

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP

Form 6-K

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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 May 4, 2005

(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):

Management Report - 2004

The Management of Companhia de Saneamento Básico do Estado de São Paulo -SABESP (the São Paulo State Water and Sewage Services Company) hereby submits to its shareholders the Management Report and Financial Statements for the year 2004, along with the opinions of the Independent Auditors and the Audit Committee.

SABESP's mission has always been and continues to be that of bringing a better quality of life to the population. SABESP is now Latin America's largest basic sanitation company and its excellence in providing services and product quality have earned it worldwide recognition.

SABESP expanded its activities in the São Paulo Metropolitan Region with the acquisition of the water and sewage system of São Bernardo do Campo in December 2003. SABESP started its basic sanitation operations in São Bernardo on January 5, 2004.

In March 2004, SABESP assumed the operation of the water supply and sewage collection in the Municipality of Itapira under a 30-year concession.

In the years 2003 and 2004 the rainfall indexes remained below the region's average, thus resulting in an insufficient refilling of the reservoirs, particularly the reservoir of the Cantareira System, the largest system in the São Paulo Metropolitan Region. As a result of this drought period, SABESP implemented a program to encourage the population living in the metropolitan area to reduce water consumption. The intense media campaign made a large number of consumers save water and the company could successfully face the water shortage problem without having to resort to a water rationing program that would affect nine million consumers.

After a broad negotiation process with the Management Committee of the Piracicaba, Capivari and Jundiá River Basin, the Cantareira System concession was renewed for an additional 10-year period in August 2004. This will assure a continued water supply to almost half the population of São Paulo Metropolitan Region.

Aware of its role in the life quality improvement of the population of São Paulo, SABESP, as an instrument of the state public sanitation policy, has been developing an outstanding work in the achievement of the government's goal of giving the whole population the universal right to sanitation as part of the citizenship rescue, health and quality of life.

Mauro Guilherme Jardim Arce

Chairman of the Board of Directors

1. THE COMPANY

SABESP is engaged in the operation of the public water supply and sewage treatment systems for the population of 368 of the 645 municipalities in the State of São Paulo. In addition, it is also responsible for the sale of treated water and provision of treated sewage services to 6 municipalities of the São Paulo Metropolitan Region that are not under its direct operation.

SABESP's water distribution network is approximately 58.1 thousand kilometers long. The length of the sewage collection network is approximately 36.5 thousand kilometers.

In 2004, SABESP brought treated water to 154 thousand new homes to cope with the vegetative growth of the population and the water supply universalization targets. At the same time, 137 thousand homes were added to its sewage collection network. The sewage collection rate was increased to 78% and more than 63% of the collected sewage was treated.

2. OPERATING INCOME

The 2004 net operating income reached R\$ 4.4 billion. The main variations in the net operating income resulted from the average tariff adjustments of 18.95% and 6.78% in August 2003 and 2004, respectively, and the 4.1% drop in the invoiced volume of distributed water, as a result of the Consumption Reduction Incentive Program implemented in the São Paulo Metropolitan Region. If, on one hand, this program reduced the annual sales volume, on the other, it prevented the implementation of a water rationing program, the potential disturbances for consumers and the consequent increase in the operating costs.

Also this year, SABESP assumed the retail operation of the water and sewage systems of São Bernardo do Campo, a municipality that was being supplied on a bulk purchase basis. SABESP also expanded its activities related to the sewage collection services in the area. This also added to an increase in the gross volume sales in the period. In comparison with the previous year, the gross sales to São Bernardo do Campo increased by 68%.

3. OPERATING INCOME

Earnings before interest, taxes, depreciation and amortization (EBITDA) reached R\$1.9 billion. In addition to the effects of the Consumption Reduction Incentive Program on the sales volume, considerations should be made to the added costs, operating and managing expenses that affected the EBITDA, particularly those related to advertising campaigns to make consumers aware of the need to rationalize the use of water because of the historical drought in the São Paulo Metropolitan Region.

4. NET INCOME

The net income of R\$513 million in the period was the result of an increase in the operating revenue, and the effect of the Brazilian currency appreciation to the US dollar during the year.

5. PAYMENTS TO SHAREHOLDERS

Based on statutory provisions, the Board of Directors is proposing to the Shareholders Annual Meeting to be held on April 29, 2005, the payment of interests on the company's own capital in substitution for the payment of mandatory minimum dividends for the year 2004, in the amount of R\$153 million.

This amount corresponds to 29.8% of the net profit, equivalent to R\$5.37 per one thousand shares, providing a *dividend yield* of 3.4%, considering the quotation of R\$157.45 per one thousand shares on December 31, 2004. This amount is 25% higher than that of the mandatory minimum dividends.

To meet the investment requirements with the company's own resources as provided in the capital budget, a proposition shall be made to transfer R\$ 438 million to the investment reserve.

6. EVOLUTION OF THE PERFORMANCE AND INDEBTEDNESS

At the end of 2004, total liabilities related to total assets remained at a 52.6% level while the debt to EBITDA ratio was 3.7.

The short-term debt versus total debt increased to 21.2%, particularly because of an Eurobond maturity date in July, 2005.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Net Operating Income (R\$ million)	1,910	2,411	2,902	3,101	3,236	3,356	3,435	3,767	4,131	4,397
Net profit (loss) (R\$ million)	26	58	280	542	(235)	521	216	(651)	833	513
EBITDA (R\$ million)	974	1,156	1,376	1,638	1,873	1,868	1,786	1,860	2,076	1,927
EBITDA margin - %	51.0	47.9	47.4	52.8	57.9	55.7	52.0	49.4	50.3	43.8
Payable Debt/EBITDA - x	3.1	3.1	3.1	3.0	3.1	3.2	3.6	4.2	3.5	3.7
Payable Debt/Total Debt - %	5.5	15.5	17.6	17.5	14.3	6.4	8.5	16.9	13.7	21.2
Total Liab./Total Assets - %	34.1	37.0	39.6	42.3	45.3	45.6	49.8	55.7	54.2	52.6

7. OPERATIONAL INDICATORS

The year 2004 started under the effects of a prolonged drought that affected particularly the São Paulo Metropolitan Region, making it necessary to intensify the institutional campaigns for the rational use of water. As a complementary measure, SABESP implemented a Water Consumption Reduction Incentive Program in March, based on the granting of a 20% bonus on the consumers' water bills. The purpose of this program was to reduce the average monthly consumption by 20% or more in comparison with the same period in the previous year by encouraging the population to save water and help fight the water supply crisis caused by the lack of rain and the low level of the water reservoirs that supply the region.

The population responded positively to SABESP's appeals to reduce water consumption and the result was that approximately 50% of the connections met the reduction goals and more than 20% of the connections that did not meet the goal also showed a reduction in their consumption. This response by practically 70% of the population led to savings of more than 27 billion liters in the period and contributed to a minimization of the risks of a supply crisis.

As a result, there was a reduction of the total volume of water sold, both in bulk and retail, of 4.1% with regard to 2003. At the retail level, this reduction was offset by the entry of São Bernardo do Campo, which received water in bulk, and also the new Itapira operation. Because of the expanded service, there was a 2.9% growth in the sales volume of the sewage collection services.

In general, the water and sewage sales volume in 2004 (2,833.8 million m³) remained at the same level as in 2003 (2,874.7 million m³), with a slight decrease of 1.4% as shown in the following tables per category of use and region:

Water and Sewage Volume Invoiced by Customer Category (million m ³)						
Customer Category	Water			Sewage		
	2003	2004	Var. %	2003	2004	Var. %
Residential	1,199.1	1,222.1	1.9	918.9	947.6	3.1
Commercial	142.5	142.4	(0.1)	125.6	127.4	1.4
Industrial	30.8	31.8	3.2	29.2	31.1	6.5
Public	46.4	44.7	(3.7)	36.0	35.3	(1.9)
Total Retail	1,418.8	1,441.0	1.6	1,109.7	1,141.4	2.9
Bulk Sales	346.2	251.4	(27.4)	-	-	-
Total	1,765.0	1,692.4	(4.1)	1,109.7	1,141.4	2.9

Source: SABESP

Water and Sewage Volume Invoiced per Region (million m ³)						
By Region	Water			Sewage		
	2003	2004	Var. %	2003	2004	Var. %
São Paulo Metropolitan Region	932.0	954.5	2.4	741.0	770.7	4.0
Regional Systems	486.8	486.5	(0.1)	368.7	370.7	0.5
Total Retail	1,418.8	1,441.0	1.6	1,109.7	1,141.4	2.9
Bulk Sales	346.2	251.4	(27.4)	-	-	-
Total	1,765.0	1,692.4	(4.1)	1,109.7	1,141.4	2.9

(*) Made up by the Coastal and Interior Regions

Source: SABESP

The information supplied in the table below refers to an evolution in the number of water and sewage connections and the population served.

