

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP

Form 6-K

December 27, 2011

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**

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**FORM 6-K**

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

**For December 27, 2011**  
**(Commission File No. 1-31317)**

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

**Basic Sanitation Company of the State of Sao Paulo - SABESP**  
*(Translation of Registrant's name into English)*

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

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

Form 20-F  Form 40-F

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

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

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

Yes  No

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

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(A free translation of the original in Portuguese)

**Companhia de Saneamento**

**Básico do Estado de São Paulo - SABESP**

**Quarterly Information (ITR) at  
September 30, 2011  
and Report on Review of  
Quarterly Information**

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(A free translation of the original in Portuguese)

## **Report on Review of Quarterly Information**

To the Board of Directors and Shareholders

Companhia de Saneamento Básico do

Estado de São Paulo – SABESP

### **Introduction**

We have reviewed the accompanying parent company and consolidated interim accounting information of Companhia de Saneamento Básico do Estado de São Paulo - SABESP, included in the Quarterly Information (ITR) Form for the quarter ended September 30, 2011, comprising the balance sheet at that date and the statements of income, comprehensive income, changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of the parent company interim accounting information in accordance with the accounting standard CPC 21, Interim Financial Reporting, of the Brazilian Accounting Pronouncements Committee (CPC), and of the consolidated interim accounting information in accordance with accounting standard CPC 21 and International Accounting Standard (IAS) 34 - Interim Financial Reporting issued by the International Accounting Standards Board (IASB), as well as the presentation of this information in accordance with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of the Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim accounting information based on our review.

### **Scope of review**

We conducted our review in accordance with Brazilian and International Standards on Reviews of Interim Financial Information (NBC TR 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion on the parent company**

**interim information**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying parent company interim accounting information included in the quarterly information referred to above has not been prepared, in all material respects, in accordance with CPC 21 applicable to the preparation of the Quarterly Information, and presented in accordance with the standards issued by the Brazilian Securities Commission (CVM).

Companhia de Saneamento Básico do

Estado de São Paulo - SABESP

**Conclusion on the consolidated**

**interim information**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim accounting information included in the quarterly information referred to above has not been prepared, in all material respects, in accordance with CPC 21 and IAS 34 applicable to the preparation of the Quarterly Information, and presented in accordance with the standards issued by the Brazilian Securities Commission (CVM).

**Other matters**

**Interim statements**

**of value added**

We have also reviewed the parent company and consolidated interim statements of value added (DVA) for the nine-month period ended September 30, 2011, which are required to be presented in accordance with standards issued by the Brazilian Securities Commission (CVM) applicable to the preparation of Quarterly Information (ITR) and are considered supplementary information under IFRS, which does not require the presentation of the statement of value added. These statements have been submitted to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they have not been properly prepared, in all material respects, in relation to the parent company and consolidated interim accounting information taken as a whole.

São Paulo, November 10, 2011

Auditores Independentes

CRC 2SP000160/O-5

Valdir Renato Coscodai

Contador CRC 1SP165875/O-6

**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**

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ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO

INFORMATION OF THE COMPANY/ CAPITAL COMPOSITION

**NUMBER OF SHARES**

**CURRENT QUARTER**

(Units)

**09/30/2011**

**Paid-up Capital**

Common

227,836,623

Preferred

0

Total

227,836,623

**Treasury Shares**

Common

0

Preferred

0

Total

0

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**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**

**INFORMATION OF THE COMPANY / CASH DIVIDENDS**

| <b>Event</b>                | <b>Approval</b> | <b>Earnings</b> | <b>Beginning of Payment</b> | <b>Type of Share</b> | <b>Class of Share</b> | <b>Earnings per Share (Reais/Share)</b> |
|-----------------------------|-----------------|-----------------|-----------------------------|----------------------|-----------------------|---|
| Board of Directors' Meeting | 12/14/2010      | Other           | 06/27/2011                  | Common               | -                     | 2.00140                                 |

**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO****Individual Financial Statements/Balance Sheet Assets**

| <b>Account code</b> | <b>Account Description</b>                | <b>(In thousands of Brazilian reais - R\$)</b> |                          |
|---------------------|---|--|--------------------------|
|                     |   | <b>Current Quarter</b>                         | <b>Previous Exercise</b> |
|                     |   | <b>09/30/2011</b>                              | <b>12/31/2010</b>        |
| 1                   | Total assets                              | 24,370,489                                     | 23,293,050               |
| 1.01                | Current assets                            | 3,613,594                                      | 3,574,874                |
| 1.01.01             | Cash & Cash Equivalents                   | 2,227,455                                      | 1,988,004                |
| 1.01.03             | Receivables                               | 1,124,075                                      | 1,108,819                |
| 1.01.03.01          | Customers                                 | 950,178  | 971,047                  |
| 1.01.03.02          | Other Receivables                         | 173,897  | 137,772                  |
| 1.01.03.02.01       | Balances with Related Parties             | 173,897  | 137,772                  |
| 1.01.04             | Inventories                               | 35,791   | 36,090                   |
| 1.01.06             | Taxes Recoverable                         | 69,935   | 108,675                  |
| 1.01.06.01          | Current Taxes Recoverable                 | 69,935   | 108,675                  |
| 1.01.08             | Other Current Assets                      | 156,338  | 333,286                  |
| 1.01.08.03          | Other                                     | 156,338  | 333,286                  |
| 1.01.08.03.01       | Restricted Cash                           | 97,363   | 302,570                  |
| 1.01.08.03.20       | Other receivables                         | 58,975   | 30,716                   |
| 1.02                | Noncurrent assets                         | 20,756,895                                     | 19,718,176               |
| 1.02.01             | Long-term assets                          | 953,302  | 962,008                  |
| 1.02.01.03          | Receivables                               | 355,079  | 352,839                  |
| 1.02.01.03.01       | Customers                                 | 355,079  | 352,839                  |
| 1.02.01.06          | Deferred Taxes                            | 133,956  | 77,913                   |
| 1.02.01.06.01       | Deferred Income Tax & Social Contribution | 133,956  | 77,913                   |
| 1.02.01.08          | Credit with Related Parties               | 164,381  | 231,076                  |
| 1.02.01.08.03       | Credit with Controlling Shareholders      | 164,381  | 231,076                  |
| 1.02.01.09          | Other Non-current Assets                  | 299,886  | 300,180                  |
| 1.02.01.09.03       | Indemnifications Receivable               | 146,213  | 146,213                  |
| 1.02.01.09.04       | Judicial deposits                         | 53,888   | 43,543                   |
| 1.02.01.09.05       | ANA – National Water Agency               | 67,368   | 62,540                   |
| 1.02.01.09.20       | Other receivables                         | 32,417   | 47,884                   |
| 1.02.02             | Investments                               | 17,894   | 8,262                    |
| 1.02.02.01          | Shareholdings                             | 17,894   | 8,262                    |
| 1.02.02.01.04       | Other Equity Interests                    | 17,894   | 8,262                    |
| 1.02.03             | Property, Plant and Equipment             | 186,367  | 206,384                  |
| 1.02.04             | Intangible                                | 19,599,332                                     | 18,541,522               |
| 1.02.04.01          | Intangible                                | 19,599,332                                     | 18,541,522               |
| 1.02.04.01.01       | Concession Contracts                      | 10,482,150                                     | 10,732,557               |
| 1.02.04.01.02       | Program Contracts                         | 707,432  | 864,384                  |
| 1.02.04.01.03       | Service Contracts                         | 7,534,753                                      | 6,096,862                |
| 1.02.04.01.04       | Software License                          | 2,615  | 7,937                    |
| 1.02.04.01.05       | New Business                              | 17,209   | 11,228                   |
| 1.02.04.01.06       | Concession Contracts – Economic Value     | 518,982  | 517,278                  |

Treasury Shares

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|               |                                 |         |         |
|---------------|---------------------------------|---------|---------|
| 1.02.04.01.07 | Program Contracts - Commitments | 336,191 | 311,276 |
|---------------|---------------------------------|---------|---------|

## ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO

## Individual Financial Statements/ Balance Sheet Liabilities and Shareholders' Equity

| Account code  | Account Description                          | (In thousands of Brazilian reais - R\$) |                   |
|---------------|--|---|-------------------|
|               |  | Current Quarter                         | Previous Exercise |
|               |  | 09/30/2011                              | 12/31/2010        |
| 2             | Total liabilities and shareholders' equity   | 24,370,489                              | 23,293,050        |
| 2.01          | Current liabilities                          | 2,947,889                               | 3,501,786         |
| 2.01.01       | Labor and Social Security Obligations        | 309,443                                 | 246,325           |
| 2.01.01.01    | Social Security Obligations                  | 18,302                                  | 26,147            |
| 2.01.01.02    | Labor Obligations                            | 291,141                                 | 220,178           |
| 2.01.02       | Suppliers                                    | 205,653                                 | 142,634           |
| 2.01.02.01    | Domestic Suppliers                           | 205,653                                 | 142,634           |
| 2.01.03       | Tax Obligations                              | 129,052                                 | 157,768           |
| 2.01.03.01    | Federal Tax Obligations                      | 124,057                                 | 153,233           |
| 2.01.03.01.02 | COFINS and PASEP (taxes on revenue) payable  | 49,791                                  | 48,149            |
| 2.01.03.01.03 | INSS (Social security contribution), payable | 24,318                                  | 24,112            |
| 2.01.03.01.04 | Installment Program Law – 10.684/03          | 36,378                                  | 35,364            |
| 2.01.03.01.20 | Other Federal Taxes                          | 13,570                                  | 45,608            |
| 2.01.03.03    | Municipal Tax Obligations                    | 4,995                                   | 4,535             |
| 2.01.04       | Loans and financing                          | 1,029,104                               | 1,239,716         |
| 2.01.04.01    | Loans and financing                          | 730,707                                 | 628,207           |
| 2.01.04.01.01 | In national currency                         | 526,682                                 | 498,230           |
| 2.01.04.01.02 | In foreign currency                          | 204,025                                 | 129,977           |
| 2.01.04.02    | Debentures                                   | 298,397                                 | 611,509           |
| 2.01.05       | Other payables                               | 547,696                                 | 948,740           |
| 2.01.05.01    | Liabilities with related parties             | 9,893                                   | 11,395            |
| 2.01.05.01.03 | Debts with controlling shareholders          | 9,893                                   | 11,395            |
| 2.01.05.02    | Other  | 537,803                                 | 937,345           |
| 2.01.05.02.01 | Dividends and Interests on Equity Payable    | 92                                      | 354,254           |
| 2.01.05.02.04 | Accounts Payable                             | 260,172                                 | 328,434           |
| 2.01.05.02.05 | Refundable amounts                           | 52,538                                  | 60,486            |
| 2.01.05.02.06 | Program contract commitments                 | 70,496                                  | 38,427            |
| 2.01.05.02.07 | Account Payable - Private Public Partnership | 20,592                                  | 30,831            |
| 2.01.05.02.08 | Agreement with São Paulo City Hall           | 59,477                                  | 60,350            |
| 2.01.05.02.09 | Indemnities                                  | 7,608                                   | 17,169            |
| 2.01.05.02.20 | Other payables                               | 66,828                                  | 47,394            |

**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**

|               |   |            |            |
|---------------|---|------------|------------|
| 2.01.06       | Provisions  | 726,941    | 766,603    |
| 2.01.06.01    | Civil, Labor and Social Security Provisions               | 108,131    | 96,231     |
| 2.01.06.01.01 | Tax Provisions  | 5,368      | 3,191      |
| 2.01.06.01.02 | Tax and Social Security Provisions                        | 83,165     | 78,151     |
| 2.01.06.01.04 | Civil Provisions  | 19,598     | 14,889     |
| 2.01.06.02    | Other Provisions  | 618,810    | 670,372    |
| 2.01.06.02.03 | Provision for Environmental and Deactivations Liabilities | 11,597     | 22,802     |
| 2.01.06.02.04 | Provisions for Customers                                  | 238,295    | 288,970    |
| 2.01.06.02.05 | Provisions for Suppliers                                  | 368,918    | 358,600    |
| 2.02          | Non-current liabilities                                   | 11,079,156 | 10,109,464 |
| 2.02.01       | Loans and financing                                       | 7,477,404  | 6,969,576  |
| 2.02.01.01    | Loans and financing                                       | 4,606,079  | 4,786,671  |
| 2.02.01.01.01 | In national currency                                      | 1,847,400  | 2,667,720  |
| 2.02.01.01.02 | In foreign currency                                       | 2,758,679  | 2,118,951  |
| 2.02.01.02    | Debentures  | 2,871,325  | 2,182,905  |
| 2.02.02       | Other payables  | 2,792,662  | 2,446,661  |
| 2.02.02.02    | Other   | 2,792,662  | 2,446,661  |
| 2.02.02.02.03 | Other Taxes and Contributions Payable                     | 27,286     | 53,045     |
| 2.02.02.02.04 | Social security charges                                   | 2,036,891  | 1,804,038  |
| 2.02.02.02.05 | Program contract commitments                              | 84,971     | 106,696    |
| 2.02.02.02.06 | Account Payable - Private Public Partnership              | 383,454    | 284,728    |
| 2.02.02.02.07 | Indemnities   | 50,045     | 30,847     |
| 2.02.02.02.08 | TAC - Retirees  | 18,798     | 20,497     |
| 2.02.02.02.09 | Deferred Cofins and Pasep                                 | 112,979    | 112,962    |
| 2.02.02.02.20 | Other payables  | 78,238     | 33,848     |
| 2.02.04       | Provisions  | 809,090    | 693,227    |
| 2.02.04.01    | Civil, Labor, Tax and Social Security Provisions          | 293,457    | 267,287    |
| 2.02.04.01.01 | Tax Provisions  | 68,131     | 55,467     |
| 2.02.04.01.02 | Tax, Social Security and Labor Provisions                 | 72,541     | 59,081     |
| 2.02.04.01.04 | Civil Provisions  | 152,785    | 152,739    |
| 2.02.04.02    | Other Provisions  | 515,633    | 425,940    |
| 2.02.04.02.03 | Provision for Environmental and Deactivations Liabilities | 91,939     | 42,293     |
| 2.02.04.02.04 | Provisions for Customers                                  | 398,380    | 370,212    |
| 2.02.04.02.05 | Provisions for Suppliers                                  | 25,314     | 13,435     |

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**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**

|            |   |            |           |
|------------|---|------------|-----------|
| 2.03       | Shareholders' equity                    | 10,343,444 | 9,681,800 |
| 2.03.01    | Social Capital                          | 6,203,688  | 6,203,688 |
| 2.03.02    | Capital reserves                        | 124,255    | 124,255   |
| 2.03.02.07 | Support to projects                     | 108,475    | 108,475   |
| 2.03.02.08 | Incentive reserve                       | 15,780     | 15,780    |
| 2.03.04    | Profit reserves                         | 3,285,096  | 3,353,857 |
| 2.03.04.01 | Legal Reserve                           | 460,048    | 460,048   |
| 2.03.04.08 | Additional Dividend Proposed            | 0          | 68,761    |
| 2.03.04.10 | Reserve for Investments                 | 2,825,048  | 2,825,048 |
| 2.03.05    | Retained earnings (accumulated deficit) | 730,405    | 0         |

## ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO

## Individual Financial Statements/ Statement of income

|              |  | (In thousands of Brazilian reais - R\$) |   |   |   |
|--------------|--|---|---|---|---|
| Account code | Account Description                                      | Current Quarter                         | Accumulated of                              | Equal quarter   | Accumulated of  |
|              |  | 07/01/2011 to<br>09/30/2011             | Current Year<br>01/01/2011 to<br>09/30/2011 | of<br>Previous<br>Exercise<br>07/01/2010 to<br>09/30/2010 | of<br>Previous<br>Exercise<br>01/01/2010 to<br>09/30/2010 |
| 3.01         | Gross revenue from sales and/or services                 | 2,591,262                               | 7,225,668                                   | 2,353,254   | 6,788,886   |
| 3.02         | Cost of sales and/or services                            | -1,634,513                              | -4,440,004                                  | -1,362,001  | -3,818,445  |
| 3.02.01      | Cost of sales and/or services                            | -978,484                                | -2,858,247                                  | -810,402  | -2,294,584  |
| 3.02.02      | Construction Cost  | -656,029                                | -1,581,757                                  | -551,599  | -1,523,861  |
| 3.03         | Gross profit   | 956,749                                 | 2,785,664                                   | 991,253   | 2,970,441   |
| 3.04         | Operating (expenses) income                              | -323,374                                | -1,075,481                                  | -351,250  | -1,028,200  |
| 3.04.01      | Selling expenses   | -116,219                                | -449,757                                    | -168,196  | -499,147  |
| 3.04.02      | General and Administrative Expenses                      | -192,317                                | -660,018                                    | -187,427  | -536,843  |
| 3.04.04      | Other operating income                                   | -2,131                                  | 58,058                                      | 9,409   | 26,503  |
| 3.04.04.01   | Other operating income                                   | -2,434                                  | 63,889                                      | 11,016  | 30,369  |
| 3.04.04.02   | COFINS and PASEP (taxes on revenue)                      | 303                                     | -5,831                                      | -1,607  | -3,866  |
| 3.04.05      | Other operating expenses                                 | -10,540                                 | -19,346                                     | -4,922  | -18,375   |
| 3.04.05.01   | Loss on write-off of property, plant and equipment items | -8,265                                  | -12,644                                     | -2,746  | -14,941   |
| 3.04.05.03   | Tax incentives   | -1,915                                  | -6,225                                      | -2,339  | -3,243  |
| 3.04.05.05   | Other  | -360                                    | -477  | 163   | -191  |
| 3.04.06      | Equity result  | -2,167                                  | -4,418                                      | -114  | -338  |

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**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**

|            |  |          |           |          |           |
|------------|--|----------|-----------|----------|-----------|
| 3.05       | Income before taxes and profit sharing           | 633,375  | 1,710,183 | 640,003  | 1,942,241 |
| 3.06       | Financial income                                 | -510,698 | -515,782  | 62,917   | -276,475  |
| 3.06.01    | Financial income                                 | 113,894  | 324,466   | 80,813   | 240,124   |
| 3.06.01.01 | Financial income                                 | 113,508  | 339,030   | 80,788   | 239,970   |
| 3.06.01.02 | Foreign exchange gains                           | 386      | -14,564   | 25       | 154       |
| 3.06.02    | Financial expenses                               | -624,592 | -840,248  | -17,896  | -516,599  |
| 3.06.02.01 | Financial expenses                               | -158,207 | -517,203  | -96,522  | -552,442  |
| 3.06.02.02 | Foreign exchange losses                          | -466,385 | -323,045  | 78,626   | 35,843    |
| 3.07       | Income Before Taxes on profit                    | 122,677  | 1,194,401 | 702,920  | 1,665,766 |
| 3.08       | Income Tax and Social Contribution on Net Income | -54,713  | -463,996  | -265,902 | -610,254  |
| 3.08.01    | Current  | -112,974 | -519,992  | -199,816 | -634,842  |
| 3.08.02    | Deferred   | 58,261   | 55,996    | -66,086  | 24,588    |
| 3.09       | Net Profit from Continuing Operations            | 67,964   | 730,405   | 437,018  | 1,055,512 |
| 3.11       | Profit/Loss of the Period                        | 67,964   | 730,405   | 437,018  | 1,055,512 |
| 3.99       | Earnings per share (Reais/ Share)                | -        | -         | -        | -         |
| 3.99.01    | Basic earnings per share                         | -        | -         | -        | -         |
| 3.99.01.01 | ON   | 0.29830  | 3.20584   | 1.91813  | 4.63277   |
| 3.99.02    | Diluted Earnings per Share                       | -        | -         | -        | -         |
| 3.99.02.01 | ON   | 0.29830  | 3.20584   | 1.91813  | 4.63277   |

**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO****Individual Financial Statements/ Statement of Cash Flows - Indirect Method****(In thousands of Brazilian reais - R\$)**

| Account code | Account Description   | Current Quarter             | Previous Exercise           |
|--------------|---|-----------------------------|-----------------------------|
|              |   | 01/01/2011 to<br>09/30/2011 | 01/01/2010 to<br>09/30/2010 |
| 6.01         | Net Cash from Operating Activities  | 1,897,590                   | 1,597,466                   |
| 6.01.01      | Cash Generated from Operations  | 3,187,587                   | 2,951,185                   |
| 6.01.01.01   | Net Profit before Income Tax and Social Contribution                          | 1,195,679                   | 1,665,766                   |
| 6.01.01.02   | Provision for Contingencies   | 220,254                     | 228,460                     |
| 6.01.01.05   | Loss on sale of Intangible Fixed Assets                                       | 21,162                      | 14,941                      |
| 6.01.01.06   | Depreciation and Amortization   | 572,514                     | 432,917                     |
| 6.01.01.07   | Interests on Loans and Financings Payable                                     | 342,528                     | 325,612                     |
| 6.01.01.08   | Monetary and Foreign Exchange Variation on Loans and Financings               | 367,326                     | 28,254                      |
| 6.01.01.09   | Expenses with Interests and Monetary Variations                               | 2,197                       | 3,211                       |
| 6.01.01.10   | Income with Interests and Monetary Variations                                 | -19,404                     | -44,842                     |
| 6.01.01.11   | Allowance for Doubtful Accounts   | 240,883                     | 257,911                     |
| 6.01.01.12   | Provision for Term of Adjustment of Conduct (TAC)                             | 40,561                      | 18,379                      |
| 6.01.01.13   | Equity result   | 4,418                       | 338                         |
| 6.01.01.14   | Provision Sabesprev Mais  | -7,432                      | 25,321                      |
| 6.01.01.15   | Other Provisions/Reversals  | 4,900                       | -14                         |
| 6.01.01.16   | Provision for transfer of funds to São Paulo City Hall                        | 0                           | -79,330                     |
| 6.01.01.17   | Margin of Fair Value over Intangible Assets Arising from Concession Contracts | -39,284                     | -35,847                     |
| 6.01.01.18   | Social Security Obligations   | 241,285                     | 110,108                     |
| 6.01.02      | Variation to Assets and Liabilities   | -267,238                    | -231,555                    |
| 6.01.02.01   | Accounts Receivable   | -219,880                    | -177,143                    |
| 6.01.02.02   | Balances and Transactions with Related Parties                                | 36,585                      | 26,499                      |
| 6.01.02.03   | Inventories   | 228                         | 9,912                       |
| 6.01.02.04   | Taxes Recoverable   | -43,437                     | -7,340                      |
| 6.01.02.05   | Other Accounts Receivable   | -21,186                     | -31,481                     |
| 6.01.02.06   | Judicial Deposits   | 3,624                       | -3,319                      |
| 6.01.02.08   | Loans and Suppliers   | 73,762                      | -2,268                      |
| 6.01.02.09   | Salaries, Provisions and Social Security Obligations                          | 22,557                      | 19,334                      |

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**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**

|            |  |            |            |
|------------|--|------------|------------|
| 6.01.02.10 | Social Security Obligations                            | -8,432     | -11,974    |
| 6.01.02.11 | Taxes and contributions paid                           | -56,672    | -50,037    |
| 6.01.02.12 | Other Suppliers  | -37,695    | 102,812    |
| 6.01.02.13 | Other Obligations                                      | 131,608    | 176,706    |
| 6.01.02.14 | Contingencies  | -148,317   | -277,925   |
| 6.01.02.15 | Tax Revenue  | 17         | -5,331     |
| 6.01.03    | Other  | -1,022,759 | -1,122,164 |
| 6.01.03.01 | Interest Paid  | -583,666   | -473,608   |
| 6.01.03.02 | Taxes and Contributions Payable                        | -439,093   | -648,556   |
| 6.02       | Net Cash from Investment Activities                    | -1,154,196 | -1,680,812 |
| 6.02.01    | Acquisition of Items of Fixed Assets                   | -8,174     | 0          |
| 6.02.02    | Increase in Intangibles                                | -1,337,179 | -1,304,421 |
| 6.02.03    | Increase in Investments                                | -14,050    | 0          |
| 6.02.04    | Restricted Cash  | 205,207    | -376,391   |
| 6.03       | Net Cash from Financing Activities                     | -503,943   | 678,951    |
| 6.03.01    | Funding  | 1,456,501  | 2,700,620  |
| 6.03.02    | Amortizations of loans                                 | -1,537,521 | -1,656,283 |
| 6.03.03    | Payment of Interests on Shareholders' Equity           | -422,923   | -365,386   |
| 6.05       | Increase(Decrease) in Cash & Cash Equivalents          | 239,451    | 595,605    |
| 6.05.01    | Cash & Cash Equivalents at the beginning of the period | 1,988,004  | 769,433    |
| 6.05.02    | Cash & Cash Equivalents at the end of the period       | 2,227,455  | 1,365,038  |

