

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP

Form 6-K

April 30, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 6-K

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

For April 11, 2012
(Commission File No. 1-31317)

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

Basic Sanitation Company of the State of Sao Paulo - SABESP

(Translation of Registrant's name into English)

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

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

Form 20-F Form 40-F

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

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

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

Yes No

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

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

**Financial Statements as of
December 31, 2011 and 2010**

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Independent auditor's report

To the Management and Shareholders
Companhia de Saneamento Básico do
Estado de São Paulo - SABESP

We have audited the accompanying financial statements of Companhia de Saneamento Básico do Estado de São Paulo - SABESP ("Company" or "Parent company"), which comprise the balance sheet as at December 31, 2011 and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We have also audited the accompanying consolidated financial statements of Companhia de Saneamento Básico do Estado de São Paulo - SABESP and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2011 and the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with accounting practices adopted in Brazil, and for the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion on the parent company
financial statements**

In our opinion, the parent company financial statements referred to above present fairly, in all material respects, the financial position of Companhia de Saneamento Básico do Estado de São Paulo - SABESP as at December 31, 2011, and its financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

**Opinion on the consolidated
financial statements**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Companhia de Saneamento Básico do Estado de São Paulo - SABESP and its subsidiaries as at December 31, 2011, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil.

Emphasis of matter

As discussed in Note 2 to these financial statements, the parent company financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of Companhia de Saneamento Básico do Estado de São Paulo - SABESP, these practices differ from IFRS applicable to separate financial statements only in relation to the measurement of investments in jointly-controlled subsidiaries based on equity accounting, while IFRS requires measurement based on cost or fair value. Our opinion is not qualified in respect of this matter.

Other matters

**Supplementary information -
statements of value added**

We also have audited the parent company and consolidated statements of value added for the year ended December 31, 2011 prepared by management, the presentation of which is required by the Brazilian corporate legislation for listed companies, but is considered supplementary information for IFRS. These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

São Paulo, March 23, 2012

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Valdir Renato Coscodai
Contador CRC 1SP149262/O-6

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Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Management Report

MESSAGE FROM CEO

It is not possible talking about civilization without mentioning basic sanitation, which is human beings basic right and condition necessary so that the environment and natural resources are not fated to exhaustion. In this regard, supply water, collect and treat sewage is an activity intrinsically connected with sustainability. One cannot live without the other.

A company like Sabesp everyday deals with sustainability in all its dimensions. We are socially responsible for providing a service whose effects over recipient s life quality and health conditions are direct and immediate. We are environmentally involved in the conservation of springs, recovery of water resources and rivers, stream and ocean depollution. We are committed to the financial strength of a business whose maturation is naturally lengthy and costs should necessarily low.

Sabesp s commitment to sustainability precepts is already recognized by society. This is the result of a culture that has been built up in our employees daily activities, our service providers, in the quality which is increasingly required from our suppliers, but sustainability does not mean the final destination, it is a direction to be sought towards a future much better than present time.

Therefore, when preparing this report, we were concerned with broadening the limits of boundaries. We enhanced the dimension of the information disclosed, we sought to improve the quality of the information that has already been published, we acknowledge our weaknesses when and where they can be noticed. We are committed to transparency, common good and respect for our stakeholders.

I understand that our mission of supplying sanitation to over 27.6 million people only is successful if grounded in fundamental principles: transparency, good management and technology. Sabesp has been able to fulfill this mission, efficiently on a solid, dynamic, innovative and sustainable basis in financial, environmental and social terms.

Sustainable development cannot be better translated than a sewage treatment station capable of effectively operating over its 50 years of useful life, at lower cost, with greater service scope, taking most advantage of natural resources and with a minimum impact on the environment. This means sustainability.

Sabesp is also committed to the universalization of sanitation services in formal areas where we operate by the end of this decade. Therefore, the company foresees to maintain the average of investments recorded in the past years, i.e., approximately R\$ 2 billion.

Based on these principles, Sabesp obtained relevant results in the expansion of water and sewage services in 2011. In both cases, the number of new connections was the highest over the last 12 years. By the end of this decade, we plan to make another 1.6 million new water connections and nearly 2.3 million sewage connections in order to materialize our target of universalizing sanitation services in our marketplace.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Management Report

All six performance targets outlined for our organization in 2011 have been achieved. We consider the performance satisfactory, without mentioning that, although our business strategy kept its direction, 2011 was a year of changes in our Management, we exchanged four of six members of our Board of Executive Officers. In our opinion, our performance in new businesses is still far from our plans but it is possible to move forward.

The commitment of universalizing water supply, sewage collection and treatment services by the end of this decade is one of the most privileged and challenging commitments that a company could have. Sabesp has the privilege of, in each of its small to relevant actions, collaborating to a better people's life, a healthier environment, so that society is economically more developed and socially fairer.

Dilma Pena

Chief Executive Officer of Sabesp

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Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Management Report

Profile

Sabesp is a mixed-capital company with limited liability that operates in the sanitation sector, whose majority shareholder is the São Paulo State Government. Its common shares are traded on the *Novo Mercado* (New Market) segment of the Securities, Commodities and Futures Exchange of São Paulo (BM&FBovespa), under the ticker SBSP3, and as American Depositary Receipts (ADR level III) at New York Stock Exchange (NYSE), under the ticker SBS.

Founded in 1973, Sabesp is the largest sanitation company of the Americas and the world's fourth largest company in terms of population served, according to the 13rd edition (2011-2012) of the Pinsent Masons Water Yearbook. The Company's head offices are located in the City and State of São Paulo.

In addition to providing water and sewage services in the State of São Paulo, Sabesp is also accredited to operate in other states and countries, and may also operate in the drainage and city cleaning segments, handling of solid waste and energy.

We directly operate sanitation services in 363 municipalities of the State of São Paulo in 2011, the municipality of Macatuba is no longer our operated base and we supply water on the wholesale basis to other seven municipalities, among which five also utilize our sewage treatment services. Total population supplied with water by Sabesp reaches 27.6 million people (3.5 million referring to wholesale, 200,000 in partnership and 23.9 million directly by the company), which accounts for approximately 70% of the urban population of the State of São Paulo.

In addition, we also provide water and sewage services in other three municipalities of the State of São Paulo, through special purpose entities (SPE) organized with private companies, namely: Águas de Castilho S.A. and Águas de Andradina S.A., in partnership with CAB Ambiental; Saneaqua Mairinque S.A., jointly with Foz do Brasil. In the city of Mogi Mirim, in partnership with OHL Meio Ambiente and Etep, we are in charge of the modernization, implementation and management of sewage treatment system also through a SPE.