Operating Indicators	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2004/2003 %	
Water connections ¹	4,111	4,324	4,601	4,946	5,242	5,535	5,717	5,898	6,044	6,358	5.2	
Sewage connect. ¹	2,870	3,019	3,277	3,559	3,763	3,976	4,128	4,304	4,462	4,747	6.4	
Population served	water ²	17.4	17.6	18.5	19.1	19.4	20.6	20.9	21.2	21.3	22.3	4.7
	sewage ²	12.9	13.1	14.0	14.8	15.1	15.9	16.2	16.8	17.2	18.2	5.8
Volumes Invoiced	bulk sales ³	315	357	368	388	393	318	322	339	346	251	(27.5)
	retail water ³	1,323	1,348	1,409	1,429	1,396	1,413	1,376	1,431	1,419	1,441	1.6
	sewage ³	975	993	1,036	1,066	1,058	1,070	1,054	1,105	1,110	1,141	2.8
No. of employees	18,861	18,467	19,129	19,340	18,324	18,048	18,159	18,505	18,546	17,735	(4.4)	
Operational productivity ⁴	370	398	412	440	491	527	542	551	566	626	10.6	

Notes:

- (1) In 1000 units at the end of the period
- (2) In million inhabitants, end of the period (bulk sales not included)
- (3) In million m³
- (4) Number of water and sewage connections per employee

8. FINANCINGS AND LOANS

Financing

In 2004, SABESP held negotiations with various financial sources regarding the fulfillment of its Multiyear Investment Plan. The following are some of these sources:

General Federal Budget (Non-Repayable Funds)

SABESP is the intervenor for the State of São Paulo, which obtained General Federal Budget funds for basic sanitation services from the Federal Government through the Ministry of Cities.

These funds are being used for the construction of the main trunk sewer of the municipalities of Ribeirão Pires and Rio Grande da Serra, in the São Paulo Metropolitan Region, for reversing sewage from these watersheds to the ABC Sewage Treatment Plant.

The total investment amount is R\$27.5 million, of which R\$17.3 million is being transferred by the Federal Government under two agreements for 2002 and 2003 which are currently at the execution stage.

FGTS Severance Fund

In 2003, SABESP signed 16 financing agreements for water and sewage construction works using FGTS funds, whose financial agent is the federal savings bank (Caixa Econômica Federal), paying annual interest rates of 8.0% + Reference Rate (TR) per year for water, and 6.5% + TR per year for sewage, with a maximum grace period of 36 months and an amortization period of 180 months. The amount of R\$324.5 million was financed for a R\$361 million investment, of which the amount of R\$36.5 million was

transferred from the company's own funds. One of the 16 financing agreements are at the execution stage while the works related to the others are about to begin.

In 2004, SABESP submitted 40 new projects to the Ministry of Cities through the federal savings bank (Caixa Econômica Federal), financial agent of the FGTS funds, applying for a financing in water and institutional development in the amount of R\$714.2 million (investment of R\$794.6 million). Four of these projects were approved and signed on June 30, 2004.

The four financing agreements signed in 2004 refer to the water supply system works, 8.0% annual interest rates + TR, a 36-month grace period and amortization in 180 months. The amount of R\$154.7 under these agreements is related to a R\$172 million investment, R\$17.3 million of which being from the company's own funds. One of these projects is already at the execution stage.

FEHIDRO State Water Resources Fund

In 2004, funds from the FEHIDRO were contracted for 4 projects, totaling R\$2.9 million in investments. The amount of R\$0.9 million, with repayment obligation, is financed by BANESPA as the financing agent, while the amount of R\$2 million is the FEHIDRO's counterpart capital.

In 2004, FEHIDRO disbursed a total of R\$1 million for 26 ongoing projects.

BNDES

In August 2002, SABESP signed a financing agreement with the BNDES and four private banks as lending agents of the BNDES system, in the amount of R\$240 million, covering the Federal Government's counterpart in the Tietê Project - Phase II. Out of this total, the amount of R\$171 million was disbursed from 2002 to 2004.

SABESP is negotiating with the BNDES the Federal Government's counterpart in the financing agreement for the Environmental Recovery Program of the Santos Metropolitan Area signed with the JBIC last August.

PRODES National Watershed Depollution Program of the National Water Agency ANA

In 2001, six agreements were signed between SABESP and the Federal Government, through the National Water Agency (Pindamonhangaba - Araretama, Pindamonhangaba - Moreira Cesar, Itatiba, São José dos Campos, Hortolândia and São Luiz do Paraitinga), for the purpose of providing financial incentives through the payment of treated sewage under the PRODES, totaling R\$16.2 million.

Under these agreements, the construction works in Pindamonhangaba (Araretama) were completed in 2004 and the certification is expected for the first quarter of 2005. The remaining construction works are in progress and most of them are expected to be completed in the first half of 2005.

In 2004, three agreements related to sewage collection and treatment plants were signed for the municipalities of Cachoeira Paulista, Guararema/Sede and Guararema/Parateí (R\$1.4 million). The total of the 11 agreements already signed is approximately R\$ 20.9 million in their original amounts.

The amounts related to the PRODES program are deposited in a fixed income long term investment fund for watershed depollution with the federal savings bank (Caixa Econômica Federal). This fund closed the year with an amount of R\$25.4 million.

Japan Bank For International Cooperation - JBIC

On August 6, 2004, SABESP signed a Loan Agreement with the *Japan Bank For International Cooperation* JBIC for a financing in the amount of ¥21,320 million, equivalent to R\$571.5 million, for the Environmental Recovery Program of the Santos Metropolitan Area, a project of ¥39,221 million, equivalent to R\$1,051.4 million, in which the amount to be funded by SABESP is ¥17,901 million, equivalent to R\$479.9 million. This financing has a guarantee of the Federal Government and a counter-guarantee of the State of São Paulo.

On December 4, 2004, SABESP fulfilled all the loan conditions required by the JBIC.

Issue of Bonds in the Capital Market

In 2004, SABESP took the following initiatives to refinance its liabilities with the domestic and international markets of fixed-income bonds:

Debentures

In July 16, 2004, SABESP distributed the second issuance of promissory notes in the amount of R\$130 million, liquidated on September 22, 2004, as a bridge operation for its 6th issuance of debentures.

On September 17, 2004, the two-year SABESP's First Program for Security Distribution in the amount of R\$1.5 billion was filed with the Brazilian Securities and Exchange Commission (CVM).

On September 17, 2004, SABESP registered with CVM the 6th Issuance of Simple Debentures, non-convertible into shares, in the amount of R\$600 million under its First Program for Security Distribution, with financial settlement on September 22 and final maturity in September, 2010.

On September 24, 2004, SABESP fully liquidated the 3rd issuance of simple debentures on the market, in the amount of R\$413 million, (R\$367 million traded on the market and R\$46 million at the company's treasury). The remaining funds were used for the payment of other capital market liabilities.

9. INVESTMENTS

In 2004, the amount of R\$601 million was invested in the municipalities of SABESP's operating area. The table below shows the investments made in water and sewage facilities in the São Paulo Metropolitan Region and in the regional systems.

INVESTMENT PER REGION - 2004			
(R\$ million)			
REGION	WATER	SEWAGE	TOTAL
SP METROP. REGION	127	262	389
REGIONAL SYSTEMS	77	135	212
TOTAL	204	397	601

Note: 1999 - does not cover the municipality of Osasco (R\$ 231 million)

2003 does not cover the transfer of the municipality of São Bernardo do Campo (R\$ 415 million)

The new water and sewage service connections and the population served are outlined below:

Water and Sewage Service Connections Made and the Population Served 2004

		SPMR	Regional Systems	Total
WATER	Number of Connections ¹	95	59	154
	Population Served ²	390	195	585
SEWAGE	No. of New Connections ¹	84	53	137
	Population Served ²	360	175	535

(¹) In 1,000 units

(²) In 1,000 inhabitants

São Paulo Metropolitan Region

In 2004, the investments in the São Paulo Metropolitan Region totaled R\$389 million, distributed among various programs for the production and distribution of water and the collection and treatment of sewage, directly serving a population of 15.2 million with water services and 12.3 million with a sewage collection network.