**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO****Individual Financial Statements/ Statement of Changes in Shareholders' Equity /SCSE 01/01/2011 to 09/30/2011****(In thousands of Brazilian reais - R\$)**

| Code    | Description  | Capital Paid | Capital Reserves, Options Granted and Treasury Shares | Profit Reserves | Retained Earnings/Losses | Other Results Comprehensive | Total Equity |
|---------|--|--------------|---|-----------------|--------------------------|-----------------------------|--------------|
| 5.01    | Opening Balances   | 6,203,688    | 124,255   | 3,353,857       | 0                        | 0                           | 9,681,800    |
| 5.03    | Adjusted Opening Balances  | 6,203,688    | 124,255   | 3,353,857       | 0                        | 0                           | 9,681,800    |
| 5.04    | Transactions of Capital with shareholders                              | 0            | 0   | -68,761         | 0                        | 0                           | -68,761      |
| 5.04.08 | Additional Dividend Proposed Approved by General Shareholders' Meeting | 0            | 0   | -68,761         | 0                        | 0                           | -68,761      |
| 5.05    | Total Comprehensive Income   | 0            | 0   | 0               | 730,405                  | 0                           | 730,405      |
| 5.05.01 | Net Income   | 0            | 0   | 0               | 730,405                  | 0                           | 730,405      |
| 5.07    | Closing Balances   | 6,203,688    | 124,255   | 3,285,096       | 730,405                  | 0                           | 10,343,444   |

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**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO****Individual Financial Statements/ Statement of Changes in Shareholders' Equity /SCSE 01/01/2010 to 09/30/2010****(In thousands of Brazilian reais - R\$)**

| Code    | Description                | Capital Paid | Capital Reserves, Options Granted and Treasury Shares | Profit Reserves | Retained Earnings/Losses | Other Results Comprehensive | Total Equity |
|---------|----------------------------|--------------|---|-----------------|--------------------------|-----------------------------|--------------|
| 5.01    | Opening Balances           | 6,203,688    | 124,255   | 2,110,641       | 0                        | 0                           | 8,438,584    |
| 5.03    | Adjusted Opening Balances  | 6,203,688    | 124,255   | 2,110,641       | 0                        | 0                           | 8,438,584    |
| 5.05    | Total Comprehensive Income | 0            | 0   | 0               | 1,055,512                | 0                           | 1,055,512    |
| 5.05.01 | Net Income                 | 0            | 0   | 0               | 1,055,512                | 0                           | 1,055,512    |
| 5.07    | Closing Balances           | 6,203,688    | 124,255   | 2,110,641       | 1,055,512                | 0                           | 9,494,096    |

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**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO****Individual Financial Statements/ Value Added Statement****(Real one thousand)**

| Account code | Account Description                                      | Current Quarter             | Previous Exercise           |
|--------------|--|-----------------------------|-----------------------------|
|              |  | 01/01/2011 to<br>09/30/2011 | 01/01/2010 to<br>09/30/2010 |
| 7.01         | Revenue  | 7,634,919                   | 7,098,764                   |
| 7.01.01      | Sales of Merchandise, Products and Services              | 6,043,317                   | 5,638,350                   |
| 7.01.02      | Other Revenue  | 63,889                      | 30,369                      |
| 7.01.03      | Revenue from the construction of own assets              | 1,621,042                   | 1,559,708                   |
| 7.01.04      | (Provision)/reversal of credit losses                    | -93,329                     | -129,663                    |
| 7.02         | Inputs purchased from third parties                      | -3,104,799                  | -2,913,666                  |
| 7.02.01      | Cost of Merchandise, Products and Services sold          | -2,625,389                  | -2,418,953                  |
| 7.02.02      | Materials, Energy, Third Party Services and Others       | -460,064                    | -476,338                    |
| 7.02.04      | Other  | -19,346                     | -18,375                     |
| 7.03         | Gross Value Added  | 4,530,120                   | 4,185,098                   |
| 7.04         | Retentions   | -574,001                    | -434,047                    |
| 7.04.01      | Depreciation, Amortization and Depletion                 | -574,001                    | -434,047                    |
| 7.05         | Net Value Added Produced                                 | 3,956,119                   | 3,751,051                   |
| 7.06         | Value Added Transfers Received                           | 320,048                     | 239,786                     |
| 7.06.01      | Equity result  | -4,418                      | -338                        |
| 7.06.02      | Financial Income   | 324,466                     | 240,124                     |
| 7.07         | Total Value Added to Distribute                          | 4,276,167                   | 3,990,837                   |
| 7.08         | Value Added Value Distribution                           | 4,276,167                   | 3,990,837                   |
| 7.08.01      | Staff  | 1,277,402                   | 1,027,204                   |
| 7.08.01.01   | Direct Compensation                                      | 741,888                     | 641,752                     |
| 7.08.01.02   | Benefits   | 453,324                     | 317,481                     |
| 7.08.01.03   | Government Severance Indemnity Fund for Employees - FGTS | 82,190                      | 67,971                      |
| 7.08.02      | Taxes and Contributions                                  | 1,178,364                   | 1,274,688                   |
| 7.08.02.01   | Federal  | 1,125,646                   | 1,222,716                   |
| 7.08.02.02   | State  | 30,702                      | 28,063                      |
| 7.08.02.03   | Municipal  | 22,016                      | 23,909                      |
| 7.08.03      | Third Party Capital Compensation                         | 1,089,996                   | 633,433                     |
| 7.08.03.01   | Interest   | 1,062,725                   | 609,096                     |
| 7.08.03.02   | Rental   | 27,271                      | 24,337                      |
| 7.08.04      | Shareholders' equity remuneration                        | 730,405                     | 1,055,512                   |
| 7.08.04.03   | Retained Profit / Loss for the Period                    | 730,405                     | 1,055,512                   |



**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO****Consolidated Financial Statements/Balance Sheet Assets**

| <b>Account code</b> | <b>Account Description</b>                | <b>(In thousands of Brazilian reais - R\$)</b> |                          |
|---------------------|---|--|--------------------------|
|                     |   | <b>Current Quarter</b>                         | <b>Previous Exercise</b> |
|                     |   | <b>09/30/2011</b>                              | <b>12/31/2010</b>        |
| 1                   | Total assets                              | 24,548,478                                     | 23,350,584               |
| 1.01                | Current assets                            | 3,663,433                                      | 3,590,121                |
| 1.01.01             | Cash & Cash Equivalents                   | 2,265,911                                      | 1,989,179                |
| 1.01.03             | Receivables                               | 1,124,693                                      | 1,109,090                |
| 1.01.03.01          | Customers                                 | 950,796  | 971,318                  |
| 1.01.03.02          | Other Receivables                         | 173,897  | 137,772                  |
| 1.01.03.02.01       | Balances with Related Parties             | 173,897  | 137,772                  |
| 1.01.04             | Inventories                               | 35,820   | 36,096                   |
| 1.01.06             | Taxes Recoverable                         | 70,052   | 108,675                  |
| 1.01.06.01          | Current Taxes Recoverable                 | 70,052   | 108,675                  |
| 1.01.08             | Other Current Assets                      | 166,957  | 347,081                  |
| 1.01.08.03          | Other                                     | 166,957  | 347,081                  |
| 1.01.08.03.01       | Restricted Cash                           | 97,363   | 302,570                  |
| 1.01.08.03.20       | Other receivables                         | 69,594   | 44,511                   |
| 1.02                | Noncurrent assets                         | 20,885,045                                     | 19,760,463               |
| 1.02.01             | Long-term assets                          | 957,050  | 964,021                  |
| 1.02.01.03          | Receivables                               | 355,079  | 352,839                  |
| 1.02.01.03.01       | Customers                                 | 355,079  | 352,839                  |
| 1.02.01.06          | Deferred Taxes                            | 133,651  | 78,440                   |
| 1.02.01.06.01       | Deferred Income Tax & Social Contribution | 133,651  | 78,440                   |
| 1.02.01.08          | Credit with Related Parties               | 164,381  | 231,076                  |
| 1.02.01.08.03       | Credit with Controlling Shareholders      | 164,381  | 231,076                  |
| 1.02.01.09          | Other Non-current Assets                  | 303,939  | 301,666                  |
| 1.02.01.09.03       | Indemnifications Receivable               | 146,213  | 146,213                  |
| 1.02.01.09.04       | Judicial deposits                         | 53,888   | 43,543                   |
| 1.02.01.09.05       | ANA – National Water Agency               | 67,368   | 62,540                   |
| 1.02.01.09.20       | Other receivables                         | 36,470   | 49,370                   |
| 1.02.03             | Property, Plant and Equipment             | 315,421  | 249,606                  |
| 1.02.04             | Intangible                                | 19,612,574                                     | 18,546,836               |
| 1.02.04.01          | Intangible                                | 19,612,574                                     | 18,546,836               |
| 1.02.04.01.01       | Concession Contracts                      | 10,495,392                                     | 10,737,871               |
| 1.02.04.01.02       | Program Contracts                         | 707,432  | 864,384                  |
| 1.02.04.01.03       | Service Contracts                         | 7,534,753                                      | 6,096,862                |
| 1.02.04.01.04       | Software License                          | 2,615  | 7,937                    |
| 1.02.04.01.05       | New Business                              | 17,209   | 11,228                   |

Treasury Shares

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|               |                                       |         |         |
|---------------|---------------------------------------|---------|---------|
| 1.02.04.01.06 | Concession Contracts - Economic Value | 518,982 | 517,278 |
| 1.02.04.01.07 | Program Contracts - Commitments       | 336,191 | 311,276 |

**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO****Consolidated Financial Statements/ Balance Sheet Liabilities and Shareholders' Equity****(In thousands of Brazilian reais - R\$)**

| <b>Account code</b> | <b>Account Description</b>                   | <b>Current Quarter</b> | <b>Previous Exercise</b> |
|---------------------|--|------------------------|--------------------------|
|                     |  | <b>09/30/2011</b>      | <b>12/31/2010</b>        |
| 2                   | Total liabilities and Shareholders' equity   | 24,548,478             | 23,350,584               |
| 2.01                | Current liabilities                          | 2,956,368              | 3,506,114                |
| 2.01.01             | Labor and Social Security Obligations        | 309,861                | 246,467                  |
| 2.01.01.01          | Social Security Obligations                  | 18,364                 | 26,172                   |
| 2.01.01.02          | Labor Obligations                            | 291,497                | 220,295                  |
| 2.01.02             | Suppliers                                    | 211,318                | 144,043                  |
| 2.01.02.01          | Domestic Suppliers                           | 211,318                | 144,043                  |
| 2.01.03             | Tax Obligations                              | 130,968                | 158,050                  |
| 2.01.03.01          | Federal Tax Obligations                      | 125,951                | 153,515                  |
| 2.01.03.01.01       | Income Tax and Social Contribution Payable   | 72                     | 0                        |
| 2.01.03.01.02       | COFINS and PASEP (taxes on revenue) payable  | 49,805                 | 48,149                   |
| 2.01.03.01.03       | INSS (Social security contribution), payable | 24,320                 | 24,112                   |
| 2.01.03.01.04       | Installment Program Law – 10.684/03          | 36,378                 | 35,364                   |
| 2.01.03.01.20       | Other Federal Taxes                          | 15,376                 | 45,890                   |
| 2.01.03.02          | State Tax Obligations                        | 7                      | 0                        |
| 2.01.03.03          | Municipal Tax Obligations                    | 5,010                  | 4,535                    |
| 2.01.04             | Loans and financing                          | 1,029,274              | 1,242,143                |
| 2.01.04.01          | Loans and financing                          | 730,877                | 630,634                  |
| 2.01.04.01.01       | In national currency                         | 526,852                | 500,657                  |
| 2.01.04.01.02       | In foreign currency                          | 204,025                | 129,977                  |
| 2.01.04.02          | Debentures                                   | 298,397                | 611,509                  |
| 2.01.05             | Other payables                               | 548,006                | 948,808                  |
| 2.01.05.01          | Liabilities with related parties             | 9,893                  | 11,395                   |
| 2.01.05.01.03       | Debts with controlling shareholders          | 9,893                  | 11,395                   |
| 2.01.05.02          | Other  | 538,113                | 937,413                  |
| 2.01.05.02.01       | Dividends and Interests on Equity Payable    | 92                     | 354,254                  |
| 2.01.05.02.04       | Accounts Payable                             | 260,172                | 328,434                  |
| 2.01.05.02.05       | Refundable amounts                           | 52,538                 | 60,486                   |
| 2.01.05.02.06       | Program contract commitments                 | 70,496                 | 38,427                   |
| 2.01.05.02.07       | Private Public Partnership                   | 20,592                 | 30,831                   |
| 2.01.05.02.08       | Agreement with São Paulo City Hall           | 59,477                 | 60,350                   |
| 2.01.05.02.09       | Indemnities                                  | 7,608                  | 17,169                   |

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**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**

|               |   |            |            |
|---------------|---|------------|------------|
| 2.01.05.02.20 | Other payables  | 67,138     | 47,462     |
| 2.01.06       | Provisions  | 726,941    | 766,603    |
| 2.01.06.01    | Civil, Labor and Social Security Provisions               | 108,131    | 96,231     |
| 2.01.06.01.01 | Tax Provisions  | 5,368      | 3,191      |
| 2.01.06.01.02 | Tax and Social Security Provisions                        | 83,165     | 78,151     |
| 2.01.06.01.04 | Civil Provisions  | 19,598     | 14,889     |
| 2.01.06.02    | Other Provisions  | 618,810    | 670,372    |
| 2.01.06.02.03 | Provision for Environmental and Deactivations Liabilities | 11,597     | 22,802     |
| 2.01.06.02.04 | Provisions for Customers                                  | 238,295    | 288,970    |
| 2.01.06.02.05 | Provisions for Suppliers                                  | 368,918    | 358,600    |
| 2.02          | Noncurrent liabilities                                    | 11,248,666 | 10,162,670 |
| 2.02.01       | Loans and financing                                       | 7,646,626  | 7,022,472  |
| 2.02.01.01    | Loans and financing                                       | 4,775,301  | 4,839,567  |
| 2.02.01.01.01 | In national currency                                      | 2,016,622  | 2,720,616  |
| 2.02.01.01.02 | In foreign currency                                       | 2,758,679  | 2,118,951  |
| 2.02.01.02    | Debentures  | 2,871,325  | 2,182,905  |
| 2.02.02       | Other payables  | 2,792,950  | 2,446,971  |
| 2.02.02.02    | Other   | 2,792,950  | 2,446,971  |
| 2.02.02.02.03 | Other Taxes and Contributions Payable                     | 27,286     | 53,045     |
| 2.02.02.02.04 | Social security charges                                   | 2,036,891  | 1,804,038  |
| 2.02.02.02.05 | Program contract commitments                              | 84,971     | 106,696    |
| 2.02.02.02.06 | Account Payable - Private Public Partnership              | 383,454    | 284,728    |
| 2.02.02.02.07 | Indemnities   | 50,045     | 30,847     |
| 2.02.02.02.08 | TAC Retirees  | 18,798     | 20,497     |
| 2.02.02.02.09 | Deferred Cofins and Pasep                                 | 112,979    | 112,962    |
| 2.02.02.02.20 | Other payables  | 78,526     | 34,158     |
| 2.02.04       | Provisions  | 809,090    | 693,227    |
| 2.02.04.01    | Civil, Labor, Tax and Social Security Provisions          | 293,457    | 267,287    |
| 2.02.04.01.01 | Tax Provisions  | 68,131     | 55,467     |
| 2.02.04.01.02 | Tax, Social Security and Labor Provisions                 | 72,541     | 59,081     |
| 2.02.04.01.04 | Civil Provisions  | 152,785    | 152,739    |
| 2.02.04.02    | Other Provisions  | 515,633    | 425,940    |
| 2.02.04.02.03 | Provision for Environmental and Deactivations Liabilities | 91,939     | 42,293     |
| 2.02.04.02.04 | Provisions for Customers                                  | 398,380    | 370,212    |
| 2.02.04.02.05 | Provisions for Suppliers                                  | 25,314     | 13,435     |

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**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**

|            |   |            |           |
|------------|---|------------|-----------|
| 2.03       | Shareholders' equity                    | 10,343,444 | 9,681,800 |
| 2.03.01    | Social Capital                          | 6,203,688  | 6,203,688 |
| 2.03.02    | Capital reserves                        | 124,255    | 124,255   |
| 2.03.02.07 | Support to projects                     | 108,475    | 108,475   |
| 2.03.02.08 | Incentive reserve                       | 15,780     | 15,780    |
| 2.03.04    | Profit reserves                         | 3,285,096  | 3,353,857 |
| 2.03.04.01 | Legal Reserve                           | 460,048    | 460,048   |
| 2.03.04.08 | Additional Dividend Proposed            | 0          | 68,761    |
| 2.03.04.10 | Reserve for Investments                 | 2,825,048  | 2,825,048 |
| 2.03.05    | Retained earnings (accumulated deficit) | 730,405    | 0         |

## ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO

## Consolidated Financial Statements/ Statement of income

(In thousands of Brazilian reais - R\$)

| Account code | Account Description                                      | Current Quarter          | Accumulated of Current Year | Equal quarter of Previous Exercise | Accumulated of Previous Exercise |
|--------------|--|--------------------------|-----------------------------|------------------------------------|----------------------------------|
|              |  | 07/01/2011 to 09/30/2011 | 01/01/2011 to 09/30/2011    | 07/01/2010 to 09/30/2010           | 01/01/2010 to 09/30/2010         |
| 3.01         | Gross revenue from sales and/or services                 | 2,592,799                | 7,230,055                   | 2,353,254                          | 6,788,886                        |
| 3.02         | Cost of sales and/or services                            | -1,635,681               | -4,443,251                  | -1,362,001                         | -3,818,445                       |
| 3.02.01      | Cost of sales and/or services                            | -979,440                 | -2,860,691                  | -810,402                           | -2,294,584                       |
| 3.02.02      | Construction Cost  | -656,241                 | -1,582,560                  | -551,599                           | -1,523,861                       |
| 3.03         | Gross profit   | 957,118                  | 2,786,804                   | 991,253                            | 2,970,441                        |
| 3.04         | Operating (expenses) income                              | -322,628                 | -1,075,239                  | -351,271                           | -1,028,259                       |
| 3.04.01      | Selling expenses   | -116,307                 | -449,949                    | -168,196                           | -499,147                         |
| 3.04.02      | General and Administrative Expenses                      | -193,678                 | -664,088                    | -187,562                           | -537,240                         |
| 3.04.04      | Other operating income                                   | -2,103                   | 58,144                      | 9,409                              | 26,503                           |
| 3.04.04.01   | Other operating income                                   | -2,406                   | 63,975                      | 11,016                             | 30,369                           |
| 3.04.04.02   | COFINS and PASEP (taxes on revenue)                      | 303                      | -5,831                      | -1,607                             | -3,866                           |
| 3.04.05      | Other operating expenses                                 | -10,540                  | -19,346                     | -4,922                             | -18,375                          |
| 3.04.05.01   | Loss on write-off of property, plant and equipment items | -8,265                   | -12,644                     | -2,746                             | -14,941                          |
| 3.04.05.03   | Tax incentives   | -1,915                   | -6,225                      | -2,339                             | -3,243                           |
| 3.04.05.05   | Other  | -360                     | -477                        | 163                                | -191                             |
| 3.05         | Result before Financial Result and Taxes                 | 634,490                  | 1,711,565                   | 639,982                            | 1,942,182                        |
| 3.06         | Financial income   | -510,871                 | -516,124                    | 62,938                             | -276,416                         |
| 3.06.01      | Financial income   | 113,987                  | 324,651                     | 80,834                             | 240,183                          |
| 3.06.01.01   | Financial income   | 113,601                  | 339,212                     | 80,809                             | 240,029                          |
| 3.06.01.02   | Foreign exchange gains                                   | 386                      | -14,561                     | 25                                 | 154                              |
| 3.06.02      | Financial expenses                                       | -624,858                 | -840,775                    | -17,896                            | -516,599                         |
| 3.06.02.01   | Financial expenses                                       | -158,473                 | -517,729                    | -96,522                            | -552,442                         |
| 3.06.02.02   | Foreign exchange losses                                  | -466,385                 | -323,046                    | 78,626                             | 35,843                           |
| 3.07         | Income Before Taxes on profit                            | 123,619                  | 1,195,441                   | 702,920                            | 1,665,766                        |
| 3.08         | Income Tax and Social Contribution on Net Income         | -55,655                  | -465,036                    | -265,902                           | -610,254                         |
| 3.08.01      | Current  | -113,182                 | -520,200                    | -199,816                           | -634,842                         |

|         |          |        |        |         |        |
|---------|----------|--------|--------|---------|--------|
| 3.08.02 | Deferred | 57,527 | 55,164 | -66,086 | 24,588 |
|---------|----------|--------|--------|---------|--------|

**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**

|            |  |         |         |         |           |
|------------|--|---------|---------|---------|-----------|
| 3.09       | Net Profit from Continuing Operations              | 67,964  | 730,405 | 437,018 | 1,055,512 |
|            | Consolidated Profit/Loss of the Period             |         |         |         |           |
| 3.11       |  | 67,964  | 730,405 | 437,018 | 1,055,512 |
| 3.11.01    | Attributed to Shareholders' of the Holding Company | 67,964  | 730,405 | 437,018 | 1,055,512 |
| 3.99       | Earnings per share (Reais/ Share)                  | -       | -       | -       | -         |
| 3.99.01    | Basic earnings per share                           | -       | -       | -       | -         |
| 3.99.01.01 | ON   | 0.29830 | 3.20584 | 1.91813 | 4.63277   |
| 3.99.02    | Diluted Earnings per Share                         | -       | -       | -       | -         |
| 3.99.02.01 | ON   | 0.29830 | 3.20584 | 1.91813 | 4.63277   |

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**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO****Consolidated Financial Statements/ Statement of Cash Flows - Indirect Method****(In thousands of Brazilian reais - R\$)**

| Account code | Account Description   | Current Quarter             | Previous Exercise           |
|--------------|---|-----------------------------|-----------------------------|
|              |   | 01/01/2011 to<br>09/30/2011 | 01/01/2010 to<br>09/30/2010 |
| 6.01         | Net Cash from Operating Activities  | 1,900,554                   | 1,597,354                   |
| 6.01.01      | Cash Generated from Operations  | 3,184,043                   | 2,950,847                   |
| 6.01.01.01   | Net Profit before Income Tax and Social Contribution                          | 1,196,511                   | 1,665,766                   |
| 6.01.01.02   | Provision for Contingencies   | 220,254                     | 228,460                     |
| 6.01.01.05   | Loss on Sale of Intangible Fixed Assets                                       | 21,162                      | 14,941                      |
| 6.01.01.06   | Depreciation and Amortization   | 572,556                     | 432,917                     |
| 6.01.01.07   | Interests on Loans and Financings Payable                                     | 342,528                     | 325,612                     |
| 6.01.01.08   | Monetary and Foreign Exchange Variation on Loans and Financings               | 367,326                     | 28,254                      |
| 6.01.01.09   | Expenses with Interests and Monetary Variations                               | 2,197                       | 3,211                       |
| 6.01.01.10   | Income with Interests and Monetary Variations                                 | -19,404                     | -44,842                     |
| 6.01.01.11   | Allowance for Doubtful Accounts   | 240,883                     | 257,911                     |
| 6.01.01.12   | Provision for Term of Adjustment of Conduct (TAC)                             | 40,561                      | 18,379                      |
| 6.01.01.14   | Provision Sabesprev Mais  | -7,432                      | 25,321                      |
| 6.01.01.15   | Other Provisions/Reversals  | 4,900                       | -14                         |
| 6.01.01.16   | Provision for transfer of funds to São Paulo City Hall                        | 0                           | -79,330                     |
| 6.01.01.17   | Margin of Fair Value over Intangible Assets Arising from Concession Contracts | -39,284                     | -35,847                     |
| 6.01.01.18   | Social Security Obligations   | 241,285                     | 110,108                     |
| 6.01.02      | Variation to Assets and Liabilities   | -260,730                    | -231,329                    |
| 6.01.02.01   | Accounts Receivable   | -220,227                    | -177,143                    |
| 6.01.02.02   | Balances and Transactions with Related Parties                                | 36,585                      | 26,499                      |
| 6.01.02.03   | Inventories   | 205                         | 9,912                       |
| 6.01.02.04   | Taxes Recoverable   | -43,554                     | -7,340                      |
| 6.01.02.05   | Other Accounts Receivable   | -20,577                     | -31,484                     |
| 6.01.02.06   | Judicial Deposits   | 3,624                       | -3,319                      |
| 6.01.02.08   | Loans and Suppliers   | 78,018                      | -2,106                      |