We also provide consulting services in the water rational use, business and operating management in Panamá and Honduras through a consortium signed with Latin Consult. In addition, we maintain partnerships with sanitation concessionaires of the states of Alagoas (Casal) and Espírito Santo (Cesan).

Sabesp's mission is to provide sanitation services, contributing to improve life quality and environment. Our vision of the future foresees to be recognized in 2018 as the company that ensured universal access to water and sewage services in its marketplace, in a sustainable and competitive manner, with excellence in customer service.

Despite the dimension of the challenge, the company is well positioned to achieve its objective, with sustainability and profitability. We understand that most of level of investments required is already equalized to fulfill our investment plan. Nevertheless, we continue working hard in raising funds, mainly at lower costs, compatible with sanitation activity, in order to deal with investments necessary to expand our services.

In order to achieve the objective of universalizing services in 2011, the Company reformulated its strategic guidelines: growth with economic and financial sustainability; social and environmental sustainability; universalization and quality; proactive behavior in relationships; integration and innovation; and human capital as competitive force. The new cycle of strategic planning covers the period between 2011 and 2020.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Management Report

The Company's commitment to a sustainable and responsible universalization of water and sewage services in its marketplace by the end of this decade is reflected in the financial strategy and social and environmental actions outlined herein.

Table of indicators

Indicators	Unit	2011	2010	2009	2008	2007
Services						
Water service ratio						Trend to Univesalization (1)
Sewage collection service ratio	%	82	81	80	79	79
Collected sewage treatment ratio ⁽²⁾	%	76	75	74	72	66
Resident population serviced with water supply	thousand inhabitants	23,911	23,625	23,363	23,162	22,959
Resident population serviced with sewage collection	thousand inhabitants	20,498	20,024	19,600	19,198	18,881
Operational						
Water connections	thousand units	7,481	7,295	7,118	6,945	6,767
Sewage connections	thousand units	5,921	5,718	5,520	5,336	5,167
Water losses	%	25.6	26.0	26.0	27.9	29.5
Water produced volume	million m ³	2,992	2,952	2,845	2,853	2,874
Water billed volume at wholesale	million m ³	297	293	288	285	274
Water billed volume at retail	million m ³	1,747	1,699	1,630	1,596	1,573
Sewage billed volume	million m ³	1,486	1,434	1,373	1,330	1,300
Headcount ⁽³⁾		14,896	15,330	15,103	16,649	16,850
Operational productivity	connection/employee	900	849	837	738	708
Financial (4)						
Net revenues	R\$ million	9,941.6	9,231.0	8,579.5	7,809.3	5,970.8
EBITDA (5)	R\$ million	3,213.4	3,222.5	2,727.0	2,865.0	2,698.9
EBITDA margin	%	32.4	34.9	31.8	36.7	45.2
Results (Net income/Loss)	R\$ million	1,223.4	1,630.4	1,507.7	862.9	1,055.3

(1) 99% or more

(2) Due to methodological reasons, it includes a margin variation of more or less 2 percentage points

(3) headcount includes own employees, excluding those transferred to other bodies

(4) Calculated as of 2008 according to CPCs/IFRS

Summary of Targets

The Company fully achieved six performance targets defined in 2011 that guided the concession of salary benefits established in the Profit Sharing Plan (PPR).

Water supply was maintained in a level we may consider as being universalized in our marketplace. New connections of this service followed the vegetative growth of the areas covered by the company and business. Even so, they reached the second largest record over the last 12 years in 2011.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Management Report

The sewage collection and treatment continue growing as projected. It is worth mentioning that in 2011, we achieved the best results over the last 12 years in relation to the number of new sewage connections.

Indicators	Unit	Target	Achieved
EBITDA margin (1)	%	43.3	43.4
Customer satisfaction index	%	80.0	92.0
Number of new water connections	thousand units	143.5	207.9
Number of new sewage connections	thousand units	195.0	246.4
Water billing loss ratio	%	25.7	25.6
Sewage treatment actions (2)			
Number of sewage treatment stations delivered (includes pre operation)	units	12	12
Number of authorizations of services issued to start sewage treatment stations works	units	21	22

(1) calculated by method prior to the effectiveness of CPCs/IFRS

(2) The target is composed of two actions, so that to reflect with greater accuracy the company's efforts to expand sewage treatment systems

Referring to loss ratio, the result achieved in the year follows the trend outlined by the Company for the next eight years. The target is to reduce the percentage to 13% by 2019, although this ratio may change in 2012. The volume saved in 2011, with the reduction of total losses from 26% to 25.6%, is sufficient to supply 23,000 people without using new springs, neither additional investments in water reservation and production. It is worth mentioning that the indicator has been systematically going down since 2004, when it stood at 34%.

The Company also maintained a high level of customer's satisfaction, reinforced both by the percentage of 92% measured by opinion polls conducted with 5,860 users, and the fact that Sabesp has been not included in the ranking of companies with the highest number of complaints at Procon (Oversight Board of Consumer Protection and Defense) since March 2010.

BUSINESS MANAGEMENT

Sabesp keeps its pace of investments in order to achieve its target by the end of this decade, providing services to all city domiciles served by the Company.

In 2011, we invested R\$2.4 billion, including investments in public-private partnerships (PPP) amounting to R\$121.4 million. The utilization of this financing model allows the company to accelerate and optimize the bidding process of works and services and have access to public resources outside the government contingency, speeding up the execution of investment plan.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP**Management Report****Investments Track Record (1) (current R\$ million)****Investments Made in 2011 by region (current R\$ million)**

	Water	Sewage	Total
Metropolitan Region of São Paulo	633.2	697.8	1,331.0
Regional System (inland and cost)	502.2	607.0	1,109.2
Total	1,135.4	1,304.8	2,440.2

2011 excluding financial commitments assumed in program contracts (R\$139 milion)

Water supply kept the trend to universalization in urban areas. In 2011, we achieved the second largest expansion over the last 12 years: 208,000 new connections. The result is important to ensure safe supply, supported by spring recovery and conservation actions, incentive to reduce consumption and decrease water losses. At the end of 2011 the company supplied approximately 23.9 million people directly, which added to the population of municipalities served on wholesale basis and those operated in private partnerships, amounted to 27.6 million.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Management Report

As far as sewage collection services are concerned, 246,000 new connections were made in 2011, the second best result since 1997. The collection ratio was up 82% and treatment reached 76% of collected volume. Approximately 20.5 million people are currently serviced by collection networks, while the company treats the sewage volume generated by 14.9 million people.

In 2011, six new municipalities also had universalized sewage services, summing up 147 municipalities.