• **Water**

In 2004, the projects related to the 2nd phase of the Metropolitan Water Program (PMAII) continued. These projects amount to R\$380 million and are financed by the Caixa Econômica Federal. The area deforestation and filling of the Biritiba and Paraitinga dams to provide the required 2.5 m³ /s water flow in the Upper Tietê Basin are at the final stage. An agreement was signed with the Water and Electric Power State Department (DAEE) on November 5, 2004 to provide an additional 3.4 m³ /s supply of untreated water from this same basin. These two actions are meant to provide a 5.9 m³ /s water supply.

A water demand prediction model was developed and implemented at the Operating Control Center, to optimize the operation of the Metropolitan Water Mains System.

After a negotiation process with the Piracicaba, Capivari and Jundiá River Basin Committee, the Cantareira System concession was renewed in August 2004 for an additional 10-year period.

The Metropolitan Water Mains System reached an average 98.3% water supply regularity index (IRA) in 2004. This figure is regarded as an optimum index of supply regularity.

To cope with the vegetative growth of the water supply services in the São Paulo Metropolitan Region, 95 thousand connections were made and accounted for the 100% level of served households.

• **Sewage**

In the expansion services of the sewage collection systems, approximately 95,000 new connections were made in the São Paulo Metropolitan Region. At the same time, SABESP expanded the sewage treatment in the area with the beginning of operations at the treatment stations of Arujá, Cotia, Biritiba-Mirim, and other six stations located in the municipalities of São Bernardo do Campo and Riacho Grande.

The sanitation and foam drainage problems in Pirapora do Bom Jesus have also been solved.

Actions to improve the quality of water bodies in public areas have been taken by the Metropolitan Division. These areas include the Carajás Creek watershed that crosses the Youth Park in the northern section of São Paulo, and the Sapateiro Creek that forms the Ibirapuera Park lake. The Horto Florestal and Aclimação park stations for flotation and removal of floating contaminants are already in operation.

In the Tietê Project Phase II, financed by the Inter-American Development Bank (IDB), approximately R\$ 215 million was invested in 2004, covering the construction of 14 km of interceptors, 42 km of trunk lines, 448 km of collection networks and 52 km of new residential connections.

Operational Development

The Metropolitan Division has been emphasizing the operational improvement of the water distribution and mains networks in order to improve actual (leakage) and apparent (commercial) losses. The following are some of the actions taken under the loss reduction program in the São Paulo Metropolitan Region in 2004:

Installation of 120 pressure reducing valves, increasing to 802 the number of installed valves. These valves are controlling approximately 30% of the distribution network and providing 3.3 m³ /s savings from loss (leakage) reduction.

Survey of 13 thousand kilometers of the distribution network to detect unseen leakages;

435 thousand repairs to remove leakages in the distribution network (network, branch and meter setter), that is, about 1,200 repairs/day;

Replacement of 190 thousand low-capacity water meter (about 6% of the total number of water meters in the São Paulo Metropolitan Region) during corrective and preventive maintenance, keeping 4.5 years old as the average age of the water meters;

Identification of 12.5 thousand irregularities in water connections (frauds and operative connections registered as out of service). Applicable management, operating and commercial measures were taken;

During the macromasurements of the Metropolitan Mains System, seventy-two calibration tests were performed on the macrometers, eleven electromagnetic meters were purchased and five pitometric stations were remodeled;

Field work continued for a more adequate determination of the actual losses in the water distribution network based on concepts of the International Water Association - *IWA*.

Works carried out by the East Business Unit of the São Paulo Metropolitan Region with successful concentrated and integrated actions by the operating areas. Besides achieving good results in the implemented actions, a new methodology was introduced to involve the operating labor in the reduction of losses.

Regional Systems

SABESP is operating in 330 municipalities in the interior and coastal regions of São Paulo. In 2004, the company invested about R\$212 million in these municipalities. The following achievements should be highlighted:

Water

Expansion and improvement of water supply systems with 59 thousand new connections to serve approximately 195 thousand inhabitants in several municipalities.

Deep tubular wells currently account for 77% of the water sources and benefit 55% of the communities served by the Regional System Division. In 2004, there was a 50 l/s flow increase after the drilling of new wells in several communities.

Sewage

Implementation, expansion and improvement of the sanitary draining system with the addition of approximately 53 thousand new sewage connections to serve about 175 thousand inhabitants in several communities.

Operational Development

With a focus on water loss reduction and control, increased efforts were made to train technicians to search for unseen leakages. Ninety-nine people were trained just in 2004. There was a consolidation of new water connection standards which, because of the new parts used, will result in further leakage reduction. There is also a training program under way involving the construction and repair of connection branches using new equipment and materials that comply with the new standards in force.

The number of pressure reducing valves installed has been increased to 440 units, providing for pressure control in several critical areas. The replacement of old water meters continued in an effort to reduce their average age. Efforts have also been made to increase the number and improve the reliability of the macrometers used. A training program covering their selection and calibration has been implemented. The methodology used is now adopted by all the business units. Efforts were also made to increase the number of teams of fraud hunters.

In 2004, the process automation of water treatment stations in several communities was completed. New operational control centers were integrated into the operation of water treatment stations that had already been automated.

These measures have provided the online control of the processes developed at the operational control centers, besides assuring the good quality of the water supplied and reducing operating costs with the optimized use of chemicals, electric power and labor.

10. BUSINESS MANAGEMENT

Water Consumption Reduction Incentive Program

Known as "water bonus", the Water consumption Reduction Incentive Program was a campaign designed to encourage the population living in the São Paulo Metropolitan Region to reduce consumption and rationalize the use of water.

The program lasted from March 15 to September 15 and granted a 20% bonus on the water bill of the month. The result was a 20% reduction in the water consumption over the same period in 2003.

The results achieved in April, the first month of the program, were beyond expectations. Out of the metered 1.2 million real estates, 47.4% had reached the goal, a total of 590 thousand. About 20% of those that did not reach the goal also reduced their consumption. 86.5% of the real estates that reached the goal were residential consumers.

As a result of the first three months of the program and the issue of bills to the special consumers (industries, condos and large shops), the third financial statement showed the progressive popularity of the program. Out of the 3.2 million bills issued monthly to consumers in the Greater São Paulo, 49.3% won the bonus, that is, 1.6 million bills showed a reduced consumption of at least 20%. Out of the consumers entitled to the bonus, 87% were residential and 13% belonged to other categories of use. Special consumers entitled to the bonus reached a total of 7.5 thousand.

Results of the Water Consumption Saving Program			
Reference Month	Clients with bonus	Amount Paid in Bonus (R\$ million)	Investment in Communication* (R\$ thousand)
April	1,406,144 43.9%	8.9	3,932.9**
May	1,652,489 51.0%	13.0	1,565.8
June	1,599,662 50.2%	13.0	210.2
July	1,536,576 48.1%	13.3	37.8
August	1,376,122 43.0%	11.7	7.6
September	1,228,131 38.3%	11.3	6.2
Total		71.2	5,760.3

*Including media and production

**Including the months of March and April

Also as part of the incentive program for the rational use of water, an agreement was signed with the São Paulo State Department of Education to establish this program in 50 educational institutions, develop actions for the replacement of hydraulic equipment, remove leakages, and develop educational works to promote awareness and change of customs of the employees, students and the community.

The project shall be used as a model for all the educational institutions in the State of São Paulo. The Program for Rational Use of Water shall be adopted in at least 50% of the schools to generate savings in water consumption.

Respect for the Customer

In 2004, SABESP's Ombudsman, acting as a link of understanding between the Company and the customer, certifying the good quality public service, and adding credibility to the company's image, developed a number of actions marked by proactivity, agility in the resolution of problems and improved access to information. The following are some of these actions:

- **New Technologies** The access to the *Customer Relationship Management (CRM)* Ombudsman became available to all the 15 Business Units of SABESP in the São Paulo Metropolitan Region, coastal and interior regions of the state. This facility made it possible to monitor a complaint from the time it is filed till its effective resolution with deadline control and analysis reports.
- **Information and Control** Implementation of daily, monthly and annual reports to the Company's Board of Directors and Business Units. By disclosing statistical data and qualitative analysis, these products allow the assessment and improvement of the services provided by SABESP at the primary and Ombudsman levels.
- **Partnership** In an effort to achieve friendly solutions to customers' complaints before the cases are taken to court, the SABESP's areas involved and other public service providers decided to maintain their partnership with the special civil courts in the differentiated service project known as *Expressinho*, a fast-track arrangement that was established on a pilot basis in 2003. The project was enforced in May 2004.