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**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**

|            |  |            |            |
|------------|--|------------|------------|
| 6.01.02.09 | Salaries, Provisions and Social Security Obligations     | 22,833     | 19,401     |
| 6.01.02.10 | Social Security Obligations                              | -8,432     | -11,974    |
| 6.01.02.11 | Taxes and contributions payable                          | -55,038    | -50,037    |
| 6.01.02.12 | Other Suppliers  | -37,695    | 102,812    |
| 6.01.02.13 | Other Obligations  | 131,828    | 176,706    |
| 6.01.02.14 | Contingencies  | -148,317   | -277,925   |
| 6.01.02.15 | Tax Revenue  | 17         | -5,331     |
| 6.01.03    | Other  | -1,022,759 | -1,122,164 |
| 6.01.03.01 | Interest Paid  | -583,666   | -473,608   |
| 6.01.03.02 | Taxes and Contributions Paid                             | -439,093   | -648,556   |
| 6.02       | Net Cash from Investment Activities                      | -1,233,948 | -1,682,462 |
| 6.02.01    | Acquisition of Items of Fixed Assets                     | -94,006    | 0          |
| 6.02.02    | Increase in Intangibles                                  | -1,345,149 | -1,306,071 |
| 6.02.04    | Restricted Cash  | 205,207    | -376,391   |
| 6.03       | Net Cash from Financing Activities                       | -389,874   | 681,291    |
| 6.03.01    | Funding  | 1,625,893  | 2,702,960  |
| 6.03.02    | Amortizations of loans                                   | -1,592,844 | -1,656,283 |
| 6.03.03    | Payment of Interests on Shareholders' Equity             | -422,923   | -365,386   |
| 6.05       | Increase(Decrease) in Cash & Cash Equivalents            | 276,732    | 596,183    |
| 6.05.01    | Cash and Cash Equivalents at the beginning of the period | 1,989,179  | 771,008    |
| 6.05.02    | Cash and Cash Equivalents at the end of the period       | 2,265,911  | 1,367,191  |

## ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO

## Consolidated Financial Statements/ Statement of Changes in Shareholders' Equity /SCSE 01/01/2011 to 09/30/2011

(In thousands of Brazilian reais - R\$)

| Code    | Description                               | Capital Paid | Capital Reserves, Options Granted and Treasury Shares | Profit Reserves | Retained Earnings/Losses | Other Results Comprehensive | Total Equity | Participation of non-controlling | Consolidated Stockholders' Equity |
|---------|---|--------------|---|-----------------|--------------------------|-----------------------------|--------------|----------------------------------|-----------------------------------|
| 5.01    | Opening Balances                          |              |   |                 |                          |                             |              |                                  |                                   |
|         | Adjusted                                  |              |   |                 |                          |                             |              |                                  |                                   |
| 5.03    | Opening Balances                          |              |   |                 |                          |                             |              |                                  |                                   |
| 5.04    | Transactions of Capital with shareholders |              |   |                 |                          |                             |              |                                  |                                   |
|         | Additional Dividend Proposed              |              |   |                 |                          |                             |              |                                  |                                   |
| 5.04.08 | Approved by General Shareholders' Meeting |              |   |                 |                          |                             |              |                                  |                                   |
|         | Total                                     |              |   |                 |                          |                             |              |                                  |                                   |
| 5.05    | Comprehensive Income                      |              |   |                 |                          |                             |              |                                  |                                   |
| 5.05.01 | Net Income                                |              |   |                 | 730,405                  |                             |              |                                  |                                   |
| 5.07    | Closing Balances                          |              |   |                 | 730,405                  |                             |              |                                  |                                   |

## ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO

## Consolidated Financial Statements/ Statement of Changes in Shareholders' Equity /SCSE 01/01/2010 to 09/30/2010

(In thousands of Brazilian reais - R\$)

| Code    | Description               | Capital Paid | Capital Reserves, Options Granted and Treasury Shares | Profit Reserves | Retained Earnings/Losses | Other Results Comprehensive | Total Equity | Participation of non-controlling | Consolidated Stockholders' Equity |
|---------|---------------------------|--------------|---|-----------------|--------------------------|-----------------------------|--------------|----------------------------------|-----------------------------------|
| 5.01    | Opening Balances Adjusted |              |   |                 |                          |                             |              |                                  |                                   |
| 5.03    | Opening Balances Total    |              |   |                 |                          |                             |              |                                  |                                   |
| 5.05    | Comprehensive Income      |              |   |                 |                          |                             |              |                                  |                                   |
| 5.05.01 | Net Income                |              |   |                 | 1,055,512                |                             |              |                                  |                                   |
| 5.07    | Closing Balances          |              |   |                 | 1,055,512                |                             |              |                                  |                                   |

**ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO****Consolidated Financial Statements/ Value Added Statement****(In thousands of Brazilian reais - R\$)**

| <b>Account code</b> | <b>Account Description</b>                               | <b>Current Quarter</b>              | <b>Previous Exercise</b>            |
|---------------------|--|-------------------------------------|-------------------------------------|
|                     |  | <b>01/01/2011 to<br/>09/30/2011</b> | <b>01/01/2010 to<br/>09/30/2010</b> |
| 7.01                | Revenue  | 7,639,425                           | 7,098,764                           |
| 7.01.01             | Sales of Merchandise, Products and Services              | 6,047,683                           | 5,638,350                           |
| 7.01.02             | Other Revenue  | 63,975                              | 30,369                              |
| 7.01.03             | Revenue from the construction of own assets              | 1,621,183                           | 1,559,708                           |
| 7.01.04             | Provision of credit losses                               | -93,416                             | -129,663                            |
| 7.02                | Inputs purchased from third parties                      | -3,109,334                          | -2,913,762                          |
| 7.02.01             | Costs of Merchandise, Products and Services sold         | -2,628,073                          | -2,418,953                          |
| 7.02.02             | Materials, Energy, Third Party Services and Others       | -461,915                            | -476,434                            |
| 7.02.04             | Other  | -19,346                             | -18,375                             |
| 7.03                | Gross Value Added  | 4,530,091                           | 4,185,002                           |
| 7.04                | Retentions   | -574,044                            | -434,049                            |
| 7.04.01             | Depreciation, Amortization and Depletion                 | -574,044                            | -434,049                            |
| 7.05                | Net Value Added Produced                                 | 3,956,047                           | 3,750,953                           |
| 7.06                | Value Added Transfer Received                            | 324,651                             | 240,183                             |
| 7.06.02             | Financial income   | 324,651                             | 240,183                             |
| 7.07                | Total Value Added to Distribute                          | 4,280,698                           | 3,991,136                           |
| 7.08                | Value Added Value Distribution                           | 4,280,698                           | 3,991,136                           |
| 7.08.01             | Staff  | 1,279,461                           | 1,027,430                           |
| 7.08.01.01          | Direct Compensation                                      | 743,642                             | 641,959                             |
| 7.08.01.02          | Benefits   | 453,520                             | 317,488                             |
| 7.08.01.03          | Government Severance Indemnity Fund for Employees - FGTS | 82,299                              | 67,983                              |
| 7.08.02             | Taxes and Contributions                                  | 1,180,070                           | 1,274,738                           |
| 7.08.02.01          | Federal  | 1,127,257                           | 1,222,766                           |
| 7.08.02.02          | State  | 30,711                              | 28,063                              |
| 7.08.02.03          | Municipal  | 22,102                              | 23,909                              |
| 7.08.03             | Compensation Third Party Capital                         | 1,090,762                           | 633,456                             |
| 7.08.03.01          | Interest   | 1,063,252                           | 609,096                             |
| 7.08.03.02          | Rental   | 27,510                              | 24,360                              |
| 7.08.04             | Remuneration of Capital                                  | 730,405                             | 1,055,512                           |
| 7.08.04.03          | Retained Profit / Loss for the Period                    | 730,405                             | 1,055,512                           |



## ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO

## Management's Report and Comments on Performance

## 1. Financial Highlights

|  | 3Q10    | 3Q11    | Var.<br>(R\$) | %      | In millions of R\$ |         |               |        |
|--|---------|---------|---------------|--------|--------------------|---------|---------------|--------|
|  |         |         |               |        | 9M10               | 9M11    | Var.<br>(R\$) | %      |
| (+) Gross operating revenues                 | 1,929.3 | 2,068.1 | 138.8         | 7.2    | 5,638.4            | 6,043.3 | 404.9         | 7.2    |
| (+)Construction Costs                        | 564.9   | 672.3   | 107.4         | 19.0   | 1,559.7            | 1,621.1 | 61.4          | 3.9    |
| (-) COFINS and PASEP                         | 140.9   | 149.1   | 8.2           | 5.8    | 409.2              | 438.7   | 29.5          | 7.2    |
| (=) Net operating revenues                   | 2,353.3 | 2,591.3 | 238.0         | 10.1   | 6,788.9            | 7,225.7 | 436.8         | 6.4    |
| (-) Costs and expenses                       | 1,166.0 | 1,287.1 | 121.1         | 10.4   | 3,330.6            | 3,968.0 | 637.4         | 19.1   |
| (-)Construction Costs                        | 551.6   | 656.0   | 104.4         | 18.9   | 1,523.9            | 1,581.8 | 57.9          | 3.8    |
| (+) Equity result                            | (0.1)   | (2.2)   | (2.1)         | -      | (0.3)              | (4.4)   | (4.1)         | -      |
| (=) Income before financial expenses (EBIT*) | 635.6   | 646.0   | 10.4          | 1.6    | 1,934.1            | 1,671.5 | (262.6)       | (13.6) |
| (+) Depreciation and amortization            | 141.2   | 168.2   | 27.0          | 19.1   | 432.9              | 572.5   | 139.6         | 32.2   |
| (=) EBITDA**                                 | 776.8   | 814.2   | 37.4          | 4.8    | 2,367.0            | 2,244.0 | (123.0)       | (5.2)  |
| EBITDA Margin (%)                            | 33.0    | 31.4    | -             | -      | 34.9               | 31.1    | -             | -      |
| Net income                                   | 437.0   | 68.0    | (369.0)       | (84.4) | 1,055.5            | 730.4   | (325.1)       | (30.8) |
| Income per one thousand shares in R\$        | 1.92    | 0.30    | -             | -      | 4.63               | 3.21    | -             | -      |

(\*) Earnings before interest and taxes on income;

(\*\*) Earnings before interest, taxes, depreciation and amortization;

In 3Q11, net operating revenues totaled R\$2.6 billion, 10.1% growth related to 3Q10. Costs and expenses, in the amount of R\$1.3 billion, presented a decrease of 10.4% in relation to 3Q10. EBIT decreased 1.6%, from R\$635.6 million in 3Q10 to R\$646.0 million in 3Q11. EBITDA increased from R\$776.8 million in 3Q10 to R\$814.2 million in 3Q11, a 4.8% increase. EBITDA margin in 3Q11 reached 31.4% as compared with 33.0% in the same period previous year.

## 2. Gross operating revenue

Gross operating revenue related to the rendering of water supply and sewage collection services presented an increase of R\$138.8 million, or 7.2%, from R\$1.9 billion in 3Q10 to R\$2.1 billion in 3Q11. The determinant factors were: growth in invoiced volume of 3.0% in water and 4.2% in sewage and tariff adjustment of 4.05% applied in September, 2010.

The main factors that contributed to the increase in the invoiced volume were: Expansion of the number of connections, enhancement in the fight to frauds, increase in the exchange of hydrometers in the Metropolitan Region of Sao Paulo and increase of the consumption in the industrial category.

### **3. Volume invoiced**

In the following charts are demonstrated the volumes invoiced of water and sewage, according to the category of use and region, in the 3Q10 and 3Q11.

## ITR - Quarterly Information 09/30/2011 - CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO

## QUARTERLY

VOLUME INVOICED <sup>(1)</sup> WATER AND SEWAGE PER CATEGORY OF USE - millions of m<sup>3</sup>

| By Category         | Water        |              |            | Sewage       |              |            | Water + Sewage |              |            |
|---------------------|--------------|--------------|------------|--------------|--------------|------------|----------------|--------------|------------|
|                     | 3Q10         | 3Q11         | %          | 3Q10         | 3Q11         | %          | 3Q10           | 3Q11         | %          |
| Residential         | 357.7        | 369.1        | 3.2        | 291.8        | 304.1        | 4.2        | 649.5          | 673.2        | 3.6        |
| Commercial          | 40.3         | 41.8         | 3.7        | 37.6         | 39.0         | 3.7        | 77.9           | 80.8         | 3.7        |
| Industrial          | 9.3          | 9.7          | 4.3        | 9.3          | 10.1         | 8.6        | 18.6           | 19.8         | 6.5        |
| Public              | 12.9         | 13.6         | 5.4        | 10.2         | 10.6         | 3.9        | 23.1           | 24.2         | 4.8        |
| <b>Total Retail</b> | <b>420.2</b> | <b>434.2</b> | <b>3.3</b> | <b>348.9</b> | <b>363.8</b> | <b>4.3</b> | <b>769.1</b>   | <b>798.0</b> | <b>3.8</b> |
| Wholesale           | 73.3         | 74.1         | 1.1        | 6.6          | 6.8          | 3.0        | 79.9           | 80.9         | 1.3        |
| Reuse Water         | 0.1          | 0.1          | -          | -            | -            | -          | 0.1            | 0.1          | -          |
| <b>Total</b>        | <b>493.6</b> | <b>508.4</b> | <b>3.0</b> | <b>355.5</b> | <b>370.6</b> | <b>4.2</b> | <b>849.1</b>   | <b>879.0</b> | <b>3.5</b> |

## JANUARY TO SEPTEMBER

VOLUME INVOICED <sup>(1)</sup> WATER AND SEWAGE PER CATEGORY OF USE - millions of m<sup>3</sup>

| By Category         | Water          |                |            | Sewage         |                |            | Water + Sewage |                |            |
|---------------------|----------------|----------------|------------|----------------|----------------|------------|----------------|----------------|------------|
|                     | JAN-SEP/10     | JAN-SEP/11     | VAR. %     | JAN-SEP/10     | JAN-SEP/11     | VAR. %     | JAN-SEP/10     | JAN-SEP/11     | VAR. %     |
| Residential         | 1,079.1        | 1,109.2        | 2.8        | 876.0          | 908.9          | 3.8        | 1,955.1        | 2,018.1        | 3.2        |
| Commercial          | 120.9          | 124.9          | 3.3        | 112.3          | 116.6          | 3.8        | 233.2          | 241.5          | 3.6        |
| Industrial          | 27.6           | 28.9           | 4.7        | 27.9           | 30.0           | 7.5        | 55.5           | 58.9           | 6.1        |
| Public              | 37.3           | 39.6           | 6.2        | 29.9           | 31.0           | 3.7        | 67.2           | 70.6           | 5.1        |
| <b>Total Retail</b> | <b>1,264.9</b> | <b>1,302.6</b> | <b>3.0</b> | <b>1,046.1</b> | <b>1,086.5</b> | <b>3.9</b> | <b>2,311.0</b> | <b>2,389.1</b> | <b>3.4</b> |
| Wholesale           | 219.2          | 222.5          | 1.5        | 21.9           | 21.0           | (4.1)      | 241.1          | 243.5          | 1.0        |
| Reuse Water         | 0.2            | 0.2            | -          | -              | -              | -          | 0.2            | 0.2            | -          |
| <b>Total</b>        | <b>1,484.3</b> | <b>1,525.3</b> | <b>2.8</b> | <b>1,068.0</b> | <b>1,107.5</b> | <b>3.7</b> | <b>2,552.3</b> | <b>2,623.8</b> | <b>3.2</b> |

## QUARTERLY

VOLUME INVOICED <sup>(1)</sup> WATER AND SEWAGE BY REGION - millions of m<sup>3</sup>

| By Region               | Water        |              |            |   | Sewage       |              |            |   | Water + Sewage |              |            |   |
|-------------------------|--------------|--------------|------------|---|--------------|--------------|------------|---|----------------|--------------|------------|---|
|                         | 3Q10         | 3Q11         | VAR.       | % | 3Q10         | 3Q11         | VAR.       | % | 3Q10           | 3Q11         | VAR.       | % |
| Metropolitan            | 278.7        | 287.4        | 3.1        |   | 236.2        | 244.1        | 3.3        |   | 514.9          | 531.5        | 3.2        |   |
| Regional <sup>(2)</sup> | 141.5        | 146.8        | 3.7        |   | 112.7        | 119.7        | 6.2        |   | 254.2          | 266.5        | 4.8        |   |
| <b>Total retail</b>     | <b>420.2</b> | <b>434.2</b> | <b>3.3</b> |   | <b>348.9</b> | <b>363.8</b> | <b>4.3</b> |   | <b>769.1</b>   | <b>798.0</b> | <b>3.8</b> |   |
| Bulk                    | 73.3         | 74.1         | 1.1        |   | 6.6          | 6.8          | 3.0        |   | 79.9           | 80.9         | 1.3        |   |
| Reuse Water             | 0.1          | 0.1          | -          |   | -            | -            | -          |   | 0.1            | 0.1          | -          |   |
| <b>Total</b>            | <b>493.6</b> | <b>508.4</b> | <b>3.0</b> |   | <b>355.5</b> | <b>370.6</b> | <b>4.2</b> |   | <b>849.1</b>   | <b>879.0</b> | <b>3.5</b> |   |

## JANUARY TO SEPTEMBER

VOLUME INVOICED <sup>(1)</sup> WATER AND SEWAGE BY REGION - millions of m<sup>3</sup>

|  | Water | Sewage | Water + Sewage |
|--|-------|--------|----------------|
|--|-------|--------|----------------|



| <b>By Region</b>        | <b>JAN-SEP/10</b> | <b>JAN-SEP/11</b> | <b>VAR.<br/>%</b> | <b>JAN-SEP/10</b> | <b>JAN-SEP/11</b> | <b>VAR.<br/>%</b> | <b>JAN-SEP/10</b> | <b>JAN-SEP/11</b> | <b>VAR.<br/>%</b> |
|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Metropolitan            | 834.8             | 857.6             | 2.7               | 706.1             | 727.8             | 3.1               | 1,540.9           | 1,585.4           | 2.9               |
| Regional <sup>(2)</sup> | 430.1             | 445.0             | 3.5               | 340.0             | 358.7             | 5.5               | 770.1             | 803.7             | 4.4               |
| <b>Total retail</b>     | <b>1,264.9</b>    | <b>1,302.6</b>    | <b>3.0</b>        | <b>1,046.1</b>    | <b>1,086.5</b>    | <b>3.9</b>        | <b>2,311.0</b>    | <b>2,389.1</b>    | <b>3.4</b>        |
| Bulk                    | 219.2             | 222.5             | 1.5               | 21.9              | 21.0              | (4.1)             | 241.1             | 243.5             | 1.0               |
| Reuse Water             | <b>0.2</b>        | <b>0.2</b>        | -                 | -                 | -                 | -                 | <b>0.2</b>        | <b>0.2</b>        | -                 |
| <b>Total</b>            | <b>1,484.3</b>    | <b>1,525.3</b>    | <b>2.8</b>        | <b>1,068.0</b>    | <b>1,107.5</b>    | <b>3.7</b>        | <b>2,552.3</b>    | <b>2,632.8</b>    | <b>3.2</b>        |

(1) Not reviewed

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(2) Comprised by the coastal region and country side

**4. Costs, selling and administrative expenses**

In the 3Q11, the costs of products and services provided, administrative and commercial expenses, increased by 13.1% (R\$225.5 million). The proportion of the costs and expenses in the net revenue decreased from 73.0% in the 3Q10 to 75.0% in the 3Q11.

|   | 3Q10 | 3Q11 | Var.<br>(R\$) | % | In millions of R\$ |      |               |   |
|---|------|------|---------------|---|--------------------|------|---------------|---|
|   |      |      |               |   | 9M10               | 9M11 | Var.<br>(R\$) | % |
| Payroll and related charges                           |      |      |               |   |                    |      |               |   |
| General supplies                                      |      |      |               |   |                    |      |               |   |
| Treatment supplies                                    |      |      |               |   |                    |      |               |   |
| Services  |      |      |               |   |                    |      |               |   |
| Electricity   |      |      |               |   |                    |      |               |   |
| General expenses                                      |      |      |               |   |                    |      |               |   |
| Tax expenses  |      |      |               |   |                    |      |               |   |
| <b>Subtotal</b>                                       |      |      |               |   |                    |      |               |   |
| Depreciation and amortization                         |      |      |               |   |                    |      |               |   |
| Credits write-off                                     |      |      |               |   |                    |      |               |   |
| <b>Subtotal</b>                                       |      |      |               |   |                    |      |               |   |
| Construction costs                                    |      |      |               |   |                    |      |               |   |
| <b>Costs, and administrative and selling expenses</b> |      |      |               |   |                    |      |               |   |
| Percentage of Net Revenue %                           |      |      |               |   |                    |      |               |   |

**4.1. Salaries and payroll charges**

In 3Q11 there was an increase of R\$42.9 million or 11.2% in salaries and payroll charges, going from R\$384.2 million to R\$427.1 million as a result of the following factors:

- Reversal of R\$13.4 million in 2010 referring to part of the provision for Profit and Results Sharing recorded in 2009, generating a variance between the periods in the amount of R\$20.1 million;
- Adjustment, in 2010, to the actuarial calculation on defined contribution plan in the amount of R\$3.9 million;
- Increase of R\$8.5 million referring to the penalty on the Unemployment Fund – FGTS resulting from the higher number of terminations occurred in the quarter; and
- 8% salary adjustment since May 2011 with impact of approximately R\$31.6 million.

The increases above were offset by the reduction of R\$21.5 million, referring to the actuarial obligation of Plan G0. Since 2011, the appropriation of such expenses started to be made net from the collections of the uncontroversial amount (benefits of Law nr. 4819/58).

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**4.2. General Supplies**

In 3Q11 there was an increase of R\$6.2 million or 17.1% as compared to the same quarter previous year, from R\$36.3 million to R\$42.5 million, which main expenditure is related to the maintenance of systems.

**4.3. Treatment Materials**

The expenditures in 3Q11 were greater than 3Q10 by R\$5.7 million, or 18.0%, going from R\$31.6 million to R\$37.3 million. This variance is related to the following factors:

- Increase of R\$2.0 million in the consumption of the product aluminum polychloride that started to be used in the Guaraú Water Treatment Station in replacement to aluminum sulfate. and
- R\$1.0 million increase resulting from the increase in the consumption of chlorine in function of the conditions of reservoirs and climate;

**4.4. Services**

In 3Q11, this item presented decrease of R\$23.9 million or 10.8%, from R\$221.2 million to R\$245.1 million. The main factors that contributed to such variation were:

- Public Private Contract of the Alto Tiete Producer System with increase of R\$8.4 million as forecasted for the second year of the contract and the beginning of operations in September, 2011;

- Preventive and corrective maintenance in the operating systems of water and sewage in the amount of R\$6.7 million; and
- Maintenance of networks and connections of water and sewage in the amount of R\$5.2 million, resulting from the enhancement of the executions in the fight to losses and to meet the execution terms of the works required by ARSESP.

#### **4.5 Electric Energy**

In 3Q11, this item presented increase of R\$11.6 million or 8.8%, from R\$132.3 million to R\$143.9 million.

This result is associated to the increase in the volume produced of water and average tariff increase in the free and captive market around 5.9% in the period.

#### **4.6. General Expenses**

In 3Q11 there was an increase of R\$28.1 million or 16.9%, from R\$166.1 million to R\$194.2 million, in function of the provisions for legal contingencies.

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**This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the adjustment of the amortization period to be the lower between the useful life of the item or the effectiveness of the contract, applicable for the next quarter.**

**4.8. Credit Write-offs**

In 3Q11 the credit write-offs presented a decrease of R\$24.2 million, or 58.5%, from R\$41.4 million to R\$17.2 million, mainly due to the conclusion of the supplement to the provision on invoicing of private clients and municipal public entities.

**5. Financial Income and Expenses**

|  | <b>R\$ million</b> |             |                  |          |
|--|--------------------|-------------|------------------|----------|
|  | <b>3Q10</b>        | <b>3Q11</b> | <b>Variation</b> | <b>%</b> |
| Financial expenses                                   |                    |             |                  |          |
| Interest and charges on domestic loans and financing | 100.8              | 77.8        | (23.0)           | (22.8)   |
| Interest and charges on foreign loans and financing  | 11.7               | 23.2        | 11.5             | 98.3     |
| Interest judicial proceedings                        | (39.4)             | 29.0        | 68.4             | (173.6)  |
| Other financial expenses                             | 7.6                | 9.3         | 1.7              | 22.4     |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|  |             |              |             |              |
|--|-------------|--------------|-------------|--------------|
| <b>Total financial expenses</b>          | <b>80.7</b> | <b>139.3</b> | <b>58.6</b> | <b>72.6</b>  |
| Financial income                         | 60.7        | 96.1         | 35.4        | 58.3         |
| <b>Financial expenses, net of income</b> | <b>20.0</b> | <b>43.2</b>  | <b>23.2</b> | <b>116.0</b> |

## 5.1. Financial expenses

In 3Q11 occurred an increase of R\$58.6 million, or 72.6%. The main factors that influenced such result were:

- Increase of R\$68.4 million related to the judicial proceedings mainly in function of lower level of expenses observed in 3Q10 for the reversal of the provision occurred in the amount of R\$66.8 million;
- Interests related to Eurobonds, in the amount of R\$11.5 million, which funding, in the amount of US\$350 million, occurred in December, 2010; and
- Decrease of interests on internal loans and financings of R\$23.0 million mainly due to the amortization of the 8<sup>th</sup> issue of debentures occurred in June, 2011.

