure offered by the park to walk to the work place or seek a more adequate transportation method. The Claro River water pipeline has a total length of 77 kilometers, of which 22 kilometers are located inside the City of São Paulo. The project will involve eight kilometers between the section of Largo São Mateus and Virgílio Lúcio Park (Vila Heloisa). After conclusion, the park will be the tenth largest park in the City of São Paulo with 210,000 m².

Partnerships

Sabesp, in the performance of environmental education and water courses preservation and recovery activities, relies upon the partnership of several NGOs, state-owned institutions, municipal governments, schools, research institutions and River Basin Committees, among other partners.

GRI 2.10 AWARDS

- **E-GOV AWARD** – Excellence in E-Government – G2B Category – Government to Business, to recognize the Company's continuous improvement of processes and enhancement of actions by means of the electronic relationship with the community and suppliers.
- **PRODES AWARD** (River Basins Recovery Program), granted to Sabesp by the National Water Agency (ANA), for the construction of STS Taubaté, recognized as the best project among more than 50 projects submitted by companies in all Brazilian states.
- **THE 10 BEST COMPANIES IN IDHO 2007 AWARD**, for the Company's contribution to the human development in the organization.
- **2007 SUSTAINABLE COMPANY AWARD**, granted to recognize the Company's community awareness work by means of visits to the Rio Grande Water Treatment Plant.
- **NATIONAL SANITATION QUALITY AWARD – PNQS/2007 –** Levels I, II and III.
- **NATIONAL SANITATION QUALITY AWARD – PNQS/2007 –** Winner Case in the "Innovation in Sanitation Management" category.
- **2007 BANAS MANAGEMENT AWARD –** Quality (ISO 9001), for the Company's high level of development and commitment to the quality system.
- **ENVIRONMENTAL BENCHMARKING AWARD**, for the innovative conflict management method and the raising of funds for investment in environmental preservation.
- **EFFICIENT ELECTRIC ENERGY AND WATER MANAGEMENT AWARD.**
- **SÃO PAULO STATE MANAGEMENT QUALITY AWARD (PPQG) – LEVEL III –** "State Governor Award for Management Excellence", for the Company's management model, results achieved and future prospects.
- **2007 CITIZEN HR AWARD**, for being one of the ten best companies in corporate citizenship.

AWARDS



High Cotia Water Treatment Station.

- **19 DE MARÇO AWARD** – E-Procurement– Innovation Category, granted to Sabesp's bidding system, considered one of the best e-procurement practices in Brazil.
- **E-LEARNING AWARD** (National Reference) to Sabesp Corporate University.
- **100 BEST CORPORATE CITIZENSHIP COMPANIES AWARD – CITIZEN HR.**
- **IT & GOVERNMENT AWARD** – E-Public Administration Category, for the Sabesp E-Procurement and Bidding Management System (SGL) projects.
- **2007 MARIO COVAS AWARD** – Innovations in Public Management – the Bidding Management System (SGL) was one of the winners in the “Use of Information Technologies and Communication” category, Human Resources Category: the actions of a socially responsible company and honorable mention for the work "Implementation of the Program for Rational Use of Water in Schools of the São Paulo Metropolitan Region”.



Dam serving the High Cotia Water Treatment Station.

This is the first year of publication of Sabesp's Sustainability Report. The Report refers to a level C report, in the GRI methodology.

REPORT PARAMETERS

Period and limits

Achievements in 2007 and Goals for the period from 2007 to 2010; and the limits of its Operating Environment of Sabesp and its Executive Offices. Historical series for the 1995-2007 period.

Report Preparation Process

GRI 3.6 This report contains the main information on the results recorded by Sabesp and includes information on all operating and administrative units of Sabesp for the fiscal year 2007. The regular process for preparation of the Company's Management Report, attached to the Financial Statements, was significantly changed in the method of preparation upon the inclusion of the concepts used in the preparation of a Sustainability Report.

GRI 3.1, 3.2, 3.10, 3.11 The preceding report, published in 2007, related to the fiscal year 2006, solely complied with the legislation in force in Brazil.

GRI 3.3. The publication of the next sustainability report, related to the fiscal year 2008, is scheduled to 2009.

GRI G3, 3.5 The criteria for selection of the information for the printed version (materiality analysis) prioritized the significance of the matters with respect to Sabesp's Strategic Options in order to accurately demonstrate the Company's performance upon the use of **benchmarking** techniques in conjunction with Brazilian and foreign report reference models with the support of the consulting companies Adroit and Report, both with respect to the adequacy of the report structure and the organization of its content in conformity with the guidelines used in connection with the Sustainability Report GRI-G3.

The Company complied with the Brazilian Securities and Exchange Commission (CVM) and the Brazilian Association of Publicly-held Companies (Abrasca) rules and the Principles of Transparent Disclosure of the Brazilian Association of Corporate Disclosure (Aberje) for the disclosure of its economic and financial performance. The Company used the Global Reporting Initiative (GRI) model for the corporate responsibility and sustainability aspects and the Manual for Preparation of the Social Balance Sheet of the Brazilian Institute of Social and Economic Analysis (IBase) and the model prepared by Ethos Institute for the Social Balance Sheet.

GRI G3 The on-line version of this report contains some of the GRI-G3 indicators and is available through our website: [www.sabesp.com.br/relações com investidores](http://www.sabesp.com.br/relações-com-investidores), together with the complete Sustainability Report and the Financial Statements.

GRI 3.7 The adoption of this new Report model was encouraged by the search for improvement in the relationships with the different parties involved, management processes and rendering of accounts to analysts, investors, civil companies, customers and mainly the citizen. This report shows the Company's interest and efforts to include the sustainability in its management. On the other hand, this report shows the limitations inherent to processes in preliminary stage, such as the need of integration of actions.

The process for preparation of the Report tried to emphasize the internal participation. Work groups with specific skills were formed based on the division of the Report into: Annual Activities and Operating and Financial Performance, Social Responsibility and Environmental Responsibility. Several interactive meetings were held with key persons based on the various processes discussed in this report. Coordinators responsible for the groups formed based on significant matters selected were appointed. Also, individual and specific meetings were held to explain the relevance of the balance, comparability, accuracy and understanding of the information.

GRI 3.4 The requests for additional information or suggestions related to this report and the information contained herein should be sent to fnaccache@sabesp.com.br

In order to better identify the location of the indicators, their numbers are next to the subject matter to which it refers. See table for identification of the location of GRI information in the report below.

GRI 3.12 table 21: To find GRI information in the report

GRI G3 Indicator	Page	
1.1	Declaration of the company's Chairman	2 and 4
2.1	Name of the Company	9
2.2	Main trademarks, products and services	9
2.3	Operating structure of the organization	10
2.4	Organization location	10
2.5	Countries in which the company operates	10
2.6	Type and legal nature of the company	9
2.7	Market served	9

REPORT PARAMETERS

GRI G3 Indicator	Page	
2.8	Organization size	9
2.9	Main changes in the report period	12
2.10	Awards received	106
3.1	Period covered by the report	109
3.2	Date of the preceding report	109
3.3	Reporting cycle (annual, biannual)	109
3.4	Information for contact/delivery of suggestions	110
3.5	Content definition process	109
3.6	Report limits (units/facilities)	109
3.7	Limitations with respect to the content	110
3.8	Base related to subsidiaries or other companies	Sabesp does not have subsidiaries
3.10	Adjustments as compared to the preceding report	109
3.11	Change in the scope, limit and measurement	109
3.12	Table for identification of the location of GRI indicators	110
4.1	Governance structure	41
4.2	Indicate whether the chairman of the main governance body is also an executive officer	46
4.3	Declaration of the number of independent and non-executive member of the top governance body	42
4.4	Methods for delivery of suggestions by the shareholders to the top governance body	42
4.11	Explanation on if and how the organization applies the caution principle	51
4.14	Stakeholders involvement	33, 58, 94, 96, 99
4.15	Basis for stakeholders involvement	57
EC1	Market value added and distributed	61
EC4	Significant financial aid received from government	62
EC8	EC8 Development and impact of Investimentos in infrastructure services offered, principally to public benefit, through commercial engagement, in cash or pro bono activities	30, 105
LA1	Total of employees by units, type of position and region	79
LA6	Percentage of employees represented in formal health and safety committees	82
LA8	Prevention, training and risk control (health and safety) programs	82, 83
LA10	Average training hours	80
LA11	Programs for management of skills and continuous learning	80
LA12	Percentage of employees who receive periodical performance analysis	79
EN7	Initiatives to reduce electric energy consumption	95
EN8	Total water withdrawal by source	95
EN18	Initiatives to reduce emissions of gases of greenhouse effect	101
EN26	Initiatives to mitigate the environmental impacts of products and services and extension of these impacts' reduction	103

CORPORATE INFORMATION

Website:

<http://www.sabesp.com.br>

Virtual Branch:

<http://www2.sabesp.com.br/agvirtual2/asp/>

Investors' website:

<http://www.sabesp.com.br/> – 'investidores' option

Sabesp Environmental Solutions Program:

<http://www2.sabesp.com.br/solucoesambientais/>

195 For urgent matters, such as interruption in the supply of water, leaks and clogged sewage. Available 24/7.

0800-0119911 (solely in the São Paulo Metropolitan Region) (toll-free call)
For information on bills, request of copies (in the event of loss or non-receipt) and services, addresses.

Opening times: Monday to Friday: from 7:00 am to 9:00 pm
Saturday: from 8:00 am to 5:00 pm
Sunday: from 10:00 am to 4:00 pm

Countryside and Coastal Regions

To request urgent or commercial services, the user should dial **195** or contact the municipal service branch. The telephone number is printed in the water bill monthly delivered by Sabesp.

Ombudsman Office:

0800 055 05 65 With the receipt number, the users are able to register problems with respect to the execution of services already requested. Moreover, the users are able to send criticism, denunciations or praise.



FINANCIAL STATEMENT 2007



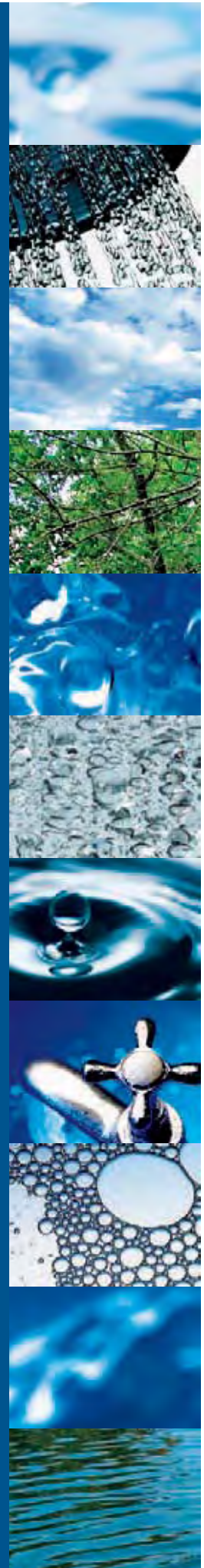
sabesp



FINANCIAL STATEMENT

For the Years Ended
December 31, 2007 and 2006

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BALANCE SHEET

As of December 31, 2007 and 2006
(In thousands of Brazilian reais - R\$)

Assets	Note	2007	2006
Current			
Cash and cash equivalents	4	464,997	328,206
Customer accounts receivable	5	1,207,885	1,111,289
Transactions with Related Parties	6	338,506	367,864
Inventories		53,141	48,889
Recoverable taxes		9,414	31,582
Other assets		41,782	24,124
Deferred income and social contribution taxes	11	108,792	7,078
Total current assets		2,224,517	1,919,032
Noncurrent			
Long-term assets:			
Customer accounts receivable	5	278,787	296,562
Transactions with Related Parties	6	986,988	863,467
Indemnities receivable	7	148,794	148,794
Escrow deposits		19,806	33,835
Other assets		75,202	52,238
Deferred income and social contribution taxes	11	357,226	342,654
		1,866,803	1,737,550
Permanent assets:			
Investments		720	720
Property, plant and equipment	8	14,060,073	13,837,498
Intangible assets	9	507,789	495,118
Deferred charges		3,474	10,035
		14,572,056	14,343,371
Total noncurrent assets		16,438,859	16,080,921
Total assets		18,663,376	17,999,953

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

Liabilities and shareholders' equity	Note	2007	2006
Current			
Accounts payable to suppliers and contractors		165,267	144,167
Loans and financing	10	742,114	852,475
Accrued payroll and related charges		166,797	177,705
Taxes payable	12	127,735	105,552
Deferred taxes	11	75,249	76,359
Interest on shareholders' equity payable	16(d)	680,339	511,519
Provision for contingencies	15	290,172	2,294
Services received		156,987	152,953
Other liabilities		50,077	78,912
Total current liabilities		2,454,737	2,101,936
Noncurrent			
Long-term liabilities:			
Loans and financing	10	4,943,121	5,474,254
Taxes payable	12	197,635	230,440
Deferred taxes	11	159,865	146,901
Provision for contingencies	15	655,084	655,258
Accrued pension obligation	13	365,234	321,212
Other liabilities		103,694	51,470
Total noncurrent liabilities		6,424,633	6,879,535
Shareholders' equity			
Paid-in Capital		3,403,688	3,403,688
Capital reserve		124,255	106,690
Revaluation reserve		2,339,829	2,427,499
Profits reserve		3,916,234	3,080,605
Total shareholders' equity	16	9,784,006	9,018,482
Total liabilities and shareholders' equity		18,663,376	17,999,953

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

STATEMENT OF OPERATIONS

For the Years Ended December 31, 2007 and 2006
(In thousands of Brazilian reais – R\$, except per share data)

	Note	2007	2006
GROSS REVENUE FROM SALES AND SERVICES	19	6,448,211	5,984,012
Gross revenue deductions		(477,369)	(456,679)
NET REVENUE FROM SALES AND SERVICES		5,970,842	5,527,333
COST OF SALES AND SERVICES	20	(2,695,696)	(2,616,764)
GROSS PROFIT		3,275,146	2,910,569
OPERATING EXPENSES			
Selling expenses	20	(639,552)	(719,185)
Administrative	20	(559,190)	(387,407)
OPERATING INCOME BEFORE FINANCIAL EXPENSES AND EXCHANGE VARIATIONS, NET		2,076,404	1,803,977
Financial expenses, net	20	(748,995)	(658,863)
Exchange variations, net	20	188,038	95,598
OPERATING PROFIT		1,515,447	1,240,712
NONOPERATING INCOME (EXPENSES)			
Income		46,115	7,810
Expenses		(81,291)	(58,717)
		(35,176)	(50,907)
INCOME BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES		1,480,271	1,189,805
INCOME AND SOCIAL CONTRIBUTION TAXES			
Current taxes	11	(543,345)	(383,123)
Deferred taxes	11	111,777	7,345
INCOME BEFORE EXTRAORDINARY ITEM		1,048,703	814,027
Extraordinary item net of income and social contribution taxes	13(b)	-	(35,122)
NET INCOME		1,048,703	778,905
Earnings per share – R\$(per thousand shares in 2006)	16(c)	4.60	27.35

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2007 and 2006
(In thousands of Brazilian reais - R\$)

	Note	Paid-in Capital	Tax incentives	Capital reserve	Revaluation reserve	Profits reserves Legal	Investments	Retained earnings	TOTAL
BALANCES AS OF DECEMBER 31, 2005		3,403,688	15,780	63,040	2,529,771	215,273	2,254,996	-	8,482,548
Donations	16(e)	-	-	27,870	-	-	-	-	27,870
Realization of revaluation reserve	8(h)	-	-	-	(102,272)	-	-	102,272	-
Net income		-	-	-	-	-	-	778,905	778,905
Legal reserve	16(f)	-	-	-	-	38,946	-	(38,946)	-
Interest on shareholders' equity	16(d)	-	-	-	-	-	-	(270,841)	(270,841)
Investment Reserve	16(f(ii))	-	-	-	-	-	571,390	(571,390)	-
BALANCES AS OF DECEMBER 31, 2006		3,403,688	15,780	90,910	2,427,499	254,219	2,826,386	-	9,018,482
Donations	16(e)	-	-	17,565	-	-	-	-	17,565
Realization of revaluation reserve	8(h)	-	-	-	(87,670)	-	-	87,670	-
Net income for the year		-	-	-	-	-	-	1,048,703	1,048,703
Legal reserve	16(f)	-	-	-	-	52,435	-	(52,435)	-
Interest on shareholders' equity	16(d)	-	-	-	-	-	-	(300,744)	(300,744)
Investment Reserve	16(f(ii))	-	-	-	-	-	783,194	(783,194)	-
BALANCES AS OF DECEMBER 31, 2007		3,403,688	15,780	108,475	2,339,829	306,654	3,609,580	-	9,784,006

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

STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31, 2007 and 2006
(In thousands of Brazilian reais - R\$)