In 2004, the company's Ombudsman received and recorded 8,609 contacts, received by telephone, e-mail, letter or personally; 8,427 had been resolved or closed before December 31, 2004. The consumer protection service received 1,357 complaints against SABESP, 1,178 of which had been resolved or closed before December 31, 2004. Through the fast-track arrangement, SABESP reached an agreement in 78% of the 45 cases submitted to the company in 2004, thus avoiding possible legal actions.

Tariff Adjustment

By applying the Tariff Adjustment Index calculation formula enforced in 2003, SABESP adjusted the tariffs charged for its water supply and sewage collection services by 5.78 on August 29, 2004. The tariff increase was applied linearly to all the categories and ranges of consumption.

Tariff Restructuring

SABESP's tariff restructuring studies began in April, 2004. The studies cover the costs incurred by the Company, considerations being made with regard to its economic efficiency, long term self-financing and the payment capacity of low-income families. A marketing plan will also be developed showing market and customer segmentation, specificities, commercial potential and a proposal for improving the commercial practices of SABESP. These studies are expected to be completed by October 2005.

Market Expansion

After being approved by the Board of Directors in December 2003, the operation of the basic sanitation services by SABESP in the Municipality of São Bernardo do Campo started on January 5, 2004. The assets were transferred to SABESP at the price of R\$415.4 million based on an Economic and Financial Assessment Report. The city's accumulated debt of R\$ 265.4 million related to the bulk supply of water by SABESP was settled. The difference between the amount stated in the Economic and Financial Assessment Report and the total debt amount, R\$150 million was paid in cash to City Hall during the year 2004.

In March 2004 (Tariff Notice 01/04), SABESP changed the tariff structure used in São Bernardo do Campo to reflect the tariff structure used by SABESP in its operations. This was done without actual tariff adjustment. The tariff adjustments shall be made gradually and proportionally starting in January 2005 till the tariffs are equivalent to those charged by SABESP in the South Business Unit (MS) of the Metropolitan Division (M).

With regard to the gross sale volume, the positive impact of the change from bulk supply to retail service in São Bernardo do Campo, as well as the beginning of the sewage collection system operation in the area, was of approximately 68% over year 2003.

On April 1, 2004, SABESP also assumed the operation of the basic sanitation services in the Municipality of Itapira, under a 30-year concession granted on March 24, 2004 for the amount of R\$14 million, as determined by an Economic and Financial Assessment Report.

Considering the existing difference between the tariffs charged by the Municipal Government and the tariffs charged by SABESP, an agreement was made that starting on April 1, 2005, the applicable tariffs shall be those effective for the Pardo and Grande RG Business Unit. A transition tariff was adopted for 2004.

Corporate Management Balanced Scorecard (BSC) Implementation

To assure that the actions taken by the Company are effectively aligned with the strategic direction defined in its planning process, SABESP started to implement in 2004 a management tool based on the *Balanced ScoreCard (BSC)* principles. This tool will assess the organization performance based on four perspectives: financial, customers, internal processes, and learning and growth.

There are also plans for the implementation of the Project Management Office (PMO), a form of organization made up of people, processes and systems supporting the teams in the management of the action plans of the initiative portfolio (macro actions) as planned in the *Balanced ScoreCard*. To prioritize these initiatives, the decision support method *Analytical Hierarchy Process* is being used for the evaluation of the projects based on criteria of strategic impact, complexity and urgency.

All this strategic planning and management support mechanisms are being implemented to enable the Company to take an additional qualitative step in its management practices.

Quality Actions

Continuing with the implementation of the Quality Management System in 2004, the Regional Systems Division was awarded a certificate of compliance with Quality Standard NBR ISO 9001:2000 for 22 municipalities and supporting units of the state capital at the first stage, and 85 municipalities at the second stage. At these two stages, 33% of the municipalities served were reached, other 203 are in process of being awarded this certificate, totaling 94% of the 330 municipalities served.

The main processes covered by this certificate are: water, sewage, customer service, services provided, product and services sold.

The sanitation control laboratories in Itapetininga, São José dos Campos and Franca were certified as complying with NBR 17025 General Requirements for Lab Test and Calibration Competency in 2001 and still keep this certification with periodic maintenance checks.

The ISO 9001:2000 certification was also awarded to the pump maintenance process while the ISO 9001:2000 certification was kept for the steel parts manufacturing process (boiler shop) under the Technology and Planning Division.

The Metropolitan Division was certified as complying with the Quality Standards Requirements of NBR ISO 9001:2000 for the Sewage Interception and Treatment, Final Disposal and Reuse Water Supply. The residential effluent treatment in the Municipality of Salesópolis was also certified for compliance with NBR ISO 14001:1996.

The Total Productivity Maintenance (TPM) was implemented at the Novo Mundo Park Sewage Treatment Station and the Sewage Treatment Business Unit (MT) of the Metropolitan Division.

In December 2004, the five control laboratories of the Metropolitan Division were awarded the NBR ISO 9001:2000 certification.

Optimization of the Supply System

Several initiatives have been implemented to optimize the supply system, such as the following:

- a) SABESP Online Bidding This service has provided the bidding process with greater agility and transparency, besides savings of approximately R\$13.0 million in 2004;
- b) Purchase of electric power from the free market these purchases have brought the company savings of R\$4.4 million in 2004.

Cost Reduction with the Consumption of Treatment Material

The Water Production Unit (MA) of the São Paulo Metropolitan Region has been making great efforts to optimize its production process. Goals for reducing the consumption of treatment materials were established and defined in the 2003-2004 Profit and Result Sharing Plan. Expressive reduction levels were achieved with an average treatment material dosage of 70.88 kg/1000 m³, a reduction of approximately 16% with regard to the target average dosage (83.97 kg/1000 m³).

Total savings obtained by MA in 2004 reached 11,155 tons of chemicals or R\$5 million.

Rationalization and Reduction of Electric Power Costs

In 2004, the Water Production Plant (MA) of the São Paulo Metropolitan Region alone saved 6.56% or R\$10 million in electric power in comparison with the 2003 figures in purchases of electric power. There was a reduction in the production volume of 2.0% as a result of the 20% water bonus offered to end consumers from April to September 2004. There was a 3.2% consumption decrease in kwh (medium and high voltage) as a result of the lower production volume and actions such as the change of operational rules, energy efficiency contracts and the migration from the captive to free market model. A new supply procedure was implemented for the upper zone of the Santana section in São Paulo, providing electric power savings of 100 thousand kwh/month (R\$29.0 thousand/month) and reducing the macromeasured volume in the Santana area by 17%.

In an effort to improve the power efficiency of its systems, the Regional Systems Division carried out a number of actions targeted at increasing the efficiency of the equipment and facilities, application of speed variators, power-factor correction, revision of contracted service tariffs and voltage class changes. The result was an electric power cost reduction of R\$3.0 million in 2004.

Agreements with the electric power utility companies Energia Elétrica Bandeirante and Elektro, under an ANEEL program, in the amount of R\$9.8 million, have benefited 11 water elevation stations and provided reductions in electric power expenditures amounting to R\$4.3 million in 2004.

The SABESP/Eletróbrás/Procel-Saneam Agreement entered into by the Company after its participation in the Public Call for Projects of Preservation and Rational Use of Electric Power and Water in the Environmental Sanitation Sector, launched by the Ministry of Cities and the Ministry of Mines and Energy, ranked first among the 29 projects from all over Brazil. The project will cost R\$1.3 million, R\$700 thousand being financed by Eletróbrás as a nonrefundable investment. This project will be implemented in the Water Distribution System of São Paulo South Region.

A R\$3 million agreement was entered into with Eletropaulo for the implementation of electric power efficiency projects in the São Paulo Metropolitan Region.

Information Technology

The SIGNOS project (Georeferenced Information System) continued being implemented in 2004. The system has already been implemented in the distribution area of the Metropolitan Division and is now being expanded to include a business unit of the Regional Systems Division.

Several actions were taken in 2004 to implement new systems and functionalities, redesigning corporate systems, increasing the data and infrastructure physical and logical security levels, expanding computer and telecommunications technological resources and implementing new management processes.

The data warehouse reformulation project should be highlighted. This project is specifically designed to improve SABESP's management data.