## 5.2. Financial income

The financial income presented an increase of R\$35.4 million, for gains with financial investment in view of higher cash available.

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## 6. Income and expenses with monetary variation

|   | R\$ million   |              |              |                |
|---|---------------|--------------|--------------|----------------|
|   | 3Q10          | 3Q11         | Variation    | %              |
| Monetary variation on loans and financing | 15.4          | 7.9          | (7.5)        | (48.7)         |
| Exchange variation on loans and financing | (78.6)        | 466.3        | 544.9        | (693.3)        |
| Other monetary variations                 | 0.5           | 11.1         | 10.6         | -              |
| <b>Positive monetary variations</b>       | <b>(62.7)</b> | <b>485.3</b> | <b>548.0</b> | <b>(874.0)</b> |
| Negative monetary variations              | 20.1          | 17.8         | (2.3)        | (11.4)         |
| <b>Net monetary variations</b>            | <b>(82.8)</b> | <b>467.5</b> | <b>550.3</b> | <b>(664.6)</b> |

## 6.1. Expenses with monetary variation

The effect in the monetary variation expenses in 3Q11 was R\$548.0 million, higher than the amounts of 3Q10. This variance is due to:

- Foreign exchange variance on external loans and financings, in the amount of R\$544.9 million, resulting from the 18.8% appreciation of the US dollar in 3Q11 as compared to a 6.0% depreciation in 3Q10; and
- Increase in the amount of other financial expenses related to judicial proceedings in the amount of R\$10.6 million.

## 6.2. Income from monetary variance

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the



The income from monetary variations presented a decrease of R\$2.3 million mainly due to the higher volume of agreements made in 3Q10.

## 7. Operating Indicators

With regarding to the index of losses, which closed in 25.7% as compared to 26% in the same period last year, we highlight that such evolution is already result of the summary of service contracts, which passed by a slower contracting rhythm than previous periods. We recall that such index is a moving average and the impact will be gradual.

It is worth highlighting the evolution of the number of connections per employee that grew from 852 in 3Q10 to 876 in 3Q11, a 2.8% evolution in the period.

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| <b>Operational Indicators*</b>                            | <b>3Q10</b> | <b>3Q11</b> | <b>Variation %</b> |
|---|-------------|-------------|--------------------|
| Water connections <sup>(1)</sup>                          | 7,253       | 7,438       | 2.6                |
| Sewage connections <sup>(1)</sup>                         | 5,668       | 5,877       | 3.7                |
| Population directly served by water supply <sup>(2)</sup> | 23.6        | 23.8        | 0.8                |
| Population served by sewage collection <sup>(2)</sup>     | 19.9        | 20.4        | 2.5                |
| Number of employees                                       | 15,165      | 15,194      | 0.2                |
| Water volume produced <sup>(3)</sup>                      | 2,206       | 2,241       | 1.6                |
| Water loss (%)  | 26.0        | 25.7        | (1.2)              |
| Number of connections per employee                        | 852.0       | 876.0       | 2.8                |

(1) In Thousand units at the end of the period.

(2) In thousand of people at the end of the period. It does not include wholesale invoicing.

(3) In millions of m<sup>3</sup> accumulated at the end of the period.

\* Non reviewed

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**EXPLANATORY NOTES**

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

**1. OPERATIONS**

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

In addition to providing basic sanitation services in the State of São Paulo, SABESP may perform these activities in other states and countries, and can operate in drainage, urban cleaning, solid waste handling and energy markets. The new Sabesp vision sets forth as objective to be recognized as the company that has universalized the Sanitation services in its area of operation, focused on the customer, in a sustainable and competitive way, with excellence in environmental solutions.

As at September 30, 2011, the Company operated the water and sewage services in 363 municipalities of the State of São Paulo, having temporarily ceased the operation of the municipalities of Itapira, Aracoiaba da Serra, Iperó, Cajobi and Álvares Florense due to judicial orders, which suits are in progress. In the majority of these municipalities, the operations result from concession contracts executed for 30 years. 105 concessions were expired on September 30, 2011 all of which are in negotiation phase with the respective municipalities. Between 2011 and 2033, 40 concessions will expire. The remaining of these concessions operate under a rollover basis. These concessions with indefinite term and expired concessions under renegotiation are amortized over the useful life of the underlying assets. Up to September 30, 2011, 218 program contracts were signed.

Management expects that all the expired concessions will be renewed or extended, thus there will not be a discontinuity of the water supply and sewage collection in these municipalities. On September 30, 2011 the net book value of the property, plant and equipment used in the 105 municipalities where the concessions are under negotiation totals R\$5,977 million and the net revenue for the period ended on September 30, 2011 totals R\$1,955million.

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

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

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

All information about areas of concession, number of municipalities, water and sewage volume and other related data disclosed in this report, which do not arise from the accounting and/or financial statements, have not been examined by the independent auditors.

The present quarterly information was approved by the Board of Directors on November 8 2011.

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**2. PRESENTATION OF THE QUARTERLY FINANCIAL STATEMENTS**

(i) Presentation of the Quarterly Information

The consolidated quarterly information of September 30, 2011 was prepared based on CPC 21 – Interim Financial Information (individual and consolidated) and the international standard IAS 34 – Interim Financial Reporting issued by the International Accounting Standards Board (IASB) (consolidated), applicable to the preparation of Quarterly Information – ITR. Therefore, these IFRS consider the Circular Office Memorandum CVM/SNC/SEP 003 of April 28, 2011 which allows that the entities present selected explanatory notes, in case of redundancy of information already disclosed in the Annual Financial Information. The quarterly information for the period ended on September 30, 2011, therefore, does not include the notes and disclosures required by the CPC (“Committee of Accounting Pronouncements”) for the annual consolidated financial statements and, consequently, must be read together with the consolidated financial information in CPC’s and IFRS for the year ended on December 31, 2010.

(ii) Individual and Consolidated Financial Information

The individual financial information are being disclosed together with the consolidate financial information and were prepared taking as basis the CPC 21 provisions applicable to the preparation of the Quarterly Information – ITR and presented in a way conducive to the norms issued by CVM and as well as being conducive to the disclosure in note 2 of the Annual Financial Statements.

The consolidated financial information includes the financial statements of Sabesp and its invested companies, jointly controlled: Sesamm – Serviços de Saneamento de Mogi Mirim S/A, Águas de Andradina, Saneaqua Mairinque, Aquapolo Ambiental and Attend Ambiental which were all included to the proportion of their equity interest. The Company maintains shared controlling interest, whose fiscal year is coincidental to the fiscal year of the joint controlled companies. The accounting policies of its subsidiaries are aligned Company’s policies. The consolidation process of the equity and income statements accounts aggregate balances of assets, liabilities, revenues and expenses, according to their nature, eliminating the equity interests of the holding in the capital stock and accumulated result of the consolidated company.

Although Sabesp’s equity interest in the Capital Stock of its subsidiaries is not majority, the shareholders’ agreement provides for the veto power on certain management matters, indicating participative shared control.

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

Other information about these companies are as follows:

Sesamm

On August 15, 2008, the Company, in connection with OHL Medio Ambiente, Inima S.A.U. Unipersonal (“Inima”), Tecnicas y Gestion Medioambiental S.A.U. (“TGM”) and Estudos Tecnicos e Projetos ETEP S/A, has the corporate object to provide supplementary services to the implementation of system of sewage separation and sewage treatment, including the disposal of solid waste generated system of the municipality of Mogi Mirim. The contract with the municipality is for 30 years from the date of the contract was signed.

In September 30, 2011, Sesamm’s capital stock was R\$10,669 made up of 10,669,549 nominative common shares, with no par value, of which Sabesp holds 36% equity interest and Inima holds 36% of equity interest. The Company has concluded that both companies, Sabesp and Inima, hold joint control over Sesamm. Therefore, Sabesp records its equity interest in Sesamm by the proportional consolidation method, equivalent to 36% on assets, liabilities, revenues and expenses of Sesamm.

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As at September 30, 2011, the operations of Sesamm had not been started.

Águas de Andradina

On September 15, 2010, the Company, together with the company Companhia de Águas do Brasil – Cab Ambiental, formed the company Águas de Andradina S.A. with undetermined duration, whose corporate object is to provide water and sewage services to the Municipality of Andradina.

On September 30, 2011, the company's capital stock was R\$122 divided into 121,997 nominative common shares, with no par value, of which Sabesp holds 30% of equity interest.

The operations started on October, 2010.

Saneaqua Mairinque

On June 14, 2010, the Company, together with the company Foz do Brasil S.A., formed the company Saneaqua Mairinque S.A., with undetermined duration, whose corporate object is to explore the public service of water and sewage of the municipality of Mairinque.

On September 30, 2011, the company's capital stock was R\$2,000, divided into 2,000,000 nominative common shares with no par value, of which Sabesp holds 30% equity interest.

The operations started on October, 2010.

Aquapolo Ambiental S.A.

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

On October 8, 2009, the Company, together with the company Foz do Brasil S.A., formed the company Aquapolo Ambiental, whose corporate objective is the production, supply and commercialization of water for reuse for the company Quattor Quimica S.A.; Quattor Petroquimica S.A.; Quattor Participacoes S.A and other companies that integrate the Petrochemical Polo.

On September 30, 2011 the company's capital stock was R\$36,412, divided into 42,419,045 nominative common shares with no par value, of which Sabesp holds 49% of equity interest.

The beginning of operations is scheduled for April, 2012.

#### Águas de Castilho

On October 29, 2010, the Company, together with the Companhia de Aguas do Brasil – Cab Ambiental, formed the company Aguas de Castilho whose corporate object is the provision of services of water and sewage in the municipality of Castilho.

On September 30, 2011, the company's capital stock was R\$65, divided into 65,600 nominative common shares with no par value, of which Sabesp holds 30% equity interest.

The operations started on January, 2011.



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On August 23, 2010, the Company, together with Companhia Estre Ambiental S/A, formed the company Attend Ambiental S/A whose corporate objective is the implementation and operation of a pre treatment station of non domestic effluents and mud conditioning, in the metropolitan region of the capital of the State of São Paulo, as well the development of other related activities and the creation of similar infrastructure in other locations, in Brazil and abroad.

On September 30, 2011, the company's capital stock was R\$2,000 divided into 2,000,000 nominative common shares with no par value, of which Sabesp holds 45% equity interest.

The operations started in January, 2011.

A summary of Sabesp's equity interest in the financial statements of these subsidiaries is presented below:

|                            | <b>September 30, 2011</b> |                           |                          |                           |                           |                         |
|----------------------------|---------------------------|---------------------------|--------------------------|---------------------------|---------------------------|-------------------------|
|                            | <b>36%</b>                | <b>30%</b>                | <b>30%</b>               | <b>30%</b>                | <b>49%</b>                | <b>45%</b>              |
|                            | <b>SESAMM</b>             | <b>ÁGUAS DE ANDRADINA</b> | <b>ÁGUAS DE CASTILHO</b> | <b>SANEAQUA MAIRINQUE</b> | <b>AQUAPOLO AMBIENTAL</b> | <b>ATTEND AMBIENTAL</b> |
| Current assets             | 233                       | 349                       | 161                      | 666                       | 48,239                    | 190                     |
| Non-current Assets         | 12,306                    | 821                       | 164                      | 145                       | 132,508                   | 100                     |
| Current Liabilities        | 1,184                     | 498                       | 190                      | 242                       | 6,227                     | 137                     |
| Non-Current Liabilities    | 9,123                     | 185                       | 60                       | 44                        | 160,099                   | -                       |
| Equity                     | 2,232                     | 487                       | 75                       | 525                       | 14,421                    | 153                     |
| Operating revenue          | -                         | 2,247                     | 463                      | 1,882                     | -                         | -                       |
| Operating expense          | (875)                     | (2,478)                   | (555)                    | (2,050)                   | (2,454)                   | (783)                   |
| Net financial income       | 36                        | 19                        | 2                        | 35                        | 56                        | 37                      |
| Income (loss) for the year | (839)                     | (212)                     | (90)                     | (133)                     | (2,398)                   | (746)                   |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting 57 from the

|                         | <b>December 31, 2010</b> |                               |                               |                               |
|-------------------------|--------------------------|-------------------------------|-------------------------------|-------------------------------|
|                         | <b>SESAMM</b>            | <b>ÁGUAS DE<br/>ANDRADINA</b> | <b>SANEAQUA<br/>MAIRINQUE</b> | <b>AQUAPOLO<br/>AMBIENTAL</b> |
|                         | <b>36%</b>               | <b>30%</b>                    | <b>30%</b>                    | <b>49%</b>                    |
| Current assets          | 420                      | 178                           | 851                           | 13,798                        |
| Non-current Assets      | 5,353                    | 106                           | 10                            | 46,094                        |
| Current Liabilities     | 2,702                    | 119                           | 177                           | 1,331                         |
| Non-Current Liabilities | -                        | 301                           | 9                             | 53,909                        |
| Equity                  | 3,071                    | (136)                         | 675                           | 4,652                         |

|                            | <b>September 30, 2010</b> |                               |                               |                               |
|----------------------------|---------------------------|-------------------------------|-------------------------------|-------------------------------|
|                            | <b>SESAMM</b>             | <b>ÁGUAS DE<br/>ANDRADINA</b> | <b>SANEAQUA<br/>MAIRINQUE</b> | <b>AQUAPOLO<br/>AMBIENTAL</b> |
|                            | <b>36%</b>                | <b>30%</b>                    | <b>30%</b>                    | <b>49%</b>                    |
| Operating revenue          | -                         | -                             | -                             | -                             |
| Operating expense          | (380)                     | -                             | -                             | -                             |
| Net financial income       | 42                        | -                             | -                             | -                             |
| Income (loss) for the year | (338)                     | -                             | -                             | -                             |

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2.1 Accounting policies

The accounting policies used in the preparation of the quarterly information for the quarter ended on September 30, 2011 are consistent with those used to prepare the Annual Financial Statements referring to the year ended on December 31, 2010. In the Annual Financial Statements, these policies are disclosed in note 3.

2.2 New standards and changes to standards that are not yet in force

The standard and changes to the existing standards that follow were published and are mandatory for subsequent accounting periods. However, there has been no early adoption of such standards and changes to standards by the Company:

- IAS 28 – “Investments in subsidiaries and affiliates together”, IFRS 11 – “joint contractual agreement” and IFRS 12 “Disclosures on interest in other entities”, all issued in May, 2011 and CPC 19 (R1) issued in June, 2011. The main change introduced by these standards is the impossibility of proportional consolidation of entities whose control of net assets is shared through an agreement with two or more parties and that is classified as a joint venture.

The IFRS 11 classifies agreements into two types:

(i) “joint ventures”- when the parties jointly control assets and liabilities, regardless if these assets are in a separate entity (“separate vehicle”), according to the contractual provisions and essence of the operation. In these agreements, assets, liabilities, revenues and expenses are recorded in the entity that participates to the “joint operator” agreement in the proportion of its rights and obligations;

(ii) “joint ventures”- when the parties jointly control net assets of an agreement, structured through a separate entity and the respective results of these assets are divided between the participating parties. In these agreements, the participation of the entity must be recorded by the equity method of accounting and presented in the investment line.

Additionally, IFRS 12 determines qualitative disclosures that must be made by the entity regarding the participation in subsidiaries, in joint agreement or non-consolidated entities that include significant judgments and assumptions to

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

determine if its participations exercise control, significant influence or the classification of the joint agreements between “joint operations” and “joint ventures”, as well as other information on the nature and extent of significant restrictions and associated risks. The standard is not applicable until January 1st, 2013 but it is available for early adoption. Relevant impacts are not expected to Sabesp’s financial information.

- IFRS 7 “Financial Instruments – Disclosure”, issued on October, 2010. The change in the standard of disclosure of financial instruments seeks to promote the transparency in disclosing the transactions of transfer of financial assets, improve the understanding by the user about the exposure to risk in such transfers, and the effect of these risks on the balance sheets, particularly those involving securitization of financial assets. The standard is applicable for fiscal years starting on or after July 1<sup>st</sup>, 2011. No relevant impact to the Sabesp’s financial statements is expected.

- IFRS 9 “Financial Instruments”, issued on November, 2009. IFRS 9 is the first standard issued as part of a larger project to replace IAS 39. IFRS 9 retains, although simplified, the model of measurement and sets forth two categories of measurement for financial instruments: amortized cost and fair value. The classification basis depends on the business model of the entity and on the contractual characteristics of the cash flow from the financial assets. The direction included in IAS 39 on impairment of financial assets and recording of hedge continues to be applied. Prior periods do not need to be restated if an entity adopts the standard for periods started on or to start before January 1st, 2012. The norm is applicable as from January 1st, 2013. It is not expected that there will be relevant impact on Sabesp’s financial information.

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- IFRS 10 “Consolidated Financial Statements”, issued on May, 2011. This standard is based on the existing principles as to the identification of the concept of control as the determinant factor when an entity must be consolidated in the financial statements. The standard provides additional direction to help in the determination of control when there is doubt as to the assessment.

The standard is applicable as of January 1<sup>st</sup>, 2013. Relevant impacts are not expected to Sabesp’s financial information.

- IFRS 13 “Fair Value Measurement”, issued on May, 2011. The standard has as its objective to improve the consistency and reduce the complexity in the disclosures required by IFRS. The requirements do not increase the use of fair value in accounting, however they direct how it must be applied when its use is required or allowed by other standard. The standard is applicable as of January 1<sup>st</sup>, 2013, and there is an exemption for application of the new requirements for comparable periods. Relevant impacts are not expected to Sabesp’s financial information.

- IAS 19 “Benefits to Employees”, issued on June, 2011. The change to the norm will affect mainly the recognition and measurement of define benefit pension plans, and disclosures of benefits to employees. The norm is applicable as of January 1<sup>st</sup>, 2013. Relevant impacts are not expected to Sabesp’s financial information.

### **3. FINANCIAL RISK MANAGEMENT**

#### **3.1 Financial Risk Factors**

The Company’s operations are affected by the Brazilian economic scenario, exposing it to market risk, such as foreign currency risk, interest rate risk, credit risk and liquidity risk.

The Company has not used derivative financial instruments, even being able to contract forward foreign exchange contracts and financing in Reais to reduce the foreign currency risk.

(a) Market Risk

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

**Foreign Currency Risk**

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

A significant part of the Company's financial debt was denominated in U.S. dollar and in Yen, in the total amount of R\$2,940,785 on September 30, 2011 (R\$2,244,635 on December 31, 2010), net of borrowing costs. The Company's exposure to foreign currency risk is the following:

|                            | <b>September, 30 2011</b> |            | <b>December, 31 2010</b> |            |
|----------------------------|---------------------------|------------|--------------------------|------------|
|                            | <b>Foreign currency</b>   | <b>R\$</b> | <b>Foreign currency</b>  | <b>R\$</b> |
| Loans and financing – US\$ | 1,074,143                 | 1,991,890  | 1,084,898                | 1,807,657  |
| Loans and financing – Iene | 39,422,329                | 948,895    | 21,316,000               | 436,978    |

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On September 30, 2011, had the Real appreciated or depreciated in 10% as compared to the dollar and the Yen with all other variables constant as at September 30, 2011, the effect on the income after taxes for the period would have been R\$194,092 (2010 – R\$148,146), for more or less, mainly as a result of the foreign currency gains or losses with the conversion of loans to foreign currency.

| <b>Simulation of appreciation/depreciation of the Real by 10%</b> | <u>September, 30</u><br><u>2011</u> | <u>December, 31</u><br><u>2010</u> |
|---|-------------------------------------|------------------------------------|
| Loans in foreign currency   | 2,940,785                           | 2,244,635                          |
| Variation of Dollar/Yen   | <u>10%</u>                          | <u>10%</u>                         |
| Appreciation or depreciation of the Real                          | 294,079                             | 224,464                            |
| Income Tax/Social Contribution Tax Rate                           | <u>34%</u>                          | <u>34%</u>                         |
| Income tax / Social contribution                                  | <u>99,987</u>                       | <u>76,318</u>                      |
| Appreciation or depreciation of the Real , net of taxes.          | <u>194,092</u>                      | <u>148,146</u>                     |

**Interest rate risk**

This risk is a result of the possibility that the Company may incur losses for fluctuations in interest rates that increase financial expenses related to loans and financings.

The Company has not entered into any derivative contract to hedge against this risk; however, it continually monitors market interest rates, in order to evaluate the possible need to replace its debt.

The table below shows the Company's loans and financings expressed in Reais subject to variable interest rate:

|                        | <b>HOLDING</b>            |                          |
|------------------------|---------------------------|--------------------------|
|                        | <b>September, 30 2011</b> | <b>December, 31 2010</b> |
| UPR <sup>(i)</sup>     | 2,348,424                 | 2,529,398                |
| CDI <sup>(ii)</sup>    | 1,933,273                 | 2,009,391                |
| IGP-M <sup>(iii)</sup> | -                         | 493,869                  |
| TJLP <sup>(iv)</sup>   | 891,911                   | 703,710                  |
| IPCA <sup>(v)</sup>    | 345,790                   | 223,996                  |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|   |           |           |
|---|-----------|-----------|
| Other   | 24,406    | -         |
| Total loans and financings in local currency. | 5,543,804 | 5,960,364 |

(i) UPR - Reference Standard Unit

(ii) CDI - Interbank Certificate of Deposit

(iii) IGP-M - General Index of Market Prices

(iv) TJLP - Long Term Interest Rate

(v) IPCA - National Wide Consumer Price Index

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



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As at September 30, 2011, had the interest rates on loans kept in Reais varied around 1% by more or less, with all other variable constant, the effect on the income after taxes would have been an increase or decrease of R\$36,589(2010 – R\$39,338), mainly as a result of lower or higher interest expenses in loans with variable rates.

**(b) Credit risk**

The credit risk results from cash equivalents, bank deposits and financial institutions, as well as credit exposure to customers, including outstanding accounts receivable. The Company must, by law, invest its excess cash exclusively with Banco do Brasil (rating AA+(bra)). The credit risks are mitigated due sales to a widely spread out customer base.

The maximum exposure to credit risk at the date of presentation of the report is the carrying amount of securities classified as cash equivalents, deposits in Banks and financial institutions and accounts receivable from customers at the date of the balance sheet. Notes 4.3 (e), 8, 9 and 10.

**(c) Liquidity Risk.**

The Company's liquidity depends mainly on the cash generated by the operating activities, loans from financial institutions of the state and federal government and financings in the local and international markets. The liquidity risk management considers the assessment of liquidity requirements to ensure that the Company has enough cash to meet its operating and capital expenditures.

The table below analyzes the Company's financial liabilities, by maturity dates, including the portion of principal and interests to be paid in accordance with contractual clauses.

|                       | <b>HOLDING</b>           |           |                        |              | Total      |
|-----------------------|--------------------------|-----------|------------------------|--------------|------------|
|                       | October to December 2011 | 2012      | 2013,<br>2014 and 2015 | 2016 onwards |            |
| In September 30, 2011 |                          |           |                        |              |            |
| Loans and financing   | 426,178                  | 2,168,645 | 3,947,208              | 5,629,566    | 12,171,597 |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|                           |         |   |   |   |         |
|---------------------------|---------|---|---|---|---------|
| Contractors and suppliers | 205,653 | - | - | - | 205,653 |
| Other payables            | 340,561 | - | - | - | 340,561 |

|                           | 2011      | 2012      | <b>HOLDING</b><br>2013,<br>2014 and 2015 | 2016 onwards | Total      |
|---------------------------|-----------|-----------|--|--------------|------------|
| In December 31, 2010      |           |           |  |              |            |
| Loans and financing       | 1,744,324 | 2,071,161 | 3,834,599                                | 4,880,026    | 12,530,110 |
| Contractors and suppliers | 142,634   | -         | -  | -            | 142,634    |
| Other payables            | 326,507   | -         | -  | -            | 326,507    |

There are no guarantees provided by the Company to be disclosed.

(d) Sensitivity analysis

We present as follows a chart that shows the sensitivity analysis of the financial instruments, prepared in accordance with CVM Instruction nr. 475/2008 in order to demonstrate the balances of the main financial liabilities calculated at a rate projected until the final settlement of each contract, converted into market value (Scenario I) with 25% appreciation (Scenario II) and 50% appreciation (Scenario 3).