	Note	2007	2006
SOURCES OF FUNDS			
From operations:			
Net income		1,048,703	778,905
Expenses (income) not affecting working capital			
Allowance for doubtful accounts – long-term accounts receivable		105,301	102,025
Depreciation and amortization	20	622,549	642,171
Write-off of investments		-	20
Write-off of property, plant and equipment		68,568	54,350
Write-off of deferred charges		1,276	5,195
Monetary variations on long-term assets		(15,786)	(11,521)
Reversal of provision for losses on escrow deposits, net		-	(4,421)
Provision for contingencies		287,704	75,450
Other accruals		155	7,504
Accrual for pension obligation		44,022	44,654
Interests and monetary and exchange variation on noncurrent liabilities:			
Loans and financing		(46,141)	15,733
Taxes and contributions		10,197	15,151
Deferred taxes:			
In long-term assets		(14,572)	(43,834)
In long-term liabilities		12,964	13,458
Total from operations		2,124,940	1,694,840
From third parties			
Transfers from long-term to current assets		351,944	394,738
Increase in noncurrent liabilities:			
Loans and financing		222,474	706,774
Other increases		52,069	9,306
Increase in property, plant and equipment from donation – support to construction works		17,565	27,870
Total from third parties		644,052	1,138,688
Decrease in working capital		47,316	145,532
Total sources		2,816,308	2,979,060
Uses of funds			
Increase in long-term assets		556,140	606,197
Capitalized amounts – property, plant and equipment		27,371	27,902
In noncurrent assets			
Property, plant and equipment		901,598	886,534
Intangible assets		32,818	12,630
Deferred charges		-	2,789
In noncurrent liabilities			
Transfers from noncurrent to current liabilities:			
Loans and financing		666,757	858,532
Taxes and contributions	12	43,002	40,824
Provision for contingencies		287,878	-
Early settlement of loans and financing	10(f)(i)	-	272,811
Interest on shareholders' equity	16(f)(i)	300,744	270,841
Total uses		2,816,308	2,979,060
Current assets			
At end of year		2,224,517	1,919,032
At beginning of year		1,919,032	1,725,386
Change in current assets		305,485	193,646
Current liabilities			
At end of year		2,454,737	2,101,936
At beginning of year		2,101,936	1,762,758
Change in current liabilities		352,801	339,178
Decrease in net working capital		(47,316)	(145,532)

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

SUMMARY – STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31, 2007 and 2006
(In thousands of Brazilian reais - R\$)

	Note	2007	2006
SOURCES OF FUNDS			
From operations		2,124,940	1,694,840
From third parties		644,052	1,138,688
Decrease in net working capital		47,316	145,532
TOTAL SOURCES		2,816,308	2,979,060
USES OF FUNDS			
Increase in long-term assets		556,140	606,197
Capitalized amounts – property, plant and equipment		27,371	27,902
In property, plant and equipment, deferred charges and intangible assets		934,416	901,953
Transfers from noncurrent to current liabilities		997,637	899,356
Early settlement of loans and financing	10(f (i))	-	272,811
Shareholders - interest on shareholders' equity	16(f (i))	300,744	270,841
TOTAL USES		2,816,308	2,979,060

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

1. OPERATIONS

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

In addition to providing basic sanitation services in the State of São Paulo, SABESP may perform these activities in other states and countries, and can operate in drainage, urban cleaning, solid waste handling and energy markets. The company intends to expand its basic operations and, at the same time, become an environmental solutions company.

The company operates water and sewage services in 366 of 645 municipalities of the State of São Paulo, mostly based on 30-year concession agreements. Of the 174 municipalities whose concessions expired, 124 approved a municipal law that authorizes the signature of a program contract with SABESP. One hundred and six of these municipalities have already signed the program contracts and the remainder is in the final stage for formalizing the procedure.

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

Between 2008 and 2037, 159 concessions will expire in addition to other 35 with legal relationships with indefinite term for which Law 11,445, which regulated the sanitation services in Brazil, determines that the parties can sign an agreement by 2010. Management believes that all these legal situations will result in new contracts or extensions, and does not consider the risk related to the discontinuity in the provision of municipal water and sewage services. As of December 31, 2007, the book value of property, plant and equipment of the concessions in final stage of formalization or terminating in 2008 total R\$2.02 billion and revenues from these concessions for the year ended December 31, 2007 totals R\$935 million.

On January 5, 2007, Law 11,445 was enacted, establishing the basic sanitation regulatory framework, providing for the nationwide guidelines and basic principles for the provision of such services, such as social control, transparency, the integration authority of sanitation infrastructures, water resources management, and the articulation between industry policies and public policies for urban and regional development, housing, suppression of poverty, promotion of health and environmental protection, and other related issues. The regulatory framework also aims at efficiently improving quality of living and economic sustainability, allowing for the adoption of gradual and progressive solutions consistent with users' payment ability.

As benefits for the Company, this law:

- Clarifies the conditions for transitional services, by amending Article 42 of the Concession Law to determine that the Concession Grantor has to perform evaluations, surveys and payment due compensation before retaking the concession assets, as a condition for the validity of the subsequent municipal actions;
- Significantly reduces the possibility of success in legal actions for retaking services suddenly and without paying due compensation;
- Aims at improving the attainment of public interests related to the environment and supports the state planning of services, without disregarding local peculiarities, taking into consideration the need for the Municipalities to present sanitation plans that are compatible with the hydrographic basin plans;
- Imposes the creation of a regulatory agency and the issue of regulations that increase transparency and efficiency in services inspections, as well as in the provision of services itself, safeguarding and converging the different interests of consumers and contractors;
- Another important change in the regulatory environment in 2007 was the creation of the São Paulo State Sanitation and Power Regulatory Agency (ARSESP).

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

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

2. PRESENTATION OF FINANCIAL STATEMENTS**Preparation criteria**

The financial statements have been prepared and are presented in conformity with Brazilian accounting practices and standards established by the Brazilian Securities Commission (CVM).

3. SIGNIFICANT ACCOUNTING PRACTICES

The Company's accounting practices are based on the accrual basis of accounting and are in conformity with the Brazilian Corporate Law, as follows:

(a) Revenue from sales and services

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

(b) Publicity and advertising expenses

Publicity and advertising expenses are substantially recorded in administrative expenses. Expenses amounting to R\$16,431 and R\$11,895 were incurred in the years ended December 31, 2007 and 2006, respectively. There were not deferred publicity and advertising expenses in December 31, 2007 and 2006.

(c) Financial income and expenses

Represented mainly by interest, monetary and exchange variations on loans and financing, contingencies, accounts receivable and temporary cash investments, calculated and recorded on the accrual basis of accounting.

(d) Income and social contribution taxes

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

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

Deferred income and social contribution taxes are calculated based on taxable amounts or amounts deductible in future periods and are recorded as their realization is probable.

Pursuant to a CVM resolution, the Company decided to not recognize deferred income and social contribution taxes on the revaluation reserve of property, plant and equipment recorded through 1991.

(e) Other income and expenses

Other revenues and expenses are recognized on the accrual basis.

(f) Cash and cash equivalents

Cash and cash equivalents comprise mainly bank deposits and temporary cash investments and are presented at cost, plus accrued earnings when applicable, which does not exceed fair value. Temporary cash investments expressed in reais are highly liquid and mainly represented by Bank Certificates of Deposit (CDB) in 2007 and 2006.

(g) Customer accounts receivable and allowance for doubtful accounts

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

The allowance for doubtful accounts is recorded in an amount considered sufficient by Management to cover probable losses on the realization of receivables. The allowance is recorded for accounts that exceed R\$5 and that are past due for more than 360 days, and also for accounts that exceed R\$30 and that are past due for more than 360 days and which are in the process

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended December 31, 2007 and 2006 Amounts in thousands of Brazilian reais - R\$, unless otherwise stated

of judicial collection. The amount thus determined is adjusted when it is excessive or insufficient, based on the analyses of the history of receipts, taking into consideration the expectation of recovery in the different categories of customers. Amounts up to R\$5 and past due for more than 180 days are written off against income.

The Company does not record an allowance for doubtful accounts for any amount receivable from the State Government or entities that are controlled by the State Government because it does not expect to incur in any losses on such receivables.

(h) Inventories

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

(i) Other current and noncurrent assets

Stated at cost or realizable values, including, when applicable, income earned.

(j) Property, plant and equipment

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

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

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

Financial charges on loans and financing for construction in progress are allocated to the costs of the assets.

The Company reviews the realization of long-term assets, mainly water and sewage structures and systems to be used in the business, for purposes of calculating and determining the degree of impairment, on a recurring basis, or when current situations or changes indicate that the book value of an asset or group of assets may not be recovered. Impairment is valued based on projected depreciation charges to be recovered through income from operations.

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

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

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

(k) Intangible assets

Starting 1999, the acquisition of concession rights from third parties has been accounted for at the amount determined in economic and business valuation reports. These rights are recorded as intangible assets in permanent assets and are amortized under the straight-line method over the period provided for in the agreements.

(l) Deferred charges

Deferred charges comprise costs for projects and technical studies, and are amortized under the straight-line method over five years from starting on the date benefits begin to be generated.

(m) Loans and financing

Restated based on monetary and exchange variations, plus the provisions for the respective financial charges incurred to the balance sheet date.

Foreign currency-denominated loans and financing are translated into reais at the balance sheet dates. Adjustments arising from exchange variation are recognized when incurred under the caption "Exchange variations, net".

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended December 31, 2007 and 2006
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(n) Accrued payroll and related charges

Salaries, including accrual for vacation and 13th salary and additional payments negotiated in collective labor agreements plus related charges are recorded on the accrual basis.

(o) Profit sharing

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

(p) Provision for contingencies

Recorded to cover losses on civil, tax, labor, and environmental lawsuits at administrative and judicial levels, which are considered by the Company's legal counsel to be probable and estimable as of December 31, 2007 and 2006. The reserves for contingencies are shown net of related escrow deposits.

(q) Environmental costs

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

(r) Accrued pension obligation

The Company sponsors a private defined benefit pension plan. CVM Resolution No. 371 of December 13, 2000, requires the recognition of actuarial liabilities in excess of plan assets.

(s) Interest on shareholders' equity

This interest has been recorded in accordance with Law No. 9,249/95 for tax deductibility purposes, limited to the daily pro rata variation of the Long-term Interest Rate (TJLP), and recorded in Shareholders' Equity.

(t) Use of estimates

The preparation of financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses with electric energy and provision of services. Actual results could differ from those estimates.

(u) Earnings per share

Calculated based on the number of shares outstanding at the balance sheet dates.

(v) Approval of the Financial Statements

The Financial Statements were approved by the Board of Directors on March 27, 2008. There were no events subsequent to the balance sheet date that should be recorded.

4. CASH AND CASH EQUIVALENTS

	2007	2006
Cash and banks	72,833	80,118
Temporary cash investments	392,164	248,088
	464,997	328,206

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended December 31, 2007 and 2006
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5. CUSTOMER ACCOUNTS RECEIVABLE

(a) Balance sheet amounts

	2007	2006
Private sector:		
General and special customers (i) (ii)	704,626	667,143
Agreements (iii)	202,037	179,353
	906,663	846,496
Government entities:		
Municipal	524,519	446,495
Federal	25,792	23,524
Agreements (iii)	81,490	85,909
	631,801	555,928
Wholesales customer – Municipal Administration Offices: (iv)		
Guarulhos	383,911	340,534
Mauá	135,272	115,189
Mogi das Cruzes	12,549	4,139
Santo André	326,549	289,592
São Caetano do Sul	2,971	2,932
Diadema	99,932	85,620
Total wholesales – Municipal Administration Offices	961,184	838,006
Unbilled supply	301,695	290,578
Subtotal	2,801,343	2,531,008
Allowance for doubtful accounts	(1,314,671)	(1,123,157)
Total	1,486,672	1,407,851
Current	1,207,885	1,111,289
Noncurrent (v)	278,787	296,562

- (i) General customers - residential and small and medium-sized companies.
(ii) Special customers - large consumers, commercial, industries, condominiums and special billing consumers (industrial waste, wells, etc.).
(iii) Agreements – installment payments of past-due receivables, plus monetary adjustment and interest falling due between 6 and 12 months, except for agreements with municipal administration offices, which fall due through 2011.
(iv) Wholesale customers – municipal administration offices – This balance refers to the sale of treated water to municipalities, which are responsible for distributing to, billing and charging final consumers. Some of these municipalities are questioning in court the tariffs charged by SABESP and do not pay for the amounts in dispute. The amounts past due are classified in long-term assets pursuant to the changes below:

	2007	2006
Balance at beginning of year	838,006	727,892
Billing for services provided	292,041	265,298
Collections – services in the current year	(141,451)	(133,926)
Collections – services in previous years	(27,412)	(21,258)
Balance at end of year	961,184	838,006
Current	50,769	16,170
Noncurrent	910,415	821,836

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

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended December 31, 2007 and 2006
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(b) Customer accounts receivable aging summary:

	2007	2006
Current	783,946	705,863
Past-due:		
Up to 30 days	148,498	247,970
From 31 to 60 days	81,244	72,064
From 61 to 90 days	55,821	48,962
From 91 to 120 days	46,202	40,540
From 121 to 180 days	81,313	71,101
From 181 to 360 days	151,993	186,387
Over 360 days	1,452,326	1,158,121
Total	2,801,343	2,531,008

(c) Allowance for doubtful accounts

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

	2007	2006
Beginning balance	1,123,157	920,736
Private sector / government entities	86,213	87,160
Bulk sales	105,301	115,261
Additions for the fiscal year	191,514	202,421
Ending balance	1,314,671	1,123,157
Current	587,713	501,500
Noncurrent	726,958	621,657

(ii) In the income

The Company recorded probable losses on accounts receivable in 2007 in the amount of R\$323,339, R\$131,825 of which (net of recoveries), were written off from accounts receivable (in 2006 – R\$115,739), under “Selling expenses”. In 2006, these losses amounted to R\$411,918.

6. TRANSACTIONS WITH RELATED PARTIES

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

(a) Accounts receivable, interest on shareholders' equity and operating revenue with the São Paulo State Government (Gesp)

	2007	2006
Current assets:		
Water and sewage services (i)	311,528	308,030
Gesp Agreement (iii) (iv)	26,978	59,834
Total current assets	338,506	367,864
Long-term assets:		
Water and sewage services – Gesp Agreement (iii) (iv)	107,911	89,012
Reimbursement of additional retirement and pension benefits paid (ii)	879,077	774,455
Gross long-term amount receivable from shareholder	986,988	863,467
Total receivable from shareholder	1,325,494	1,231,331

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended December 31, 2007 and 2006
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Continued	2007	2006
Total receivable from shareholder	1,325,494	1,231,331
Provision of water and sewage services	446,417	456,876
Reimbursement of additional retirement and pension benefits	879,077	774,455
	1,325,494	1,231,331
Interest on shareholders' equity payable	551,974	396,361
Operating revenue	2007	2006
Gross revenue from sales and services		
Water sales	185,976	175,124
Sewage services	149,853	146,074
Collections	(326,065)	(199,375)
Financial income	51,469	50,882

(i) Water and sewage services

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

(ii) Reimbursement of additional retirement and pension benefits

Refer to amounts that supplement retirement and pension benefits paid by the Company to former employees from state-owned companies that merged to form the Company and to employees contracted in 1973 and 1974. The amounts involved have to be reimbursed to the Company by the State Government in its capacity of main debtor pursuant to State Law No. 200/74. As of December 31, 2007 and 2006, 2,635 and 2,670 retired employees, respectively, received additional retirement benefits and for the years ended December 31, 2007 and 2006, the Company paid R\$104,622 and R\$101,740, respectively. There were 144 active employees as of December 31, 2007 who will be entitled to these benefits as a result to their retirement in comparison to 163 as of December 31, 2006.

On January 2004, the payments that supplement retirement and pension benefits were transferred to the Finance Department and would be made in accordance with the calculation criteria determined by the State Attorney's Office (PGE). As a result of a legal decision, the responsibility for the payments is of SABESP again, as they were initially.

(iii) Gesp Agreement

Entered into on December 11, 2001 between the Company, the São Paulo State Government (through the State Finance Business Department) and the Water and Electric Energy Department (Dae), with the intermediation of the Sanitation and Energy Department (former Water Resources, Sanitation and Construction Works Department), in which the State acknowledges that, under Law No. 200/74 it is accountable for the benefits arising from additional retirement and pension benefits and recognizes the existence of debts arising from bills related to the provision of water supply and sewage services. Total agreement amounted to R\$678,830, at historical value, R\$320,623 of which refers to additional retirement and pension benefits in the period between March 1986 and November 2001, and R\$358,207 arising from the provision of water supply and sewage collection services, billed in and past due since 1985 until December 1, 2001.

In view of the strategic importance of the Taiaçupeba, Jundiá, Biritiba, Paraitinga and Ponte Nova reservoirs for guaranteeing and maintaining the Upper Tietê water volume, the Water and Electric Energy Department (Dae) intends to transfer these assets to the Company as partial amortization, by assigning a receivable in the amount owed by the State. The appraisal of the reservoirs was approved by the Company's Board of Directors and indicates the amount of R\$300,880 (base date – June 2002), as mentioned in the related report. However, there is a civil class action at the São Paulo State Appeals Court involving the transfer of these reservoirs. The Company's legal counsel evaluate the risk of loss from this lawsuit as probable, which would hinder the transfer of the related reservoirs as a partial amortization of the balance receivable.

For the Years Ended December 31, 2007 and 2006
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Based on Official Letter No. 53/2005, of the Council for the Protection of the State's Equity (Codec) of March 21, 2005, the negotiations between the Company and the State Government were resumed aiming at the financial balance of the debt related to the additional retirement and pension benefits under the Gesp Agreement, including the amounts past due after November 2001. The Company contracted Fipecafi to determine the amounts effectively reimbursable by the State Government, taking into consideration the legal guidance of the State Attorney General.