New water and sewage connections executed and population benefited in 2011

		RMS	Regional Systems (Inland and Coast)	Total
Water	Number of new connections ⁽¹⁾	123.5	84.4	207.9
	Population serviced ⁽²⁾	360	210	570
Sewage	Number of new connections ⁽¹⁾	126.0	120.4	246.4
	Population serviced ⁽²⁾	510	370	880

(1) in thousands of units

(2) in thousands of inhabitants

Target Plan (2011-2019)

	Achieved		Targets (1)				
	2011	2011	2012	2013	2014	2015	2019
Water supply				Trend to universalization			
Sewage collection (%)	82.3	82.5	83	84	85	86	95
Collected sewage treatment (%)	75.8	79.5	77	78	80	82	95
New water connections (thousand)	207.9	143.5	159	161	160	156	635 ⁽²⁾
Sew sewage connections (thousand)	246.4	168.7 ⁽³⁾	207	212	231	236	996 ⁽²⁾
Water losses (%)	25.6	25.7	25.3	23.5	21.7	19.9	13.1

(1) Targets shall be adjusted with the conclusion of the 2011/2012 planning cycle and 2010 Census of IBGE

(2) Accumulated target 2016/2019

(3) For 2011, the target of sewage connections in PPR was higher than the Target Plan as a way of including a greater realization, necessary to univesalize collection

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Management Report

Structuring Programs

Sabesp's investment plan is based on twofold structuring program: ensure a safe water supply and contribute to depollution and recovery of our rivers, streams and other water bodies.

Our **Water Metropolitan Program** aims at increasing by 20% corresponding to 13.2 m³/s current production capacity until 2017. In 2011, production and intake works were concluded, improving the water supply level of the metropolitan region of São Paulo (RMSP). We point out the conclusion of interventions that resulted in expanding the treatment capacity of the Production System of Alto Tietê by 50%, from 10m³/s to 15 m³/s, through PPP jointly with CAB Ambiental. In addition, more than 14 important projects were delivered, which together, directly and indirectly benefit 6.6 million people, mainly in the east and west regions of the City of São Paulo with more treated water. The investment accumulated in the program since 2006 is R\$1.7 billion, with own funds and financing authorized by the Federal Savings Bank (*Caixa Econômica Federal*) and the Brazilian Development Bank (BNDES).

The program *Água no Litoral* (Water on the coast) is another initiative. These are works to expand production, improve quality, increase intake and treated water reservation capacity in the metropolitan area on the coast of the State of São Paulo (*Baixada Santista*) and south coast, which have approximately 1.7 million people in nine municipalities, a population that reaches almost 3 million people during holiday season.

In 2011, R\$158 million were invested in works, such as the implementation of Mambu-Branco Production System estimated to be concluded by the end of second half of 2012, in the city of Itanhaém, and the construction of the Jurubatuba Water Treatment Station to be concluded in 2012 in the city of Guarujá. The partial startup of this station is estimated for the first half of 2012. By the end of 2011, the amount invested in the program which started in 2008 summed up R\$472.7 million.

Concurrently with projects destined to production expansion and water treatment, Sabesp develops among its structuring actions, the **Loss Reduction Corporate Program**. Until 2019, we estimate to invest R\$4.3 billion in actions, such as, replacement of network, exchange of pipes, division into sectors (reducing water pressure) and replacement of hydrometers. Currently, our goal is to reduce loss ratio to 13% by 2019, but this target has been reviewed due to results achieved up to date.

We already invested R\$1.03 billion in the program, and approximately R\$326.7 million in 2011. Resources are partially own funds and the remainder derives from financing authorized by Japan International Cooperation Agency (Jica), Federal Savings Bank (*Caixa Econômica Federal*) and BNDES. It is worth mentioning that in February 2012, a loan agreement related to the second phase of the program with Jica was signed in the amount of R\$710 million to which another R\$390 million of Sabesp's consideration will be added.

In 2011, we achieved to decrease billing loss ratio from 26% to 25.6%. It is worth mentioning that the average losses in Brazil stood at 37%.

But only this is not sufficient. Considering low water availability, mainly in the metropolitan region of São Paulo (RMSP), the company's planning includes the roll-out of a new production system in order to meet growing demands of RMSP: the **São Lourenço** system (Alto Juquiá), will have production capacity of **4.7 m³/s** and will supply the west region of Great São Paulo, benefiting almost **1.5 million** inhabitants.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Management Report

The recovery and depollution of water bodies represent more serious challenge than assuring supply. In this regard, we understand that the recovery of most important river in the State of São Paulo and its affluent is one of the basic tasks with which Sabesp may contribute. This explains our efforts to expand sewage services in the metropolitan region of São Paulo, where the structure installed by the company over the last 20 years as part of Tietê Project represented the inclusion of 8.5 million people in the collection and treatment system.

Tietê Project is our main sewage investment program and currently is at its third phase, which began in 2009. Its goal is to increase the sewage collection ratio to 87% by 2016 and treatment ratio to 84% of total collected volume, with investments estimated at approximately US\$1.1 billion, with own funds and financing authorized by Inter-American Development Bank (IDB), Federal Savings Bank (*Caixa Econômica Federal*) and BNDES. Out of R\$423.3 million already invested in this phase of the program, R\$228.4 million were invested in 2011.

Approximately 43% of works related to this phase have already been executed and other 25% of works are under bidding process. At the end of interventions, more than 1.5 million people will be benefited with collection and 3 million with sewage treatment.

The fourth and last phases of *Tietê Project*, with execution estimated between 2013 and 2018, are currently under planning phase. With the latter, we expect to eliminate the release of untreated sewage in Tietê river in the metropolitan region of São Paulo in areas regularly operated by Sabesp.

Therefore, we also consider essential the civil society's involvement in facing this problem. Thus, in 2011 we supported the roll-out of the campaign ***Tietê Vivo Compromisso de Todos Nós*** (Live Tietê, Everyone's Commitment), an initiative of Fundação SOS Mata Atlântica. Support has been raised on the Facebook web page, concerned with Tietê river depollution through the ratification of 10 commandments to the benefit of river's recovery.

Specifically in the city of São Paulo, Tietê river depollution actions are supplemented by the program called ***Córrego Limpo*** (Clean Stream), developed in partnership with the local government. As its name suggests, it aims at recovering water bodies, with the improvement of sewage system and the elimination of untreated sewage in these streams, cleaning of margins and riverbed, the removal and resettlement of real properties located in riparian areas.

In 2011 we formatted the third phase of the program (52 streams) and we concluded the cleaning of another seven streams, benefiting approximately 48,000 people.

There have been 103 streams depolluted since 2007 in the City of São Paulo, benefiting more than 1.7 million people, with total investments of R\$129.5 million. Therefore, approximately 1,100 L/s of sewage were no longer discharged in these streams. In 2012, the estimate is to clean another 45 streams, benefiting more than 700,000 people, with Sabesp's investments of R\$36 million.