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This sensitivity analysis has as objective to measure the impact of changes to market variable on referred financial instruments of the Company, considering constant all other market variables. Such amounts, when settled, may be different from those demonstrated above, due to estimates used in the preparation process.

| Financial Instruments         |                      | <b>HOLDING</b>            |                    |                    |
|-------------------------------|----------------------|---------------------------|--------------------|--------------------|
|                               |                      | <b>September 30, 2011</b> |                    |                    |
|                               |                      | Scenario I                | Scenario II - 25 % | Scenario III - 50% |
| Risk                          |                      | R\$                       | R\$                | R\$                |
| <b>Financial Liability</b>    |                      |                           |                    |                    |
| <b>Loans and Financings</b>   |                      |                           |                    |                    |
| Banco do Brasil, CEF (i)      | Increase in UPR      | 1,815,028                 | 2,094,052          | 2,455,095          |
| Debentures (ii)               | Increase in IPCA/DI  | 2,964,591                 | 3,505,401          | 3,670,266          |
| BID, BIRD and Eurobonds (iii) | Increase in the US\$ | 2,120,877                 | 2,651,096          | 3,181,315          |
| JICA (iv)                     | Increase in the Yen  | 1,068,822                 | 1,336,027          | 1,603,233          |

| Financial Instruments         |                  | <b>CONSOLIDATED</b>       |                   |                    |
|-------------------------------|------------------|---------------------------|-------------------|--------------------|
|                               |                  | <b>September 30, 2011</b> |                   |                    |
| Risk                          |                  | Scenario I                | Scenario II – 25% | Scenario III – 50% |
|                               |                  | R\$                       | R\$               | R\$                |
| <b>Financial Liability</b>    |                  |                           |                   |                    |
| <b>Loans and Financings</b>   |                  |                           |                   |                    |
| Banco do Brasil, CEF (i)      | UPR increase     | 1,815,028                 | 2,094,052         | 2,455,095          |
| Debentures (ii)               | IPCA/DI Increase | 3,076,138                 | 3,633,718         | 3,816,030          |
| BID, BIRD and Eurobonds (iii) | US\$ increase    | 2,120,877                 | 2,651,096         | 3,181,315          |
| JICA (iv)                     | Yen increase     | 1,068,822                 | 1,336,027         | 1,603,233          |

(i) The contracts with Banco do Brasil and CEF were projected until final maturity, at contractual rates (Projected TR + spread) and discounted to present value by TR x DI, both rates were obtained from BM&F. For scenarios II and III it was considered a deterioration of 25% and 50%, respectively, in the discount rates;

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

(ii) Debentures were projected until final maturity (IPCA, DI, TJLP or TR) discounted to present value at future market of interest rates, published by ANBIMA in the secondary market, having as basis the date of September 30, 2011 and the Company's securities traded in the domestic market. For scenarios II and III it was considered a 25% and 50% deterioration, respectively, in the discount rates. For the debentures indexed to DI it was performed a sensitivity analysis based on the increase of 25% and 50% of the DI's market curve.

(iii) The contracts with BID, BIRD, were projected until final maturity in original currency, using the contractual interest rates, being discounted to present value using Libor's future rate obtained at Bloomberg. Eurobonds were priced at market value according to the quotations published by Bloomberg. All amounts obtained were converted into reais at the exchange rate as of September 30, 2011. For Scenarios II and III, it was considered the increase of 25% and 50%, respectively, to the exchange rates.

(iv) The contracts with JICA were projected until the final maturity in original currency, using the interest rates contracted and discounted at present value, using Tibor's future rate, obtained at Bloomberg. The amounts obtained were converted into reais using the exchange rate as of September 30, 2011. For Scenarios II and II it was considered an increase of 25% and 50%, respectively, to the exchange rates.

**ITR - QUARTERLY INFORMATION 09/30/2011 CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO****(e) Credit quality of the financial assets**

The credit quality of the financial assets that are not past due or are subject to provision for loss may be assessed upon reference to the external credit classifications (if any) or to the historical information on the default ratio of the counterparties. For the credit quality of the counterparties that are not financial institutions, like deposits and financial investments, the Company considers the lowest rating of the counterparty disclosed by the three main international credit rating agencies (Moody's, Fitch and S&P), pursuant to internal policy of market risk management:

|  | HOLDING                            |                                   |
|--|------------------------------------|-----------------------------------|
|  | <u>September</u><br><u>30,2011</u> | <u>December</u><br><u>31,2010</u> |
| Current account and short-term bank deposits |                                    |                                   |
| brAAA  | 20,927                             | 27,673                            |
| brAA+  | 2,205,510                          | 1,945,697                         |
| Other (*)                                    | 1,018                              | 14,634                            |
|  | 2,227,455                          | 1,988,004                         |

(\*) Included in this category were deposit accounts and investment funds in Banks that do not have evaluation by the three rating agencies used by the Company.

We present, as follows, a table with the rating assessment of the financial institutions that are counterparties with which the Company had business during the period:

| <b>Counterparty</b>         | <b><u>Fitch</u></b> | <b><u>Moody's</u></b> | <b><u>Standard</u></b><br><b><u>Poor's</u></b> |
|-----------------------------|---------------------|-----------------------|--|
| Banco do Brasil S.A.        | AA+(bra)            | Aaa.br                | brAAA  |
| Banco Santander Brasil S.A. | AAA (bra)           | Aaa.br                | brAAA  |
| Caixa Economica Federal     | AA+ (bra)           | Aaa.br                | -  |
| Banco Bradesco S.A.         | AAA (bra)           | Aaa.br                | brAAA  |
| Itaú Unibanco Holding S.A.  | AAA (bra)           | Aaa.br                | AAABr  |

**3.2 Capital management**

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

The Company's objectives in managing its capital are to safeguard the capacity to continue to offer return to shareholders and benefits to the other stakeholders, in addition to maintaining an ideal capital structure to reduce this cost.

The Company monitors capital based on financial leverage ratio. This ratio corresponds to the total debt divided by the total capital. The net debt, in turn, corresponds to the total loans and financings deducted from the amount of cash and cash equivalents. The total capital is calculated through the summation of net equity, as demonstrated in the CONSOLIDATED balance sheets, to net debt.

|                                 | <b>HOLDING</b>           |                         |
|---------------------------------|--------------------------|-------------------------|
|                                 | <b>September 30,2011</b> | <b>December 31,2010</b> |
| Total loans and financing       | 8,506,508                | 8,209,292               |
| Less: cash and cash equivalents | (2,227,455)              | (1,988,004)             |
| Net debt                        | 6,279,053                | 6,221,288               |
| Total equity                    | 10,343,444               | 9,681,800               |
| Total Capital                   | 16,622,497               | 15,903,088              |
| Leverage Ratio                  | 37.77%                   | 39.12%                  |

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On September 30, 2011, the leverage ratio of the Company was reduced to 37.8%, as compared to 39.1% on December 31, 2010, due to the increase in the financial investments.

3.3 Fair value estimate

The Company applies CPC 40 to financial instruments measured by the fair value in the balance sheets, which requires fair value measurement in accordance with the following hierarchy of fair value measurement:

- . Quoted prices (not adjusted) in active markets for identical assets and liabilities (level 1).
  
- . Information in addition to prices quoted included in level 1, that are observable for assets or liabilities, whether directly (for example, like prices) or indirectly (that is, derived from prices)(level 2).
  
- . Insertions for asset or liability that are not based on observable market data (non observable insertions)(level 3).

The financial instruments evaluated as fair value by the Company are represented by short term investments in banking certificates of deposit (CDB), financial investment fund (FIF) classified as cash equivalent, in the amount of R\$2,167,007 and R\$1,852,588 as of September 30, 2011 and December 31, 2010, respectively. These investments are financial assets measured at fair value by the result, measured in accordance with level 2.

3.4 Financial instruments

The Company operates with several financial instruments, with highlight for cash and cash equivalents, including financial investments, and loans and financings as described below.

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

The estimated fair value of the financial instruments is the following:

|                                    | <b>HOLDING</b>            |                   |                          |                   |
|------------------------------------|---------------------------|-------------------|--------------------------|-------------------|
|                                    | <b>September 30, 2011</b> |                   | <b>December 31, 2010</b> |                   |
|                                    | <b>Book value</b>         | <b>Fair value</b> | <b>Book value</b>        | <b>Fair value</b> |
| <b>Financial assets</b>            |                           |                   |                          |                   |
| Cash and cash equivalents          | 2,227,455                 | 2,227,455         | 1,988,004                | 1,988,004         |
| Restricted cash                    | 97,363                    | 97,363            | 302,570                  | 302,570           |
| Accounts receivable, net           | 1,305,257                 | 1,305,257         | 1,323,886                | 1,323,886         |
| Balances with related parties, net | 338,277                   | 338,277           | 368,848                  | 368,848           |
| Judicial deposits                  | 53,888                    | 53,888            | 43,543                   | 43,543            |
| <b>Financial liabilities</b>       |                           |                   |                          |                   |
| Loans and financing                | 8,506,508                 | 8,499,811         | 8,209,292                | 9,644,938         |
| Contractors and suppliers          | 205,653                   | 205,653           | 142,634                  | 142,634           |

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|                                    | <b>CONSOLIDATED</b>       |                   |                          |                   |
|------------------------------------|---------------------------|-------------------|--------------------------|-------------------|
|                                    | <b>September 30, 2011</b> |                   | <b>December 31, 2010</b> |                   |
|                                    | <b>Book value</b>         | <b>Fair value</b> | <b>Book value</b>        | <b>Fair value</b> |
| <b>Financial assets</b>            |                           |                   |                          |                   |
| Cash and cash equivalents          | 2,265,911                 | 2,265,911         | 1,989,179                | 1,989,179         |
| Restricted cash                    | 97,363                    | 97,363            | 302,570                  | 302,570           |
| Accounts receivable, net           | 1,305,875                 | 1,305,875         | 1,324,157                | 1,324,157         |
| Balances with related parties, net | 338,277                   | 338,277           | 368,848                  | 368,848           |
| Judicial deposits                  | 53,888                    | 53,888            | 43,543                   | 43,543            |
| <b>Financial liabilities</b>       |                           |                   |                          |                   |
| Loans and financing                | 8,675,900                 | 8,611,362         | 8,264,615                | 9,698,547         |
| Contractors and suppliers          | 211,318                   | 211,318           | 144,043                  | 144,043           |

To arrive at the market value of the Financial Instruments, the following criteria have been adopted:

(i) The contracts with Banco do Brasil and CEF were projected until final maturity at contractual rates (TR projected + spread) and discounted to present value by TR x DI, both rates were obtained from BM&F.

(ii) The debentures were projected until final maturity (IPCA, DI, TJLP or TR) discounted to present value at future interest rate market published by ANBIMA in the secondary market, having as basis the date of September 30, 2011 and the Company's securities traded in the domestic market.

(iii) Financings – BNDES, are instruments considered at nominal value updated with contractual interest rate until the maturity date, that are indexed by the TJLP, which is a specific modality, not being compared to any other market rate. Therefore, the Company has elected to disclose as the market value the carrying amount recorded as at September 30, 2011.

(iv) Other financings in local currency are considered at nominal value updated with contractual interest rate until the maturity date, discounted to present value using the future market interest rates. The future rates were obtained in BM&F Bovespa website.

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

(v) The contracts with BID, BIRD, were projected until final maturity in original currency, using the contractual interest rates, being discounted to present value using Libor's future rate obtained at Bloomberg. Eurobonds were priced at market value according to the quotations published by Bloomberg.

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(vi) The contracts with JICA were projected until the final maturity in original currency, using the interest rates contracted and discounted at present value, using Tibor's future rate, obtained at Bloomberg. The amounts obtained were converted into reais using the exchange rate as of September 30, 2011.

**4. MAIN ACCOUNTING ESTIMATES AND ASSESSMENTS**

The estimates and assessments are continuously evaluated based on the historical experience and other factors, including the expectations of future events that are believed to be reasonable according to the circumstances. There was no change regarding what was presented on the Annual Financial Statements on December 31, 2010, according to note 5.

**5. CASH & CASH EQUIVALENTS**

|                  | HOLDING                     |                            | CONSOLIDATED                |                            |
|------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
|                  | September<br><u>30,2011</u> | December<br><u>31,2010</u> | September<br><u>30,2011</u> | December<br><u>31,2010</u> |
| Cash and Banks   | 60,448                      | 135,416                    | 98,390                      | 136,002                    |
| Cash Equivalents | <u>2,167,007</u>            | <u>1,852,588</u>           | <u>2,167,521</u>            | <u>1,853,177</u>           |
|                  | 2,227,455                   | 1,988,004                  | 2,265,911                   | 1,989,179                  |

The variation in the period from January to September 2011 is due to cash flow from operating activities of the Company.

In September, the average earnings from financial investments equals to 100.17% of the CDI.

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

**6. RESTRICTED CASH**

On September 30, 2011, the Company recorded restricted cash, in current assets, worth R\$97,363, referring mainly to the collection resulting from the provision of services to entities linked to the City Hall of the Municipality of Sao Paulo, net of taxes, worth R\$96,912. These resources will be used in actions of basic and environmental sanitation established in the agreement executed between the Company and the City Hall of the Municipality of Sao Paulo, in November, 2007.

The variance occurred in the period from January to September, 2011, when compared to the Financial Statements of December 31, 2010, refers mainly to the rescue of the third tranche of the 12th issue of debentures, the issuance of which occurred on September 22, 2010.

**7. ACCOUNTS RECEIVABLE FROM CUSTOMERS****(a) Balances**

|  | <b>HOLDING</b>     |                    |
|--|--------------------|--------------------|
|  | Sep/11             | Dec/10             |
| <b>Private sector</b>  |                    |                    |
| General and special customers (i) (ii)                             | 832,532            | 827,990            |
| Agreements (iii)   | <u>251,424</u>     | <u>250,300</u>     |
|  | 1,083,956          | 1,078,290          |
| Government entities  |                    |                    |
| Municipal  | 569,089            | 556,212            |
| Federal  | 2,678              | 2,645              |
| Agreements (iii)   | <u>183,785</u>     | <u>170,892</u>     |
|  | 755,552            | 729,749            |
| <b>Wholesale customers - Municipal Administration Offices (iv)</b> |                    |                    |
| Guarulhos  | 508,638            | 462,221            |
| Mauá   | 240,486            | 220,228            |
| Mogi das Cruzes  | 16,194             | 18,818             |
| Santo André  | 537,918            | 489,486            |
| São Caetano do Sul   | 4,041              | 3,537              |
| Diadema  | <u>161,302</u>     | <u>149,155</u>     |
| Wholesale total - Municipal City Halls                             | 1,468,579          | 1,343,445          |
| Unbilled supply  | <u>398,700</u>     | <u>391,822</u>     |
| Subtotal   | 3,706,787          | 3,543,306          |
| Allowance for doubtful accounts                                    | <u>(2,401,530)</u> | <u>(2,219,420)</u> |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|                 |                  |                  |
|-----------------|------------------|------------------|
| Total           | <u>1.305.257</u> | <u>1.323.886</u> |
| Current         | 950,178          | 971,047          |
| Non-current (v) | 355,079          | 352,839          |

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In the period from January to September, 2011, there was no relevant changes regarding to the operations presented in the financial statements of December 31, 2010

The consolidated balance totals the amount of R\$1,305.875 (Dec/10 – R\$1,324,157), being the R\$618 (Dec/10 – R\$271), difference in relation to the holding's balance, referring to the accounts receivable from subsidiaries, Aguas de Andradina R\$314 (Dec/10 – R\$118), Saneaqua Mairinque R\$162 (Dec/10 – R\$153), and Aguas de Castilho R\$142.

- (i) General customers - residential and small and medium-sized companies.
- (ii) Special customers - large consumers, commercial, industries, condominiums and special billing consumers (industrial waste, wells, etc.).
- (iii) Agreements - installment payments of past-due receivables, plus monetary adjustment and interest.
- (iv) Wholesale - municipal city halls - The balance of accounts receivable from wholesalers refers to the sale of treated water to the municipalities which are responsible for the distribution, billing and collection from the end consumers, some of these municipalities question judicially the tariffs charged by Sabesp and do not pay the amounts under litigation. The past due amounts that are included in the allowance for doubtful accounts are substantially classified in non-current assets, according to the following table:

|  | Sep/11           | Dec/10           |
|--|------------------|------------------|
| Balance at beginning of period         | 1,343,445        | 1,182,744        |
| Billing for services provided          | 274,747          | 353,546          |
| Collections - current year's services  | (119,466)        | (183,882)        |
| Collections - previous year's services | <u>(30,147)</u>  | <u>(8,963)</u>   |
| Balance at the end of the period       | <u>1,468,579</u> | <u>1,343,445</u> |
| Current                                | 42,215           | 38,665           |
| Non-current                            | 1,426,364        | 1,304,780        |

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(v) The non-current portion consists of past-due and renegotiated balances with customers and past-due receivables related to the wholesale of water to municipal authorities and is recorded net of allowance for doubtful accounts.

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

|                      | <b>HOLDING</b>   |                  |
|----------------------|------------------|------------------|
|                      | <b>Sep/11</b>    | <b>Dec/10</b>    |
| Current              | 1,087,578        | 1,086,073        |
| Past-due:            |                  |                  |
| Up to 30 days        | 158,076          | 150,358          |
| From 31 to 60 days   | 67,041           | 67,539           |
| From 61 to 90 days   | 42,443           | 45,153           |
| From 91 to 120 days  | 49,934           | 39,084           |
| From 121 to 180 days | 76,067           | 73,300           |
| From 181 to 360 days | 135,922          | 119,967          |
| Over 360 days        | <u>2,089,726</u> | <u>1,961,832</u> |
| Total accrued        |                  |                  |
|                      | <u>2,619,209</u> | <u>2,457,233</u> |
| Total                | <u>3,706,787</u> | <u>3,543,306</u> |

(c) Allowance for doubtful accounts

|                                      | 3 <sup>rd</sup> Q/11 | 3 <sup>rd</sup> Q/10 |
|--------------------------------------|----------------------|----------------------|
| Beginning balance                    | 2,361,683            | 1,999,309            |
| Private sector / government entities | (5,922)              | 50,759               |
| Wholesale customers                  | 45,769               | 47,234               |
| Additions for the period             | 39,847               | 97,993               |
| Ending balance                       | 2,401,530            | 2,097,302            |
| Current                              | 1,141,726            | 991,581              |
| Non-current                          | 1,259,804            | 1,105,721            |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

The Company recorded probable credit losses in accounts receivable calculated, in the second third of 2011, in the amount of R\$17,222 directly to income of the period, booked in the "Selling Expenses" line item. In the third quarter of 2010, these losses were R\$41,397.

## **8. BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

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

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



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|  | <b>HOLDING AND<br/>CONSOLIDATED</b> |                   |
|--|-------------------------------------|-------------------|
|  | <u>Sep/11</u>                       | <u>Dec/10</u>     |
| Receive the Auditors   |                                     |                   |
| Current:   |                                     |                   |
| Water and sewage services (i)  | 108,929                             | 96,004            |
| Water and sewage services - Gesp Agreement (iii), (iv) and (v)                         | 43,716                              | 21,360            |
| Provision for Losses   | (12,389)                            | (12,389)          |
| Reimbursement of additional retirement and pension benefits - Gesp Agreement (vi)      | 28,203                              | 28,203            |
| Reimbursement of additional retirement and pension benefits paid - Monthly flow (vi)   | <u>5,438</u>                        | <u>4,594</u>      |
| Total current  | <u>173,897</u>                      | <u>137,772</u>    |
| Long-term assets:  |                                     |                   |
| Water and sewage services - Gesp Agreement (iii), (iv) (v)                             | 6,685                               | 52,228            |
| Reimbursement of additional retirement and pension benefits paid - Gesp Agreement (vi) | <u>157,696</u>                      | <u>178,848</u>    |
| Total noncurrent assets  | <u>164,381</u>                      | <u>231,076</u>    |
| Total receivable from shareholder  | <u>338,278</u>                      | <u>368,848</u>    |
| Provision of water and sewage services   | 146,941                             | 157,203           |
| Reimbursement of additional pension and retirement                                     | <u>191,337</u>                      | <u>211,645</u>    |
|  | <u>338,278</u>                      | <u>368,848</u>    |
| Interest on capital payable to related parties   | -                                   | 194,618           |
| Gross revenue from sales and services  | <u>3th Qtr/11</u>                   | <u>3th Qtr/10</u> |
| Water sales  | 53,837                              | 49,549            |
| Sewage services  | 47,448                              | 44,129            |
| Receivables from related parties   | (114,578)                           | (104,081)         |
| Financial Income   | 70,767                              | 43,527            |

In the period from January to September, 2011, there were no relevant changes regarding to the operations presented in the financial statements of December 31, 2010.

(i) Water and sewage services

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

The Company provides water supply and collection of sewage to the State Government and other Companies related to it, under terms and conditions considered by Management as normal in the market, except as to the form of settlement of the credits, that may be realized under the conditions mentioned in items (iii), (iv) and (v).

(ii) Reimbursement of additional retirement and pension benefits paid

It refers to amounts of supplemental benefits of retirement and pension plan provided by State of Sao Paulo's Law nr. 4819/58 ("Benefits") paid by the Company to former employees or retirees.

Under the terms of the Agreement referred on (iii), GESP recognizes to be responsible for the charges resulting from the Benefits, provided that the payment criteria set forth by the Department of Personnel Expenditures of the State – DDPE are met, founded on the legal guidelines set by the Legal Consulting of the Secretary of Finance and the State Attorney General's Office – PGE.

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As explained in item (vi) during the validation by Gesp of the amounts due to the Company for the Benefits, there were divergences as to the calculation criteria and eligibility of the Benefit applied by the Company.

On September 30, 2011 and December 31, 2010, 2,498 and 2554 retirees, respectively, received retirement supplements, in the quarters ended on September 30, 2011 and December 31, 2010, the Company paid R\$30,789 and R\$37,102, respectively. There were 15 active employees September 30, 2011 who will be entitled to such benefits upon his retirement, as compared to 32 on December 31, 2010.

In January, 2004, the payments of retirement and pension supplement were transferred to the Secretary of Finance, and would be made in accordance with the calculation criteria defined by the PGE. By judicial order, the responsibility for the payments returned to SABESP as originally established.

(iii) Gesp Agreement

On December 11, 2001, the Company, GESP (through the State Department of Finance Affairs, currently the Department of Finance) and the Department of Waters and Electric Energy – DAEE, with the intermediation of the State Department of Sanitation and Energy (former Department of Water Resources, Sanitation and Construction Works), entered into the Term of Recognition and Consolidation of Obligations, Payment Commitment and Other Covenants (“GESP Agreement”) with the purpose to settle the existing dispute between GESP and the Company related to the water and sewage services and to the Benefits.

In view of the strategic importance of the reservoirs of Taiapuêba, Jundiá, Biritiba, Paraitinga and Ponte Nova (“Reservoirs”), for the assurance of the maintenance of volume of water of Alto Tietê, the Company agreed to receive them as part of the reimbursement referring to the Benefits. The Reservoirs would be transferred to the Company by the DAEE in return to the amounts owned by GESP. However, the Attorney General’s Office of the State of Sao Paulo questioned the legal validity of this agreement, which main argument is the absence of specific legislative authorization for the alienation of DAEE’s assets. The Company’s legal counsels assess the risk of loss of this suit as probable, in case it does not obtain the referred legislative authorization, which would prevent the transfer of the respective reservoirs as partial amortization of the balance receivable.

(iv) First Amendment to the Gesp Agreement

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

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

(v) Second Amendment to the Gesp Agreement

On December 28, 2007, the Company and the State of São Paulo, intermediated by the Secretary of Treasury signed the second amendment to the terms of the original GESP agreement, (1) agreeing upon the payment in installments of the remaining balance of the First Amendment, amounting R\$133,709 at November 30, 2007 to be paid in 60, monthly and consecutive installments of the same amount, beginning on January 02, 2008. The amount of the installments will be monetarily adjusted according to the variation of the IPCA-IBGE, plus interests of 0.5% per month.

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The State and SABESP agreed to resume immediately the compliance with their mutual obligations under new assumptions: (a) implementation of an electronic account management system to facilitate and speed up the monitoring of payment processes and budget management procedures; (b) structuring of the Rational Water Use Program (PURA) to rationalize the consumption of water and the amount of the water and sewage bills under the responsibility of the State; (c) establishment, by the State, of criteria for budgeting so as to avoid the reallocation of amounts to a specific water and sewage accounts as from 2008; (d) possibility of registering state bodies and entities in a delinquency system or reference file; (e) possibility of interrupting water supply to state bodies and entities in the case of nonpayment of water and sewage bills.