Asset Management

SABESP has started the implementation of the Asset Management Program with the integration and optimization of processes related to investments and works in operation. This action brought tax benefits of R\$27 million for 2003 and R\$20 million for 2004.

A real estate study has been completed with the identification of properties that could be sold. A fleet usage optimization process has also started with a 10% reduction (365 vehicles). The auctions held for selling these vehicles yielded R\$2 million. A new study for renewal and leasing of a vehicle fleet for SABESP was completed and submitted. It has already been approved by the state government.

11. RESEARCH AND DEVELOPMENT

New Business and New Products

- **Reuse Water**

Reuse water is a product resulted from the treatment of effluents in sewage stations. It is supplied by SABESP for nondrinking purposes.

In 2004, SABESP entered into an agreement with two other municipal governments in the São Paulo Metropolitan Region for supplying reuse water: Diadema and Guarulhos. These two cities have now joined São Paulo, Barueri, Carapicuíba, Santo André and São Caetano in the purchase of reuse water from SABESP. The total volume of reuse water purchased reached 232 thousand m³ in 2004.

- **Assistance to Municipalities Not Served by SABESP**

As a support body for the São Paulo State Department of Energy, Water Resources and Sanitation – SERHS, SABESP provides technical assistance to municipalities for whose water supply and sewage systems SABESP has not granted concessions.

This assistance includes the provision of design services for projects and the transfer of funds from SERHS to be used in project works. In 2004, nine SANEBASE agreements were signed, totaling approximately R\$ 1 million. These activities also included the evaluation of these municipalities' requests for funds invested in sanitation works. In 2004, 62 technical and financial reports covering these requests were issued by SABESP. SABESP also provided technical assistance services to the São Paulo State Health Department in projects involving the fluoridization of the water supplied to municipalities in the state.

Technological Development Water and Sewage

The following were some of the major technological developments related to the Company's operations:

- Research on the disposal of sludge from water treatment stations in sewage treatment stations.
- Tests on the use of sludge from the water treatment stations for sanitary landfill coverage.
- Development of an irrigation project to be used as fertirrigation of agricultural crops using effluents from a stabilization pond in Palmeira D'Oeste, State of São Paulo.
- Use of sludge from water treatment station in the ceramic manufacturing process - tests on the burning of ceramic blocks to verify the technical feasibility from the environmental point of view. At this stage, an experimental survey of the operating data and issue of pollutants was conducted with an inverted flame type of intermittent furnace, using and not using sludge from a water treatment station in the ceramic block manufacturing process. These tests were performed at Cerâmica Mônaco in Tatuí, State of São Paulo by the IPT, São Paulo's Institute of Technological Researches.

12. AWARDS

The following are some of the various awards won by SABESP in recognition of the efficiency and quality of its services:

- **Transparency Trophy** awarded by ANEFAC-FIPECAFI-SERASA. SABESP is the only company selected among the 10 finalists in the award's eight years of existence.
- **São Paulo Management Quality Award** finalist with the case *Competency-Based People Management: Business-Focused Development of People*.
- **e-Learning Brazil Award 2004** national reference and gold category with the case: "Education Without Space and Time Limitations"
- **Human Being Award** Awarded by the ABRH - Brazilian Human Resources Association for the case "SABESP Corporate University Education Without Space and Time Limitations"
- **National Basic Sanitation Quality Award (PNQS)** granted by the Brazilian Association of Sanitary and Environmental Engineering (ABES), the most important award in the basic sanitation sector in Latin America. It was won by the

West Business Unit (MO) and Sewage Treatment Unit (M) of SABESP's Metropolitan Division, Level II.

- **São Paulo Management Quality Award (PPQG)** granted by the São Paulo Institute of Management Excellence to the following units of SABESP:
 - **Governor's Trophy:** North Business Unit (MN) of the Metropolitan Division.
 - **Gold Medal:** North Business Unit (MN) and South Business Unit (MS) of the Metropolitan Division.
 - **Silver Medal:** Lorena Branch and Pindamonhangaba Section of the Regional Systems Division.
- **B2B Quality Standard Award** in the Public Service Category - Public Concessionaire, awarded by the B2B Magazine, Câmara e-net and E-Consulting. SABESP was granted this award for the Electronic Bidding Management System (SGL).

13. INVESTOR RELATIONS

In 2004, SABESP maintained its commitment to providing the company's shareholders with clear and comprehensive information. Personalized meetings with capital market analysts and the participation in conferences held throughout the year helped intensify the company's contacts with investors and financial analysts. After the disclosure of each quarter's results, conference calls are held in Portuguese and English to consolidate the practice of discussing the results, provide transparency to the process and reinforce the best practices of corporate governance.

14. CAPITAL MARKET

At year-end, SABESP's shares were quoted at R\$157.45 per thousand shares. Its *American Depositary Receipts* were quoted at US\$14.97.

In 2004, 12.8 billion shares of SABESP were traded on the Stock Exchange of São Paulo (Bovespa), with an average daily volume of R\$7,2 million. There were more than 77 thousand transactions and SABESP shares were present in 100% of the trading sessions.

Global Secondary Offer of Shares Issued by SABESP

The Government of the State of São Paulo, through its Finance Affairs Department, arranged for the pulverized sale of 6.06 billion SABESP shares of its own, both in the domestic and international markets, at the price of R\$113.47 per thousand shares (or US\$ 9.90/ADS). After this sale, the percentage of SABESP shares traded on the free float market jumped from 28.5% to 49.7 of its capital stock.

15. RELATIONS WITH THE INDEPENDENT AUDITORS

The company's policy with regard to the services provided by its independent auditors that are not related to the external audit is based on principles that preserve the auditor's independence.

During the 2004 fiscal year, the independent auditors that provided their services to the company were hired for services other than the examination of the financial statements. It is the understanding of the company and its external auditors that such services do not affect the independence of the external auditors. The additional services hired in the amount of approximately R\$390 thousand are 5% higher than the total tariffs charged for the external audit services.

SOCIAL BALANCE SHEET

SABESP faces innumerable and complex challenges every day. It is continually searching for new ways to align the expectations of all the people that form its universe of relationships. Its mission is to further advance towards a socially responsible management taking into account not only the economic feasibility, but also social justice and environmental preservation.

This new model has contributed to expand SABESP's perception of its own reason to exist. The sense of responsibility for the health of the people adds to the responsibility for their quality of life, which includes environmental health. The search for effectiveness involves not only the technological and economic point of view, but also the quality of the products and the impact of the company's activities on people and the environment. The water sources are regarded as a scarce resource to be preserved and used in a responsible way. In addition to its commitment to universalize the sanitation public services, SABESP has assumed the task of helping improve the environmental conditions of the areas served and the quality of life in those communities, recover the water sources and make the people increasingly aware of how the water resources should be used.

In its Strategic Planning for 2004-2008, SABESP defined as one of its strategic objectives to be recognized as a citizen company and be prepared to reach environmental excellence by acting in a socially responsible way. The guiding principles of its mission will be ethical actions, focus on the customer in a competitive environment, and a commitment to social and environmental responsibility.

In the search for a single measure of reference to guide the actions of SABESP in these issues, there was a consensus that this was the moment to advance in the implementation of a Corporate Social Responsibility Program focused on the articulation of actions now performed by the various divisions.

SABESP's strategic direction movement towards social responsibility started with the development of Institutional Guidelines, Values and Principles of Collective Action. This was done in a participative way and involved the company's Directors, Managers and the

Social Responsibility Group made up of representatives of all the areas in the company who must jointly express the SABESP's way of doing business based on social responsibility and sustainability.

Institutional Guidelines for SABESP Social Responsibility:

1. Align and integrate the practice of social responsibility based on a view of sustainability
2. Disseminate the concepts of Social Responsibility and sustainability on a permanent basis
3. Organize the various publics which the company has a relationship with as co-responsible for SABESP Social Responsibility
4. Monitor and assess the Social Responsibility Program for its continued improvement
5. Integrate the company with its relationship publics

The Ethical Code building process started with the definition of a set of values used to guide the decision making processes in a way that would not contradict the objectives and convictions of SABESP.

Values:

- **Respect for the environment:** Responsible for one's contemporaries and future generations, for the impact of one's activities on nature and people, seeking a sustainable development and promoting environmental education and awareness.
- **Respect for the people:** Promoting equal opportunities, respect for the diversities and professional development. Establishing relations of confidence and encouraging participation by communication and integration.
- **Integrity:** Acting with justice, lawfulness, coherence, transparency, honesty, impartiality in all the actions, practices and decisions.
- **Competence:** Acting with professionalism, agility and effectiveness, assuming the responsibility and assuring the quality of the processes, services and products.
Valuing shared knowledge, proactivity, creativity and innovation, simplicity and flexibility in the search of solutions.
- **Solidarity:** Acting with a citizen awareness and responsibility for promoting the public good.