Finally, we also developed the program called ***Vida Nova*** (New Life) in the metropolitan region of São Paulo, concerned with the recovery and protection of reservoirs, used to supply water in this region. There are interventions in 43 shantytowns in sub-basins Guarapiranga and Billings, benefiting 50,000 households.

Sabesp is in charge of implementing and improving water and sewage systems, with investments of R\$355 million. In 2011, we invested R\$29.4 million of total amount and R\$45.5 million were already invested. The program is estimated to be concluded in 2015, with total investments of R\$1.3 billion, with funds also from the federal, state, municipal governments, Housing and Urban Development Company and World Bank.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Management Report

On the coast, our sewage structuring actions are organized around the program called *Onda Limpa* (Clean Wave). At the metropolitan area on the coast of State of São Paulo (*Baixada Santista*), works started in 2007 and should be concluded in 2013. In addition to own funds, the program relies on the financing from Jica and resources from the Severance Indemnity Fund for Employees (FGTS).

Up to date R\$1.6 billion have been invested, of which R\$159.8 million were invested in 2011. With the end of construction of sewage treatment stations and the installation of networks, we have prioritized the connection of real properties to the sewage collection system, which by the end of 2011, summed up 63,000 connections out of 123,000 estimated connections.

Currently, the *Baixada Santista* has one of the lowest child mortality rates in the State of São Paulo. Over the last decade, this rate dropped over 30%: from 22.2 deaths for each 1,000 children born alive to 15.2 in the region. It is correct to affirm that an improved water supply and sewage service was one of the factors that contributed to this result.

Sabesp has already been preparing a second phase of *Onda Limpa*, which aims the collection and treatment of sewage of cities in *Baixada Santista* until 2018.

The *Onda Limpa* program is also developed in the north coast of the State of São Paulo. The target is to increase the sewage collection and treatment ratio in the municipalities of Caraguatatuba, Ilhabela, São Sebastião and Ubatuba from current 49% to 85% by 2015, and investments estimated at R\$500 million, involving own funds, from BNDES and FGTS. It is worth mentioning that in 2007, prior to the program, the percentage stood at 30%. 600,000 people will be benefited, among area residents and tourists visiting the region. In 2011, Sabesp invested R\$24.6 million in this program, out of total of R\$114.6 million were already invested up to date, involving own funds, from BNDES, FGTS and Caixa. A public-private partnership is also estimated for this program.

An example of successful initiative in our strategy of recovering important springs was the recovery of Paraíba do Sul river, in Paraíba Valley in the eastern region of the State of São Paulo. With works to expand sewage collection and treatment in densely populated municipalities, such as, São José dos Campos and Taubaté, Cetesb's analyses recorded a significant increase in water oxidation ratio of Paraíba do Sul river in 2011, then, fishes natives of Brazil that were infrequently seen, such as *lambari*, *piaba*, catfish, *traíra* and tilapia returned to the waters of this region.

New policies and programs

Currently, one of the greatest challenges posed in the universalization process of sanitation services is the fact that unit investments are growing to the extent that they advance towards lower purchasing power classes, those with less capacity to generate revenues for the company. In this regard, it is important to design new public policies and actions that contribute to execute the company's expansion targets, concur with the success of structuring programs already in effect and meet the precept of social inclusion.

Within this strategy, in 2011, Sabesp's efforts to universalize sanitation services in the State of São Paulo were reinforced by two governmental programs: *Pró-Conexão* (Pro-Connection), an initiative destined to subsidize intra-domicile works so that low-income households are able to connect their houses to the sewage public network; and *Água é Vida* (Water is Life), concerned with the implementation of sanitation services in low-income communities located in areas distant from main cities of São Paulo State inland.

The company will be liable for the technical assistance to the municipalities and for the implementation of water systems at the same communities benefited with sewage treatment. After the conclusion of works, Sabesp will be liable for the maintenance and operation of systems.

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

Management Report

In another initiative jointly with the public authority, the program called Nossa Guarapiranga (Our Guarapiranga) started in December, whose objective is to contribute to improve water quality of one of the main springs that supplies the metropolitan region of São Paulo. Eleven barriers were installed for waste control at the main streams flowing into water table, in order to collect 20 m³ of waste/day on average. Actions that have already been developed in partnership with the state and local governments, have helped to avoid a load of 106 l/s of sewage to reach Guarapiranga and Billings reservoirs.

Caring for the environment

The implementation of water supply and sewage systems enables several benefits to the environment and the life quality of population serviced. Among them, the most relevant benefits are the preservation and improved condition of water resources and on the coast, the recovery of bathing water quality at beaches, without mentioning the immediate positive effect on population's health conditions.

Nevertheless, our activity may cause adverse environmental effects deriving from implementation and operation phases. As trunk lines and sewage interceptors follow valley bottom and treatment stations are installed, in general, at lower quotas, situations arise demanding the occupation of permanent preservation areas, in few cases, requiring the recovery of riparian forest.

Adverse social and environmental effects are also associated with the expropriation of areas, removal of vegetation, generation of water and sewage treatment mud, emission of methane in anaerobic treatment and indirect generation of carbon dioxide (CO₂) due to energy consumption. Note that Sabesp is one of the largest individual consumers of energy in the State of São Paulo, accounting for 1.8% of total: in 2011, 2,276 gigawatts-hours were consumed.

Sabesp has been seeking to incorporate the environmental variable, from inception until the operation of its systems, including the implementation of practices concerned with sustainability and projects in partnership with society. Customer satisfaction survey conducted in 2011 points out the recognition of this effort: 79% of customers consider us a socially and environmentally responsible company. When we surveyed those interviewed if the company is concerned with preservation of the environment, rivers, water springs and vegetation, 78% of customers agreed.

Social commitment

Sabesp is proud of ties it establishes with the population of the State of São Paulo. We believe that when providing better services, ensuring the water supply with quality and regularity and treating well our water resources, we are contributing to create value in our society.

The recognition of these efforts can be seen in the high level of yes answers obtained in customer satisfaction surveys, when interviewee was inquired if the company is concerned with improved people's life quality and well-being. 80% of interviewees answered yes: In your opinion, is Sabesp a socially responsible company?

Our commitment to customer's satisfaction was even more evidenced in the new Strategic Plan we defined to be effective between 2011 and 2020. We revised our vision of the future, highlighting our concern and our focus on excellence in customer service. The Strategic Map was revised, comprising 14 objectives considered strategic for the period. The Company's mission did not change.

We also included among our strategic guidelines valuing human capital as competitive force. Within this context, we are committed to make the company the best place to work for. In 2011, we analyzed two issues we consider crucial to increase our employees satisfaction: the adoption of a new Job Position and Salaries Plan and the equalization of our private pension plan, Sabesprev. Actions endeavored allow us to foresee the presentation of results to the company during 2012.