(vi) Third Amendment to Gesp Agreement

On November 17, 2008, Gesp, Sabesp and DAEE, entered into the Third Amendment to the Term of Agreement of Payment Commitment, and Other Agreements, where the State recognizes to owe Sabesp the amount of R\$ 915,251, monetarily adjusted until September, 2008 by the IPCA-IBGE, corresponding to the Uncontroversial Amount, calculated by FIPECAFI. SABESP accepts temporarily the Reservoirs as part of the payment of the Uncontroversial Amount and offers to the State a temporary settlement, constituting a financial credit of R\$ 696,283, corresponding to the value of the Reservoirs. The definitive settlement will only occur with the effective transfer of property in the relevant real estate notary. The Company did not recognize the receivable amount of R\$ 696,283 related to the reservoirs, as it not virtually certain that will be transferred by the State. The remaining balance of R\$218,967 is being paid in 114 monthly and consecutive installments, in the amount of R\$1,920 each, restated annually by the IPCA/FIPE, added by interests of 0.5% p.m., the first installment became due on November 25, 2008.

SABESP and the Government of the State of São Paulo are working together in order to obtain the legislative authorization in order to make viable the transfer of the Reservoirs to SABESP, overcoming, therefore, the legal uncertainty caused by the Public Civil action is challenging the lack of specific legislation for the transfer of the ownership of the reservoirs.

The Third Amendment also provides for the regularization of the monthly flow of benefits. While SABESP is responsible for the monthly payments, the State shall reimburse the Company based on criteria identical to those applied in the calculation of the Uncontroversial Amount. With no longer an impeditive judicial decision, the State will directly assume the monthly payment flow of the portion considered uncontroversial.

(vii) Controversial Amount of Benefits

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

As mentioned before, on November 17, 2008, the Company and the State executed the Third Amendment to the GESP Agreement, in such occasion the amounts denominated as controversial and uncontroversial were quantified. In this amendment, the efforts to settle what was called the Controversial Amount is represented by the difference between the Uncontroversial Amount and the amount effectively paid by the Company as Benefits of retirement and pension supplement provided by Law 4819/58, of original responsibility of the State but paid by Sabesp by judicial decision.

By entering into the Third Amendment, it was provided for the reappreciation by the PGE the divergences that caused the controversial amount of the benefits provided by Law 4819/58. At the same time, this expectation was based on the PGE's intention to re-appreciate the question and also in the implied right of the Company to the reimbursement, inclusively based on external technical legal opinions.

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However, new opinions issued by the PGE and received on September 4 and 22, 2009 and January 4, 2010, denied the reimbursement of the portion previously defined as controversial amount. Even though the negotiations with the State are still being maintained, it is no longer possible to ensure that the Company will recover, in a totally amicable way, the credits related to the Controversial Amount.

Even though the negotiations with the State are still being maintained, it is no longer possible to ensure that the Company will recover, in a totally amicable way, the credits related to the Controversial Amount without dispute.

As part of the actions intended to recover the receivables that Management understands as due by the Government of the State, related to the divergences about the reimbursement of the benefits of retirement and pension supplement paid by the Company, SABESP: (i) addressed, on March 24, 2010, the message to the Controlling Shareholder, forwarding the office memorandum released by the Collegiate Directors, proposing judicial action to be forwarded to the Arbitration Chamber of Bovespa (Sao Paulo Stock Exchange); (ii) in June, 2010, it forwarded to the Secretary of Finance a proposal for agreement aiming the settlement of the referred controversies. This proposal did not succeed; (iii) on November 9, 2010, it filed a judicial action against the State of Sao Paulo pleading the full reimbursement of the amounts paid as benefits provided by State Law nr. 4.819/58 to finalize the discussion between the Company and GESP. Despite the judicial action, the Company will insist in reaching an agreement during the progress of the judicial action, understanding that a reasonable agreement is better to the company and its shareholders than waiting the end of the judicial demand.

The Company's Management has elected for not recognizing such amounts, due to the uncertainty of reimbursement of the amounts. On September 30, 2011 the amounts not recorded by the Company referring to the supplement of pension and retirement paid in name of the State by the Company totaled R\$1,273,168 (Dec/10 – R\$1,230,064) including the amount of R\$696,283 referring to the transfer of the reservoirs in the Alto Tiete system. As a result, the Company also recognized the actuarial obligation referring to the supplement of the pension and retirement maintained with the employees and pensioners of Plan G0. On September 30, 2011, the amounts of the supplement of pension and retirement supplement of Plan G0 were R\$1,510,573 (Dec/10 – R\$1,316,706). For more information on the obligations of supplement to pension and retirement, see Note 15.

(b) Agreement for the use of reservoirs

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

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

any fee for the use of these reservoirs but it is responsible for their maintenance and operating costs.

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

The Company has contracts signed with public entities related to the State Government and to the municipalities operated, which are benefited with a 25% reduction to the tariff of water supply and sewage collection, when not in default. The contracts provide for the implementation of the program of rational use of water, which considers the reduction in the consumption of water.



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(d) Guarantees

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

(e) Contract of assignment of personnel among the entities connected to GESP

The Company has employees assigned to entities connected to the Government of the State of São Paulo, where the expenses are fully transferred and monetarily reimbursed.

On September 30, 2011, the expenditures with the employees assigned by Sabesp to other state entities amounted to R\$3,076 (Sep/10 – R\$1,396).

In the same period, the Company did not have expenditures with the employees from other entities at Sabesp's disposal and in September, 2010 the amount totaled R\$72.

(f) Services contracted from entities connected to GESP.

On September 30, 2011 and December 31, 2010, SABESP had an outstanding amount payable of R\$9,893 and R\$11,395, respectively, referring to services provided by entities connected to the Government of the State of São Paulo. Among them, we highlight the services of electric energy supply by the Companhia Energetica of Sao Paulo – CESP, representing 96.9% of the amount of September 30, 2011.

(g) Non-operating Assets

The Company had, on September 30, 2011 the amount of R\$25,371 (in December 31, 2010 - R\$25,371), respectively, mainly related to land granted in free lease to Associations, Assistance Entities, Non-Governmental Organizations and to the DAEE – Department of Water and Electric Energy, among others. The land granted to the DAEE amount to

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

R\$2,289.

(h) Banco do Brasil

O Estado de Sao Paulo sold exclusive rights in the provision of banking services administration entities directly and indirectly in favor of Banco Nossa Caixa, on March 27, 2007, and in favor of Banco do Brazil, May 27, 2010. Through the lawsuit in question, SABESP pleads financial compensation for the sale of its exclusive rights, requiring a percentage of the values that the State of São Paulo received from each of the financial institutions.

On June 28, 2011 it was executed the Term of Settlement between the Company and the State of Sao Paulo, whereby the Company received the amount of R\$63,366 upon reduction, as compensation of credit held by the State, corresponding to interests on shareholders' equity in fiscal 2010.

(i) Sabesprev

The Company sponsors the defined contribution plan managed by Fundação Sabesp de Seguridade Social - Sabesprev. The net actuarial obligation, recorded up to September 30, 2011, is R\$526,318 (Dec/2010 - R\$487,332).

Management is making efforts towards maintaining, in permanent basis, the timely payment by the State regarding the transactions between the parties.

(j) Management Fees

The compensation policy to the executive committee is set according to the guidelines of the Government of the State of São Paulo, CODEC (Council of Defense of the Capitals of the State), and is based on performance, market competitiveness of other indicators related to the Company's business and is subject to the approval by the shareholders at the General Shareholders' Meeting.

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The executive compensation is limited to the State Governor's compensation. The compensation of the Board of Directors corresponds to 30% of the compensation of the Officers, conditioned to a minimum attendance to one monthly meeting.

The objective of the compensation policy is to set up a model of private management, with the purpose to incentive the maintenance in its headcount and recruit professionals gifted of competence, experience and motivation, considering the effectiveness degree currently required by the Company.

In addition to the monthly compensation, the members of the Board of Directors and the Executive Committee receive:

Bonuses: for purposes of compensating the Board of Directors of the companies that the State is controlling shareholder, as an incentive policy, provided that the company effectively calculates quarterly, semi-annual and annual income and distribute mandatory dividends to the shareholders, even if under the form of interests on shareholders' equity. Annual bonus cannot exceed six times the monthly compensation of the directors and officers, nor 10% of interests on shareholders' equity paid by the company, whatever is lower.

Annual award: equivalent to one monthly fee, calculated on a prorated basis, in the month of December of each year.

The purpose of such award is to establish a similarity with the thirteenth salary of the labor regime of the Company's employees, once the relationship of the directors and officers with the Company is governed by its Bylaws and not labor code.

Benefits paid only to the Statutory Officers – meal ticket, basic basket of food, medical assistance, annual paid rest of a 30-day remunerated leave and payment of an award equivalent to one third of the monthly fees.

The compensation paid by the Company to the members of the Board of Directors and Officers was R\$838,964 and R\$ 692,358 for the periods ended on September 30, 2011 and 2010, respectively, and refers to short term benefits to employees and managers. An additional amount of R\$217 referring to the bonus program was accrued in the period from July through September, 2011 (R\$166 in 2010).

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

## 9. INDEMNIFICATIONS RECEIVABLE

Indemnifications receivable is a non-current asset representing amounts receivable from the municipalities of Diadema and Maua as indemnification for the unilateral removal of the concessions of the Company's water and sewage services in 1995. In September 30, 2011 and December 31, 2010 this asset amounted to R\$146,213 (nominal amounts).

In view of these concession contracts, the Company invested in the construction of water and sewage systems in those municipalities to meet its concession service commitments. For the unilateral termination of the concessions of Diadema and Maua, the municipalities took over the responsibility to provide water and sewage services in those areas. At that moment, the Company reclassified the fixed asset balances related to the assets used in those municipalities to non-current assets (Indemnifications receivable).

The residual amount of the items of fixed assets related to the municipality of Diadema, reclassified in December, 1996 was R\$75,231 and the balance of indemnifications receivable from the municipality was R\$60,295.

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The residual amount of items of fixed assets related to the municipality of Maua, reclassified in December, 1999 was R\$103,763 and the balance receivable from the municipality was R\$85,918.

The Company's rights to the recovery of these amounts are being judicially discussed by the municipalities.

Sabesp started judicial lawsuits to collect amounts due by the municipalities. Regarding Diadema, it started the execution of the agreement entered with Diadema's City Hall and Companhia de Saneamento de Diadema – Saned for the payment of the indemnification, the first level judge accepted the appeals of the City Hall and extinguished the execution. Sabesp filed appeal against this decision and, in December, 2005, it was granted partial acceptance to the appeal to declare the validity of the agreement and determine that the appeals to the execution were judged again in first level. In December, 2007, it was rendered the judicial decision approving the continuation of the execution against Saned and servicing this company to pay the full amount of the debt, in 15 days, under penalty of fine. It was approved the realization of the pledge of money in Saned's bank accounts and financial investments (online pledge) up to 10% of the restated amount of the debt, being blocked and withdrawn R\$2,919 in March 3, 2009. Later, the Court of Justice determined that the pledge should be made upon weekly deposits by Saned in the amount corresponding to 20% of all it receives in its accounts and financial investments. Saned filed special and extraordinary appeals against such decision. The extraordinary appeal was refused and the special appeal was suspended, causing the filing of interlocutory appeal to the Federal Supreme Court.

Regarding Diadema's City Hall, it was rendered new sentence in the appeal against the execution, in October, 2009, recognizing the existence and maturity of the debt, and affirming that the execution against the Municipality should be made upon precatory notes (and not pledge). Sabesp and the City Hall appealed against this sentence. Sabest obtained favorable decision in September, 2011 from the Special Body of the Court of Justice, affirming being constitutional the municipal law that allowed blocking the transfers of ICMS.

On December 29, 2008, Saned and the municipality of Diadema entered into a Memorandum of Intent with the State of Sao Paulo and Sabesp with the purpose to prepare studies and carry on negotiations to instruct decisions of Diadema and Sabesp, aiming at the exclusive provision of services of water and sewage in the municipality of Diadema.

The parties agree that the search for a negotiated solution for the conflicts existing today between the companies is fundamental for the public service of water supply, collection and treatment of sewage to have their proper development in Diadema.

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

In January, 2009, the parties presented joint motion requiring the suspension of new pledges, for the period of three months, in order to try to make an agreement feasible. The suspension was approved by the Court of Public Treasury and successively renewed, the last renewal occurring in August, 2011, due to the negotiations of the agreement.

Regarding Maua, it was rendered a decision in first level determining that the Municipality pays the amount of R\$153.2 million as compensation for the investments made in the municipality by Sabesp and for loss of profits. Maua's City Hall appealed against this sentence. In August, 2008 the appeal was judged, having been fully sustained the conviction imposed in first level. Maua's City Hall filed special and extraordinary appeals against the decision. Both appeals were not accepted by the Court of Justice, causing the filing of interlocutory appeals to the Superior Court of Justice and to the Federal Supreme Court. In declaratory appeals against the decision that decreed the refusal of the special appeal, the Superior Court of Justice partially accepted the appeal only for the purpose to reduce the winner's legal fees. Afterwards, the Federal Supreme Court reaffirmed the refusal of the extraordinary appeal, in decision still subject to appeal.

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Based on the opinion of the legal advisory, Management continues to affirm that the Company has legal right to receive the amounts corresponding to the indemnification and keeps monitoring the situation of the legal proceedings.

**10. FIXED ASSETS**

|                          | HOLDING           |                                     |                |                   |                                     |                |
|--------------------------|-------------------|-------------------------------------|----------------|-------------------|-------------------------------------|----------------|
|                          | <u>12/31/2010</u> |                                     |                | <u>09/30/2011</u> |                                     |                |
|                          | <u>Cost</u>       | <u>Accumulated<br/>Depreciation</u> | <u>Net</u>     | <u>Cost</u>       | <u>Accumulated<br/>Depreciation</u> | <u>Net</u>     |
| Land                     | 119,567           | -                                   | 119,567        | 111,049           | -                                   | 111,049        |
| Structures               | 41,014            | (28,983)                            | 12,031         | 41,000            | (30,715)                            | 10,285         |
| Equipment                | 162,270           | (90,804)                            | 71,466         | 158,078           | (95,451)                            | 62,627         |
| Transportation equipment | 20,025            | (18,364)                            | 1,661          | 20,488            | (19,245)                            | 1,243          |
| Furniture and fixtures   | 26,831            | (26,378)                            | 453            | 27,610            | (27,589)                            | 21             |
| Other                    | <u>2,590</u>      | <u>(1,384)</u>                      | <u>1,206</u>   | <u>2,761</u>      | <u>(1,619)</u>                      | <u>1,142</u>   |
| Total                    | <u>372,297</u>    | <u>(165,913)</u>                    | <u>206,384</u> | <u>360,986</u>    | <u>(174,619)</u>                    | <u>186,367</u> |

|                          | HOLDING              |              |                            |                 |                       |
|--------------------------|----------------------|--------------|----------------------------|-----------------|-----------------------|
|                          | December 31,<br>2010 | Additions    | Disposals and<br>Writeoffs | Depreciation    | September<br>30, 2011 |
| Land                     | 119,567              | -            | (8,518)                    | -               | 111,049               |
| Structures               | 12,031               | -            | (3)                        | (1,743)         | 10,285                |
| Equipment                | 71,466               | 6,657        | (1,238)                    | (14,258)        | 62,627                |
| Transportation equipment | 1,661                | 467          | (4)                        | (881)           | 1,243                 |
| Furniture and fixtures   | 453                  | 876          | (7)                        | (1,301)         | 21                    |
| Other                    | <u>1,206</u>         | <u>174</u>   | <u>-</u>                   | <u>(238)</u>    | <u>1,142</u>          |
|                          | <u>206,384</u>       | <u>8,174</u> | <u>(9,770)</u>             | <u>(18,421)</u> | <u>186,367</u>        |

|  | CONSOLIDATED      |                                     |            |                   |                                     |            |
|--|-------------------|-------------------------------------|------------|-------------------|-------------------------------------|------------|
|  | <u>12/31/2010</u> |                                     |            | <u>09/30/2011</u> |                                     |            |
|  | <u>Cost</u>       | <u>Accumulated<br/>Depreciation</u> | <u>Net</u> | <u>Cost</u>       | <u>Accumulated<br/>Depreciation</u> | <u>Net</u> |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|                          |                |                  |                |                |                  |                |
|--------------------------|----------------|------------------|----------------|----------------|------------------|----------------|
| Land                     | 119,567        | -                | 119,567        | 111,049        | -                | 111,049        |
| Structures               | 41,014         | (28,983)         | 12,031         | 41,000         | (30,715)         | 10,285         |
| Equipment                | 162,270        | (90,804)         | 71,466         | 158,078        | (95,451)         | 62,627         |
| Transportation Equipment | 20,025         | (18,364)         | 1,661          | 20,488         | (19,245)         | 1,243          |
| Furniture and fixtures   | 26,831         | (26,378)         | 453            | 27,610         | (27,589)         | 21             |
| Other                    | 2,590          | (1,384)          | 1,206          | 2,761          | (1,619)          | 1,142          |
| Work in process          | <u>43,222</u>  | =                | <u>43,222</u>  | <u>129,054</u> | =                | <u>129,054</u> |
| Total                    | <u>415,519</u> | <u>(165,913)</u> | <u>249,606</u> | <u>490,040</u> | <u>(174,619)</u> | <u>315,421</u> |

|                          | CONSOLIDATED          |                      |                            |                        |                       |
|--------------------------|-----------------------|----------------------|----------------------------|------------------------|-----------------------|
|                          | December 31,<br>2010  | Additions            | Disposals and<br>Writeoffs | Depreciation           | September<br>30, 2011 |
| Land                     | 119,567               | -                    | (8,518)                    | -                      | 111,049               |
| Structures               | 12,031                | -                    | (3)                        | (1,743)                | 10,285                |
| Equipment                | 71,466                | 6,657                | (1,238)                    | (14,258)               | 62,627                |
| Transportation equipment | 1,661                 | 467                  | (4)                        | (881)                  | 1,243                 |
| Furniture and fixtures   | 453                   | 876                  | (7)                        | (1,301)                | 21                    |
| Other                    | 1,206                 | 174                  | -                          | (238)                  | 1,142                 |
| Work in process          | <u>43,222</u>         | <u>85,832</u>        | =                          | =                      | <u>129,054</u>        |
|                          | <b><u>249,606</u></b> | <b><u>94,006</u></b> | <b><u>(9,770)</u></b>      | <b><u>(18,421)</u></b> | <b><u>315,421</u></b> |



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In the period ended on September 30, 2011 there were no relevant changes related to the financial statements as of December 31, 2010, note 12.

**11. INTANGIBLE**

The balance and movement in intangible assets is as follows:

|  | <b>HOLDING</b>           |                                     |            |                           |                                     |            |
|--|--------------------------|-------------------------------------|------------|---------------------------|-------------------------------------|------------|
|  | <b>December 31, 2010</b> |                                     |            | <b>September 30, 2011</b> |                                     |            |
|  | <b>Cost</b>              | <b>Accumulated<br/>amortization</b> | <b>Net</b> | <b>Cost</b>               | <b>Accumulated<br/>amortization</b> | <b>Net</b> |
| Intangibles resulting from:                |                          |                                     |            |                           |                                     |            |
| Concession contracts asset value (i)       | 13,974,819               | (3,242,262)                         | 10,732,557 | 13,276,747                | (2,794,597)                         | 10,482,150 |
| Concession Contracts – economic value (ii) | 706,423                  | (189,145)                           | 517,278    | 727,621                   | (208,639)                           | 518,982    |
| Contract Program (iii)                     | 900,686                  | (36,302)                            | 864,384    | 725,507                   | (18,075)                            | 707,432    |
| Program Contracts – commitments (iv)       | 333,942                  | (22,666)                            | 311,276    | 368,144                   | (31,953)                            | 336,191    |
| Service Contract – São Paulo               | 6,196,699                | (99,837)                            | 6,096,862  | 7,994,931                 | (460,178)                           | 7,534,753  |
| New Businesses (v)                         | 12,129                   | (901)                               | 11,228     | 21,257                    | (4,048)                             | 17,209     |
| Software License                           | 49,458                   | (41,521)                            | 7,937      | 51,277                    | (48,662)                            | 2,615      |
| Total                                      | 22,174,156               | (3,632,634)                         | 18,541,522 | 23,165,484                | (3,566,152)                         | 19,599,332 |

|                             | <b>HOLDING</b>                   |                                  |                                     |                  |                    |                     |                                   |
|-----------------------------|----------------------------------|----------------------------------|-------------------------------------|------------------|--------------------|---------------------|-----------------------------------|
|                             | <b>December<br/>31,<br/>2010</b> | <b>Reclassification<br/>cost</b> | <b>Accumulated<br/>amortization</b> | <b>Additions</b> | <b>Retirements</b> | <b>Amortization</b> | <b>September<br/>30,<br/>2011</b> |
| Intangibles resulting from: |                                  |                                  |                                     |                  |                    |                     |                                   |
|                             | 10,732,557                       | (844,843)                        | 41,154                              | 760,218          | (5,580)            | (201,356)           | 10,482,150                        |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

## Concession contracts asset value (i)

|  |                          |           |          |                         |                        |                         |                          |
|--|--------------------------|-----------|----------|-------------------------|------------------------|-------------------------|--------------------------|
| Concession Contracts – economic value (ii) | 517,278                  | 19,890    | -        | 1,308                   | -                      | (19,494)                | 518,982                  |
| Contract Program (iii)                     | 864,384                  | (353,309) | 18,227   | 180,335                 | (891)                  | (1,314)                 | 707,432                  |
| Program Contracts – commitments (iv)       | 311,276                  | -         | -        | 34,202                  | -                      | (9,287)                 | 336,191                  |
| Service Contract – São Paulo               | 6,096,862                | 1,178,262 | (59,381) | 636,285                 | (4,922)                | (312,353)               | 7,534,753                |
| New Businesses (v)                         | 11,228                   | -         | -        | 9,128                   | -                      | (3,147)                 | 17,209                   |
| Software License                           | <u>7,937</u>             | =         | =        | <u>1,819</u>            | =                      | <u>(7,141)</u>          | <u>2,615</u>             |
| Total                                      | <b><u>18,541,522</u></b> | =         | =        | <b><u>1,623,295</u></b> | <b><u>(11,393)</u></b> | <b><u>(554,092)</u></b> | <b><u>19,599,332</u></b> |

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|  | December 31, 2010 |                          |            | September 30, 2011 |                          |            |
|--|-------------------|--------------------------|------------|--------------------|--------------------------|------------|
|  | Cost              | Accumulated amortization | Net        | Cost               | Accumulated amortization | Net        |
| Intangibles resulting from:                |                   |                          |            |                    |                          |            |
| Concession contracts asset value (i)       | 13,980,141        | (3,242,270)              | 10,737,871 | 13,289,997         | (2,794,605)              | 10,495,392 |
| Concession Contracts – economic value (ii) | 706,423           | (189,145)                | 517,278    | 727,621            | (208,639)                | 518,982    |
| Contract Program (iii)                     | 900,686           | (36,302)                 | 864,384    | 725,507            | (18,075)                 | 707,432    |
| Program Contracts – commitments (iv)       | 333,942           | (22,666)                 | 311,276    | 368,144            | (31,953)                 | 336,191    |
| Service Contract – São Paulo               | 6,196,699         | (99,837)                 | 6,096,862  | 7,994,931          | (460,178)                | 7,534,753  |
| New Businesses (v)                         | 12,129            | (901)                    | 11,228     | 21,257             | (4,048)                  | 17,209     |
| Software License                           | 49,458            | (41,521)                 | 7,937      | 51,277             | (48,662)                 | 2,615      |
| Total                                      | 22,179,478        | (3,632,642)              | 18,546,836 | 23,178,734         | (3,566,160)              | 19,612,574 |

**CONSOLIDATED**

|  | December 31, 2010        |           | Reclassification cost |                         | Accumulated Additions amortization |                         | Retirements Amortization |  | Se<br>3 |
|--|--------------------------|-----------|-----------------------|-------------------------|------------------------------------|-------------------------|--------------------------|--|---------|
|  | 31,2010                  | cost      | amortization          | amortization            | amortization                       | amortization            | amortization             |  |         |
| Intangibles resulting from:                |                          |           |                       |                         |                                    |                         |                          |  |         |
| Concession contracts asset value (i)       | 10,737,871               | (844,843) | 41,154                | 768,146                 | (5,580)                            | (201,356)               | 10                       |  |         |
| Concession Contracts – economic value (ii) | 517,278                  | 19,890    | -                     | 1,308                   | -                                  | (19,494)                |                          |  |         |
| Contract Program (iii)                     | 864,384                  | (353,309) | 18,227                | 180,335                 | (891)                              | (1,314)                 |                          |  |         |
| Program Contracts – commitments (iv)       | 311,276                  | -         | -                     | 34,202                  | -                                  | (9,287)                 |                          |  |         |
| Service Contract – São Paulo               | 6,096,862                | 1,178,262 | (59,381)              | 636,285                 | (4,922)                            | (312,353)               |                          |  |         |
| New Businesses (v)                         | 11,228                   | -         | -                     | 9,128                   | -                                  | (3,147)                 |                          |  |         |
| Software License                           | <u>7,937</u>             | =         | =                     | <u>1,819</u>            | =                                  | <u>(7,141)</u>          |                          |  |         |
| Total                                      | <b><u>18,546,836</u></b> | =         | =                     | <b><u>1,631,223</u></b> | <b><u>(11,393)</u></b>             | <b><u>(554,092)</u></b> | <b>19</b>                |  |         |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

In the period from January to September, 2011, the increase occurred in the intangible is related to the Investments made in the municipalities operated by Sabesp.