On March 26, 2008, a Commitment Agreement between the São Paulo State Government (GESP) and SABESP was signed (note 27(I)).

The balances of water supply and sewage collection services were included in the First amendment as described below (iv).

(iv) First Amendment to the Gesp Agreement

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

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

The Company and the State Government agreed on the mutual offset of R\$404,889 (monetarily adjusted until February 2004). The remaining liability, of R\$176,890, of February 29, 2004, with payment in monthly installments between May 2005 and April 2009, monetarily restated by the Extended Consumer Price Index (IPCA/IBGE), plus interest of 0.5%.

In 2005, the amount of R\$105,520 was offset against interest on capital of 2003, as expected. In 2006, the Company received the amount of R\$47,228 related to the installments from January to October 2007.

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

Management believes that all amounts due by the State Government are receivable and does not expect to incur in losses on such accounts receivable.

(v) Second Amendment to the Gesp Agreement

On December 28, 2007, the Company and the State Government, by means of the Finance Department, signed the second amendment to the terms of the original Gesp Agreement, **(1)** agreeing upon the payment in installments of the remaining balance of the First Amendment, amounting to R\$133,709 (on November 30, 2007), to be paid in 60 monthly and consecutive installments of the same amount, the first of which falling due on January 2, 2008. The amount of the installments will be monetarily restated in accordance with the variation of the IPCA-IBGE, plus interest of 0.5% per month. The balance of this agreement, the installments of which have been monthly paid, includes the amount of R\$46,244, which the State does not recognize as due. SABESP's understanding differs from that of the State regarding this amount and does not admit the review of these previously agreed-upon amounts without the supported and unequivocal demonstration of the lack of relation between the amounts presented by SABESP and the services effectively provided. For this reason the Company understands that the recognition of an allowance for losses regarding these amounts is not necessary (pursuant to item VII, of the Recitals, of the Second Amendment to the Recognition Instrument, Payment Commitment and Other

For the Years Ended December 31, 2007 and 2006
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Covenants between the State of São Paulo and SABESP) **(2)** with respect to the accounts past due and unpaid in the period between March 2004 and October 2007, arising from the provision of water supply and sewage collection services in the amount of R\$256,608, R\$231,407 was received and R\$25,201, is pending confirmation of receipt. These amounts are being jointly analyzed by SABESP and the representatives of the many State departments. To date, differences regarding the debtor but not the amount of the debt have been identified. In the event of the reclassification of the entity responsible for paying the account, SABESP will transfer the charge to the respective Entity. The Company did not recognize an allowance for losses in this amount as it understands that the differences are substantially related to the identification of the debtor. **(3)** The interest on capital due by SABESP to the State, related to the period between March 2004 and December 2006, in the amount of R\$400,823, restated between June 2007 and November 2007, based on the Selic (central Bank overnight rate), was paid in the period between January and March 2008. **(4)** The State and SABESP agreed on immediately resuming the compliance with their mutual obligations under new assumptions: **(a)** implementation of an electronic account management system to facilitate and speed up the monitoring of payment processes and budget management procedures; **(b)** structuring of the Rational Water Use Program (PURA) to rationalize the consumption of water and the amount of the water and sewage bills under the responsibility of the State; **(c)** establishment, by the State, of criteria for budgeting so as to avoid the reallocation of amounts to a specific water and sewage accounts as from 2008; **(d)** possibility of registering state bodies and entities in a delinquency system or reference file; **(e)** possibility of interrupting water supply to state bodies and entities in the case of nonpayment of water and sewage bills.

Approximately 70% of the billing from November 2007 and February 2008 has already been paid by the State Government.

(b) Cash and cash equivalents

The Company's cash and temporary cash investments with financial institutions controlled by the State Government amounted to R\$421,630 and R\$287,999 as of December 31, 2007 and 2006, respectively. The financial income arising from these temporary cash investments totaled R\$51,469 and R\$50,882 in the years ended December 31, 2007 and 2006, respectively. The Company must, pursuant to a State Decree, invest its surplus resources with financial institutions controlled by the State Government.

(c) Agreements for the use of reservoirs

In its operations, the Company uses the Guarapiranga and Billings reservoirs and part of some reservoirs of the Upper Alto, which are owned by the Water and Electric Energy Department (Daee); should these reservoirs not be available for use to the Company, there could be the need to collect water in more distant places. The Company does not pay any fee for the use of these reservoirs but it is responsible for their maintenance and operating costs.

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

The Company has signed agreements with government entities related to the State Government and municipalities where it operates involving approximately 7,240 real estates that are benefited from a reduction of 25% in the tariff of water supply and sewage collection services when they are not in default. These agreements provide for the implementation of the rational water use program, which takes into consideration the reduction in the consumption of water.

(e) Guarantees

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

Management is making efforts to maintain the State's payments with respect to transactions with related parties in non-default on a permanent basis.

7. INDEMNITIES RECEIVABLE

Indemnities receivable are a noncurrent asset that represents amounts receivable from the Municipalities of Diadema and Mauá as an indemnity for their unilateral termination of the concessions for water supply and sewage collection services of the Company in 1995. As of December 31, 2007, this asset amounted to R\$148,794.

Due to these concession agreements, the Company invested in the construction of water and sewage systems in those municipalities in order to meet its concession service commitments. For the unilateral termination of the Diadema and Mauá concessions, the municipalities assumed the responsibility of supplying water and sewage services in those regions. At that time, the Company reclassified the balances of property, plant and equipment related to the assets used in those municipalities to noncurrent assets (indemnities receivable) and recorded non-indemnifiable costs to reflect the assets by their estimated recoverable amounts, contractually agreed as indemnity by the Company with the proper authorities. The net book value of property, plant, and equipment relating to the Municipality of Diadema, written off in December 1996, amounted to R\$75,231, and the indemnity balance and other receivables from the municipality amounted to R\$62,876 as of December 31, 2007 and 2006. The net book value of property, plant and equipment relating to the Municipality of Mauá, written off in 1999 fiscal year, amounted to R\$103,763, and the indemnity balance totaled R\$85,918 as of December 31, 2007 and 2006.

The Company's right to recover these amounts is challenged by the municipalities and no amount has been received to date.

SABESP filed lawsuits to collect the amounts due by the municipalities. With respect to Diadema, the decision of the lower court judge was unfavorable to SABESP, which filed an appeal in November 2000. On December 1, 2005, SABESP's appeal to have the agreement entered into with the municipality of Diadema declared valid was partially accepted. On October 11, 2006, the municipality administration office filed special and extraordinary appeals and on November 21, 2006 the decision that allowed the Company to present its reply to said appeals was published. SABESP presented its reply on December 6, 2006. The appeals were rejected by the Chief Judge on March 27, 2007 and the municipal administration office filed new interlocutory appeals against this decision. The interlocutory appeal filed to the Federal Supreme Court (STF) was accepted but only for the purposes of determining the sentence for the extraordinary appeal that had been rejected. On December 26, 2007, the decision that accepted the execution of the Companhia de Saneamento de Diadema – Saned was rendered, ordering this company to be summoned to pay the full amount of the debt within 15 days under the penalty of fine. Currently, the Company awaits the effect of this summons as said decision was published on January 31, 2008 and Saned filed an Interlocutory Appeal against it but, on February 28, 2008, the Reporting Judge, sustained the decision and awaits for information on the lower court decision in order to analyze the motion for suspension.

With respect to Mauá, a lower court decision demanded this Municipality to pay the amount of R\$153,2 million as a compensation for loss of profits. This decision was appealed by Mauá on April 15, 2005 and is pending a new decision by the Court Decision. On July 4, 2006, the decision was converted in diligence consisting of an expert clarification on the amount of the indemnity for loss of profits. The clarification was provided on December 18, 2007 and the expert confirmed the amount of the loss of profits determined by the lower court.

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

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8. PROPERTY, PLANT AND EQUIPMENT

	2007			2006
	Adjusted cost	Accumulated depreciation	Net	Net
In use				
Water systems:				
Land	961,538	-	961,538	958,283
Buildings	2,817,488	(1,565,786)	1,251,702	1,363,088
Connections	972,635	(386,476)	586,159	500,477
Water meters	294,846	(149,522)	145,324	135,853
Networks	3,492,852	(1,100,436)	2,392,416	2,358,024
Wells	205,117	(107,627)	97,490	107,366
Equipment	514,603	(344,899)	169,704	172,213
Other	16,287	(13,163)	3,124	2,105
	9,275,366	(3,667,909)	5,607,457	5,597,409
Sewage systems:				
Land	348,508	-	348,508	347,104
Buildings	1,652,146	(648,337)	1,003,809	952,431
Connections	944,588	(390,863)	553,725	530,679
Networks	5,570,794	(1,249,521)	4,321,273	3,816,746
Equipment	559,080	(435,740)	123,340	114,904
Other	4,904	(2,791)	2,113	2,083
	9,080,020	(2,727,252)	6,352,768	5,763,947
General use:				
Land	107,707	-	107,707	107,707
Buildings	138,120	(80,238)	57,882	57,153
Transportation equipment	141,708	(130,561)	11,147	6,895
Furniture, fixtures and equipment	315,515	(175,255)	140,260	108,895
Free lease land	20,556	-	20,556	20,556
Free lease assets	8,457	(2,534)	5,923	5,923
	732,063	(388,588)	343,475	307,129
Subtotal in use	19,087,449	(6,783,749)	12,303,700	11,668,485
Construction in progress:				
Water systems	734,016	-	734,016	708,646
Sewage systems	1,018,620	-	1,018,620	1,454,445
Other	3,737	-	3,737	5,922
Subtotal in progress (d)	1,756,373	-	1,756,373	2,169,013
Grand Total	20,843,822	(6,783,749)	14,060,073	13,837,498

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

In 2007, one hundred and seventy four (174) concession agreements expired, 106 of which signed the program contracts and the remainder are in the final stage for formalizing procedures. The net book value of the property, plant and equipment

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used in the municipalities where the concessions are in the final stage for formalizing procedures or will expire in 2008 totaled R\$2,02 billion.

In 2007, the depreciation charges of these municipalities were R\$79,713.

The concession agreements provide for the assets to be returned to the concession grantor at the end of the term by means of an indemnity at the net book value or fair value in accordance with what is stipulated in each contract. In the program contracts, the indemnity will correspond to the present value of the cash flow in the remaining period on the date the services are resumed, monetarily restated, plus interest to the date of the effective payment.

(a) Depreciation

Depreciation is calculated based on the following annual rates: - buildings – 4%, interceptors and networks – 2%, machinery and equipment – 10%, water meters – 10%, vehicles – 20%, computer equipment – 20%, building connectors – 5% and office furniture – 10%.

(b) Disposals of property, plant, and equipment

In 2007, the Company wrote off property, plant and equipment items in the amount of R\$68,568 (2006 – R\$54,350), which resulted in a total loss of R\$68,349 (2006 - R\$47,807), of which R\$14,247 (2006 - R\$21,348), refers to items in use, due to obsolescence, theft and sale, and R\$54,103 to discontinued construction, unproductive wells and projects considered economically unfeasible, and, in 2006, R\$26,459 referred to projects considered economically unfeasible.

(c) Capitalization of interest and financial charges

The Company capitalized interest and monetary adjustment, including exchange variation, in property, plant and equipment in the amount of (R\$13,338) in the year ended December 31, 2007 (2006-R\$ 5,784), and during this period these assets were presented as construction in progress.

(d) Construction in progress

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

	2007	2006
Water systems:		
Networks and connections	178,977	227,360
Transmission	22,281	29,626
Water treatment	71,375	80,130
Sub-transmission	225,646	188,342
Production and storage	160,602	126,519
Other	75,135	56,669
Total water systems	734,016	708,646
Sewage systems:		
Collection	710,960	1,133,958
Treatment	179,604	187,047
Other	128,056	133,440
Total sewage systems	1,018,620	1,454,445
Other	3,737	5,922
Total	1,756,373	2,169,013

The estimated disbursements related to already contracted investments total approximately R\$2,050 million for the years from 2008 to 2015 (unaudited).

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(e) Expropriations

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

The amount of compensation to be paid starting in 2008 is estimated at approximately R\$472 million (unaudited) which will be paid with own funds. The assets to be received as a result of these negotiations will be recorded as property, plant, and equipment after the transaction is completed. In 2007, the amount related to expropriations was R\$16,813 (2006 - R\$8,385).

(f) Assets offered as guarantee

As of December 31, 2007 and 2006, the Company had assets in the amount of R\$249,034 offered as guarantee to the request for the PAES (tax debt refinancing program) (note 12).

The three real estate properties of the Company in the amount of R\$60,539, which were offered as guarantee for a financing from the International Bank for Reconstruction and Development (BIRD) and the settlement of which took place in April 2007, are awaiting release by the Federal Government.

(g) Nonoperating assets

The Company had, as of December 31, 2007 and 2006, free lease assets in the amount of R\$26,479 mainly related to land located near operating areas.

(h) Revaluation

Property, plant and equipment items were revalued in 1990 and 1991 and are depreciated at annual rates that correspond to their remaining useful lives determined in the related reports, which, as general rule, fall into the periods of the rates presented above.

As allowed by CVM Instruction No. 197/93, the Company failed to recognize a provision for the deferred tax effect on the appreciation arising from the revaluation of property, plant and equipment in 1990 and 1991. Should income and social contribution taxes be recognized on the revaluation reserve, the unrealized amount as of December 31, 2007 would total R\$400,606 (2006 - R\$430,375). The amounts of R\$87,670 and R\$102,272 of the revaluation reserves were realized in the years ended December 31, 2007 and 2006, respectively.

(i) Totally depreciated assets

As of December 31, 2007, the book value of the fully depreciated assets that are still in use is R\$606,142 (2006 - R\$426,659).

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9. INTANGIBLE ASSETS

In the period between 1999 and 2006, the negotiations for new concessions were conducted on the basis of the economic and financial results of the transaction, determined in an appraisal report issued by independent experts.

The amount determined in the respective contract, after the transaction is closed with the municipal authorities, with payment through Company shares or in cash, is recorded in this account and amortized over the period of the related concession (usually 30 years). As of December 31, 2007 and 2006 there were no amounts pending related to these payments to the municipalities.

The net amount shown relates to concessions with the following municipalities:

	Historical cost	Accumulated amortization	Net	Net
	2007			2006
Agudos	7,773	(2,167)	5,606	5,651
Bom Sucesso do Itararé	350	(37)	313	317
Campo Limpo Paulista	15,269	(3,224)	12,045	9,038
Conchas	3,541	(590)	2,951	1,768
Duartina	1,589	(343)	1,246	1,178
Estância de Serra Negra	15,124	(1,921)	13,203	11,853
Itapira	16,123	(1,330)	14,793	13,399
Itararé	5,784	(1,617)	4,167	4,136
Marabá Paulista	1,603	(107)	1,496	364
Miguelópolis	4,431	(1,230)	3,201	3,003
Osasco	288,025	(69,165)	218,860	209,255
Paraguaçu Paulista	14,418	(4,185)	10,233	10,460
Paulistânia	154	(34)	120	122
Sandovalina	2,384	(101)	2,283	166
Santa Maria da Serra	1,147	(265)	882	867
São Bernardo do Campo	237,463	(31,026)	206,437	214,389
Várzea Paulista	13,250	(3,297)	9,953	9,152
Total	628,428	(120,639)	507,789	495,118

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10 - LOANS AND FINANCING

	2007		
	Current	Noncurrent	Total
In local currency:			
Banco do Brasil	238,194	1,642,644	1,880,838
Debentures 5th Issue	-	-	-
Debentures 6th Issue	-	427,657	427,657
Debentures 7th Issue	-	312,362	312,362
Debentures 8th Issue	-	737,438	737,438
Caixa Econômica Federal	58,267	490,904	549,171
FIDC – SABESP I	55,555	125,000	180,555
National Bank for Economic and Social Development (BNDES)	41,904	165,689	207,593
Other	3,146	18,753	21,899
Accrued Interest and financial charges	93,398	32,036	125,434
	490,464	3,952,483	4,442,947
In foreign currency:			
Eurobonds US\$238,052,000 (2006 –US\$238,052,000)	173,680	247,982	421,662
Interamerican Development Bank (IDB): US\$432,099,000 (2006 –US\$435,867,000)	64,764	700,613	765,377
International Bank for Reconstruction and Development (BIRD) (2006-US\$2,223,000)	-	-	-
JBIC – Yen 2,654,422 (2006 – Yen 652,814)	-	42,043	42,043
Interest and financial charges	13,206	-	13,206
	251,650	990,638	1,242,288
Total loans and financing	742,114	4,943,121	5,685,235

Exchange rate as of December 31, 2007: US\$1.7713; Yen 0.015839 – (2006 – US\$2.1380; Yen 0.017954)

As of December 31, 2007, the Company did not have balances of loans and financing raised in the short-term.

(a) Banco do Brasil

In March 1994, existing loan agreements with Caixa Econômica Federal were refinanced and the loan rights were transferred by that financial institution to the Federal Government, with Banco do Brasil acting as an agent. Under the terms of the agreement signed with the Federal Government, payments are made based on the “Price” amortization system, monthly indexed by the Standard Reference Unit (UPR), which is equal to the Government’s benchmark interest rate (TR), plus interest of 8.5% per year. The interest and principal amount are monthly paid with final maturity in 2014. This financing is guaranteed by the São Paulo State Government by a pledge of its own revenues and revenues of the Company.