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Market consolidation

Sabesp is concerned with maintaining and expanding the base of municipalities operated through program contracts fully in line with the requirements of the sector's new regulatory framework. This strategy is particularly relevant today, which coincides with the end of first effectiveness cycle of dozen contracts whose initial framework goes back to the time when the company was organized during the first half of 70s.

In 2011, 25 program contracts were signed, amounting to 225 renewed contracts complying with Sanitation Law and other 39 contracts covered by legal system prior to that to expire between 2012 and 2033. Together, these municipalities account for 74 of revenues earned by the company.

In order to face competition in large customers segment, where several industrial and commercial consumers prefer to use artesian wells or water trucks to supply water, Sabesp adopted a flexible tariff policy to compete in the market, with the formalization of firm demand contracts.

New businesses and partnerships in environmental solutions

Sabesp also seeks to operate in new markets, consolidating itself in the sector on a sustainable basis. In this regard, the company has been investing in partnerships to operate in other states and countries, and in the development of Sabesp Environmental Solutions Platform, concerned with the expansion of operations in markets and with large customers. In 2011, our main highlights were the expansion of Rational Water Use Program (PURA) and initiatives favoring the production of reuse water.

Today, *Pura* program is implemented in more than 2.2 thousand real properties of the State Government of São Paulo and city government of São Paulo. Sabesp is liable for contracting engineering works and services necessary to reduce water consumption. With these measures, we managed to maintain monthly water volume sufficient to supply approximately 23,000 people without the need of using new springs. The program also contributes to postpone investments in water and sewage systems.

The company has been also strongly investing in the expansion of production of water generated by treatment of sewage for industrial use, refrigeration of equipment and other non-drinkable purposes. Today we have capacity to produce 319,000 m³/month of **reuse water**, however, currently we supply only 160,000 m³/month mainly due to difficult distribution logistics, incipient prospect of new customers and the need of improving production process.

Our most important project in this area, *Aquapolo Ambiental* (Environmental Aquapolo) must start operations in April 2012. This is the largest plant to produce reuse water in the South Hemisphere, whose final output foreseen is 1 m³/s, volume sufficient to supply 300,000 people. In 2011, this project was ranked second in the Global Water Awards, granted by Global Water Intelligence that awards innovative initiatives in supply and sanitation throughout the world.

Other initiatives concerned with offering environmental solutions are the loyalty contracts with large consumers that ensure annual revenue of approximately R\$233 million to the company; the treatment of non-domestic sewage deriving from production processes of Sabesp's customers, through which more than 26 million m³ sewage was collected and treated in 2011, resulting in R\$181.8 million revenue.

Projects already implemented related to the individualized measurement of water consumption in residential condominiums and tele-measurement (which enables the monitoring of consumption in real time via internet) have been analyzed and re-planned so that to make feasible its evolution.

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Sabesp also operates in new markets in partnership with private partners and through special purpose entities in: (i) the rendering of water and/or sewage services in four municipalities of the State of São Paulo: Andradina, Castilho, Mairinque and Mogi Mirim; (ii) the implementation and operation of industrial sewage treatment station and mud conditioning in the city of Barueri; (iii) rendering of consulting services in water rational use, business and operational management in Panamá and Honduras; and (iv) partnerships with sanitation concessionaires in the states of Alagoas (Casal) and Espírito Santo (Cesan).

Research and Innovation

The specific supervision created in 2010 has been already obtaining positive results, such as the nationwide innovative experience of using the gas generated by sewage treatment as fuel for cars, which currently has been implemented.

A partnership with Fraunhofer Institute in Germany proposes to capture methane from mud bio-digesters of Franca ETE (sewage treatment station) and help to reduce the emission of pollutants in the atmosphere. In the second quarter of 2012, the system will start supplying 49 cars of the company in that region. There will be three years of tests, including the fuel distribution logistics and analysis of results. The company is investing R\$900,000 in this system and the German partner, another R\$5.1 million.

In addition, according to the cooperation agreement signed with Fapesp (Foundation of Research Support of the State of São Paulo), in 2011, 11 projects were approved, involving universities, whose themes include alternatives of treatment, disposal and utilization of mud from water and sewage treatment stations; monitoring of water quality; and energy efficiency, among others.

Concerning the protection of intellectual property rights at the Company, in 2011, the letter patent called disposition in building hydraulic simulator for informative purposes was obtained. In addition, three patent applications were filed, which are confidential and the software SGH Hydrometry Management System was registered.

The Regional Systems Executive Board launched in 2011 the Excellence and Innovation Program, concerned with the identification, recognition, promotion and dissemination of innovative practices and projects that add value to the business. Certain objectives are to reduce energy costs, the number of occupational accidents and customers complaint.

Our investments in research, development and innovation in 2011 reached R\$3.2 million.

ECONOMIC AND FINANCIAL SUSTAINABILITY

The company committed to add value to the business and reach the universalization of sanitation in the regions where it operates, it carried on the proper management of its finances in 2011. The Added Value Management model, implemented in 2009, was incorporated into the corporate system, allowing management to get a detailed view of its marketplace and contributing to optimizing its asset base and also a continued improvement of its results.

In 2011, the gross operating revenue from water and sewage supply services was up 8.5%, from R\$7.7 billion to R\$8.3 billion in 2011. If we also include the construction revenue, total revenues were up from R\$9.8 billion in 2010 to R\$10.5 billion in 2011, a 7.6% increase.

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Gross Operating Revenue Track Record (current R\$ billion)

Driving factors of increased gross revenue from water and sewage were billed volume growth of 2.6% in water and 3.6% in sewage, besides a tariff adjustment of 4.05%, applied in September 2010 and 6.83% applied in September 2011.