(a) Intangibles arising from concession contracts

The concession contracts provide that the assets will be reversed to the conceding power at the end of the contract.

On September 30, 2011, the Company operates in 363 municipalities in the State of São Paulo. In the most part of these municipalities, the operations are based a 30-year concession period.

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The service provided by the Company is billed at a price regulated and controlled by the Regulating Agency of Sanitation and Energy of the State of São Paulo (ARSESP).

Intangibles resulting from concession contracts include:

- (i) Concession contracts – equity amount

The contracts executed until 1998 provide that the assets will be reverted to the grantor at the end of the contract, for the residual value or market value in accordance with the terms of each one of them. The amortization is calculated using the straight line method, which considers the useful life of the assets.

- (ii) Concession agreements - economic value

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

The amount determined in the respective contract, after the transaction is closed with the municipal authorities, is recorded in this account and amortized over the period of the related concession line method or the useful life of assets, the shortest of the two. As of September 30, 2011 and December 31, 2010 there were no amounts pending related to these payments to the municipalities.

- (iii) Program Contracts – Investments performed

Refer to the renewals of the contracts previously denominated as full concession to operating concession, through the program contracts that have as objective the supply of municipal public services or sanitation sewage, where the Company has the possession and the management of the assets acquired or construction during the effectiveness of these contracts (30 years).

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

The amortization of the intangible assets is performed during the effectiveness of the concession contracts by the straight line method or by the useful life of the assets, whichever is lower.

(iv) Program contracts - Commitments

After the enactment of the regulatory framework in 2007, the renewals of concessions started to be made through of program contracts. In some of these program contracts, the Company assumed the commitment to financially participate in social and environmental actions. The assets constructed and the financial commitments assumed within the program contracts are recorded as intangible assets and are amortized by the straight line method in accordance with the duration of the program contract (mostly, 30 years) or by the useful life of the assets, whichever is lower.

In September 30, 2011, the amortization expenses related to the commitments of the program contracts were R\$9,287 (Dec/10 – R\$10,275).

In September 30, 2011, the amounts still not disbursed referring to the commitments of the program contracts were recorded in Other Obligations in current liabilities in the amount of R\$70,496 and in non current liabilities, in the amount of R\$84,971.

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(v) New Business

It was executed contracts of provision of specialized technical services and the transfer of technology with the Companhia de Saneamento de Alagoas (CASAL) and with CONADES (PANAMA).

The Company recognizes revenue of R\$847 resulting from the consortium with Latin Consult that was winner off the bidding process in Parana to work in the provision of consulting services in commercial and operational consulting of basic sanitation services. The Consortium will receive US\$8.8 million for a 3-year contract, executed on September 27, 2010. The consortium belongs 70% to Latin Consult and 30% to Sabesp.

Other information related to the concession contracts may be obtained in the Annual Financial Statements of December 31, 2010, note 11.

(b) Capitalized interests and financial charges

In the period from January to September, 2011, the Company capitalized interests and financial charges in the intangible assets of concession in the amount of R\$229,305 (Dec/10 – R\$228,900) during the period which assets were presented as work in progress.

**12. LOANS, FINANCINGS & DEBENTURES**

Outstanding balance of loans and financings

| <u>Sep/11</u> |             |       | <u>Dec/10</u> |             |       | HOLDING    |                |               | Annual |
|---------------|-------------|-------|---------------|-------------|-------|------------|----------------|---------------|--------|
| Current       | Non-current | Total | Current       | Non-current | Total | Guarantees | Final maturity | interest rate |        |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

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|  |         |           |           |         |           |           |   |         |  |
|--|---------|-----------|-----------|---------|-----------|-----------|---|---------|--|
| Financial Institution:<br>Country<br>União Federal /<br>Banco do Brasil                      | 340,635 | 568,260   | 908,895   | 316,541 | 818,359   | 1,134,900 | Gov.Est.S.Paulo<br>and own<br>resources | 2014    | 8.50%  |
| Debentures 8th<br>Issuance   | -       | -         | -         | 465,086 | -         | 465,086   |   | 2011    | 10.75%   |
| Debentures 9th<br>Issuance   | 33,333  | 205,078   | 238,411   | 33,333  | 198,242   | 231,575   |   | 2015    | CDI+2.75<br>and 12.87%<br>TJLP+1.92%<br>(1st and 3rd<br>series) and<br>9.53% (2nd<br>series)<br>CDI+1.95%<br>(1st series)<br>and<br>CDI+1.4%<br>(2nd series) |
| Debentures<br>10th Issuance  | -       | 283,828   | 283,828   | -       | 279,497   | 279,497   |   | 2020    | TR+9.5%  |
| Debentures<br>11th Issuance  | 202,500 | 1,005,062 | 1,207,562 | -       | 1,205,451 | 1,205,451 |   | 2015    | CDI +<br>0.65%<br>TJLP+1.92%<br>(1st and 3rd<br>série) and<br>9.19% (2nd<br>série)<br>6.8%<br>(weighted)   |
| Debentures<br>12th Issuance  | --      | 499,639   | 499,639   | -       | 499,715   | 499,715   |   | 2025    | CDI +<br>0.65%<br>TJLP+1.92%<br>(1st and 3rd<br>série) and<br>9.19% (2nd<br>série)<br>6.8%<br>(weighted)   |
| Debentures<br>13th Issuance  | --      | 599,241   | 599,241   | -       | -         | -         |   | 2012    | CDI +<br>0.65%<br>TJLP+1.92%<br>(1st and 3rd<br>série) and<br>9.19% (2nd<br>série)<br>6.8%<br>(weighted)   |
| Debentures<br>14th Issuance  | -       | 278,477   | 278,477   | -       | -         | -         |   | 2022    | CDI +<br>0.65%<br>TJLP+1.92%<br>(1st and 3rd<br>série) and<br>9.19% (2nd<br>série)<br>6.8%<br>(weighted)   |
| Caixa<br>Econômica<br>Federal<br>Promissory<br>Notes   | 104,313 | 818,010   | 922,323   | 91,031  | 783,426   | 874,457   |   | 2011/32 | CDI + 6.5%   |
| FIDC - Sabesp<br>I<br>(National Bank<br>for Economic<br>and Social<br>Development)-<br>BNDES | -       | -         | -         | -       | 599,755   | 599,755   | Own Resources                           | 2011    | CDI +<br>0.70%<br>3% + TJLP<br>LIMIT 6%  |
| (National Bank<br>for Economic<br>and Social<br>Development)-<br>BNDES                       | -       | -         | -         | 13,889  | -         | 13,889    |   | 2011    | CDI +<br>0.70%<br>3% + TJLP<br>LIMIT 6%  |
| Baixada<br>Santista<br>(National Bank<br>for Economic<br>and Social                          | 41,930  | 9,834     | 51,764    | 43,403  | 40,518    | 83,921    | Own Resources                           | 2013    | 2.5% +<br>TJLP LIMIT<br>6%   |
| (National Bank<br>for Economic<br>and Social   | 12,232  | 118,242   | 130,474   | -       | 130,474   | 130,474   | Own Resources                           | 2019    | 2.5% +<br>TJLP LIMIT<br>6%   |
| (National Bank<br>for Economic<br>and Social   | 3,757   | 67,557    | 71,314    | 1,649   | 44,352    | 46,001    | Own Resources                           | 2023    | 2.15% +<br>TJLP LIMIT<br>6%  |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the



|   |                  |                  |                  |                  |                  |                  |                       |                         |                             |
|---|------------------|------------------|------------------|------------------|------------------|------------------|-----------------------|-------------------------|-----------------------------|
| Development)–<br>BNDES PAC<br>(National Bank<br>for Economic<br>and Social<br>Development) –<br>BNDES<br>ONDA LIMPA<br>Others   | 9,514            | 237,492          | 247,006          | -                | 246,986          | 246,986          | Own Resources         | 2025                    | 1.92% +<br>TJLP LIMPA<br>6% |
| Interests and<br>charges  | <u>75,284</u>    | =                | <u>75,284</u>    | <u>141,991</u>   | =                | <u>141,991</u>   | Own Resources         | 2011/2018/2025          | 12% / CDI,<br>TJLP+ 6%      |
| Total Domestic  | <u>825,079</u>   | <u>4,718,725</u> | <u>5,543,804</u> | <u>1,109,739</u> | <u>4,850,625</u> | <u>5,960,364</u> |                       |                         |                             |
| FOREIGN<br>CURRENCY<br>Inter-American<br>Development<br>Bank – BID<br>US\$ 350,345<br>thd.<br>BIRD -<br>US\$ 7,740 thd.<br>Euro Bonds –<br>US\$ 140,000<br>thd.<br>Euro Bonds –<br>US\$ 350,000<br>thd.<br>JBIC – Yens<br>20,743,740<br>thd.<br>JICA – Yens<br>18,650,880<br>thd,<br>JICA – Yens<br>27,709 thd,<br>BID 1983AB –<br>US\$ 226,058<br>thd,<br>Interests and<br>charges | 71,104           | 576,611          | 647,715          | 63,185           | 511,484          | 574,669          | Federal<br>Government | 2016/2017/<br>2025/2035 | 1.10% to<br>3.43%           |
|   | -                | 13,925           | 13,925           | -                | 5                | 5                |                       | 2034                    | 0.43%                       |
|   | -                | 259,043          | 259,043          | -                | 232,612          | 232,612          |                       | 2016                    | 7.5%                        |
|   | -                | 641,327          | 641,327          | -                | 576,107          | 576,107          |                       | 2020                    | 6.25%                       |
|   | 27,738           | 471,565          | 499,303          | 11,810           | 425,168          | 436,978          | Federal<br>Government | 2029                    | 1.8% and<br>2.5%            |
|   | 24,940           | 423,610          | 448,550          | -                | -                | -                |                       | 2029                    | 1,8% and<br>2,5%            |
|   | -                | 645              | 645              | -                | -                | -                |                       | 2035                    | 1.2% and<br>0.01%           |
|   | 44,399           | 371,953          | 416,352          | 39,893           | 373,575          | 413,468          |                       | 2023                    | 2.4% to<br>2.9%             |
| Interests and<br>charges  | <u>35,844</u>    | =                | <u>35,844</u>    | <u>15,089</u>    | =                | <u>15,089</u>    |                       |                         |                             |
| Total<br>International  | <u>204,025</u>   | <u>2,758,679</u> | <u>2,962,704</u> | <u>129,977</u>   | <u>2,118,951</u> | <u>2,248,928</u> |                       |                         |                             |
| <b>TOTAL OF<br/>LOANS AND<br/>FINANCINGS</b>  | <u>1,029,104</u> | <u>7,477,404</u> | <u>8,506,508</u> | <u>1,239,716</u> | <u>6,969,576</u> | <u>8,209,292</u> |                       |                         |                             |

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## CONSOLIDATED

|  | <u>Sep11</u> |             |           | <u>Dec/10</u> |             |           | Guarantees        | Final maturity | Annual interest rate  |
|--|--------------|-------------|-----------|---------------|-------------|-----------|-------------------|----------------|---|
|  | Current      | Non-current | Total     | Current       | Non-current | Total     |                   |                |   |
| Financial Institution:                   |              |             |           |               |             |           |                   |                |   |
| Country                                  |              |             |           |               |             |           |                   |                |   |
| União Federal /                          |              |             |           |               |             |           | Gov,Est,S,Paulo   |                |   |
| Banco do Brasil                          | 340,635      | 568,260     | 908,895   | 316,541       | 818,359     | 1,134,900 | and own resources | 2014           | 8.50%   |
| Debentures 8th Issuance                  | -            | -           | -         | 465,086       | -           | 465,086   |                   | 2011           | 10.75%  |
| Debentures 9th Issuance                  | 33,333       | 205,078     | 238,411   | 33,333        | 198,242     | 231,575   |                   | 2015           | CDI+2.75% and 12.87% TJLP+1.92% (1ª and 3ª séries) and 9.53% (2ª séries) CDI + 1.95% (1ª séries) and CDI + 1.4% (2ª séries) |
| Debentures 10th Issuance                 | -            | 283,828     | 283,828   | -             | 279,497     | 279,497   |                   | 2020           | TR + 9.5%   |
| Debentures 11th Issuance                 | 202,500      | 1,005,062   | 1,207,562 | -             | 1,205,451   | 1,205,451 |                   | 2015           | CDI + 0.65% TJLP+1.92% (1st and 3rd série) and 9.19% (2nd serie)  |
| Debentures 12th Issuance                 | -            | 499,639     | 499,639   | -             | 499,715     | 499,715   |                   | 2025           | 6.8% (weighted)   |
| Debentures 13th Issuance                 | -            | 599,241     | 599,241   | -             | -           | -         |                   | 2012           | CDI + 6.5%  |
| Debentures 14th Issuance                 | -            | 278,477     | 278,477   | -             | -           | -         |                   | 2022           |   |
| Caixa Econômica Federal Promissory Notes | 104,480      | 987,231     | 1,091,711 | 91,031        | 783,426     | 874,457   |                   | 2011/32        |   |
|  | -            | -           | -         | -             | 599,755     | 599,755   | own resources     | 2011           | CDI + 6.5%  |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

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|  |                |                  |                  |                  |                  |                  |                    |                         |                              |
|--|----------------|------------------|------------------|------------------|------------------|------------------|--------------------|-------------------------|------------------------------|
| FIDC - Sabesp I<br>(National Bank for Economic and Social Development)-<br>BNDES<br>(National Bank for Economic and Social Development)-<br>BNDES<br>Baixada Santista<br>(National Bank for Economic and Social Development)-<br>BNDES PAC<br>(National Bank for Economic and Social Development)-<br>BNDES<br>ONDA LIMPA<br>Mútufo Foz do Brasil<br>Santander<br>Others | -              | -                | -                | 13,889           | -                | 13,889           | own resources      | 2011                    | CDI + 0.70%                  |
|  | 41,930         | 9,834            | 51,764           | 43,403           | 40,518           | 83,921           | own resources      | 2013                    | 3% + TJLP<br>LIMIT 6%        |
|  | 12,232         | 118,242          | 130,474          | -                | 130,474          | 130,474          | own resources      | 2019                    | 2.5% +<br>TJLP<br>LIMITE 6%  |
|  | 3,757          | 67,557           | 71,314           | 1,649            | 44,352           | 46,001           | own resources      | 2023                    | 2.15% +<br>TJLP LIMITE<br>6% |
|  | 9,514          | 237,492          | 247,006          | -                | 246,986          | 246,986          | own resources      | 2025                    | 1.92% +<br>TJLP LIMITE<br>6% |
|  | -              | -                | -                | -                | 52,896           | 52,896           |                    |                         |                              |
|  | -              | -                | -                | 2,427            | -                | 2,427            |                    |                         |                              |
|  | 1,584          | 28,006           | 29,590           | 2,816            | 3,850            | 6,666            | own resources      | 2011/2018/2025          | 12% / CDI +<br>TJLP+ 6%      |
| Interests and charges  | <u>75,284</u>  | =                | <u>75,284</u>    | <u>141,991</u>   | =                | <u>141,991</u>   |                    |                         |                              |
| Total Domestic   | <u>825,249</u> | <u>4,887,947</u> | <u>5,713,196</u> | <u>1,112,166</u> | <u>4,903,521</u> | <u>6,015,687</u> |                    |                         |                              |
| FOREIGN CURRENCY   |                |                  |                  |                  |                  |                  |                    |                         |                              |
| Inter-American Development Bank – BID<br>US\$ 350,345 thd  | 71,104         | 576,611          | 647,715          | 63,185           | 511,484          | 574,669          | Federal Government | 2016/2017/<br>2025/2035 | 1.10% to<br>3.43%            |
| BIRD -<br>US\$ 7,740 thd   | -              | 13,925           | 13,925           | -                | 5                | 5                |                    | 2034                    | 0.43%                        |
| Euro Bonds –<br>US\$ 140,000 thd.  | -              | 259,043          | 259,043          | -                | 232,612          | 232,612          |                    | 2016                    | 7.5%                         |
| Euro Bonds –<br>US\$ 350,000 thd.  | -              | 641,327          | 641,327          | -                | 576,107          | 576,107          |                    | 2020                    | 6.25%                        |
| JBIC – Yens<br>20,743,740  | 27,738         | 471,565          | 499,303          | 11,810           | 425,168          | 436,978          | Federal            | 2029                    | 1.8% and<br>2.5%             |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|  | Government       |                  |                  |                  |                  |                  |      |                   |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------|-------------------|
| thd,<br>JICA – Yens<br>18,650,880                                  | 24,940           | 423,610          | 448,550          | -                | -                | -                | 2029 | 1.8% and<br>2.5%  |
| thd,<br>JICA – Yens<br>27,709 thd,<br>BID 1983AB –<br>US\$ 226,058 | -                | 645              | 645              | -                | -                | -                | 2035 | 1.2% and<br>0.01% |
| thd,<br>Interests and<br>charges                                   | <u>35,844</u>    | =                | <u>35,844</u>    | <u>15,089</u>    | =                | <u>15,089</u>    |      |                   |
| Total<br>International   | <u>204,025</u>   | <u>2,758,679</u> | <u>2,962,704</u> | <u>129,977</u>   | <u>2,118,951</u> | <u>2,248,928</u> |      |                   |
| <b><u>TOTAL OF<br/>LOANS AND<br/>FINANCINGS</u></b>                | <u>1,029,274</u> | <u>7,646,626</u> | <u>8,675,900</u> | <u>1,242,143</u> | <u>7,022,472</u> | <u>8,264,615</u> |      |                   |

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Parity rates as of September 30, 2011: US\$ 1.8544; Yen 0.024070 (dec/10- US\$ 1.6662; Yen 0.0205).

On September 30, 2011 the Company did not have short term balances of loans and financings.

The Company presented the following activity of loans and financings for the quarter ended on September 30, 2011. The other loans and financings are presented in note 13 do the Annual Financial Statements.

(i) 13th Issue of Debentures:

On January 11, 2011, the Company launched the 13th issue of Simple Debentures, non convertible, of Chirographic Type, in Sole Series, for Public Distribution with Restricted Underwriting Efforts, under the terms of CVM Instruction 476, which characteristics are the following:

Date of Issue: 01/11/2011

Series: Sole

Total Amount (R\$ Thd) R\$ 600,000

Quantity: 60

Unit Amount (R\$ Thd) R\$ 10,000

Payment of semi-annual remuneration

Final Amortization: 08/29/2012

Optional Redemption: partial or total at any time

Remuneration DI added by :

1th period: 01/11/2011 to 02/26/2011 = 0.65%

2th period: 02/26/2011 to 08/30/2011 = 0.75%

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

3th period: 08/30/2011 to 03/01/2012 = 0.85%

4th period: 03/01/2012 to 08/29/2012 = 1.25%

The proceeds resulting from the funding of the 13th issue of Debentures were intended to repay the 60 (sixty) Commercial Promissory Notes of the 5th issue of the Company, with maturity date scheduled for 02/26/2011. On January 11, 2011, occurred the final payment of the 5th Issue of the Promissory Notes.

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(ii) JICA

On February 15, 2011, the Company executed with JICA (Japan International Cooperation Agency), the supplemental agreement of the Onda Limpa Program – 1st Phase, nr. BZ-P 18, in the amount of 19,169,000 (nineteen billion, one hundred and sixty-nine million Japanese Yens) equivalent to R\$375,904 on March 31, 2011. The proceeds will be used for the execution of works and services in the Metropolitan Region of Santos Coastal Line. The maturity date is 18 years and the interest rate between 1.8% and 2.5% per year.

(iii) BID

On March 17, 2011, occurred the 1st disbursement of the contract executed on September 3rd, 2010, nr. 2202/OC-BR. The proceeds will be used for the recovery of quality of water in the Rio Tiete basin in the Metropolitan Region of Sao Paulo. The amount of the contract is US\$600,000, equivalent to R\$977,220, with final maturity in September 2035. Being that in the 1st quarter 2011 occurred the first disbursement of US\$1,829, corresponding to R\$3,044.

(iv) 14<sup>th</sup> issue of Debentures

On February 15, 2011 the Company promoted the launch of 100 debentures, upon subscription exclusive by Banco Nacional de Desenvolvimento Economico e Social – BNDES. These debentures were distributed in three series, not convertible into stock by the nominal amount of R\$2,753.70, totaling R\$275,370. The financial settlement of the operation occurred on April 15, 2011 for all series.

The debentures were placed in the market as follows:

|            | Number | Restatement | Interests         | Interest Pmt                                    | Amortization         |
|------------|--------|-------------|-------------------|---|----------------------|
| 1st Series | 28     | -           | TJLP + 1.92% p.a. | Quarterly until Feb/2014 and monthly after that | Monthly (after March |
| 2nd Series | 30     | IPCA        | 9.19% p.a.        | Annual  | Annual               |
| 3rd Series | 42     | -           | TJLP + 1.92% p.a. | Quarterly until Feb/2014 and monthly after that | Monthly (after March |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

The resources resulting from this issue are intended to investments of the Company in n in systems of water supply and sewage collection in the projects: ETA Rio Grande, Northern Coastal Area, Vale do Paraiba and Mantiqueira, Basin of Piracicaba-Capivari-Jundiai and Loss Reduction Program.

(v) 8<sup>th</sup> issue of Debentures

On June 1st, 2011 occurred the final amortization of debentures of 8th issue.

(vi) Aquapolo

The subsidiary issued the 1<sup>st</sup> issue of debentures with the following characteristics:

- Issuance amount: R\$326,732,000.00
- Quantity: 326,732 debentures



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- Single series
- Unit nominal amount: R\$1,000.00 each
- Amortizations: it will be done in monthly and successive installments as of December 1<sup>st</sup>, 2013.
- Total Term: until August 1<sup>st</sup>, 2029
- Form and type: single, nominative, scriptural, non convertible into stock.

(vii) Variance in the period from January to September, 2011

The increase in the balance was due mainly the high parity of the dollar.