Collective Action Principles:

1. Act by assuring a sustainable balance of social, economic and environmental dimensions.
2. Zeal for the public and private resources using them in an efficient, effective and lawful manner.
3. Act by assuring the continuous quality improvement of the products and services offered with a commitment to the results.
4. Act with justice in the actions and decisions by promoting balance and harmony, reconciling the interests and purposes of SABESP and its different relationship publics.
5. Act in a constructive way by establishing confidence as a relationship principle between the company and its different relationship publics.
6. Act with transparency, clarity and precision in the relations, professional practices and communication with all the publics involved.
7. Act by assuring people management practices that respect diversity and strengthen the motivation, satisfaction and commitment.
8. Act by respecting the laws, national and international conventions.
9. Act to strengthen and improve the communities where the company acts directly and in society as a whole.

The year 2004 set the stage for innumerable socio-environmental actions involving actors from the whole SABESP universe. These actions occurred in two vectors: one that benefited the body of employees, their family members and dependents and another that benefited the external community served by SABESP.

In 2004, this led hundreds of professionals from very different areas to get together around 143 social responsibility projects, 75% of which are geared to the external community and 25% to the internal community, as we outline below:

SOCIAL INVESTMENT IN THE INTERNAL COMMUNITY

RELATIONSHIP OF SABESP WITH ITS EMPLOYEES

The social investment in the internal community involves a large number of projects targeted at the company's employees and their family members. These are actions focused on the assurance of a safe and healthy work environment, the prevention of accidents and harms to health, improvement of the quality of life, education, professional

and personal development, compliance with the law and respect for the rights as far as labor, union and business relations are concerned.

SABESP is aware of the fact that its social action must start with its own employees who replicate these practices in the communities where they live and act.

The employees recognize the social nature of SABESP, view their work as a mission and wish to participate in the company's major decisions, a fact that has been disclosed by surveys conducted by the company's top management. There is also a strong perception of the value of SABESP's knowledge and competence which are systematized by the competence-based people management model and disseminated both internally and externally by SABESP Corporate University.

The Business Units have become spaces for dialogue building as a result of the decision making autonomous process. Several managers have adopted the practice, which is increasingly disseminated all over the company, of promoting regular meetings of employees and leaders to favor their relationships and the flow of information.

With this human capital, recognized, valued and guided by a social responsibility policy, SABESP has been aligning and giving consistency to its actions, improving dialogue channels and supporting the employees' movements with positive influences on its relations with the consumers, communities and results of the Company.

Following the strategy of creating value by managing people, the competence-based model remains in force, recognizing and enabling the alignment of the business objectives with the progress of people.

Competence-based Selection - The practice of internal selection has been encouraged to give the company's employees the opportunity to build a career. One of the outstanding processes in 2004 involved the assumption of the sanitation service operations in São Bernardo do Campo, which required the staff of employees to be completed. The process involved approximately 700 employees/candidates for 129 vacancies.

Competence-based Assessment and Compensation - The Competence-based Compensation Plan continued being implemented by integrating the plan database with the human resources computer system (Antares). As a result, it was possible to develop management reports and keep a follow-up on the employees' assessment history.

SABESP Corporate University (UES) - After four years of existence, the corporate university shows expressive results. In 2004, the amount of R\$2.2 was invested, resulting in 60,453 participations in personally attended and remote activities. This number corresponds to an average 3.5 opportunities per employee with a daily hourly load of 52,260 hours/man/training.

E-learning at SABESP has further democratized the access to knowledge with the expansion of its course grid by making 40 e-learning courses available on the Intranet

and 197 courses on the Corporate TV. These actions resulted in 7,290 participations. This educational advance was recognized by the market with the award National Reference in e-learning and the Human Being Award granted by the Brazilian Association of Human Resources - ABRH for the case SABESP Corporate University Education Without Space and Time Boundaries .

Another achievement to be highlighted is the **Educational Agreement** signed with educational institutions, whose purpose is to expand the access to education and improve the educational level of the employees and their dependents. The program now reaches 104 institutions that grant tuition discounts for their courses: graduation, postgraduation, medium and basic level education, technical courses, children's education, languages, adult education and literacy courses.

Another outstanding fact related to the dissemination of social responsibility was the Ethical Forum held by SABESP. Its objective was to provide for reflections on the importance of the changes in social relations and the role of ethics in the social structure. Institutions like USP, Ethos and IDS participated in the event, which was attended by more than 700 guests, including employees and vendors.

Profit Sharing - SABESP and Labor Unions held the 2004/2005 collective bargaining and reached an agreement that met the common interests of the employees and the company. In addition to the advantages related to salary adjustments and their transfer to the benefit amounts, the profit sharing arrangement was also kept for the July 2004 to June 2005 period.

Work Safety and Medicine With the implementation of the Life Promotion Program, there was an adaptation process for the management staff and the employees. In 2004, the number of work accidents dropped by 16.3% in comparison with the previous year and their severity level also decreased. The final figures shows that the preventive actions were successful. Also, there was a significant 25% reduction in work accidents involving the outsourced workers as a result of safety partnerships. The Nota 10 Safety Campaign continued with prize distributions to encourage the adoption of preventive actions.

Social Service A number of services were provided to 4,591 employees and family members to help improve their quality of life and performance in the work activities. The Employee Service and Recovery Program (PA-RE), which in its 11th year helped 193 individuals/family and 88 employees with chemical dependency, who participated in 13 groups involved in the drug addiction relapse prevention, reintegrating them into their personal and professional activities, is worthy of mention.

In 2004, the **Encouraged Dismissal Program (PDI)** and the **Special Program for Retired Employees (PEA)** submitted a differentiated proposal for voluntary dismissal and retirement based on the recognition of the services provided and withdrawal with dignity for the 650 employees that adhered to these two programs. The program slogan was I take SABESP in my heart .

The **Life Award** continued as a form of demonstrating to the employees their importance as essential characters in the company's history. This award has been granted every year since 1998, recognizing and paying homage to employees with 10, 15, 20, 25 and 30 years of work at SABESP. In 2004, three thousand employees were granted this award.

The **Waste Minimization and Responsible Disposal Program** was created to reduce the generation of waste, reutilize materials and promote the recycling of materials discarded by SABESP, reduce pollution and the volume of waste sent to the municipal landfill, encourage the change of behavior after a reflection on the waste disposal problem and the role of each individual in its solution, following the guidelines of the National Basic Sanitation Quality Program (PNQS). This project is being developed by the Ponte Pequena Complex of SABESP in São Paulo and involves approximately 1,200 people. The results were: a 45% reduction in the weight of disposed waste and the consequent impact on the trash tariff currently collected in the City of São Paulo, reuse of organic waste through composting to produce fertilizers for the internal gardens and fluorescent light bulbs sent to recyclers for decontamination.

One Day at SABESP - In 2004, 2,025 people from 7 to 16 years old were given the chance to participate in this program. The objective of this program is to develop closer relations between the employee's children and SABESP, providing information on the company, environment preservation and the rational use of water by means of visits to the company's facilities, lectures and interactive activities.

In 2004, some of the benefits granted to the employees included partial subsidies which involved medical care service, private social security and meals (basic food basket, meal voucher and others as provided in the law).

Another highlight in 2004 is the contribution of R\$12 million to SABESP's Social Security Foundation (SABESPREV), a non-profit complementary pension and social assistance fund.

SABESP also contributed to the development of activities held by the SABESP Association. This association provides cultural, social and sports activities to 11.5 thousand members which, together with their dependents, reach a total of 50 thousand people. The association has 180 branches and 6 vacation colonies scattered all over the State of São Paulo.

SOCIAL INVESTMENT IN THE EXTERNAL COMMUNITY

SABESP'S RELATIONS WITH THE COMMUNITIES: Hear the requirements and take actions to supply the demands in advance.

The actions performed by SABESP through its autonomous business units provide the conditions for an intense dialogue between the company and the communities. Talking

to a manager is a common practice and local demands are being handled more quickly and efficiently.