(b) Debentures

(i) 5th Issue

On April 1, 2002, the 5th issue of registered, non-convertible debentures, without preference or guarantee, was made with a face value of R\$10 each. The face value of the 2nd series is changed monthly in view of its features, in accordance with the respective indenture.

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2006							
Current	Noncurrent	Total	Guarantees	Final maturity	Annual interest rate	Monetary restatement	
			Government of the State of São Paulo and Own Funds	2014	8.50%	UPR	
215,723	1,854,042	2,069,765					
46,038	-	46,038	No guarantees	2007	10.65%	IGP-M	
231,813	397,165	628,978	No guarantees	2010	11%	IGP-M	
-	304,350	304,350	No guarantees	2010	CDI+1.5% and 10.8%	IGP-M	
-	709,815	709,815	No guarantees	2011	CDI+1.5% and 10.75%	IGP-M	
49,648	477,628	527,276	Own Funds	2008/2022	5% to 9.5%	UPR	
55,555	180,556	236,111	Own Funds	2011	CDI + 0.70%		
31,515	154,043	185,558	Own Funds	2013	3% + TJLP 6% LIMIT		
2,791	23,136	25,927		2009/2011	12% / CDI / TJLP + 6%	UPR	
99,252	20,891	120,143					
732,335	4,121,626	4,853,961					
-	508,955	508,955	No guarantees	2008/2016	12% and 7.5%	US\$	
99,930	831,952	931,882	Federal Government	2016/2025	3.00% to 5.61%	Currency Basket Variation + US\$	
4,752	-	4,752	Federal Government	2007	5.15%	Currency Basket Variation + US\$	
-	11,721	11,721	Federal Government	2029	1.8% and 2.5%	Japanese Yen	
15,458	-	15,458					
120,140	1,352,628	1,472,768					
852,475	5,474,254	6,326,729					

The Company issued 40,000 debentures in two series, as follows:

	1st series	2nd series
Placement date	05/16/2002	05/16/2002
Number Face value - Issue	31,372 R\$313,720	8,628 R\$86,280
Payment form of	CDI + 1.85% p.a.	IGP-M + 13.25% p.a.
Return	Quarterly, except for the last installment on March 1, 2007	Annual, except for the last installment on March 1, 2007
Repayment	3 installments on April 1, 2005, April 1, 2006 and March 1, 2007	3 installments on April 1, 2005, April 1, 2006 and March 1, 2007

In April 2005, returns on both series were last renegotiated and the rate for the 1st series was changed from CDI + 2% p.a. to CDI + 1.1% p.a. and for the 2nd series from IGP-M + 12.7% p.a. to IGP-M + 10.65% p.a., effective through the end of the contracts.

On April 19, 2006, the Company early settled the 5th issue of debentures, 1st series, the settlement of which was expected for March 2007 through the use of a portion of the funds raised with SABESP I – FIDC (Receivables Investment Fund), in the amount of R\$106,373.

Interest expenses totaled R\$837 and R\$6,089 in 2007 and 2006, respectively, related to the second series. On March 1, 2007, the 2nd series of this issue was settled.

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(ii) 6th Issue

On September 17, 2004, the Company registered with CVM a securities program in the total amount of R\$1,500,000. As part of this program, the Company issued on September 1, 2004, 600,000 debentures in three series, without renegotiation, with a face value of R\$1 each, totaling R\$600,000. The date for the financial settlement of the operation was September 21, 2004 for the 1st series and September 22, 2004 for the 2nd and 3rd series.

The debentures were placed on the market as follows:

	Number	Adjustment	Interest	Payment of interest	Repayment	Maturity
1st Series	231,813	-	CDI+1.75% p.a.	Semiannual	Single payment	September 2007
2nd Series	188,267	IGP-M	11% p.a.	Annual	Single payment	September 2009
3rd Series	179,920	IGP-M	11% p.a.	Annual	Single payment	September 2010

Interest expenses totaled R\$21,708 and R\$38,054 in 2007 and 2006, respectively, related to the 1st series, R\$23,290 and R\$21,932, respectively, related to the 2nd series, and R\$22,258 and R\$20,960, respectively, related to the 3rd series. The remaining balances to be paid, amounting to R\$7,366 (2006 – R\$6,841) for the 2nd series and R\$7,040 (2006 – R\$6,538) for the 3rd series, are recorded in the caption Loans and Financing in current liabilities.

On September 3, 2007, the 1st series of the 6th issue of debentures was fully paid for.

(iii) 7th Issue

Pursuant to the program recorded with CVM on September 17, 2004, the Company issued on March 1, 2005, 300,000 debentures in two series, without renegotiation, with a face value of R\$1, totaling R\$300,000. The date for the financial settlement of the operation was March 14, 2005.

The debentures were placed on the market as follows:

	Number	Adjustment	Interest	Payment of interest	Repayment	Maturity
1st series	200,000	-	CDI+1.5% p.a.	Semiannual	Single payment	March 2009
2nd series	100,000	IGP-M	10.80% p.a.	Annual	Single payment	March 2010

Interest expenses totaled R\$26,159 and R\$32,305 in 2007 and 2006, respectively, related to the 1st series, and R\$11,974 and R\$11,162, respectively, related to the 2nd series. The remaining balances to be paid, amounting to R\$7,788 (2006 – R\$9,304) for the 1st series and R\$9,975 (2006 – R\$9,218) for the 2nd series, are recorded in the caption Loans and Financing in current liabilities.

(iv) 8th Issue

To terminate the program registered with CVM on September 17, 2004, the Company issued on June 1, 2005, 700,000 debentures, using the option to increase the number of debentures allowed by up to 20%, pursuant to the provision of paragraph 2 of Article 14 of CVM Instruction No. 400/03, in two series, without renegotiation, with the face value of R\$1 each, totaling R\$700,000. The date for the financial settlement of the operation was June 24, 2005. The amount raised was used to settle the Eurobonds contract (note 10(f(i))).

The debentures were placed on the market as follows:

	Number	Adjustment	Interest	Payment of interest	Repayment	Maturity
1st series	350,000	-	CDI+1.5% p.a.	Semiannual	Single payment	June 2009
2nd series	350,000	IGP-M	10.75% p.a.	Annual	Single payment	June 2011

Interest expenses totaled R\$45,744 and R\$56,385 in 2007 and 2006, respectively, related to the 1st series, and R\$40,496 and R\$37,953, respectively, related to the 2nd series. The remaining balances to be paid, amounting to R\$3,187 (2006 – R\$3,668) for the 1st series and R\$23,444 (2006 – R\$21,773) for the 2nd series, are recorded in the caption Loans and Financing in current liabilities.

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Covenants of the 6th, 7th and 8th issue of debentures:

- Adjusted current liquidity (current assets divided by current liabilities, excluding from current liabilities the portion of noncurrent debts contracted by the Company that are recorded in current liabilities) higher than 1.0.
- EBITDA/Financial expenses equal to or higher than 1.5.
- The noncompliance with these obligations will only be characterized as such when they can be verified in the quarterly financial statements for at least two consecutive quarters or for two nonconsecutive quarters in the same twelve-month period.

(c) Caixa Econômica Federal

Post-sanitation Program

(i) Water and sewage

Several loan agreements were signed between 1996 and 2004 under the Pro-Sanitation Program with a view to expanding and improving the water supply and sewage systems of several municipalities of the State of São Paulo and of the City of São Paulo. The loans are collateralized by the collections of the daily billings of water supply and sewage services up to the total amount of the debt.

Contractually established repayment terms range from 120 to 180 months, starting at the beginning of the related collections.

The balance as of December 31, 2007 is R\$527,669 (2006 - R\$506,221), and the unused amount of these loans is R\$396,221.

The contractual charges are:

Contract signed in:	1996	1997	1998 to 2004
Interest rate	9.5% p.a.	6.5% to 8.0% p.a.	6.5% to 8.0% p.a.
During the grace period:			
Risk rate	1.0% p.a. on the amount disbursed	1.0% p.a. on the amount disbursed	0.6% p.a. or 2% p.a. on the outstanding balance
Management fee	0.12% p.m. on the contract amount	2.0% p.a. on the amount disbursed	1.0% p.a. on the amount disbursed or 2% p.a. on the amount disbursed from the contracts signed between 2003 and 2004
In the return phase:			
Management fee	Difference between the calculation of the installment and the rate of 10.5% p.a. less the rate of 9.5% p.a.	1.0% on the debt balance	1.0% on the debt balance

(ii) Pro-Sanitation Program – “Pró-Sanear”

In 1997 and 1998, contracts were signed under the Pró-Sanear Program for the improvement of water and sewage services, with the participation of the communities receiving the services, in several municipalities of the Metropolitan Region of São Paulo. The loans are collateralized by the collections of the daily billings of water supply and sewage services up to the total amount of the debt. Repayments will be made in 180 months after the beginning of collections. As of December 31, 2007, the balance is R\$21,502 (2006 - R\$21,055), and the amount available for use from these loans, for projects already in progress, is R\$8,676.

The financial charges are:

- Interest rate - 5.0% p.a.
- Management fee (grace period) - 2.0% p.a. on the outstanding balance
- Management fee (repayment phase) - 1.0% p.a. on the outstanding balance
- Risk rate (grace period) - 1.0% on the amounts disbursed

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Covenants:

- Through the Agreement for Performance Improvement, targets are established for financial indicators (operating margin, revenue evasion, cash and cash equivalents and reduction of the number of days accounts receivable are compromised), as well as operating indicators that, based on the past two years, are annually projected for the following five years.

(d) BNDES

Contract 01.2.619.3.1 - signed in August 2002, in the total amount of up to R\$60,000, for the purpose of financing part of the Company's contribution to the Tietê River Pollution Abatement Project - Stage II, related to loan agreement 1212/OC - BR with the Interamerican Development Bank (IDB). The related project is in progress and the outstanding balance as of December 31, 2007 is R\$51,896 (2006 – R\$46,389).

The onlending agreement 10/669.748-6, in the total amount of R\$180,000, is distributed among the financing agents as follows:

Agent	Amount
Unibanco – União de Bancos Brasileiros S.A.	60,000
Banco BBA Creditanstalt S.A.	51,000
Banco Alfa de Investimento S.A.	39,000
Banco Itaú S.A.	30,000
Total	180,000

The related project is in the performance stage and the outstanding balance as of December 31, 2007 was R\$155,697 (R\$139,169 in 2006). The funds are passed on from BNDES to the agents and from the latter to SABESP. The onlending agreement has the same purpose as the agreement between BNDES and SABESP, and the same interest and repayment terms, as follows:

Interest - TJLP limited to 6% p.a., plus a spread of 3% p.a., paid quarterly during the grace period, and monthly in the repayment phase. The TJLP portion exceeding 6% p.a. will be added to the outstanding balance.

Contract repayment was initiated in September 2005, with monthly payments and conclusion scheduled for February 2013.

The contracts are collateralized by part of revenues from the provision of water and sewage services.

Covenants:

- Current ratio: higher than 1.0;
- EBITDA/Net Operating Revenue: equal to or higher than 38%.
- Total connections (water and sewage)/own employees: equal or higher than 520.
- EBITDA/Debt Service: equal to or higher than 1.5.
- Shareholders' Equity/Total Liabilities: equal to or higher than 0.8.

(e) FIDC

On March 23, 2006, a single series of senior shares and 26 subordinated shares, held in a deposit account in the name of its holders, were issued with unit value on issue date corresponding to R\$500.000 (five hundred thousand) The senior shares are being repaid in 54 monthly installments, starting October 2006, and their final maturity is in March 2011. As of December 31, 2007, the balance of subordinated shares is R\$16,121, recorded under the caption "Other receivables" in noncurrent assets; the balance of senior shares is R\$180,555, recorded under the caption "Loans and financing". Subordinated shares were subscribed and paid up exclusively by SABESP. The Fund yield benchmark corresponds to 100% of the DI rate (a managed prime rate), plus a fixed interest coupon of 0.70% per base year of 252 business days, pursuant to the terms of its regulations.

The Fund is managed by Caixa Econômica Federal and its custodian and recording agent is Banco do Brasil S.A.

The funds raised, in the amount of R\$250 million, were used by the Company to settle debts in 2006.

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(f) Eurobonds

- (i) In June 2003, the Company issued Eurobonds abroad (Eurobonds 2008) in the amount of US\$225,000 thousand. The issue was led by The Bank of New York and the principal agent was The Bank of Tokyo Mitsubishi Ltd. The interest rate is 12% p.a., paid semiannually, and final maturity is in June 2008. The funds were used for the final settlement of the US\$200,000 thousand Eurobond matured in July 2003.

On November 6, 2006, the Company settled in advance part of this loan, in the amount of R\$272,811, with funds raised through the issue of Eurobonds in the amount of US\$140,000 thousand.

- (ii) On November 3, 2006, the Company issued Eurobonds abroad (Eurobonds 2016) in the amount of US\$140,000 thousand. The issue was led by Deutsche Bank Trust Company Americas and the principal agent was Deutsche Bank Luxembourg S.A. The interest rate is 7.5% p.a., paid semiannually, and final maturity is in November 2016. As mentioned in (i) above, the funds raised were used to partially settle in advance US\$225,000 thousand in the Eurobonds issued, with final maturity in June 2008, and the amount redeemed was US\$126,948 thousand.

Due to the payment in advance of Eurobonds 2008, an amendment to the loan agreement was signed cancelling the mandatory calculation of covenants.

Covenants – for Eurobonds 2016.

Limitation against incurring new debt so that:

- total debt adjusted to EBITDA does not exceed 3.65
- the Company's debt service coverage ratio, determined on the date this debt was incurred, shall not be lower than 2.35.

(g) Inter-American Development Bank (IDB)

Loan Agreement 229 – Entered into in June 1987, in the amount of US\$163 million, to finance a sewage program for the Greater São Paulo Metropolitan Area. Semiannual repayments started in January 1994, with annual interest of 7.7% and final maturity in July 2007. In June 1987, the Federative Republic of Brazil signed a guarantee contract with IDB guaranteeing the funds for the fulfillment of the contractual obligations. The last installment was paid in July 2007.

Loan Agreement 713 - In December 1992, the Company signed a loan agreement with the IDB for US\$400 million to finance the first stage of the Tietê River Pollution Abatement Project. Semiannual repayments started in June 1999, with final maturity in December 2017. Interest varies according to the cost of loans of the Bank in each six-month period and final maturity in 2017. In December 1992, the Federative Republic of Brazil signed a guarantee contract with the IDB guaranteeing the funds for the fulfillment of the contractual obligations. The outstanding balance as of December 31, 2007 was US\$224,688 thousand, R\$397,990 (2006 - R\$507,974).

Loan Agreement 896 – In December 1992, the Company signed a loan agreement with the IDB for US\$50 million to finance the first stage of the Tietê River Pollution Abatement Project. Semiannual repayments started in June 1999, with annual interest of 3% and final maturity in December 2016. In December 1992, the Federative Republic of Brazil signed a guarantee contract with the IDB guaranteeing the funds for the fulfillment of the contractual obligations. The outstanding balance as of December 31, 2007 was US\$25,000 thousand, R\$44,282 (2006 – R\$59,389).

Loan Agreement 1212 – In July 2000, the Company signed a loan agreement with the IDB for US\$200 million to finance the second stage of the Tietê River Pollution Abatement Project. The project is in the execution stage. Total amount drawn down in 2007 was US\$33,664,000 and the unused balance is US\$2,434 thousand. The loan is being repaid semiannually and final maturity is July 2025. Interest is being paid on a semiannual basis, based on daily balances, at an annual variable rate according to the costs of loans of the Bank in the preceding six-month period, plus a spread, and changes every six months. The outstanding balance as of December 31, 2007 was US\$182,411 thousand, R\$323,105 (2006 – R\$336,625).

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Covenants

- Loan Agreements 713, 896 and 1212 - Tariffs must: a) produce revenues sufficient to cover the system's operating expenses, including administrative, operating, maintenance, and depreciation expenses; b) provide a return on property, plant, and equipment no less than 7%. During project execution, the balances of short-term loans must not exceed 8.5% of shareholders' equity.

(h) International Bank for Reconstruction and Development – BIRD

Loan Agreement 3504 – In March 1993, the State of São Paulo and SABESP signed an onlending agreement to transfer the funds covered by the basic agreement signed between the State of São Paulo and BIRD in December 1992 to finance the environmental clean-up of the Guarapiranga Basin. In December 1992, the Federative Republic of Brazil signed a guarantee contract with the BIRD guaranteeing the funds for the fulfillment of the contractual obligations. The agreement was repaid in semiannual installments since October 1997 and the last installment was paid in April 2007.

(i) Japan Bank For International Cooperation (“JBIC”)

On August 6, 2004, the Company entered into a financing agreement with the JBIC – Japan Bank For International Cooperation, guaranteed by the Federal Government, in the amount of ¥21,320 million, equivalent to approximately R\$337,687, for the Environmental Recovery Program of the Santos Metropolitan Region. Total financing period is 25 years, with a seven-year grace period and 18 years of repayment in semiannual installments. Interest is being paid on a semiannual basis since 2006, and is 2.5% p.a. for the sewage network and 1.8% p.a. for sewage treatment facilities. The balance of this loan agreement as of December 31, 2007 was R\$42,043 (2006 – R\$11,721).