Water and sewage billed volume⁽¹⁾ by use category (millions of m³)

	Water			Sewage			Water+ Sewage		
	2010	2011	%	2010	2011	%	2010	2011	%
Residential	1,449.0	1,488.0	2.7	1,177.2	1,220.7	3.7	2,626.2	2,708.7	3.1
Commercial	162.3	167.6	3.3	150.8	156.4	3.7	313.1	324.0	3.5
Industrial	37.2	38.7	4.0	37.8	40.5	7.1	75.0	79.2	5.6
Public	50.2	53.1	5.8	40.1	41.5	3.5	90.3	94.6	4.8
Total retail	1,698.7	1,747.4	2.9	1,405.9	1,459.1	3.8	3,104.6	3,206.5	3.3
Wholesale	293.3	297.3	1.4	28.4	27.2	(4.2)	321.7	324.5	0.9
Reuse water	0.3	0.3					0.3	0.3	
Total	1,992.3	2,045.0	2.6	1,434.3	1,486.3	3.6	3,426.6	3,531.3	3.1

⁽¹⁾ Unaudited

Water and sewage billed volume ⁽¹⁾ by region (millions of m³)

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	Water			Sewage			Water + Sewage		
	2010	2011	%	2010	2011	%	2010	2011	%
Metropolitan	1,119.2	1,150.6	2.8	947.2	976.8	3.1	2,066.4	2,127.4	3.0
Regional Systems ⁽²⁾	579.5	596.8	3.0	458.7	482.3	5.1	1,038.2	1,079.1	3.9
Total retail	1,698.7	1,747.4	2.9	1,405.9	1,459.1	3.8	3,104.6	3,206.5	3.3
Wholesale	293.3	297.3	1.4	28.4	27.2	(4.2)	321.7	324.5	0.9
Reuse water	0.3	0.3					0.3	0.3	
Total	1,992.3	2,045.0	2.6	1,434.3	1,486.3	3.6	3,426.6	3,531.3	3.1

⁽¹⁾ Unaudited⁽²⁾ Composed of coast and inland regions

Net operating revenue was also up 7.6% over previous year, amounting to R\$9.9 billion.

Net Operating Revenue Track Record ⁽¹⁾ (current R\$ billion)

In 2011, construction revenue was up 4.4%, mainly due to higher construction cost in 2011. The 4.4% variation in revenue against 4.6% in construction cost is due to the change in the index to calculate construction margin which decreased 2.6% in 2010 to 2.3% in 2011.

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Costs and expenses added to construction costs, in the amount of R\$7.5 billion were up 14.0% compared to 2010. EBITDA remained in line at R\$3.2 billion between two periods. EBTIDA margin reached 32.4%, compared to 34.9% in 2010. Excluding revenue and construction cost effects, EBTIDA margin stood at 41.1% in 2011 (44.7% in 2010).

Also excluding the complementing effect of actuarial liability in the amount of R\$ 157.5 million referring to G0 Plan, non-recurring for the next years and the revenue and construction cost effects, EBTIDA margin reached 43.1% in 2011.

EBITDA and EBTIDA Margin Track Record (1) (current R\$ billion)

In 2011, the company posted a net income of R\$1.2 billion, down 25.0% over 2010, mainly due to exchange variation on foreign loans and financing, amounting to R\$ 448.5 million deriving from 12.6% appreciation of US dollar in 2011 against 4.3% depreciation in 2010. Despite the dimensions related to the challenge of universalizing services, the company is considered well positioned to achieve its goal, with financial, environmental and social sustainability and profitability to shareholder.

Approximately 75% corresponding to R\$6.5 billion of investment planned for 2009-2013 was already achieved. The company has been prioritizing funding at lower costs and compatible with sanitation activity, including through the lengthening of debt terms on the capital markets, fact of which distributes maturities and accordingly, minimizes cash pressures.

In 2011, the Tariffs and Costs Department was created, within the scope of the Chief Financial and Investor Relations Officer, aiming at developing proposals and analyses to subsidize Sabesp's discussions with its stakeholders, as well as in the processes to define costs deriving from services rendered, restructuring and tariff review. The new tariff methodology proposed by the Sanitation Regulatory Agency of the State of São Paulo (Arseps) will enable revenue foreseeability, which is fundamental so that the company may achieve service coverage targets foreseen in the investment plan, besides ensuring quality services.

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Also in relation to the tariff review, the services agreement executed with the municipality of São Paulo in June 2010 provides that Sabesp shall contribute with 7.5% of gross revenue earned with the rendering of services in the city of São Paulo, net of COFINS and PASEP (taxes on revenues) for the Municipal Fund of Environmental Sanitation and Infrastructure. Since the agreement was signed, we have been transferring to the Fund, even without compensation in tariffs, since the 7.5% were not taken into consideration when the calculation of the formula for the tariff adjustment was established. Arsesp is structuring the tariff methodology of the second cycle, which is estimated to be implemented in August 2012, which we expect will include this costs transfer and accordingly, provide more appropriate remuneration to the Company.

We also advanced towards a solution for our private pension plan, Sabesprev. By the end of December, Sabesp entered into an agreement with entities representing employees so that to made few changes in their private pension plans, which include the possibility of employees migrating from Defined Benefit to Defined Contribution and changes in risk benefits.

The proposal, which was negotiated during six months, will also allow to facing the technical deficit problem of the basic plan, estimated at R\$538.6 million. In addition, it will ensure that deficit will not be recurrent, thus, improving the organizational climate and greater confidence of our employees as to the planning of their future. The proposals submitted also need the approval of control authorities of the State Government and are also submitted to the analysis of the Judiciary Branch, in view of lawsuit that in November 2010, suspended migrations to Sabesprev Mais.

It is also worth mentioning that the effectiveness of strategy the company has been adopting over the past years was recognized by the market in several occasions during 2011, such as:

- The company's rating was upgraded by the credit risk rating agency Standard & Poors, on Global Scale from BB to BB+ and on Brazil National Scale from brAA- to brAA+ ;
- a tribute conferred by Anefac (National Association of Finance, Management and Accounting Executives) at the ceremony of the 2011 Transparency Award, as the company was one of the finalists in 11 of 15 editions of this award that recognizes the outstanding performance of companies for their transparency and quality of information reported in their balance sheets. Sabesp won this award in 2000, 2006 and 2010;
- the *Valor 1000* Award, promoted by *Valor Econômico* newspaper, under the Water and Sanitation category: for the fifth time, Sabesp was recognized for its good management and strict administration of operating expenses , according to the yearbook;
- the outstanding performance of Sanitation and Water and Gas Services sector conferred by *Prêmio Abrasca de Criação de Valor 2011* (2011 Abrasca Value Creation Award), as the company that achieved the highest percentages of value creation, in relation to its market capitalization over the past three years; and
- for the fifth consecutive year, Sabesp is included in the Corporate Sustainability Index (ISE) of BM&FBovespa.

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Indebtedness Analysis

At the end of 2011, the company's total indebtedness was R\$8.4 billion and net debt/EBTIDA ratio was 2.0 x.

In line with the maturation of investments, which is a characteristic of the sector, most of this debt (68%) was contracted with multilateral agencies and Brazilian development institutions at low costs and long terms. The foreign currency-denominated debt accounts for 36% of total debt.

In 2011, R\$1.7 billion were raised and the company amortized R\$1.9 billion.