But there are other possibilities of relationship with the community that go far beyond the formal contact between the service provider and those who benefit from those services. Setting as a goal the improvement of the quality of life of the people leads to innovation in the way of doing things and making possible solutions that are not so usual. This attitude has generated innumerable actions geared to education, culture, the environment and health.

Education

SABESP has developed 41 projects, a total investment of R\$1.8 million. The main focus of these activities is to promote environmental education with basic information on environment, sanitation and the rational use of water supplied in a ludic and interactive way, using theater, dance, music, mime, games, fables, children's stories, drawing shops and textbooks using special characters.

Most of these projects are designed for the children and young public, private and public school students, teachers and the needy communities. They are implemented through a team work of SABESP's employees.

It is worth mentioning that SABESP continues to be the co-supporter of the Child-Citizen Institute, providing assistance to 7.5 thousand children, young people and adults from low-income families of the peripheries of Guarulhos and São Paulo, distributed among 15 educational units. The activities held by the institute include nursery, complementary school, work initiation center, literacy courses for young people and adults, and community projects.

The Children's Club (Clubinho) is an Internet project that already has 7 thousand members and 4.5 thousand monthly hits. It is designed to make the children aware of the importance of water on the planet and contribute to digital inclusion.

Culture

SABESP has three ongoing projects under this category. Their target population is the community in general which, through artistic and social activities, is stimulated and sensitized to the plurality of the national culture with a focus on the environmental awareness, sustainable development and memory of society. The Rouanet's Law provides a fiscal incentive of R\$4.9 million for this initiative.

Hunger Fighting

SABESP has 4 projects under this category which have received R\$43 thousand. The Community Organic Vegetable Garden Program implemented in stretches of land occupied by water mains arose from the need to preserve the assets of SABESP and the awareness of the population living in the surrounding area. These stretches of land are considered an interactive ecological/urban space occupied by the community in a self-sustainable way, generating food and income. There are now 21 families receiving the benefits of this program.

SABESP S RELATIONSHIP WITH THE ENVIRONMENT

In its day-to-day activities, SABESP must deal with rather diverse subjects such as dialogues with populations irregularly occupying water source protected areas, urge polluting companies to assume their responsibility for the environmental impacts of their activities and improve an environmental management system capable of covering the three pillars of sustainability: economic feasibility, social justice and environmental preservation.

Environment:

SABESP has developed 21 projects under this category, a total investment of R\$4.2 million. Most of them are targeted at the population in general through the municipal governments, industries, school network, family and district communities and members of the watershed committees. Its main focus are the actions and practices that excel in environment preservation and recovery.

Great achievements have been made, particularly in the reduction of the generated waste with the sludge recycling project for water and sewage treatment stations. The station sludge is treated to be used in products such as fertilizers and ceramics used in the civil construction industry. Besides reducing the volume of the solid waste disposed of in sanitary landfills, the sludge recycling reduces the environmental impact caused by the ceramic lay extraction.

The Prosanear Program has been developed to improve the quality of life of the low-income population by rescuing its citizenship through basic sanitation. It comprises socio-educational actions and integrated sanitation (water and sewage) in areas occupied by needy populations in the peripheries of cities. The Water Rational Use Program (PURA) covers the whole population of the State of São Paulo and was created to prevent short and medium term scarcity of water, providing for landscape changes and technological reuse interventions. Its greater purpose is to make the population aware of the need to preserve the water resources with cultural changes regarding the waste and public health. As a result, PURA provided 10% savings in the water consumption in the São Paulo Metropolitan Region, besides minimizing the need of rationing.

SABESP has been involved in the discussion of topics such as the Cleaner Production Table with Fiesp, Cetesb, other organizations, and the Watershed Committees, which include the state and municipal governments and the civil society. The purpose of these discussions is to find ways to leverage the development of a new culture of water source protection.

SABESP S RELATIONS WITH CONSUMERS

The option for social responsibility has been causing many positive influences on the choices of the Company from the social and environmental point of view with positive medium-term impacts on the business. The water saving campaigns aired in times of scarcity started to be seen as opportunities for educating the population in the conscious

use of this natural resource at any time. It is an option that leads to a decrease in the water consumption and contributes to the preservation of water sources. After all, this is what will determine the longevity of the SABESP business.

Health and Sanitation

Twelve projects are being developed under this category and are focused on campaigns and sponsorships involving public health, integrated practices and actions to improve the quality of life of the population. The investment in these projects in 2004 was R\$ 856 thousand.

A closer relationship with the community led SABESP to consider aspects such as social justice in the business management. A crossed subsidy was established in which part of the resources generated by the regions with high income are channeled to works in lower income regions.

This category includes SABESP's billing policy that collects a tariff value more compatible with the possibilities of the less favored classes and provides the low-income population with basic sanitation services, a better public health and quality of life.

The company offers three types of tariffs: residential social tariffs, shantytown tariffs and tariffs for not-for-profit social entities.

The residential social tariff is around 34% of the regular tariff. The shantytown tariff is around 26%, while the tariff for non-profit social entities is 50% of the regular tariff.

Others

There are other social projects covering activities that benefit the communities but could not be included in the above categories. Their objectives are diverse and each of them are aimed at a specific population with the appropriate activities. Usually, they are very relevant with regard to the population to be served, because they involve large and diversified groups, such as public and private schools, organized civil associations, religious movements, district communities, etc. There are 28 projects under this category including various sponsorships. The investments in this category in 2004 reached R\$2.1 million.

The diversity of projects under SABESP's Social Responsibility Program reflects the incessant efforts made by the company to add to its water supply and sanitation services a number of actions designed to minimize the social problems faced by an expressive number of people. It is not the intent of the company to substitute for the actions and responsibility of the competent State agencies. It is rather a belief that it is necessary to add efforts to the benefit of social causes.

Prizes

Seeking the society's recognition as a citizen company, SABESP ran for some significant market prizes in 2004:

Exame Magazine's Good Citizen Guide: Nineteen projects were developed by SABESP that express the alignment and structure of the actions developed by the company and its effective contribution to society. Education Category: Caracol; My City has SABESP; Futurágua; SABESP: Education for Citizenship; Children and Adolescent Category: Learning to Be and Live Together; Learning by the Needy Young People; Environment Category: Let's Get to Work for the Tietê River; SABESP Station Show Room; PURA; Health Category: I Share My Bread; Big Soup Project; Project Financer Category: Complementary Schooling by the Citizen Child Institute (ICC); Third Age Category: Solidarity; Better Age; Elderly Asylum; Warm Clothing Campaign; Income Generation Category: Community Organic Vegetable Garden; Teaching How to Fish; Handicapped People Category: You Are Me.

Top Social: SABESP's Conscious Social Responsibility project ran with 213 market cases. SABESP was one of the companies awarded the Top Social Prize by the ADVB (The Brazilian Sales Managers Association).

Citizen Company: SABESP participated in the 10th Corporate Citizenship National Forum with the case: Social Responsibility sharing experiences and was awarded the Citizen Company trophy.

Amanco Trophy for a Better World: SABESP was awarded this trophy as a recognition for actions that promote the sustainable development. Besides the trophy, the company received a R\$5 thousand check that was donated to the Citizen Child Institute (ICC).

Brazilian Environmental Benchmarking Prize for the paper "Sustainable Sanitation Solid Waste Management".

Investments Made

As shown in the following spreadsheet, SABESP reserved for internal and external social indicators the amount of R\$997 million in 2004.

The additional amount of R\$388 million was reserved for internal social indicators, which comprise meals, employees' social benefits, private social security, health, work safety and medicine, education, culture, skill development and professional development, nurseries or nursery aid, profit sharing and others.

Among the external social indicators, an amount in excess of R\$598 million was paid as taxes. Other indicators of contributions to society, such as actions related to education, culture, health, sanitation, sports hunger fighting programs, alimentary security, sponsorship in the various categories and other initiatives were assigned R\$11 million. The company invested R\$4.3 million in programs and/or internal or external projects related to the environment preservation.

Thus, reinforcing and disseminating its social responsibility, SABESP has assumed the coherent attitude of a true public company and has contributed to the sustained development of the country.