(j) Covenants

As of December 31, 2007 and 2006, the Company had met all the requirements set forth by its loan and financing agreements.

(k) Maturities of loans and financing

	2008	2009	2010	2011	2012	2013	2014 onward	Total
In local currency	490,464	1,208,383	787,837	831,493	447,961	445,678	231,131	4,442,947
In foreign currency	251,650	64,764	64,764	65,900	67,037	67,037	661,136	1,242,288
Total	742,114	1,273,147	852,601	897,393	514,998	512,715	892,267	5,685,235

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11. DEFERRED TAXES

(a) Balance sheet

	2007	2006
In current assets (i)		
Deferred income tax	79,994	5,205
Deferred social contribution tax	28,798	1,873
	108,792	7,078
In long-term assets (ii)		
Deferred income tax	260,847	250,246
Deferred social contribution tax	96,379	92,408
	357,226	342,654
In current liabilities (iii)		
Deferred PASEP (tax on revenue)	21,507	22,508
Deferred COFINS (tax on revenue)	53,742	53,851
	75,249	76,359
In noncurrent liabilities (iv)		
Deferred income tax	66,909	63,594
Deferred social contribution tax	19,578	18,384
Deferred PASEP	19,128	17,033
Deferred COFINS	54,250	47,890
	159,865	146,901
	2007	2006
In net income		
Income tax	(395,634)	(288,010)
Deferred income tax	82,075	14,539
	(313,559)	(273,471)
Social contribution tax	(147,711)	(95,113)
Deferred social contribution tax	29,702	(7,194)
	(118,009)	(102,307)

(i) In current assets

Calculated substantially based on temporary differences in the amount of R\$319,977 (2006 – R\$20,819).

(ii) In long-term assets

Calculated substantially based on temporary differences in the amount of R\$1,043,388 (2006 – R\$1,000,985) related to income tax and R\$1,070,876 (2006 – R\$1,026,756) related to social contribution tax.

According to a technical feasibility study, the temporary differences mentioned in items (i) and (ii) may be realized in 2008 and 2009.

(iii) Current liabilities

Calculated substantially on billings to government entities, and the obligation is determined and the allowance is recognized when the service is provided, and its settlement when the invoices are received.

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(iv) In noncurrent liabilities

- Income and social contribution taxes

Calculated substantially based on temporary differences in the amount of R\$267,636 (2006 - R\$254,376) related to income tax and R\$217,530 (2006 – R\$204,269) related to social contribution tax.

- PASEP and COFINS

Calculated substantially on billings to government entities, and the obligation is determined and the allowance is recognized when the service is provided, and its settlement when the invoices are received.

(b) Breakdown of deferred income and social contribution taxes

In current assets	2007	2006
Provision for contingencies	108,792	7,078
In long-term assets		
Provision for contingencies	225,697	226,265
Accrued pension obligation	121,039	106,097
Other	10,490	10,292
	357,226	342,654
Total deferred tax assets	466,018	349,732

	2007	2006
In current liabilities		
Revenue from public entities	75,249	76,359
In noncurrent liabilities		
Profit from governmental agencies	86,487	81,978
Revenue from governmental agencies	73,378	64,923
	159,865	146,901
Total deferred tax liabilities	235,114	223,260

(c) Reconciliation of the effective tax rate

The amounts recorded as income and social contribution tax expenses in the financial statements are reconciled to the statutory rates, as shown below:

	2007	2006
Income before taxes	1,480,271	1,189,805
Statutory rate	34%	34%
Expected expense at statutory rate	(503,292)	(404,534)
Permanent differences:		
Realization of revaluation reserve	(29,808)	(34,772)
Interest on shareholders' equity	102,253	92,086
Other differences	(721)	(28,558)
Income and social contribution taxes	(431,568)	(375,778)
Current income and social contribution taxes	(543,345)	(383,123)
Deferred income and social contribution taxes	111,777	7,345
Effective rate	29%	32%

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12. TAXES PAYABLE

	Current		Noncurrent	
	2007	2006	2007	2006
Income tax	4,420	-	-	-
Social contribution tax	5,331	-	-	-
COFINS and PASEP	41,629	38,142	-	-
PAES (tax debt refinancing program)	43,918	41,897	197,635	230,440
INSS (social security contribution)	20,072	18,230	-	-
Other	12,365	7,283	-	-
Total	127,735	105,552	197,635	230,440

The Company applied for enrollment in PAES on July 15, 2003, in accordance with Law No. 10684 of May 30, 2003, and included in its application the debts related to COFINS and PASEP which were involved in a legal action challenging application of Law 9718/98, and the outstanding balance under the Tax Recovery Program (REFIS). The total amount included in PAES was R\$316,953, as follows:

Tax	Principal	Fine	Interest	Total
COFINS	132,499	13,250	50,994	196,743
PASEP	5,001	509	2,061	7,571
REFIS	112,639	-	-	112,639
Total	250,139	13,759	53,055	316,953

The debt is being paid in 120 months. The amounts paid in 2007 and 2006 were R\$43,002 and R\$40,824, respectively, recorded as financial expenses of R\$12,218 and R\$17,646, respectively. The debit balance as of December 31, 2007 was R\$241,553. The assets pledged as guarantee under the previous REFIS Program, in the amount of R\$249,034, continue to guarantee the PAES Program amounts.

13. PENSION OBLIGATIONS

(a) Health benefit plan

Managed by Fundação SABESP de Seguridade Social – SABESPREV, which provides optional, freely-chosen health plans maintained by contributions from the Company (sponsor) and participants, which were as follows:

Company: 7.2% (2006 – 7.0%) on average on gross payroll;

Participating employees: 3.21% of base salary and premiums, equivalent to 2.3% of gross payroll, on average.

(b) Pension Benefits

The defined-benefit pension plan managed by SABESPREV is supported by monthly contributions amounting to 2.10% from the Company and 2.3% from participants. In order to meet the provisions of CVM Resolution No. 371 of December 13, 2000, the amounts of the pension and retirement benefits granted or to be granted, to which employees are entitled after retirement, are presented below.

As of December 31, 2007, based on the report of the independent actuary calculated under the Projected Unit Credit Method, SABESP had a net actuarial liability of R\$365,234 (R\$321,212 in 2006) representing the difference between the present value of the Company's obligations to the participating employees, retired employees, and pensioners, and the value of the related assets, as shown below:

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	2007	2006
(i) Reconciliation of assets and liabilities		
Present value of actuarial obligations	(1,386,563)	(1,096,219)
Fair value of plan assets	969,440	812,909
Gains to be recognized in future years	51,889	(37,902)
Net liabilities	(365,234)	(321,212)
Unrecorded portion of past service liabilities	-	-
Net liabilities recorded in balance sheets	(365,234)	(321,212)
(ii) Expenses recognized in the statements of income		
Cost of current service	33,440	17,545
Cost of interest	131,848	93,270
Expected return on plan assets	(96,439)	(83,065)
Amortization of (gain) loss	-	(9,508)
Employees' contributions	(12,925)	(15,411)
Amortization of cost of past service	-	53,214
Total	55,924	56,045
(iii) Changes in net actuarial liabilities		
Present value of net actuarial obligation at beginning of year	(321,212)	(276,558)
Cost of current service	(33,440)	(17,545)
Cost of interest	(131,848)	(93,270)
Expected return on plan assets	96,439	83,065
Amortization of (gain) loss	-	9,508
Employees' contributions	12,925	15,411
Amortization of cost of past service	-	(53,214)
	(377,136)	(332,603)
Actual Company contributions for the year	11,902	11,391
Present value of actuarial obligation at end of year	(365,234)	(321,212)
(iv) Changes in fair value of plan assets		
Fair value of plan assets at beginning of year	812,909	678,185
Actual income from fair value of plan assets	183,748	138,444
Actual contributions for the year	24,827	26,802
Benefits paid	(52,044)	(30,522)
Fair value of plan assets at end of year	969,440	812,909
(v) Changes in present value of liabilities		
Present value of liabilities at beginning of year	1,096,219	790,552
Current service costs	33,440	17,545
Interest costs	131,848	93,270
Benefits paid	(52,044)	(30,522)
Present value of liabilities	177,100	225,374
Present value of liabilities at end of year	1,386,563	1,096,219

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	2008	2007
(vi) Estimated expenses		
Cost of current service	33,347	33,440
Cost of interest	164,124	131,848
Expected return on plan assets	(117,317)	(96,439)
Amortization of (gain) loss	-	-
Employees' contributions	(13,025)	(12,925)
Amortization of cost of past service	-	-
Total	67,129	55,924

(vii) Actuarial assumptions

Several statistical and other factors that seek to project future events are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets and the rate of future salary increases as determined by SABESP, within certain internal guidelines. In addition, the actuary also uses subjective factors such as termination, turnover and mortality rates to estimate these factors. The actuarial assumptions used by SABESP are reviewed on a routine basis and may differ materially from the actual results due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower termination rates or longer or shorter life spans of participants. These differences may result in a significant impact on the amount of pension expense recorded by SABESP.

The assumptions used for the actuarial valuation are the following:

Economic assumptions	2007	2006
Discount rate	10.85% p.a.	12.32% p.a.
Expected rate of return on plan assets	10.85% p.a.	12.06% p.a.
Future salary growth rate	6.08% p.a.	6.08% p.a.
Increase in social security retirement benefits and limits	4.00% p.a.	4.00% p.a.
Capacity factor		
- Salaries	98%	98%
- Benefits	98%	98%

Demographic assumptions for	2007	2006
Mortality table	AT 83	AT 83
Disability mortality table	RRB 44	RRB 1944
Disability table	RRB 44	Modified RRB 1944
Turnover table	Prudential	Prudential
Retirement age	First age entitled to one of the benefits	First age entitled to one of the benefits
% of active participants married on the retirement date	95%	95%
Age difference between participants and their spouses	Wives are four years younger than their husbands	Wives are four years younger than their husbands

For the 2007 actuarial valuation, to conform the study to the current long-term economic circumstances, the Company changed its discount rate to 10.85% per year, from 12.32% per year as a result of an interest rate of 6.59%, plus an annual inflation rate of 4%.

The number of active participants as of December 31, 2007 was 15,881 (16,681 in 2006). The number of beneficiaries, retirees and pensioners as of December 31, de 2007 was 4,245 (3,692 in 2006).

The valuation of the costing plan of SABESPREV is carried out by an independent actuary, and the assumptions used differ from those applied for purposes of calculating employee benefits, established by CVM Resolution No. 371. SABESPREV's

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technical deficit calculated as of December 31, 2007 amounts to R\$319,463 (2006 - R\$491,391). Calculations differ substantially in relation to the actuarial method applied for determining risk benefits before retirement age, with the apportionment method used by SABESPREV versus capitalization to comply with CVM Resolution No. 371.

Under CVM Resolution No. 371, the Company elected to recognize, starting 2002, for a five-year period, the actuarial liability on the pension plan granted to its employees, determined as of December 31, 2001, in the amount to R\$266,074.

As required, the amount related to the past service cost is recorded as "Extraordinary item", net of taxes, and it is presented in the statement of income, as follows:

	2007	2006
Extraordinary item	-	53,215
Deferred income and social contribution taxes	-	(18,093)
Extraordinary item, net	-	35,122
Liabilities as of December 31, 2001		266,074
Extraordinary item recorded in the period 2002-2006		(266,074)

The Sponsor and SABESPREV initiated negotiations to resolve the technical deficit through the settlement and the migration from the defined benefit plan to the variable contribution plan. Management estimates it will not incur in additional costs as result of the changes in the mentioned plans.

14. PROFIT SHARING

As a result of negotiations held by the Company and the entities representing the employees, the Company implemented a Profit Sharing Program for the period January-December 2007, with the payment of the amount corresponding to up to one month's payroll, depending on achievement of targets.

In December 2007, the Company paid an advance R\$17,361, and the supplementary payment, if applicable, will be paid in 2008.

In 2007, the Company accrued R\$51,351.

15. PROVISION FOR CONTINGENCIES

(a) Lawsuits with probable likelihood of loss

The Company is a party to a number of claims and legal proceedings lawsuits arising in the normal course of business, including civil, labor, environmental, tax and other litigation. The Company recognized provisions for lawsuits at amount considered by Management and its legal counsel as sufficient to cover probable losses. As of December 31, 2007 and 2006, these reserves are presented according to the nature of the corresponding claims, as follows:

	2007	2006
Customers (i)	526,302	273,258
Contractors (ii)	174,556	168,547
Other civil lawsuits (iii)	127,890	76,909
Tax (iv)	34,491	21,162
Labor (v)	61,747	71,213
Environmental (vi)	50,075	65,988
Subtotal	975,061	677,077
Escrow deposits	(29,805)	(19,525)
Total, net of escrow deposits	945,256	657,552
Current	290,172	2,294
Noncurrent	655,084	655,258

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Changes in the provision for contingencies for the year ended December 31, 2007 are as follows:

	Dec 06	Additions	Exclusions	Interest, monetary adjustments and reversals	Dec 07
Customers	273,258	198,570	(46,408)	100,882	526,302
Contractors	168,547	9,838	(14,863)	11,034	174,556
Other civil lawsuits	76,909	36,131	(26,302)	41,152	127,890
Tax	21,162	4,477	(3,042)	11,894	34,491
Labor	71,213	8,112	(27,102)	9,524	61,747
Environmental	65,988	9,827	(34,281)	8,541	50,075
Subtotal	677,077	266,955	(151,998)	183,027	975,061
Escrow deposits	(19,525)	(26,276)	17,031	(1,035)	(29,805)
Total	657,552	240,679	(134,967)	181,992	945,256

During 2007, the Company paid R\$145,668, which comprises the provision amount, adjusted through the actual payment date.

(b) Lawsuits with possible likelihood of loss

The ongoing lawsuits at various administrative levels or in courts, in which the Company is a defendant, for which losses are considered by the Company's legal counsel as possible losses, and for which provisions have therefore not been recognized in the financial statements, are as follows:

	2007	2006
Customers (i)	709,000	789,300
Contractors (ii)	254,100	198,500
Other civil lawsuits (iii)	195,300	141,600
Tax (iv)	199,900	104,900
Labor (b)	70,400	43,700
Environmental (vi)	514,400	192,400
Total	1,943,100	1,470,400

(i) Customers

Approximately 1,170 lawsuits were filed by commercial customers, which claim that their tariffs should be equal to the tariffs of another consumer category, and therefore claim the refund of the amounts collected by SABESP. The Company was granted both favorable and unfavorable final decisions at several courts, and recognized a provision when the likelihood of loss is considered probable. In 2007, the Company started a review work to improve the methodology to quantify the lawsuits involving customers, considering the most recent history of favorable and unfavorable court decisions to improve its disbursement estimate. The result of this process evidenced the need to increase the provision by approximately R\$253 million, net of exclusions.

(ii) Contractors

Contractors' claims include lawsuits filed by some building companies alleging an underpayment of monetary adjustments, withholding of amounts related to the understatement of official inflation rates after the Real economic plan, and the economic and financial imbalance of the agreements. These lawsuits are in progress at different courts and a reserve is recognized when the likelihood of loss is considered probable. The R\$55,600 increase in lawsuits whose likelihood of loss is considered possible is related to the inclusion of monetary adjustment, interest and fees for the year.

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The Company is a party to several civil lawsuits related to indemnities for property damage, pain and suffering, and loss of profits allegedly caused to third parties. As of December 31, 2007, the Company recognized provisions of R\$127,890 (R\$76,909 in 2006) for claims whose likelihood of loss is considered probable. There was an increase both in lawsuits with probable and possible risk of loss, arising from the increase in lawsuits and the review of the expected outcomes, comprising monetary adjustment, interest and fees for the year.

(iv) Tax

The provision for tax contingencies refers mainly to issues related to tax collections challenged due to differences in the interpretation of legislation by the Company's legal counsel.

In 2006, the Federal Revenue Service, by means of a tax execution, audited the Company's compliance with the tax obligations related to income and social contribution taxes for calendar 2001, and recognized taxes payable in the amount of R\$277 million (R\$298 million adjusted through December 31, de 2007). The Company filed a timely objection and will appeal against the tax assessment at administrative level and in courts. According to its legal counsel, the likelihood of loss in approximately 90% of this administrative proceeding is considered remote and 10% possible.

The company filed for an injunction to challenge the revocation of the exemption from tax service granted by the Municipality of São Paulo, under a City Law enacted in 2002. In April 2003, the exemption request was granted under an injunction determining the suspension of tax payments. In May 2005, the courts issued a decision overruling the injunction. In July 2005, SABESP filed an appeal to ensure the injunction granted remained in effect. There is no final decision on the lawsuit, and the likelihood of a favorable outcome is considered possible. Concurrently, on September 18, 2006, the São Paulo Municipal Finance Department issued a tax deficiency notice, against which the Company filed timely administrative objection, with subsequent rejection of the appeal filed with lower courts, whose involved amount is estimated at R\$70.0 million (R\$120 million as adjusted through December 31, 2007).