In order to ensure investments required to universalize sanitation in the State of São Paulo, the company continued looking for funding sources more compatible with the profile of its businesses, the results of which are outlined as follows:

Loans and financing

● *Japan International Cooperation Agency JICA*

- Resources adding the *Onda Limpa* Program- 1st Phase, approximately amounting to ¥19.2 billion, corresponding to R\$371.5 million, fully disbursed in March and April 2011. These resources have been used to execute works and services in the metropolitan region of *Baixada Santista*. This loan matures within 18 years with annual interest rates between 1.8% and 2.5%;
- In February 2012, the company signed a loan agreement for the second phase of the Water Loss Reduction Corporate Program, amounting to ¥ 33.6 billion (corresponding to approximately R\$710 million on the date of signature). This phase has investments estimated at R\$1.1 billion (¥ 52.207 billion) of which R\$390 million (¥18.623 billion) will be the consideration of Sabesp. The loan term is 25 years, with seven years of grace period, with annual interest rates of 1.7%.

● *Caixa Econômica Federal (Federal Savings Bank)*

- We have 36 agreements for: studies and projects, water supply and sewage works in several municipalities operated by the company. Total approximate amount is R\$215 million, with interest rates indexed to TR (Reference Rate), plus 6% p.a. and management fee of 1.4% p.a. and risk rate of 0.3% p.a.. Total term is 9 years for studies and projects and 24 years for water supply and sewage works.

● *Brazilian Development Bank BNDES*

- Related to sewage works and services in the municipalities of the metropolitan region of São Paulo and executive Project of the São Lourenço Production System, at the approximate amount of R\$183.4 million and interest rates indexed to TJLP (long-term interest rates) plus 1.72% p.a.. Total term is 15 years for works and eight years for the executive project.

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Debt instruments

In January 2011, Sabesp conducted the 13rd issue of debentures in a single series, at the total amount of R\$600 million, paying half-yearly interest rates indexed to CDI (interbank deposit rate) plus average annual spread of 0.95%, destined to redemption of the 5th issue of company's promissory notes at the same amount.

In February 2011, Sabesp launched the 14th issue of non-convertible debentures, at the amount of R\$275.3 million. This is the second issue of a total of three issues provided for in the subscription agreement signed with BNDES. Resources are applied in several investment projects of the company, i.e., water supply, sewage collection and treatment systems.

In March 2011, FIDC SABESP I (receivables securitization fund) was settled, with the amortization of the last installment of senior quotas, amounting to R\$8.3 million.

In addition, in June 2011, the 8th issue of debentures were finally amortized at the amount of R\$481.4 million related to the remaining balance of the second series.

In addition, in October 2011, Sabesp with cash resources redeemed in advance the total balance of outstanding debentures of the 9th issue, amounting to R\$240.7 million, thus, amortizing its higher cost debentures.

In addition, in February 2012, Sabesp concluded its 15th issue of debentures, at the total amount of R\$771.1 million, in two series, and 1st series at the amount of R\$ 287.3 million indexed to CDI + 0.99% p.a. and the 2nd series at the amount of R\$ 483.8 million, with IPCA (Extended Consumer Price Index) and annual interest rates of 6.20%, and these resources were raised to settle financial commitments falling due in 2012, mainly, the settlement of the 13rd issue of debentures. Thus, in February 2012, we settled in advance the entire amount of the 13rd Issue of Debentures of R\$ 600 million to mature in August 2012. Resources raised also supported the amortization occurred in March 2012 of 50% of the 2nd series of the 11th issue of debentures, summing up R\$202.5 million.

Stock market

2011 was a very positive year for Sabesp shares. Despite the 18.11% drop seen at Ibovespa, the company's shares at BM&FBovespa ended 2011 priced at R\$52.03, with 22.16% appreciation compared to 2010. Among the shares composing Ibovespa, Sabesp's shares were one of the best performers.

The company's shares participated 100% at the trading sessions of BM&FBovespa and had a financial volume of R\$2.9 billion in 2011.

The company ADRs appreciated 5.24%, closing the year at US\$55.65, with 30 million ADRs outstanding on the market. The financial volume traded at NYSE in 2011 was US\$3.7 billion, almost 31% higher compared to 2010.

In 2011, the number of financial institutions covering Sabesp's shares remained in line at 19 institutions.

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Ownership structure on 12/31/2011

Sabesp's shares are traded at BM&FBovespa under the ticker SBSP3 and at the New York Stock Exchange under the ticker SBS and compose main indexes of Brazil's stock exchange. For the fifth consecutive year, its shares are included in Corporate Sustainability Index - ISE.

Dividends

Pursuant to the Company's Bylaws, common shares are entitled to minimum mandatory dividend corresponding to 25% of net income for the year, after deductions determined or accepted by laws which can be paid as interest on shareholders equity.

Referring to 2010, Sabesp credited the amount of R\$456 million in dividends, as interest on shareholders equity, corresponding to approximately R\$2.00 per common share and dividend yield of 4.7%.

Referring to 2011, the Board of Directors approved the payment of interest on shareholders equity at the amount of R\$578.7 million, corresponding to R\$2.54 per common shares and dividend yield of 4.88% to be paid within 60 days after the 2012 Annual Shareholders Meeting to approve the 2011 accounts.

Debts of municipalities serviced on a wholesale basis

In 2011, the most important advance in this area was the approval of the creation of a mixed-capital company to explore water and sewage services in the city of Diadema, eighth largest municipality of the metropolitan region of São Paulo, with 390,000 inhabitants.

On July 29, 2011 the municipal law n° 3.123/2011 was published providing for the creation of a new water and sewage company in the city of Diadema (CAED), and authorized the executive branch to execute agreements or other types of necessary adjustments with Sabesp. However, few articles of this law had to be amended, which are still pending approval from the local government. The new company will be created by the municipality and the proposal, according to the model developed, is that subsequently Sabesp buys 49.9% of its shares.

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Sabesp engaged a company specialized in the economic advisory services in order to conduct an economic and financial valuation of Saned and PricewaterhouseCoopers to carry out the due diligence. These works must be concluded by the end of March 2012. It is not possible to anticipate when this new company will start its operations.