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1 Calculation Basis	2004 Amount (Thousand reais)		2003 Amount (Thousand reais)	
Net Revenue		4,397,072		4,130,752
Operating Result		823,909		1,165,533
Payment Roll		997,149		932,253

2 Internal Social Indicators	Amount	% over FPB	% over RL	Amount	% over FPB	% over RL
Meals	69,752	7%	2%	62,603	7%	2%
Compulsory payroll charges	101,481	10%	2%	98,148	11%	2%
Internal social indicators	88,931	9%	2%	88,903	10%	2%
Health plan	67,603	7%	2%	61,240	7%	1%
Occupational safety and medicine	2,508	0%	0%	2,586	0%	0%
Education	1,171	0%	0%	516	0%	0%
Culture	6,683	1%	0%	7,009	1%	0%
Professional training and development	2,964	0%	0%	4,009	0%	0%
Daycare or daycare allowance	1,512	0%	0%	1,399	0%	0%
Profit sharing	40,262	4%	1%	39,978	4%	1%
Others	5,647	1%	0%	6,188	1%	0%
Total Internal social indicators	388,514	39%	9%	372,579	40%	9%

3 External social indicators	Amount (thousand)	% over RO	% over RL	Amount (thousand)	% over RO	% over RL
Education	1,890	0%	0%	697	0%	0%
Culture	5,358	1%	0%	5,713	0%	0%
Health and basic sanitation	856	0%	0%	1,068	0%	0%
Sports	942	0%	0%	223	0%	0%

Hunger fighting and alimentary security	43	0%	0%	4	0%	0%
Others	2,107	0%	0%	555	0%	0%
Total contributions to society	11,196	1%	0%	8,260	1%	0%
Taxes (excluding payroll charges)	598,051	73%	14%	580,146	50%	14%
Total External social indicators	609,247	74%	14%	588,406	50%	14%

4 Environmental Indicators	Amount (thousand)	% over RO	% over RL	Amount (thousand)	% over RO	% over RL
Investments related to the company's production/operation	92	0%	0%	9	0%	0%
Investments in external programs and/or projects	4,294	1%	0%	5,198	0%	0%
Total investments in the environment	4,386	1%	0%	5,207	0%	0%

Regarding the establishment of annual targets to minimize waste, consumption in general in production/ operation and to increase efficiency in the use of natural resources, the company:

() no targets set	() meets from 51 to 75%	() no targets set	() meets from 51 to 75%
() meets from 0 to 50%	(x) meets from 76 to 100%	() meets from 0 to 50%	(x) meets from 76 to 100%

100%

5 Personnel Indicators

No. of employees at end of period	17,735	18,546
No. of hirings during the period	14	352
No. of outsourced personnel	0	0
No. of interns	877	813
No. of employees above the age of 45	7,294	7,359
No. of women in the company	3,247	3,376
% of management positions held by women	17.40%	13.00%
No. of Afro-Brazilians working for the company	2,030	2,433

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% of management positions held by Afro-Brazilians		30.49%				11.43%		
No of employees with disabilities or special needs		27				27		
6 Relevant information regarding corporate citizenship								
		2004				Metas 2005		
Ratio between the highest and lowest compensation in the company		25.1				nd		
Total of on-the-job accidents		293				260		
The social and environmental projects developed by the company were defined by:	() directors	(x) directors and mgrs.	() all employees	() directors	(x) directors and mgrs.	() all employees	() directors	() all employees
Safety and health standards in the workplace were defined by:	(x) directors and mgrs.	() all employees	() all + Committee	(x) directors and mgrs.	() all employees	() all + Committee		
Regarding union freedom, the right to collective bargaining and the internal representation of workers, the company:	() not involved	(x) complies with ILO rules	() encourages / follows ILO	() not involved	(x) complies with ILO rules	() encourages / follows ILO		
The private pension plan includes:	() directors	() directors and mgrs.	(x) all employees	() directors	() directors and mgrs.	(x) all employees		
Profit sharing includes:	() directors	() directors and mgrs.	(x) all employees	() directors	() directors and mgrs.	(x) all employees		
When selecting suppliers, the same ethical and social responsibility and environment standards adopted by the company:	() not considered	() recommended	(x) required	() not considered	() recommended	(x) required		
Regarding the employees participation in voluntary work programs, the company:	() not involved	() supported	(x) organizes / encourages	() not involved	() supported	(x) organizes / encourages		
Total number of consumer complaints and criticisms:	in company 8.608	with Procon 1.357	in Court 46	in company 8.608	with Procon 1.357	in Court 46		
% of complaints and criticisms handled or solved:	in company 97,89 %	with Procon 97,5%	in Court 77,8%	in company 97,89 %	with Procon 97,5%	in Court 77,8%	nd	nd

	In 2004:		In 2003:	
Total distributable added value (in thousand R\$):	2,783.022		3,023,830	
Distribution of Added Value:	21.5% Government	35.5% Employees	19.2% Government	32.3% Employees
	21.5% Government	35.5% Employees	27.5% Shareholders	21% 3rd parties

COMPANHIA DE SANEAMENTO **BÁSICO** DO ESTADO DE SÃO PAULO - SABESP**BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003**

(In thousands of Brazilian reais R\$)

Assets	2004	2003	Liabilities and Shareholders Equity	2004	2003
Current assets					
Cash and cash equivalents (note 4)	105,557	281,013	Accounts payable to suppliers and contractors	51,578	51,934
Customer accounts receivable, net (note 5)	949,792	871,145	Loans and financing (note 9)	1,496,810	996,998
Receivable from shareholder, net (note 6)	81,334	-	Accrued payroll and related charges	107,228	135,294
Inventories	29,604	22,308	Provisions for contingencies (note 14 (a))	30,373	19,266
Deferred taxes (note 10)	30,215	29,684	Interest on shareholders equity (note 15 (c))	144,078	242,524
Other current assets	33,288	13,015	Taxes payable (note 11)	115,119	84,488
	1,229,790	1,217,165	Deferred taxes (note 10)	71,902	45,502
			Other current liabilities	83,801	155,993
				2,100,889	1,731,999
Long-term assets					
Customer accounts receivable, net (note 5)	278,060	185,090	Long-term liabilities		
Receivable from shareholder, net (note 6)	740,609	655,163	Loans and financing (note 9)	5,553,843	6,267,265
Indemnities receivable (note 7)	148,794	148,794	Taxes payable (note 11)	272,338	282,214
Escrow deposits	16,189	17,576	Deferred taxes (note 10)	130,055	121,117
Deferred taxes (note 10)	257,271	222,804	Provisions for contingencies (note 14 (a))	460,231	384,571
Other assets	27,976	30,583	Accrued pension obligation (note 12)	222,176	145,540
	1,468,899	1,260,010	Other liabilities	92,688	80,465
				6,731,331	7,281,172
Permanent assets					
Investments	5,100	740	Shareholders equity (note 15)		
Property, plant & equipment, net (note 8)	14,040,922	14,063,248	Paid-in capital	3,403,688	3,403,688
Deferred charges	39,097	48,951	Capital reserve	65,291	50,739
	14,085,119	14,112,939	Revaluation reserve	2,619,220	2,723,720
			Profit reserves	1,863,389	1,398,796
				7,951,588	7,576,943
Total Assets	16,783,808	16,590,114	Total Liabilities & Shareholders Equity	16,783,808	16,590,114

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

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

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais, except for earnings per share)

	2004	2003
GROSS REVENUE FROM SALES AND SERVICES (Note 18)	4,642,491	4,307,534
Taxes on sales and services - COFINS and PASEP	(245,419)	(176,782)
Net revenue from sales and services	4,397,072	4,130,752
Cost of sales and services (Note 19)	(2,253,380)	(2,067,148)
GROSS PROFIT	2,143,692	2,063,604
OPERATING EXPENSES (Note 19)		
Selling expenses	(502,520)	(297,534)
Administrative expenses	(313,557)	(254,060)
Financial expenses, net	(503,706)	(346,477)
Total operating expenses	(1,319,783)	(898,071)
INCOME FROM OPERATIONS	823,909	1,165,533
NONOPERATING INCOME (EXPENSES)		
Loss on disposal of property, plant & equipment (Note 8(a))	(34,440)	(61,654)
Other	518	7,199
	(33,922)	(54,455)
INCOME BEFORE TAXES ON INCOME	789,987	1,111,078
Income tax (Note 10)	(198,030)	(168,083)
Social contribution tax (Note 10)	(52,579)	(48,006)
Deferred income tax (Note 10)	22,792	(7,588)
Deferred social contribution tax (Note 10)	(14,020)	(18,959)
INCOME BEFORE EXTRAORDINARY ITEM	548,150	868,442

Extraordinary item, net of income and social contribution taxes (Note 12)	(35,122)	(35,122)
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NET INCOME	513,028	833,320
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Earnings per thousand shares in R\$	18,01	29,26
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The accompanying notes are an integral part of these financial statements.