The Company filed lawsuits against the Municipalities of Bragança Paulista and São Paulo due to the collection of a charge on the use of public areas to install water and sewage networks used for the water supply and sewage services provided to these municipalities. In the lawsuit filed against the Municipality of Bragança Paulista, the Company was granted a remedy suspending this charge and preventing the Municipality from collecting any current or future amounts related to such charge until there is a final decision on the merit of the lawsuit. In June 2005, the lower court decided favorably to the Company and the initial remedy was maintained. The Municipality appealed against the decision, which is awaiting judgment by the Court of Justice. As regards the lawsuit filed against the Municipality of São Paulo, the lower court issued a decision confirming the legality of the municipal charge. The Company filed an appeal and awaits judgment. Subsequently, a new Law was approved to implement the collection of a charge on the use of public areas in the city of São Paulo. In April 2004, the Company filed for an injunction to suspend the collection of the municipal charge. The injunction was granted by the lower court and confirmed when the decision was issued, which recognizes the charge as undue. The Municipality filed an appeal and is awaiting judgment by the Court of Justice. The Company, based on the assessment of its legal advisors, did not recognize any provision for this municipal charge.

All tax collection proceedings involving the Company and the Municipality of Ferraz de Vasconcelos were reviewed, resulting in an increase of approximately R\$39 million, changing the likelihood assessment from remote to possible.

(v) Labor

The Company is a party to labor lawsuits, involving issues such as overtime, health hazard premium and hazardous duty premium, prior notice, change of function, salary equalization, and other. Part of the amount involved is in provisional or final execution at various court levels, and thus is classified as of probable loss and accordingly a provision was recognized.

On October 6, 1989, Sintaema (Union of the Water, Sewage, and Environmental Workers of São Paulo) filed a lawsuit against the Company claiming the payment of salary differences arising from health hazard premium from September 1987 to February 1991. On December 19, 1997, the Superior Labor Court issued a decision unfavorable to SABESP. The

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Company appealed against this decision, which was maintained by the Superior Labor Court. Sintaema started the execution of the court decision and the court expert report presented on February 21, 2007 determined the payment of R\$28,313 (R\$30,735 adjusted through December 31, 2007). The Company's legal counsel considered the risk of loss as probable and a provision is recognized as of December 31, 2007.

(vi) Environmental

Refers to several administrative proceedings and lawsuits filed by government entities, including Companhia de Tecnologia de Saneamento Ambiental – Cetesb and the São Paulo State Public Prosecution Office for the imposition of fines for environmental damages allegedly caused by the Company.

Some of the litigation involving the São Paulo State Public Prosecution Office is as follows:

(a) On April 4, 2002, the Company was included in a public action filed by the District Attorney's Office of São Bernardo do Campo for the remediation of damages caused by slurry discharges made by the Company's water treatment facilities, and demanding de discontinuation of such discharges. The lower court issued a decision favorable to the Company, against which an appeal was lodged. The Court of Justice decided against the Company and ordered it to discontinue discharging waste within one year from the date the decision is considered final, provide environmental remediation within two years after the date set as final, or pay a daily fine of R\$10 and compensation for the environmental damage caused. The Company's legal counsel assessed the risk of loss as probable and the reserve recognized represents the adjusted amount of R\$163, which reflects the amount attributed to the lawsuit; **(b)** Public lawsuit filed by the São Paulo State Public Prosecution Office against SABESP to force the Company to discontinue the discharge of untreated sewage in the Borá river or any other river in the Borá municipality, and invest in the water supply and sewage treatment system of the same municipality by building the necessary facilities. The court expert estimated the damages at R\$41,022, which is not yet final as there is no court decision on this lawsuit; **(c)** On February 25, 2003, an environmental public lawsuit was filed by the Public Prosecution Office against SABESP to force the Company to discontinue the discharge of untreated sewage in the Boa Esperança river or any other river in the Lutécia municipality, and invest on the water and sewage treatment system of the same municipality by building the necessary facilities, and pay indemnity for the environmental damages caused. The court expert estimated the damages at R\$82,779, which is not yet final as there is no court decision on this lawsuit. These lawsuits (b and c) are at settlement stage with the Public Prosecution Office and the Company recognized a reserve in the amount of the expected disbursement, budgeted in the action plans for the Lutécia municipality at the adjusted amount of R\$3,889, related to Reforesting, the Urban Sewage Master Plan, and the Lutécia Sewage System and Recyclable Material Receiving Center; the action plan for the Borá municipality includes the adjusted amount of R\$744, which refers to Reforesting, the Urban Sewage Master Plan, and the Resort Recovery and Adaptation. **(d)** The São Paulo State Public Prosecution Office filed a public lawsuit against SABESP, AES Eletropaulo, Dae, Cetesb and the São Paulo State Finance Department seeking conviction of these entities for the alleged environmental damages caused because of the inversion of the Pinheiros River stream to the Billings Dam. The lower court decision, based on an experts' report that estimated damages at R\$284,525, jointly convicted the parties to pay this amount, monetarily adjusted since June 2,000 through December 2007, totaling R\$491,575. SABESP, Dae, AES Eletropaulo, Cetesb and the State Finance Department filed an appeal with the Appeal Court and are awaiting a decision, as they understand that there is no factual evidence of the damages. There is no guarantee that this joint conviction will be maintained by the Appeal Court. Due to the recent decision, this lawsuit, previously classified as of remote loss, is now assessed by the Company's legal counsel as of possible loss.

The Company is a party to other environmental lawsuits in municipalities where it operates, arising from the discharge of untreated waste, assessed as probable and possible risks of loss by its legal counsel. The amounts recognized in reserves do not always represent the final amount to be disbursed as indemnity of alleged damages, in view of the current stage in which the such lawsuits are and Management's incapability to reasonably estimate the amounts of future disbursements. As of December 31, 2007, total provision represents the R\$50,075, already including the amounts referred to in items (a), (b) and (c).

(vii) Settlements reached in 2007

- a) The Company reached a settlement with the Municipality of Bragança Paulista related to the tax collection proceeding for the payment of R\$13,105, adjusted through December 6, 2007, arising from fines imposed by the City Health Department. The Municipality granted a discount totaling R\$4,323 on interest and fine. On December 27, 2007, part of the Municipality's debt to SABESP was offset against the fines imposed by the Municipality Health Department, in the amount of R\$8,782, and the remaining debt balance from unpaid tariffs, in the amount of R\$1,080, was divided into 99 installments, monetarily adjusted through the settlement execution date.
- b) The Company reached a settlement with the Public Prosecution Office for the construction of the Domestic Sewage Treatment System facilities in the municipality of Boituva and Environmental Compensation within 54 months as from the signature of the settlement, estimated at R\$12,776. From this amount, R\$3,933 will be built by municipality contractors and R\$8,843 will be the responsibility of SABESP.
- c) The Company reached a settlement with the Public Prosecution Office for the construction of the Domestic Sewage Treatment and Deviation System facilities in the municipality of Santa Cruz do Rio Pardo and Environmental Compensation for the recovery of riverbank forest of the Mandaguari river, which total R\$1,250. The start of the riverbank forest recovery project is scheduled for February 2008, to be completed by February 2012.
- d) Public lawsuit filed with the Paraguaçu Paulista District (1st Court of Paraguaçu Paulista) seeking compensation for and discontinuation of the environmental damages allegedly caused by the discharge of untreated sewage by Company in the Alegre river, located in the municipality of Paraguaçu Paulista. The lower court judge issued a decision unfavorable to the Company, ordering the Company to: (a) discontinue the discharge of untreated sewage in the Alegre river; (b) invest in the water and sewage treatment systems in the municipality of Paraguaçu Paulista; and (c) paid an indemnity for the remediation of the environmental damages, arbitrated by the court at the adjusted amount of R\$168.9 million. The decision also determined that failure to comply with items (a) and (b) above subjects the Company to the payment of daily fines. The Company appealed against the decision; however, the works required to meet items (a) and (b) above are scheduled to end in October 2007. On September 21, 2006, the Company's appeal was judged by the São Paulo State Court of Justice. The Company reached a settlement with the Public Prosecution Office of R\$42,789 and 54 months to complete construction, of which R\$34,070 refers to compensation for environmental damages.

(viii) Other lawsuits related to the Concession

On December 2, 1997, the Municipality of Santos enacted a law taking over the Company's water and sewage systems in Santos. In response, the Company filed an action seeking an injunction that stayed this takeover. The injunction was denied by the lower court; however, this decision was later overruled by the São Paulo State Court of Justice, which granted an injunction suspending this law. The lower court issued a decision favorable to the Company, and the Municipality of Santos filed an appeal against such decision. This decision was sustained by the Appeal Court; however, it is not final. Despite the pending lawsuit, The Company maintains its water and sewage services to the Santos municipality.

The Municipality of Itapira declared the nullity of the concession agreement and filed a Repossession Action, which was accepted by the court. SABESP filed an appeal against this decision which is pending judgment, and the Company, due to the lawsuit filed against said Municipality, withdrew the appeal because of previous appreciation of the same matter.

The Municipality of Tuiuti filed a declaratory action claiming the recognition of the lack of a legal relationship with SABESP that would allow the Company to continue providing water supply and sewage services in the Tuiuti municipality, and to determine the takeover by the Municipality of such utility services. SABESP filed a counterclaim to have the existence of a legal relationship between the parties declared and seeking compensation for the investments made. The lawsuit is at fact-finding phase, so that an inspection can be conducted.

The Municipality of Cajobi filed a Repossession Action to regain control over the water supply and sewage services before the agreement termination and termination of the concession, which occurred on November 13, 2006, and the consequent return to the Concession Grantor of all returnable assets, rights and privileges transferred. The action also seeks convicting SABESP

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to the payment of damages for the amounts received as water supply and sewage tariffs that the Municipality did not receive from the provision of these services, since the enactment of Municipal Decree No. 767, of November 13, 2006 (which provides for the repossession of the services granted), and the use of the concession assets. The Municipality is in charge of these services since May 29, 2007, under a decision granted through a bill of review. The lawsuit is in fact-finding phase.

The Municipality of Monte Alto filed a Repossession Action combined with a claim for damages and declaration of termination of the concession agreement, as it intends to resume the provision of the water supply and sewage services before the termination of the concession, which occurred on October 23, 2006, and the consequent return to the Concession Grantor of all returnable assets and the management of the services under the concession agreement. The injunction was granted by the Fourth Public Law Chamber of the Court of Justice based on the bill of review filed by the Municipality and fulfilled on November 17, 2006. SABESP resumed services for a brief period, but the Municipality managed to take over the services, which it maintains to date. The lawsuit is in fact-finding phase.

The Municipality of Araçoiaba da Serra filed a Repossession Action to obtain an injunction that authorized the Municipality to enter the facilities related to the concession, including all the chattels and properties related to the water supply and sewage services, and start to manage, operate and exploit such services, before the termination of the concession on September 23, 2006. At the end, the Municipality claims the definite repossession, ensuring the return of all the assets, rights and privileges previously transferred to SABESP. The injunction was initially granted and afterward maintained by the Appeal Court, granting the Municipality the right to remain in charge of the services. In addition, SABESP filed for an interlocutory injunction requiring evidence be produced in advance. The lawsuit is in fact-finding phase.

16. SHAREHOLDERS' EQUITY

(a) Authorized capital

The Company is authorized to increase capital up to the limit of R\$4,100,000, based on a Board of Directors' resolution and after submission to the Supervisory Board.

In case of a capital increase, issue of convertible debentures and/or share warrants through private placement, the shareholders shall have preemptive rights proportional to the number of shares held at the time, in compliance with Article 171 of Law No. 6404/76.

(b) Reverse stock split

The Shareholders' Meeting held on April 30, 2007, approved the reverse stock split proposal. The shares were grouped at the ratio of 125-for-1 and since June 4, 2007 are traded in Brazilian reais per share. Capital started to be represented by 227,836,623 registered common shares, without par value, and SABESP's capital remains unchanged.

Concurrently with the reverse stock split, the American Deposit Receipts (ADRs) started to be traded at the ratio of 1 ADR for each to 2 shares.

(c) Subscribed and paid-up capital

Subscribed and paid-up capital is represented by 227,836,623 common shares, without par value, distributed as follows:

Shareholders	2007		2006	
	Number of shares	%	Number of shares	%
São Paulo State Finance Department	114,508,087	50.26	14,313,511,867	50.26
Companhia Brasileira de Liquidação e Custódia	61,690,601	27.08	7,722,535,287	27.11
The Bank Of New York ADR Department (equivalent in shares)(*)	51,409,636	22.56	6,415,657,250	22.53
Other	228,299	0.10	27,873,423	0.10
	227,836,623	100.00	28,479,577,827	100.00

(*) each ADR is equivalent to 2 shares

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(d) Distribution of earnings

Shareholders are entitled to a mandatory minimum dividend of 25% of net income, calculated in conformity with Brazilian corporate law. Approved dividends are not subject to interest and amounts unclaimed within three years after the Shareholders' Meeting that approved such date are transferred to the Company.

Mandatory minimum dividends are calculated as follows:

Net income	1,048,703
(-) Legal reserve – 5%	52,435
Net income	996,268
Mandatory minimum dividend	249,067

In 2007, the Company paid interest on shareholders' equity attributed to dividends in the amount of R\$279,494, net of withholding income tax in the amount of R\$21,250. In 2006 the amount paid was R\$251,238, net of income tax of R\$19,603. Interest on shareholders' equity was calculated in conformity with article 9 of Law No. 9249/95, at the Long-term Interest Rate (TJLP); this interest was originally recorded in "Financial expenses" for income and social contribution tax deductibility purposes and subsequently, for presentation purposes, was reflected directly in "Shareholders' equity".

(e) Capital reserve

Comprises tax incentives and donations from government entities and private entities, totaling R\$17,565 in 2007 (R\$27,870 in 2006).

(f) Profit reserves

(i) Allocation of net income

	2007	2006
1 - Net income	1,048,703	778,905
(+) Realization of revaluation reserve	87,670	102,272
(-) Interest on shareholders' equity	300,744	270,841
(-) Legal reserve – 5%	52,435	38,946
Investment reserve	783,194	571,390

2 – Management will propose to the Shareholders' Meeting the transfer of the retained earnings balance of R\$783,194 to the Investment reserve account, to cover the needs of investments with own funds, as planned in the Capital Budget. Concurrently, it will send a proposal for the capitalization of part of the profit reserves, in the amount of R\$2,800,000, as this reserve exceeds capital.

After the capitalization of the profit reserve, capital will be R\$6,203,688.

(ii) Investment reserve

Comprised specifically of internal funds for expansion of water supply and sewage service systems.

17. INSURANCE COVERAGE

Insurance policies held by the Company provide the following coverage, taking into account the risks and nature of assets, as follows:

Type of insurance	Insured amount – R\$ (*)	Premium (*)
Engineering risk	288,494	644
Fire	307,743	331
Civil liability - Directors & Officers	80,000	3,000
Civil liability - construction in progress	11,051	482
Civil liability – operating	1,500	160

(*) Unaudited information

The Company does not have an environmental and loss of profits insurance.

18. FINANCIAL INSTRUMENTS AND RISKS

In accordance with CVM Instruction No. 235/95, the Company estimated the fair value of their financial instruments, using available market information and appropriate estimation methodologies. However, considerable judgment is required to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair values.

As of December 31, 2007, the carrying amounts and fair values of the main financial instruments are as follows:

	Carrying amount	Fair value	Unrealized gain (loss)
Temporary cash investments (i)	392,164	392,164	-
Loans and financing (ii)	(5,685,235)	(5,702,906)	(17,671)
Market debts (ii a)	(2,188,953)	(2,206,624)	(17,671)
Institutional debts (ii b)	(3,496,282)	(3,496,282)	-
	(5,293,071)	(5,310,742)	(17,671)

(a) Fair value of financial instruments

The Company's main asset and liability financial instruments as of December 31, 2007 are described below, as well as their measurement criteria:

(i) **Temporary cash investments** – The fair value of these assets approximates the amounts stated in the Company's balance sheets.

(ii) **Loans and financing** – Liability financial instruments are divided into two groups:

a. **Market debts** – Debts incurred to obtain funds in the market to cover possible cash requirements of the Company. The financial instruments composing this group are debentures, bonds and FIDC (Receivables Investment Funds), placed in the financial market through book building or similar procedures, in which yield rates demanded by investors are defined at the time of negotiation.

The fair value measurement criteria adopted by the Company for these financial instruments was the UP (unit price) average-deviation method used in the last negotiations, in 2007, carried out in the secondary market in relation to the average UP in the curve.

The information necessary for this measurement was extracted from the following sources: SND – Sistema Nacional de Debentures (National Debenture System), BovespaFix and Bloomberg.

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- b. Institutional debts – Debts incurred for the purpose of financing a project related to SABESP's corporate purpose: water supply and sewage works.

This financing has long-term features, at specific interest rates defined by development agencies (Caixa Econômica Federal, National Bank for Economic and Social Development, Fehidro), and multilateral agencies (IDB, BIRD, JBIC), which prevents us from measuring this financing at fair value.

(b) Exchange rate risk

This risk arises from the possibility that the Company may incur in losses due to exchange rate fluctuations, which would increase the liability balances of foreign currency-denominated loans and financing obtained in the market and the related financial expenses. The Company does not have hedge or swap contracts to hedge against this risk, in view of the amounts, costs involved and opportunities. However, when possible, it makes advance purchases of foreign currencies and obtains funding in local currency, as a way to protect itself against exchange rate fluctuations.