In addition to the end of discussions with Diadema, in 2011, Sabesp carried on negotiations with the municipalities serviced on wholesale to recover amounts due in view of the supply of treated water and sewage treatment. Developments in 2011 were the following:

- **Guarulhos:** payments related to 2011 monthly consumption remained partial and the collection referring to certificate of judgment debt of the government has not been made in view of the Constitutional Amendment n° 62/2009. Nevertheless, writs of mandamus have been filed against decisions that extinguished levies of execution and recently only one of these writs of mandamus has been granted relief. For this reason, few pleadings for levy of execution upon revenues referring to overdue and unpaid amounts now will resume. Concurrently, all reasonable measures have been taken to recover all levies of execution;
- **Santo André:** In 2011, payment remained partial, even with the court decision rendered in 2009, which required the municipality to include in the budget total expenses related to Sabesp's water supply;
- **Mauá:** payments related to 2011 monthly consumption remained partial. Nevertheless, the municipality made deposits referring to invoices overdue in 2008, contributing to reduce debt. In addition, similar to Guarulhos, writs of mandamus were also filed against decisions that extinguished Sabesp's pleadings for levy of execution upon revenue related to certificate of judgment debt of the government. One of them was recently judged by the Court of Justice of São Paulo, which was granted relief. For this reason, pleadings for levy of execution upon revenue referring to overdue and unpaid amounts now will resume;
- **Mogi das Cruzes:** the renegotiation of previous debt of approximately R\$8.5 million was fully paid to Sabesp and a new agreement was signed to pay overdue and unpaid invoices in the period between January and June 2011, at the approximate amount of R\$13.0 million. Payments started in December.

Sabesp at the new regulated environment

With the new basic sanitation guidelines in Brazil Federal Law n° 11.445/2007 and State Supplementary Law n° 1,025/2007, the rendering of water supply and sewage services by Sabesp is submitted to the inspection and regulation, including tariffs, of the Sanitation and Energy Regulatory Agency of the State of São Paulo (Arsesp).

The new scenario resulted in the first quarter of 2011 in the creation of a Committee of Regulatory Affairs at the company, as a permanent, advisory and decision-making body, composed of the Chief Executive Officer, Chief Financial and Investor Relations Officer, Metropolitan and Regional Systems Officer, in order to guide, define guidelines, strategies and coordinate the works of the Regulatory Affairs Department.

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This specific department is Sabesp's exclusive channel of communication with the agency and shall ensure the strict compliance with regulatory requirements, discussing and integrating internal areas in the identification, adjustment, creation and implementation of processes necessary, always in observance to the best practices.

In 2011, Arsesp published relevant rules aiming the return on capital invested, the tariff review, the confidentiality and secrecy in the discussion of regulatory information.

An extremely relevant issue for the company's economic and financial breakeven, the economic regulation started to be materialized in 2011 from two basic parameters: the remuneration basis of assets and the cost of capital of the company (WACC or weighted average cost of capital).

The definition of WACC at 8.06% to be applied in the second cycle of tariff review was one of the most important economic and financial facts occurred in 2011 for the future tariff rule of services rendered by Sabesp, therefore, the company's future revenues and cash.

According to the regulatory agency, the tariff review will be guided to:

- Define an initial framework for periodic tariff reviews provided for by laws and in Sabesp's agreements with municipalities;
- Re-discuss all the criteria adopted in relation to the cost of services, tariff structure, subsidies policy and others;
- Establish methodology, rules and procedures for future reviews and adjustments.

Also in 2011, Arsesp defined the phases of the process and the schedule of events to implement the first tariff review, starting works to evaluate the company's assets and to calculate the regulatory basis of remuneration. This schedule shall be extended until the publication of results, estimated for August 30, 2012, with the ratification of structure and prices to be practiced.

In October, the company submitted a business plan to Arsesp, containing information about revenue, expenses and investments and awaits the publication of the Proposal for Initial Average Tariff and Efficiency Gains Factor, estimated by regulator for May 2012.

In addition, the company pleads with Arsesp the anticipation of tariff adjustment, aiming at speeding up the recovery of expenditures already incurred, and thus, relieve pressure on cash. This pleading has been analyzed by regulatory agency.

Also in 2011, Arsesp ruled the classification and procedures related to the internal progress of documents, data and material, providing greater legal security when dealing with confidential information. Currently, two public consultations have been conducted at ARSESP (ARSESP n° 03/2011 and ARSESP n° 01/2012), aiming, respectively, establish the concept of shortages in supply and corresponding administrative sanctions and a detailed methodology for Sabesp's tariff review process Second Cycle. These processes are in progress and the company participates by preparing requests and making contributions.

The processes to implement the rules issued by Arsesp began in 2009 gradually and progressively and were intensified in 2011. Results and impacts are relevant, especially in commercial and operational areas and must be equalized in the restructuring and tariff review.

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It is worth mentioning the sending of the adhesion agreement according to Arsesp standard to all company's customers. Thus, the rule on tariff collection changed: previously, it was sent to the owner of the real property connected to sewage public networks, now it is sent to the user-consumer. Despite the fact this change is suitable, it may affect litigations in progress and commercial processes.

Sabesp is frequently inspected by Arsesp and seeks to comply with decisions and recommendations deriving from Notification Instrument, besides presenting its technical, legal and factual justification. This conduct has resulted in the drawing up of few deficiency notices and in the application of non-relevant fines.

The inspection rules and the notification of accidents when rendering services were incorporated into our processes. Part of the inspection occurs online through the Accident Communication System created by Arsesp, giving more transparency and control to procedures.

Corporate Governance

2011 was a year of changes in our controlling shareholder, the State Government of São Paulo, significantly altering the structure of our Management, but without impacting the Company's performance.

At the Board of Directors, among other changes, Dilma Pena who previously was the chairwoman was nominated to the position of the Company's Chief Executive Officer, now composing our main governance body only as a member, in line with the best corporate governance practices. Manuelito Pereira Magalhães Junior, who was a board member, now is in charge of the corporate management office. Except for the chief executive officer, no other officer is a member of the Board of Directors.

Currently, the Board of Directors is composed of 10 members. Among them, five of them were our board members and were re-elected at the Shareholders General Meeting held in April 2011. Three are independent members, according to the *Novo Mercado* criteria. At the board of executive officers, four of six members, including the chief executive officer were exchanged in 2011.

The following chart shows how our governance structure is organized. Further information about the operation of different levels composing it is available in the Corporate Governance section, Investor Relations area at the company's website.

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Pursuant to the Brazilian Corporation law, the compensation to be paid to the board of directors, fiscal council members and executive officers is defined globally at the Shareholders General Meeting. The compensation of board members and officers in 2011, including benefits, was approximately R\$2.6 million. Approximately R\$1.1 million are added to this amount referring to the variable compensation.

Our shares are listed at the *Novo Mercado* of BM&FBovespa and at the New York Stock Exchange as ADR level III both in the first and second cases, these refer to the highest governance level. At the Brazilian stock exchange, Sabesp is also included in the Corporate Governance Index IGC and Bovespa Special Tag Along Stock Index ITAG, besides participating in the Corporate Sustainability Index ISE since 2007.

Code of Ethics and Conduct

The Code of Ethics and Conduct of Sabesp is its main guiding reference, whose ethical values emphasize respect for society, customer, environment and people. It establishes the company's relation with its stakeholders: management, board members, employees, customers, suppliers, shareholders, governments, community and the society in general.