A significant portion of the Company's debt is pegged to the US dollar, the euro and other foreign currencies, totaling R\$1,242,288 (Note 10). The Company's net exposure to the exchange rate risk as of December 31, 2007 is summarized as follows:

	In thousands	
	US\$	Japanese Yen
Loans and financing	670,151	2,654,422

(c) Interest rate risk

This risk arises from the possibility that the Company may incur losses due to interest rate fluctuations and indices that increase their interest expenses on loans and financing. The Company has not entered into any derivative contract to hedge against this risk; however, it continually monitors market interest rates, in order to evaluate the possible need to replace its debt. As of December 31, 2007, the Company had R\$1,021,118 in loans and financing which were obtained at variable interest rates (CDI and TJLP).

Another risk faced by the Company is the lack of correlation between the monetary adjustment indices of its debt and those of its receivables. Water supply and sewage treatment tariffs do not necessarily follow the increases in the interest rates affecting the Company's debt.

(d) Credit risk

Credit risk is mitigated by selling to a geographically dispersed customer base.

19. GROSS REVENUE

	2007	2006
Metropolitan São Paulo area	4,888,077	4,534,093
Regional systems (i)	1,560,134	1,449,919
Total	6,448,211	5,984,012

(i) Comprises municipalities operated in São Paulo State inland and coastal regions.

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20. OPERATING EXPENSES

	2007	2006
Cost of sales and services:		
Payroll and related charges	970,065	966,751
General supplies	121,821	117,872
Treatment supplies	112,339	104,466
Outsourced services	384,114	326,422
Electricity	472,525	446,974
General expenses	31,316	32,560
Depreciation and amortization	603,516	621,719
	2,695,696	2,616,764
Selling expenses:		
Payroll and related charges	158,338	159,094
General supplies	5,373	5,276
Outsourced services	88,585	80,467
Electricity	736	768
General expenses	58,554	58,946
Depreciation and amortization	4,627	2,716
Allowance for doubtful accounts, net of recoveries	323,339	411,918
	639,552	719,185
Administrative expenses:		
Payroll and related charges	137,267	132,554
General supplies	4,621	4,574
Outsourced services	66,300	79,379
Electricity	1,218	1,119
General expenses	291,803	118,646
Depreciation and amortization	14,406	17,736
Tax expenses	43,575	33,399
	559,190	387,407
Costs, and selling and administrative expenses:		
Payroll and related charges	1,265,670	1,258,399
General supplies	131,815	127,722
Treatment supplies	112,339	104,466
Outsourced services	538,999	486,268
Electricity	474,479	448,861
General expenses	381,673	210,152
Depreciation and amortization	622,549	642,171
Tax expenses	43,575	33,399
Allowance for doubtful accounts, net of recoveries		
5 (c(ii))	323,339	411,918
	3,894,438	3,723,356

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	2007	2006
Financial expenses:		
Interest and other charges on loans and financing - local currency	447,046	517,547
Interest and other charges on loans and financing - foreign currency	66,329	121,194
Interest on shareholders' equity - 16 (f(i))	300,744	270,841
Reversal of interest on shareholders' equity (reversal)	(300,744)	(270,841)
Other financial expenses	69,287	38,649
Income tax on remittance abroad	6,346	12,564
Monetary variation on loans and financing	101,310	86,594
Other monetary variations	8,059	10,937
Reserves for financing contingencies	183,027	(2,675)
	881,404	784,810
Financial income:		
Monetary variation gains	34,281	28,475
Income from temporary cash investments	51,469	50,882
Interest and other	46,659	46,590
	132,409	125,947
Financial result, net	748,995	658,863
Exchange variations, net:		
Exchange variation on loans and financing	(188,411)	(96,071)
Other exchange variation	87	-
Exchange gains	286	473
	(188,038)	(95,598)

21. SEGMENT INFORMATION

The Company reports two identifiable segments: (i) water supply systems; and (ii) sewage collection systems.

	2007		
	Water systems	Sewage systems	Total
Gross revenue from sales and services - retail	3,325,826	2,724,400	6,050,226
Gross revenue from sales – wholesale	291,705	8,002	299,707
Other revenue from sales and services	64,359	33,919	98,278
	3,681,890	2,766,321	6,448,211
Deductions from gross revenue	(272,575)	(204,794)	(477,369)
Net revenue from sales and services	3,409,315	2,561,527	5,970,842
Cost of sales and services and operating expenses	(2,534,679)	(1,359,759)	(3,894,438)
Income from operations before financial expenses and exchange variation, net	874,636	1,201,768	2,076,404

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	2006		Total
	Water systems	Sewage systems	
Gross revenue from sales and services – retail	3,093,122	2,530,796	5,623,918
Gross revenue from sales – whosale	265,298	1,870	267,168
Other revenue from sales and services	60,738	32,188	92,926
	3,419,158	2,564,854	5,984,012
Deductions from gross revenue	(241,885)	(214,794)	(456,679)
Net revenue from sales and services	3,177,273	2,350,060	5,527,333
Cost of sales and services and operating expenses	(2,460,178)	(1,263,178)	(3,723,356)
Income from operations before financial expenses and exchange variation, net	717,095	1,086,882	1,803,977

22. MANAGEMENT COMPENSATION

Compensation paid by the Company to its directors and officers totaled R\$2,373 and R\$3,084 as of December 31, 2007 and 2006, respectively.

23. COMMITMENTS

(i) Rentals

Operating, administrative and property leases already contracted require the following minimum payments, as follows:

2008	7,844
2009	2,456
2010	660
2011	314
TOTAL	11,274

Lease expenses for the years ended December 31, 2007 and 2006 were R\$8,214 and R\$9,810, respectively. Lease expenses refer to the following: property rentals, machinery and equipment leases, IT equipment leases, and photocopiers leases.

(ii) Electricity

The Company has entered into long-term agreements with electricity suppliers. The main amounts regarding these agreements are as follows:

2008	182,008
2009	128,947
2010	128,164
2011	133,367
2012	133,730
2013	78
2014	39
TOTAL	706,333

Electricity expenses for the years ended December 31, 2007 and 2006 were R\$474,762 and R\$449,089, respectively. Form these amounts, R\$474,479 (R\$448,861 in 2006) was accounted for under expenses and R\$283 (R\$228 in 2006) under investments.

24. AGREEMENT WITH THE MUNICIPALITY OF SÃO PAULO

On November 14, 2007, the Company and the Municipality of São Paulo (the Parties) entered into an Agreement to establish the conditions that ensure the stability in the provision of water supply and sewage, and environmental utility services in the city of São Paulo, the main provisions of which are as follows:

1. the Parties made the commitment to take basic sanitation and environmental actions, complementary to the actions of the Municipality of São Paulo, by investing in the deployment and continuity of programs such as: Programa Córrego Limpo (Clean River Program) and Programa de Uso Racional da Água – PURA (Rational Water Use Program), the purpose of which is to ensure a decrease in water consumption by City government units, ensuring water supply to and the quality of living of the population;
2. starting November 14, 2007, Agreement date, all the amounts paid by the Municipality of São Paulo to SABESP, referring to consumption by City departments, agencies, and foundations, net of taxes, will be used in basic sanitation and environmental actions in the municipality;
3. the Municipality made the commitment to resume the payment of consumption bills issued by SABESP, starting November 14, 2007, date of this Agreement's execution;
4. the Parties shall complete, within 90 days, the projects required to determine the outstanding amounts and prepare the drafts of the Bill to obtain the approval of the City Council to the Cooperation Agreement and Metropolitan Program Contract, to ensure the stable provision by SABESP of water supply and sewage services in the municipality, through associated management of the assumed utility services, jointly by the Municipality and the State of São Paulo, pursuant to the general basic sanitation service principles laid down in State Law 11,445/2007 and related State legislation;
5. the Parties and the State shall conclude, within 90 days after the execution of the Agreement, the terms and conditions of the Cooperation Agreement and Metropolitan Program Contract, to ensure the stable provision by SABESP of water supply and sewage services in the municipality;
6. the approval of Municipal Authorization Law is an essential condition both for signing the Cooperation Agreement, to be signed by the Municipality and the State of São Paulo, and the Metropolitan Program Contract, to be signed by the Municipality and SABESP;
7. after the Bill is submitted to the City Council, the Parties will enter into an instrument from settlement of outstanding debts. A discount in the amount of R\$120 million on the City's debts will be granted, under contract. These debts will be paid free of financial charges arising from interest, fines and monetary adjustment, and part of the debts shall be paid by December 2008 and the rest under Municipal Interdepartmental Administrative Rule 01/2005, in seven annual installments;
8. the Parties shall require the termination of the collection lawsuits filed by SABESP, where SABESP shall pay the court fees, and each Party shall pay the lawyers' fees, in an estimated amount of R\$1.9 million.

The First Amendment to the Agreement with the Municipality of São Paulo was entered into on February 10, 2008 (nota 27(II)).

25. CONCESSIONS

As mentioned in Note 1, in 2007 a new regulatory framework was established for the sanitation industry, after the approval of the Sanitation Law and the Law that creates the São Paulo State Sanitation and Power Regulatory Agency (Arseps).

Consistently with the regulatory framework, SABESP tried to build a new relationship with the municipalities, which resulted in the renewal of 106 agreements and 124 authorization laws approved by city councils.

In addition to program contracts, the municipalities entered into with the São Paulo State Government, cooperation agreements that permitted delegating service regulation and inspection to ARSESP.

Program Contracts

The purpose of the program contracts entered into by the municipalities and the Company, under the terms and conditions set forth by the Cooperation Agreements entered into by the São Paulo State Government and the municipalities, is the provision of municipal utility water supply and sewage services, exclusively by SABESP, over a thirty-year period, which can be renewed for an equal period.

i) Tariff

The service price arrangement shall be based on a tariff, adjusted every 12 months, based on the index based on the variation of SABESP costs (IRT – Tariff Adjustment Index) approved by ARSESP. Connections to municipal buildings shall be classified under the public use category and shall enjoy this category's tariff benefits.

ii) Economic and financial balance

Both the tariff and the economic and financial terms and conditions of the contracts shall be reviewed every four years to ensure the full amortization and payment of investments, and operating, management, maintenance and service expansion costs.

iii) Debt settlement

SABESP shall collect past-due debts on unpaid water supply and sewage services.

iv) Exemption from municipal taxes

The Company shall be exempt from municipal taxes levied on operating areas and facilities.

v) Regulation and inspection

The regulation and inspection of water supply and sewage services delegated by the Municipalities shall be carried out by the State Service Regulatory Agency.

vi) Contract termination

Upon contract termination, if the cash flows from services do not allow the full payment of the investments made, including investments existing prior to the Program Contract, the Municipality can elect one of the following compensation methods:

- a) maintain the contract and the cooperation agreement for the period required for payment and amortization;
- b) resume services by paying to SABESP the corresponding compensation;
- c) formalize an agreement for the payment in installments of the compensation due;

SABESP shall continue providing the services under the same terms of the contract, respecting the agreed economic and financial balance, until the actual payment of the compensation.

vii) Returnable assets

All assets existing prior to the program contracts are controlled, managed and owned by SABESP, and those acquired or built during contract effectiveness, attached or indispensable to the provision of the services, whose ownership and management shall be assigned to SABESP, are an integral part of the water supply and sewage services.

viii) Compensation criteria

The compensation payable by the Municipality to SABESP shall be equivalent to the present value of cash flows for the remaining period on the date services are resumed by the Municipality, based on a business valuation report of the contract, monetarily adjusted, plus interest through payment date. These contracts can also be measured at book value and other rights and possible losses may also be collected.

26. AMENDMENT TO BRAZILIAN CORPORATE LAW, EFFECTIVE JANUARY 2008

On December 28, 2007, Law No. 11,638 was enacted, altering, revoking and adding new provisions to the Brazilian Corporate Law, especially with respect to chapter XV, Fiscal Year and Financial Statements. This Law is effective for fiscal years beginning on or after January 1, 2008 and was designed primarily to update the Brazilian Corporate Law, so as to enable the convergence of Brazilian accounting practices with international accounting standards (IFRS) and allow the Brazilian Securities Commission (CVM) to issue new accounting standards and procedures, in conformity with such international accounting standards.

The changes in Brazilian Corporate Law are applicable to all companies incorporated as corporations, including public companies, and introduce a new requirement for large companies to prepare and report financial statements in accordance with provisions of the Brazilian Corporate Law. Furthermore, private companies may choose to prepare such financial statements in accordance with standards issued by the CVM.

Certain of these changes shall be applied as of the beginning of the Company's fiscal year while others are subject to regulation by regulatory agencies.

The main changes are summarized as follows:

- Replacement of the statement of changes in financial position by the statement of cash flows.
- Requirement for the presentation of a statement of value added, applicable to public companies, that presents the additional value created by the Company, as well as the composition of the sources of such value and the amount of undistributed value.
- Possibility of maintaining separate accounting records for purposes of complying with tax legislation and reflecting necessary adjustments in order to prepare the financial statements in conformity with Brazilian Corporate Law.
- Creation of a new account group, intangible assets, which includes goodwill, for purposes of balance sheet presentation. This account will encompass rights in intangible assets maintained or used in the operation of Bank's business, including the acquired goodwill.
- Requirement to record under the caption property, plant and equipment those rights in tangible assets that are maintained or used in the operations of the Company's business, including those rights received as a result of transactions that transfer the benefits, risks and control of such assets to the Company (e.g., capital leases).
- Modification of the definition of those assets to be recorded under the caption deferred charges in the balance sheet, to be preoperating expenses and restructuring costs that will effectively benefit earnings in future periods and that do not simply represent future cost reductions or increases in future operational efficiencies.
- Requirement of periodic analysis of the recoverability of amounts recorded in property, plant and equipment, intangible assets and deferred charges to ensure that: **(i)** impairment losses are recorded as a result of decisions to discontinue activities related to such assets or when there is evidence that future operating results will not be sufficient to ensure their realization; and **(ii)** the criteria used to determine the estimated remaining useful life of such assets for purposes of recording depreciation, amortization and depletion expense are reviewed and adjusted.
- Requirement that investments in financial instruments, including derivatives, be accounted for: **(i)** at fair value or equivalent value for trading securities or securities available for sale; or **(ii)** at the lower of historical cost, adjusted for contractual interest and other contractual provisions, and realizable value for other investments.
- Creation of a new account group, valuation adjustments to shareholders' equity, in order to record certain fair value adjustments, mainly for financial instruments.
- Requirement that certain long-term assets and liabilities be recorded at present value, and, if material, for certain other short-term assets and liabilities.
- Elimination of the possibility to record: **(i)** the premium received on issue of debentures; and **(ii)** donations and government investment grants (including tax incentives) directly as capital reserves in shareholders' equity. Such items are now required to be recorded as part of earnings in the income statement. Donations and government grants may be required to be allocated, after being recorded in earnings, to the tax incentive reserve;
- Elimination of the revaluation reserve. Any balance of existing revaluation reserve shall be maintained until its effective realization or reversed by the end of the fiscal year in which the Law comes into effect.

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Even though the Company already adopts some of these changes, such as, for example, disclosure of the statements of cash flows and value added, and the segregation of intangible assets in permanent assets, the Company's Management did not assess all the effects that such changes might have on its financial statements and results of operations for the following years, as these changes have only been introduced recently, and some of them are still subject to regulation by regulatory agencies.

27. SUBSEQUENT EVENTS**I - Commitment Agreement entered into by the State of São Paulo and SABESP**

On March 26, 2008, the State of São Paulo, through the Finance Department and the Sanitation and Energy Department, and SABESP entered into a Commitment Agreement for the settlement of outstanding debts related to the reimbursement of pension benefits.

Even though the State acknowledges its debts related to the pension benefits, the State disagrees with the criteria adopted by SABESP to grant and pay the benefits, based on the legal opinions issued by the State Attorney General, which restrict State actions and prevent the voluntary reimbursement of all amounts paid by SABESP.

From SABESP's standpoint, the criteria adopted in the past to grant and pay pension benefits were correct, as they were based on specific State authorizations or then effective legal opinions.

The prolongation of the disputes between the State and SABESP is the main reason why the parties did not manage until now to fully implement the provisions of the São Paulo State Government Agreement, described in note 6 (iii).

Based on preliminary information gathered, under the calculation and eligibility criteria agreed by the State, SABESP estimates a Indisputable Reimbursement of approximately R\$936 million, which comprises monetary adjustment based on the IPCA (Extended Consumer Price Index) (R\$605.3 in notional amounts). The amount paid by SABESP was R\$1,422.8 million, adjusted based on the IPCA (R\$879.0 in notional amounts).

The parties agree that this discrepancy should not represent an obstacle to the implementation of the commitments made in the São Paulo State Government Agreement – Nota 6 (iii) regarding the Indisputable Reimbursement.

SABESP shall contract Fipecafi, within 30 days after the Commitment Agreement date, to conclude the validation of the Indisputable Reimbursement and the Controversial Amount, estimated by SABESP, as well as other firms to perform a new evaluation of the Reservoirs that might be transferred to SABESP as amortization of the reimbursement payable by the State. The amount of the Indisputable Reimbursement shall be added of the monthly variation of the IPCA from the month of each disbursement made by SABESP to the month the determination work is completed.

Once the amount of the Indisputable Reimbursement is determined and validated by the parties, and the new evaluation of the reservoirs is concluded, the State shall initiate the 30-day period for payment of the Indisputable Reimbursement, as provided for by the São Paulo State Government Agreement, in 114 monthly, consecutive installments, including the annual IPCA variation, plus interest of 6% per year.

The State confirms it is willing to assume the responsibility for the processing and direct payment of the benefits if SABESP succeeds in reversing the court decision that requires the Company to keep paying the pension benefits, under the current terms and conditions. While the current court decision is not overruled, the State shall transfer to SABESP the cash required to pay the indisputable amount of the monthly due benefits.

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

Based on preliminary calculation, considering the reimbursement of the Indisputable Amount by the São Paulo State Government, estimated at approximately R\$936.0 million, representing 66% of the amount paid by SABESP and considering, among other aspects, the need to recognize an actuarial liability to reflect the right to benefits that will be

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paid in the future, the estimated impact on the Company's results of operations as of December 31, 2007 would be R\$513 million, approximately.

No amounts were accrued for loss or the benefits that will be paid in the future as the likelihood of receiving the outstanding amounts and resolving the existing disputed favorably to the Company is highly probable. This expectation is based, in addition to an internal analysis by the Company's staff, on an outside legal opinion, which concludes, after carefully analyzing the matter, that the likelihood of a favorable outcome in a possible recourse action filed by the Company is highly probable. According to this opinion, the circumstances under which the payment of the benefits was made imposes to the São Paulo State Government the duty of reimbursing the Company, since the Company, as the employer, was merely a co-obligator. The analysis of the main disputes allow us to conclude that the criteria adopted by the Company in the past to grant and pay the benefits are reasonable, as they were built based on specific guidance of the São Paulo State Government.

II - First Amendment to the Agreement with the Municipality of São Paulo

On February 10, 2008, the Parties decided to extend the agreement for a period equal to the original period, so that the Parties may conclude the required understandings to settle the outstanding debts and prepare the drafts of the Cooperation Agreement, the Metropolitan Contract Program, and the Authorization Bill.

The stages already in progress are the conclusion of the drafts of said instruments, sending the Bill to the City Council, concluding the required understandings to settle the outstanding debts, and jointly defining the sanitation and environmental actions to be taken.

28. SUPPLEMENTAL INFORMATION

a) Statement of Cash Flow

The statements of cash flows reflect the financing, investing, and operating activities of the Company derived from the accounting records prepared in conformity with Brazilian corporate law, and which are presented in conformity with IAS 7 "Statements of Cash Flows".

	Note	2007	2006
Cash flows from operating activities:			
Net income		1,048,703	778,905
Adjustments to reconcile net income (loss) to net cash:			
Deferred taxes		(104,432)	(8,473)
Provision for contingencies		477,722	144,480
Reversal of the provision for loss		(945)	(8,819)
Other provisions		155	7,504
Pension obligation		59,931	60,070
Write-off of property, plant and equipment	8(b)	68,349	47,807
Write-off of deferred charges		1,276	5,195
Write-off of investments		-	20
Gain on sale of property, plant and equipment		219	(1,294)
Depreciation and amortization	20	622,549	642,171
Interest on loans and financing payable		519,672	619,909
Monetary and exchange variations on loans and financing		(87,101)	(9,477)
Monetary variation on interest on shareholders' equity		4,462	-
Interest and monetary variation expense	12	12,218	17,646
Interest and monetary variation income		(21,121)	(16,549)
Allowance for doubtful accounts	5(c(ii))	323,339	411,918
Adjusted net income		2,924,996	2,691,013

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	Note	2007	2006
Changes in assets:			
Trade accounts receivable		(400,944)	(458,824)
Transactions with related parties		(81,741)	(151,343)
Inventories		(3,307)	(12,851)
Recoverable taxes		22,168	(30,729)
Other assets		(22,877)	(14,671)
Escrow deposits		9,706	(21,012)
Changes in liabilities:			
Accounts payable to suppliers and contractors		(14,055)	50,176
Payroll and related charges		(10,908)	60,416
Taxes payable		(22,840)	(43,899)
Services received		4,034	45,293
Other liabilities		(27,055)	2,472
Contingencies		(145,668)	(79,801)
Pension plan		(15,909)	(15,416)
Cash flow from operating activities		2,215,600	2,020,824
Cash flow from investing activities:			
Purchase of property, plant and equipment		(848,878)	(842,454)
Increase in intangible assets		(32,818)	(12,630)
Sale of property, plant and equipment		-	7,837
Increase in deferred charges		-	(2,789)
Net cash used in investing activities		(881,696)	(850,036)
Cash flows from financing activities			
Loans and Financing – long-term:			
Funding		222,474	706,774
Repayments		(1,283,201)	(1,660,482)
Payment of interest on shareholders' equity		(136,386)	(169,047)
Net cash used in financing activities		(1,197,113)	(1,122,755)
Increase in cash and cash equivalents		136,791	48,033
Cash and cash equivalents at beginning of year		328,206	280,173
Cash and cash equivalents at end of year		464,997	328,206
Change in cash and cash equivalents		136,791	48,033
Supplementary cash flow information:			
Interest and fees paid on loans and financing		548,417	637,989
Capitalization of interest and financial charges	8(c)	(13,338)	5,784
Income and social contribution taxes paid		499,318	404,272
Property, plant and equipment received as donations		17,565	27,870
COFINS and PASEP paid		472,060	440,883
Legal agreements		34,071	-
National Water Agency Program		16,219	-
Purchase of property, plant and equipment payable		35,154	16,210

NOTES TO THE FINANCIAL STATEMENTS

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b) Statements of Value Added.

	2007	%	2006	%
1 – Revenues				
1.1) Sales of products and services	6,448,211		5,984,012	
1.2) Write-off of receivables/Allowance for doubtful accounts	(323,339)		(411,918)	
1.3) Nonoperating items	(28,658)		(48,638)	
	6,096,214		5,523,456	
2 – Inputs purchased from third parties				
2.1) Raw materials consumed	112,339		104,466	
2.2) Cost of sales and services	996,473		911,569	
2.3) Materials, electric energy, outside services and other	510,503		341,367	
	1,619,315		1,357,402	
3 - Gross value added (1-2)	4,476,899		4,166,054	
4 – Retentions (depreciation/amortization)	622,549		642,171	
5 - Net value added produced by the Company (3-4)	3,854,350		3,523,883	
6 – Value received from third parties:				
6.1) Financial income	132,123		125,474	
7 – Total undistributed value added (5+6)	3,986,473	100.0	3,649,357	100.0
Distribution of Value Added				
- Personnel	1,100,481	27.6	1,144,264	31.4
- Payroll and related charges	993,959	24.9	1,009,307	27.7
- Employee profit sharing	47,734	1.2	75,974	2.1
- Accrued pension obligation	58,788	1.5	58,983	1.6
- Government	1,136,948	28.6	1,035,912	28.4
- Federal	1,123,592	28.2	1,032,702	28.3
- State	2,332	0.1	2,014	0.1
- Municipal	11,024	0.3	1,196	0.0
- Interest on debt	700,341	17.5	690,276	18.9
- Interest	686,734	17.2	676,175	18.5
- Rentals	13,607	0.3	14,101	0.4
- Interest on shareholders' equity and dividends	300,744	7.5	270,841	7.4
- Retained earnings	747,959	18.8	508,064	13.9

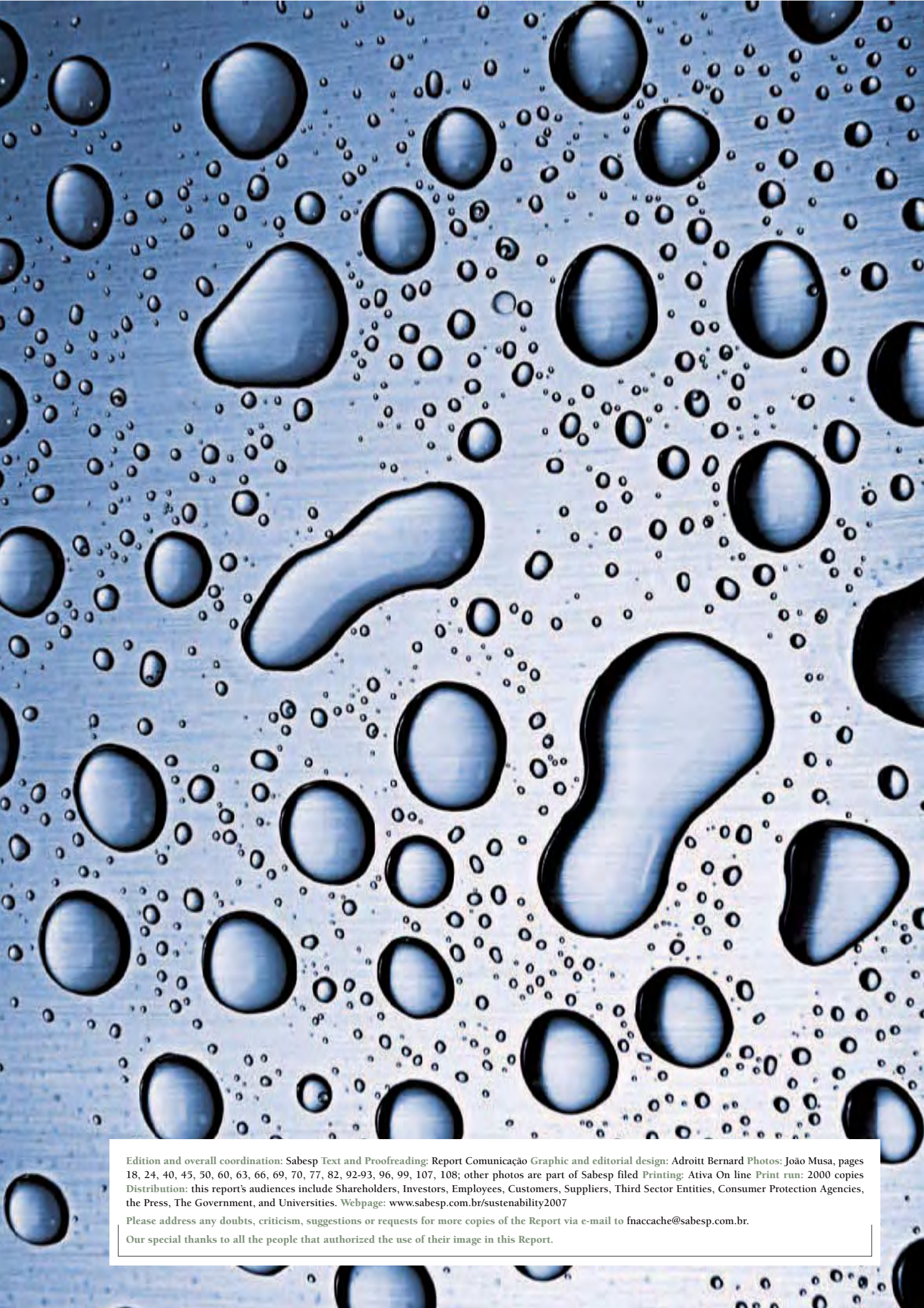
**Convenience Translation into English
from the Original Previously Issued in Portuguese****To the Management and Shareholders of
Companhia de Saneamento Básico do Estado de São Paulo - SABESP
São Paulo - SP**

- 1.** We have audited the accompanying balance sheets of Companhia de Saneamento Básico do Estado de São Paulo - SABESP (the "Company") as of December 31, 2007 and 2006, and the related statements of income, changes in shareholders' equity, and changes in financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of Company's management. Our responsibility is to express an opinion on these financial statements.
- 2.** Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by Management, as well as the presentation of the financial statements taken as a whole.
- 3.** In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Companhia de Saneamento Básico do Estado de São Paulo - SABESP as of December 31, 2007 and 2006, and the results of its operations, the changes in shareholders' equity, and the changes in its financial position for the years then ended, in conformity with Brazilian accounting practices.
- 4.** Our audits were conducted for the purpose of forming an opinion on the basic financial statements referred to in paragraph 1, taken as a whole. The accompanying statements of cash flows and value added, for the years ended December 31, 2007 and 2006, are presented for purposes of additional analysis and are not a required part of the basic financial statements in conformity with Brazilian accounting practices. Such information has been subjected to the auditing procedures described in paragraph 2 and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements for the years ended December 31, 2007 and 2006, taken as a whole.
- 5.** As mentioned in notes 6 and 27 to the financial statements, the Company is negotiating with the São Paulo State Government the reimbursement of the amounts for supplementary retirement and pension paid by the Company.
- 6.** As mentioned in note 24 to the financial statements, on November 14, 2007, the Company entered into an agreement with the São Paulo Municipal Government, seeking stability in the provision of services in the municipality of São Paulo and establishment of sanitation and environmental actions supplementary to the actions taken by the Municipality.
- 7.** The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, March 27, 2008

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

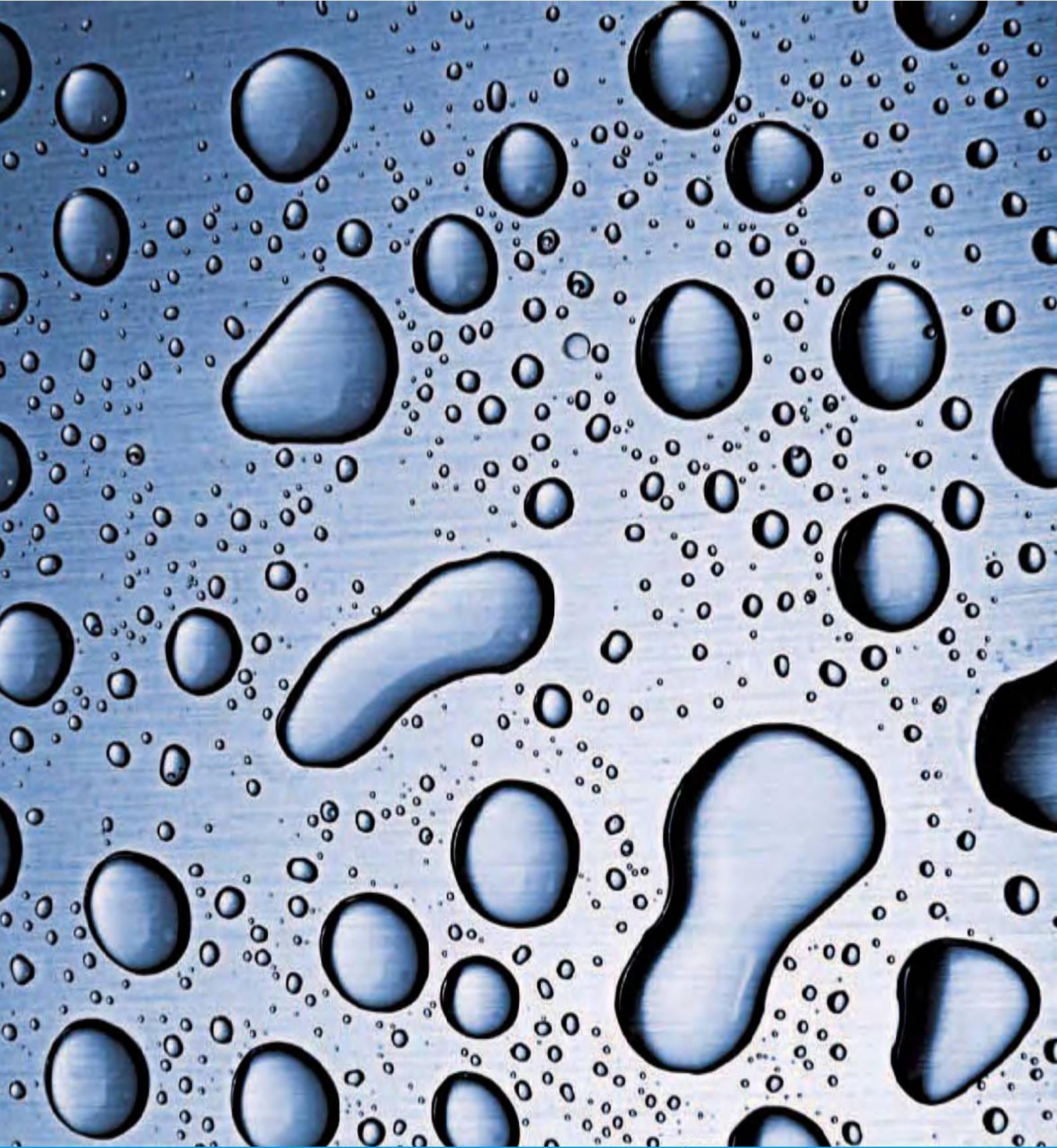
Marco Antonio Brandão Simurro
Engagement Partner



Edition and overall coordination: Sabesp Text and Proofreading: Report Comunicação Graphic and editorial design: Adroitt Bernard Photos: João Musa, pages 18, 24, 40, 45, 50, 60, 63, 66, 69, 70, 77, 82, 92-93, 96, 99, 107, 108; other photos are part of Sabesp filed Printing: Ativa On line Print run: 2000 copies Distribution: this report's audiences include Shareholders, Investors, Employees, Customers, Suppliers, Third Sector Entities, Consumer Protection Agencies, the Press, The Government, and Universities. Webpage: www.sabesp.com.br/sustainability2007

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