(viii) Payment Schedule of loans and financings

The total volume of debt to be paid until the end of 2011 is R\$ 260,546, being R\$ 57,605 the amount indexed to the U.S. dollar and R\$ 202,941 the amount of interests and principal of loans denominated in Reais to mature.

|   | <b>HOLDING</b> |           |           |         |         |         | 2017 and<br>thereafter |
|---|----------------|-----------|-----------|---------|---------|---------|------------------------|
|   | 2011           | 2012      | 2013      | 2014    | 2015    | 2016    |                        |
| Brasil  | 82,472         | 347,929   | 378,697   | 99,797  | -       | -       |                        |
| Banco Central do Brasil   | 25,009         | 106,760   | 108,407   | 69,685  | 47,667  | 46,497  | 518,292                |
| Banco de Fomento do Estado de São Paulo                                   | 33,333         | 835,719   | 584,518   | 392,829 | 430,271 | 115,710 | 714,773                |
| Banco Nacional de Desenvolvimento Econômico e Social (BNDES)              | 10,687         | 36,884    | 4,193     | -       | -       | -       |                        |
| Banco Nacional de Desenvolvimento Econômico e Social (BNDES) - SANTISTA   | -              | 16,309    | 16,309    | 16,309  | 16,309  | 16,309  | 48,925                 |
| Banco Nacional de Desenvolvimento Econômico e Social (BNDES) - PAC        | 1,187          | 5,849     | 6,192     | 6,192   | 6,192   | 6,192   | 39,510                 |
| Banco Nacional de Desenvolvimento Econômico e Social (BNDES) - ONDA LIMPA | -              | 14,250    | 19,000    | 19,000  | 19,000  | 19,000  | 156,750                |
| Outros  | 640            | 1,048     | 585       | 495     | 557     | 628     | 25,633                 |
| Despesas com juros e encargos financeiros                                 | 49,613         | 25,671    | -         | -       | -       | -       |                        |
| Total em moeda nacional   | 202,941        | 1,390,419 | 1,117,901 | 604,307 | 519,996 | 204,336 | 1,503,900              |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|             |         |           |           |         |          |         |           |
|-------------|---------|-----------|-----------|---------|----------|---------|-----------|
|             | 26,022  | 71,104    | 71,104    | 71,104  | 71,104   | 71,104  | 266,173   |
|             | -       | -         | -         | -       | -        | -       | 13,920    |
|             | -       | -         | -         | -       | -259,043 | -       | 641,320   |
|             | -       | 52,658    | 52,658    | 52,658  | 52,658   | 52,658  | 685,200   |
| AB          | -       | 44,099    | 44,099    | 44,099  | 44,099   | 44,099  | 195,850   |
| and charges | 31,583  | 4,261     | -         | -       | -        | -       | -         |
| currency    | 57,605  | 172,122   | 167,861   | 167,861 | 167,861  | 426,904 | 1,802,490 |
| total       | 260,546 | 1,562,541 | 1,285,762 | 772,168 | 687,857  | 631,240 | 3,306,390 |

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|   | CONSOLIDATED |           |           |         |          |         | 2017 and thereafter |
|---|--------------|-----------|-----------|---------|----------|---------|---------------------|
|   | 2011         | 2012      | 2013      | 2014    | 2015     | 2016    |                     |
| Brasil  | 82,472       | 347,929   | 378,697   | 99,797  | -        | -       |                     |
| Banco Econômica Federal   | 25,009       | 106,927   | 118,305   | 79,583  | 57,565   | 56,395  | 647,929             |
| Banco (International Bank for Economic and Social Development)            | 33,333       | 835,719   | 584,518   | 392,829 | 430,271  | 115,710 | 714,770             |
| Banco (International Bank for Economic and Social Development)SANTISTA    | 10,687       | 36,884    | 4,193     | -       | -        | -       |                     |
| Banco (International Bank for Economic and Social Development)PAC         | -            | 16,309    | 16,309    | 16,309  | 16,309   | 16,309  | 48,927              |
| Banco (International Bank for Economic and Social Development) ONDA LIMPA | 1,187        | 5,849     | 6,192     | 6,192   | 6,192    | 6,192   | 39,510              |
| Other charges   | -            | 14,250    | 19,000    | 19,000  | 19,000   | 19,000  | 156,750             |
| Currency  | 643          | 1,048     | 585       | 495     | 557      | 628     | 25,630              |
|   | 49,613       | 25,671    | -         | -       | -        | -       |                     |
|   | 202,944      | 1,390,586 | 1,127,799 | 614,205 | 529,894  | 214,234 | 1,633,530           |
|   | 26,022       | 71,104    | 71,104    | 71,104  | 71,104   | 71,104  | 266,170             |
|   | -            | -         | -         | -       | -        | -       | 13,920              |
|   | -            | -         | -         | -       | -259,043 | -       | 641,320             |
|   | -            | 52,658    | 52,658    | 52,658  | 52,658   | 52,658  | 685,200             |
|   | -            | 44,099    | 44,099    | 44,099  | 44,099   | 44,099  | 195,850             |
|   | 31,583       | 4,261     | -         | -       | -        | -       |                     |
|   | 57,605       | 172,122   | 167,861   | 167,861 | 167,861  | 426,904 | 1,802,490           |
|   | 260,549      | 1,562,708 | 1,295,660 | 782,066 | 697,755  | 641,138 | 3,436,020           |

**(ix) Financial Commitments – “Covenants”**

Some contracts of loans and financings have clauses related to the meeting of certain financial ratios that are calculated quarterly.

**Debentures 9<sup>th</sup>, 11<sup>th</sup> e 12<sup>th</sup> Issue:**

a) Adjusted current liquidity (current assets divided by current liabilities, excluding from current liabilities the portion recorded as current liabilities of non-current debts contracted by the Company) higher than 1.0; and

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

b) Ebitda/Financial expenses equal to, or higher than, 1.5.

Failure to meet the clauses of the covenants shall lead to the early maturity of the contract. The lack of fulfillment of these obligations shall only be characterized when verified in its quarterly financial information, for at least two consecutive quarters, or even for two non consecutive quarters within a twelve-month period.

Upon the lack of observance to the covenants, the fiduciary agent shall convene, within 48 hours from the date it becomes aware of the occurrence, of a general debenture holders' meeting in order to deliberate on the declaration of early maturity of the debentures.

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**Debentures 10th and 14th Issue:**

- a) EBITDA/ROL: equal to, or higher than, 38%;
- b) EBITDA/Financial expenses: equal to, or higher than, 2.35%; and
- c) Net Banking Debt/Ebitda: equal to, or higher than, 3.65%.

**Caixa Econômica Federal – Pro-Sanitation Program:**

By means of the Performance Improvement Agreement, targets are set for financial and operating indicators (loss of invoicing, revenues evasion, cash availability and reduction of days of account receivable) that, based on the last two years, are projected annually for the upcoming five years.

Non fulfillment of 5 out 8 clauses of covenants shall trigger the early maturity of the contract.

**Debentures 13th Issue:**

- a) The ratio obtained by the division of the Total Debt by the EBITDA shall be lower than or equal to 3.65; and
- b) The ratio obtained by the division of the EBITDA by the Financial Expenses shall be equal to, or higher than, 1.5.

**BNDES:**

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

- a) Adjusted current liquidity: higher than 1.0;
- b) Ebitda / Net Operating Revenue: higher than or equal to 38%;
- c) Total connections (water and sewage) /headcount: higher than or equal to 520;
- d) Ebitda /Debt service: higher than or equal to 1.5; e
- e) Net Worth/Total Liabilities: higher than or equal to 0.8.

Non fulfillment of the clauses of covenants shall trigger the early maturity of the contract.

**Eurobonds:**

Limit the contracting of new debts in such a way that:

- a) The total adjusted debt to Ebitda shall not be higher than 3.65; and
- b) The Company's interest coverage ratio, determined at the date of incursion of this debt, is not lower than 2.35.

Non fulfillment of the clauses of covenants shall trigger the early maturity of the contract.

**Banco Interamericano de Desenvolvimento (BID):**

The contracts 713, 896, 1.212 and 2.202 - The tariffs may:

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

a) Produce revenue enough to cover the expenses with system exploration, including those related to the management, operation, maintenance and depreciation;

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- b) Provide a profitability on fixed assets higher than 7%; and
  
- c) During the execution of the Project, the balances of the loans contracted for short term shall be higher than 8.5% to net worth.

Non fulfillment of the clauses of covenants shall trigger the early maturity of the contract.

On September 30, 2011, the Company met the requirements included in its loan and financing contracts.

The Company has obtained from BNDES, exceptionally, the suspension for 13 months, as of December 9, 2010, of the requirement to fulfill the special obligations set forth by the contracts.

**13. TAXES AND CONTRIBUTIONS**

- a) Current assets

The item taxes recoverable of current assets is comprised by amounts of negative balance of income tax and social contribution and amounts related to income tax withheld on financial investments. The balance on September 30, 2011 was R\$70,052 (R\$108,675 on December 31, 2010), the reduction of R\$38,623 in the balance occurred as a result of the offset of amounts related to negative balance of income tax and social contribution of the year 2010 with amounts payable of the same taxes of year 2011. Such drop was partially offset by the verification of higher payment in the estimates of payment in the fiscal year 2011, resulting from the reduction in the amounts calculated of income tax and social contribution, in the period from January to September, 2011 due to the drop to current's year accumulated profit.

- b) Liabilities

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the



|                  | <b>HOLDING</b> |         |             |        |
|------------------|----------------|---------|-------------|--------|
|                  | Current        |         | Non current |        |
|                  | Sep/11         | Dec/10  | Sep/11      | Dec/10 |
| Cofins and pasep | 49,791         | 48,149  | -           | -      |
| Paes             | 36,378         | 35,364  | 27,286      | 53,045 |
| INSS             | 24,318         | 24,112  | -           | -      |
| Others           | 18,565         | 50,143  | -           | -      |
| Total            | 129,052        | 157,768 | 27,286      | 53,045 |

|                                    | <b>CONSOLIDATED</b> |         |             |        |
|------------------------------------|---------------------|---------|-------------|--------|
|                                    | Current             |         | Non-current |        |
|                                    | Sep//11             | Dec/10  | Sep/11      | Dec/10 |
| Income tax and social contribution | 72                  | -       | -           | -      |
| Cofins and pasep                   | 49,805              | 48,149  | -           | -      |
| Paes                               | 36,378              | 35,364  | 27,286      | 53,045 |
| INSS                               | 24,320              | 24,112  | -           | -      |
| Others                             | 20,393              | 50,425  | -           | -      |
| Total                              | 130,968             | 158,050 | 27,286      | 53,045 |

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The reduction in the current liabilities of R\$27,082 occurred mainly as a result of the reduction in the balance of item “Others”, referring to income tax withheld, in the amount of R\$33,032, calculated on interests on shareholders’ equity declared in December, 2010, being that the payment of the referred tax was made in January, 2011..

The reduction of R\$25,759 in non current liabilities occurred as a result of the payment flow and adequacy of the short term and long term balance of the Special Program (Paes) of the holding, according to the information below.

The company applied for the Special Installment Payment Request (Paes) on July 15, 2003, pursuant Law nr. 10684 of May 30, 2003, including in this application the debts related to the Cofins and to the Pasep involved in judicial lawsuit against the application of Law nr. 9718/98 and consolidated the remaining balance of the Tax Recovery Program (Refis). The total amount included in the Paes was R\$316,953, as follows:

| <b>Tax</b> | <b>Principal</b> | <b>Penalty</b> | <b>Interests</b> | <b>Total</b> |
|------------|------------------|----------------|------------------|--------------|
| COFINS     | 132,499          | 13,250         | 50,994           | 196,743      |
| PASEP      | 5,001            | 509            | 2,061            | 7,571        |
| REFIS      | 112,639          | -              | -                | 112,639      |
| Total      | 250,139          | 13,759         | 53,055           | 316,953      |

The debt is being paid in 120 months. The amounts paid in the january to september, 2011 and in the year 2010 were R\$26,943 R\$34,744, respectively. Financial expenses were recorded in the amount of R\$648 in the 3rd quarter of 2011 (R\$986 in the 3rd quarter, 2010) and R\$2,197 of january to september of 2011 (R\$3,211 january to september 2010). The outstanding debt on September 30, 2011 was R\$63,663. The assets granted in guarantee to the previous Refis Program, in the amount of R\$249,034 continue to guarantee the amounts of the Paes Program.

**14. DEFERRED TAXES AND CONTRIBUTIONS****(a) Balances**

|                           | <b>HOLDING</b> |               | <b>CONSOLIDATED</b> |               |
|---------------------------|----------------|---------------|---------------------|---------------|
|                           | <b>Sep/11</b>  | <b>Dec/10</b> | <b>Sep/11</b>       | <b>Dec/10</b> |
| Deferred income tax asset |                |               |                     |               |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Provision for contingencies                            | 561,663   | 539,394   | 561,663   | 539,394   |
| Social security obligations –G1                        | 175,808   | 162,552   | 175,808   | 162,552   |
| Social security obligations –G0                        | 85,271    | 85,271    | 85,271    | 85,271    |
| Donation of assets related to the concession contracts | 38,213    | 38,213    | 38,213    | 38,213    |
| Others   | 196,121   | 177,816   | 199,332   | 179,356   |
| Total deferred tax asset                               | 1,057,075 | 1,003,246 | 1,060,286 | 1,004,786 |
| Deferred income tax liability                          |           |           |           |           |
| Temporary difference on concession of intangible asset | (692,210) | (711,283) | (692,210) | (711,283) |
| Capitalization of loan costs                           | (101,507) | (102,339) | (101,507) | (102,339) |
| Income– public entities                                | (77,294)  | (72,968)  | (77,293)  | (72,968)  |
| Others   | (52,108)  | (38,743)  | (55,625)  | (39,756)  |
| Total deferred tax liability                           | (923,119) | (925,333) | (926,635) | (926,346) |
| Deferred Tax asset (liability) in the balance sheet    | 133,956   | 77,913    | 133,651   | 78,440    |

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The increase in the net balance of consolidated deferred tax asset, in the amount of R\$55,211, occurred as a result of the calculation of tax on higher provision for losses related to the sale of water by wholesale (note 7(c)), from provisions for contingent losses (note 16) and from social security obligations G1 (note 15(i)).

**(b) Conciliation of the effective tax rate**

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

|   | HOLDING         |                    |                  |                    |
|---|-----------------|--------------------|------------------|--------------------|
|   | <u>3rd Q/11</u> | <u>Jan-Set /11</u> | <u>3rd Q/10</u>  | <u>Jan-Set /10</u> |
| Income before taxes on income               | 122,677         | 1,194,401          | 702,920          | 1,665,766          |
| Statutory rate                              | <u>34%</u>      | <u>34%</u>         | <u>34%</u>       | <u>34%</u>         |
| Tax expense at statutory rate               | (41,710)        | (406,096)          | (238,993)        | (566,360)          |
| Permanent differences                       |                 |                    |                  |                    |
| Provision Act 4819/58 (i)                   | (13,055)        | (80,331)           | (16,051)         | (41,957)           |
| Earnings in cash                            | -               | 23,379             | -                | -                  |
| Other differences                           | <u>52</u>       | <u>(948)</u>       | <u>(10,858)</u>  | <u>(1,937)</u>     |
| Income tax and social contribution          | <u>(54,713)</u> | <u>(463,996)</u>   | <u>(265,902)</u> | <u>(610,254)</u>   |
| Current income tax and social contribution  | (112,974)       | (519,992)          | (199,816)        | (634,842)          |
| Deferred income tax and social contribution | 58,261          | 55,996             | (66,086)         | 24,588             |
| Effective tax rate                          | <u>45%</u>      | <u>39%</u>         | <u>38%</u>       | <u>37%</u>         |

|                               | CONSOLIDATED    |                    |                 |                    |
|-------------------------------|-----------------|--------------------|-----------------|--------------------|
|                               | <u>3rd Q/11</u> | <u>Jan-Set /11</u> | <u>3rd Q/10</u> | <u>Jan-Set /10</u> |
| Income before taxes on income | 123,619         | 1,195,441          | 702,920         | 1,665,766          |
| Statutory rate                | <u>34%</u>      | <u>34%</u>         | <u>34%</u>      | <u>34%</u>         |
| Tax expense at statutory rate | (44,030)        | (406,450)          | (238,993)       | (566,360)          |
| Permanent differences         |                 |                    |                 |                    |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|   |                 |                  |                  |                  |
|---|-----------------|------------------|------------------|------------------|
| Provision Act 4819/58 (i)                   | (13,055)        | (80,331)         | (16,051)         | (41,957)         |
| Earnings in cash                            | -               | 23,379           | -                | -                |
| Other differences                           | <u>(570)</u>    | <u>(1,634)</u>   | <u>(10,858)</u>  | <u>(1,937)</u>   |
| Income tax and social contribution          | <u>(55,655)</u> | <u>(465,036)</u> | <u>(265,902)</u> | <u>(610,254)</u> |
| Current income tax and social contribution  | (113,182)       | (520,200)        | (199,816)        | (634,842)        |
| Deferred income tax and social contribution | 57,527          | 55,164           | (66,086)         | 24,588           |
| Effective tax rate                          | <u>45%</u>      | <u>39%</u>       | <u>38%</u>       | <u>37%</u>       |

(i) Permanent difference related to the provision referring to the actuarial obligation (note 8 (vii)).

Transitional Tax Regime – RTT

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For the purposes of calculation of income tax and social contribution on net income of the years of 2009 and 2008, the Company and its subsidiaries adopted the RTT, which allows the legal entity to eliminate the accounting effects of the Law 11.638/07 and Provisional Measure 449/08, converted into Law 11.941/09, by the registers in the fiscal books - LALUR and auxiliary controls, without any change in the accounting books.

In 2011, the Company also adopted the same tax practices adopted in 2008, 2009 and 2010, since the RTT shall be in force until the enacting of the Law that rules the tax effects of the new accounting standards, seeking the tax neutrality.

**15. BENEFITS TO EMPLOYEES**

(a) Assistance Plan

Managed by Fundação SABESP de Seguridade Social – Sabesprev, it is constituted by optional health plan, of free choice, kept by contributions from the sponsor and the participants, which were the following in the period:

From the Company: 8.1%, on average, on the payroll;

From the participants: 3.21%, on base salary and bonus, which corresponds to the average of 1.4% on the payroll.

(b) The amounts recorded in the balance are the following:

**Funded Plan – G1**

|   |               |
|---|---------------|
| Social security obligations in December, 2010 | 487,332       |
| Expenses recorded in 2011                     | <u>38,986</u> |
| Social security obligations in September 2011 | 526,318       |

**Unfunded Plan – G0**

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|   |                  |
|---|------------------|
| Social security obligations in December, 2010         | 1,316,706        |
| Actuarial losses calculated in December 31, 2010 (ii) | 157,527          |
| Expenses recorded in 2011                             | <u>36,340</u>    |
| Social security obligations in September, 2011        | <u>1,510,573</u> |
| Total   | <u>2,036,891</u> |

(i) Plan G1

Managed by Fundação SABESP de Seguridade Social – Sabesprev, the defined benefit plan (“Plano G1”) receives monthly contributions as follows: 1.2% from the Company and 1.4% from the participants.

In September 30, 2011, the Company had a net actuarial obligation of R\$526,318 (Dec/10 – R\$487,332) that represents the difference between the present value of the Company’s obligations related to the participants that are employees, retirees and pensioners and the fair value of the related assets, and unrecognized actuarial gains.

With the purpose to settle the debt referring to the Defined Benefit Plan (BD) G1, as of July, 2010, Sabesp and SABESPREV have structured a process through which the participants could elect to change from the Defined Benefit Plan to Defined Contribution Plan, the SABESPREV Mais.

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The period for migrating the plan, from July to November, 2010, was suspended through preliminary injunction granted by the Court of Justice of the State of Sao Paulo on October 20, 2010, until the allegations from the parties involved are analyzed.

(ii) Plan G0

The Company makes payments, due to judicial order, of benefits for retirement and pension supplement to its former employees and retirees provided by State Law nr. 4819/58. These amounts are recorded as accounts receivable from shareholders, limited to the amounts recognized as due by the State Government.

On September 30, 2011 the Company had an obligation to the Plan G0 of R\$1,510,573 (Dec/10 – R\$1,316,706). In the period from January to September, 2011 it was further recorded the amount of R\$157,527 referring to amortization of actuarial gains and losses, corresponding to the portion that exceeded 10% of the present value of the actuarial obligation (corridor) of the calculation of December, 2010.

(c) Profit Sharing

Based on the negotiations held between the Company and the entities that represent the functional class, it was implemented the Profit Sharing Plan, considering the period from January to December, 2011, with the distribution of the amount corresponding to one payroll, upon the setting of targets. In the 3rd quarter, 2011 it was accrued the amount of R\$14,005 (3rd quarter of 2010 – R\$11,778).

**16. PROVISIONS FOR CONTINGENCIES**

Management, based on a joint analysis with its legal counsel, made a provision whose amount was considered sufficient to cover probable losses on lawsuits. The amounts related to lawsuits in the sentence execution stage, recorded in current liabilities, under the caption “Provisions”, of R\$726,941 (Dec/2010 - R\$766,603), and the amounts recorded in non-current liabilities, under the caption “Provisions”, of R\$809,090 (Dec/2010 - R\$693,227). The amount paid in the January to September of 2011 was R\$ 148,317.

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the



HOLDING AND CONSOLIDATED

|                            |                  |                  |                   | Interest,<br>adjustments       |                  |
|----------------------------|------------------|------------------|-------------------|--------------------------------|------------------|
|                            |                  |                  |                   | Monetary                       |                  |
|                            | <u>Dec/10</u>    | <u>Additions</u> | <u>Deductions</u> | <u>and</u><br><u>reversals</u> | <u>Set/11</u>    |
| Customers (i)              | 770,205          | 109,474          | (127,367)         | (11,391)                       | 740,921          |
| Suppliers (ii)             | 372,889          | 6,047            | (169)             | 20,393                         | 399,160          |
| Other civil lawsuits (iii) | 175,932          | 20,416           | (22,370)          | 5,148                          | 179,126          |
| Tax (iv)                   | 58,658           | 5,902            | (887)             | 9,826                          | 73,499           |
| Labor (v)                  | 137,232          | 33,743           | (28,112)          | 12,843                         | 155,706          |
| Environmental (vi)         | <u>65,095</u>    | <u>62,464</u>    | <u>(25,341)</u>   | <u>1,318</u>                   | <u>103,536</u>   |
| Subtotal                   | 1,580,011        | 238,046          | (204,246)         | 38,137                         | 1,651,948        |
| Judicial deposits          | <u>(120,181)</u> | <u>(11,021)</u>  | <u>18,703</u>     | <u>(3,418)</u>                 | <u>(115,917)</u> |
| Total                      | <u>1,459,830</u> | <u>227,025</u>   | <u>(185,543)</u>  | <u>34,719</u>                  | <u>1,536,031</u> |

The main variations in the period additions related to new processes with customers and the change in expectation of loss related to labor and, in the case of low due to the revised estimate and agreement occurred in the environmental sphere.

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(i) Customers - Approximately 1,480 lawsuits were filed by commercial customers, which claim that their tariffs should be equal to the tariffs of another consumer category, and therefore claim the refund of the amounts collected by Sabesp. The Company was granted both favorable and unfavorable final decisions at several courts, and recognized provisions when the likelihood of loss is considered probable.

(ii) Suppliers - Suppliers' claims include lawsuits filed by some building companies alleging an underpayment of monetary adjustments, withholding of amounts related to the understatement of official inflation rates after the Real economic plan, and the economic and financial imbalance of the agreements. These lawsuits are in progress at different courts and a provision is recognized when the likelihood of loss is considered probable.

(iii) Other civil lawsuits - refer mainly to indemnity claims for property damage, pain and suffering, and loss of profits allegedly caused to third parties, filed at different court levels, duly accrued when classified as probable losses.

(iv) Tax lawsuits - the provision for tax contingencies refers mainly to issues related to tax collections challenged due to differences in the interpretation of legislation by the Company's legal counsel, duly accrued when classified as probable losses.

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

(vi) Environmental lawsuits - refer to several administrative proceedings and lawsuits filed by government entities, including Companhia de Tecnologia de Saneamento Ambiental - Cetesb and the São Paulo State Public Prosecution Office for the imposition of fines for environmental damages allegedly caused by the Company. The amounts recognized in provision do not always represent the final amount to be disbursed as indemnity of alleged damages, in view of the current stage in which such lawsuits are and Management's impossibility to reasonably estimate the amounts of future disbursements.

*Lawsuits with possible likelihood of loss*

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

The Company is a party to lawsuits and administrative proceedings related to environmental, tax, civil and labor lawsuits, which are considered by its legal counsel as possible losses, and are not recorded in the books. The amount attributed to these lawsuits and proceedings is approximately R\$2,526,500 as of September 30, 2011 (Dec/2010 - R\$2,297,900).

The other information is presented in annual financial statements of December 31, 2010, Note 16.

## 17. REVENUE

### (a) Gross Sales of Goods and Services

|                                  | HOLDING           |                   |                   |                   |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                  | <u>3rd qtr/11</u> | <u>Jan-Sep/11</u> | <u>3rd qtr/10</u> | <u>Jan-Sep/10</u> |
| Metropolitan Region of São Paulo | 1,526,822         | 4,452,945         | 1,417,044         | 4,172,490         |
| Regional systems(i)              | <u>541,260</u>    | <u>1,590,372</u>  | <u>512,259</u>    | <u>1,465,860</u>  |
| Total (ii)                       | <u>2,068,082</u>  | <u>6,043,317</u>  | <u>1,929,303</u>  | <u>5,638,350</u>  |

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|                                  | CONSOLIDATED      |                   |                   |                   |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                  | <u>3rd qtr/11</u> | <u>Jan-Sep/11</u> | <u>3rd qtr/10</u> | <u>Jan-Sep/10</u> |
| Metropolitan Region of São Paulo | 1,526,822         | 4,452,945         | 1,417,044         | 4,172,490         |
| Regional systems(i)              | <u>542,807</u>    | <u>1,594,738</u>  | <u>512,259</u>    | <u>1,465,860</u>  |
| Total (ii)                       | <u>2,069,629</u>  | <u>6,047,683</u>  | <u>1,929,303</u>  | <u>5,638,350</u>  |

(i) Comprises the municipalities operated in the Interior of the State of São Paulo.

(ii) The gross operating revenue from sales and services presented an increase of 7.2% in the January to September of 2011 when compared to the January to September of 2010, due mainly to the tariff increase of 4.05% occurred in September, 2010 and increase in volume of 3.2%.

(b) Reconciliation of gross revenue to net

|   | HOLDING           |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | <u>3rd qtr/11</u> | <u>Jan-Sep/11</u> | <u>3rd qtr/10</u> | <u>Jan-Sep/10</u> |
| Gross revenues from sales and/or services | 2,068,082         | 6,043,317         | 1,929,303         | 5,638,350         |
| Revenues from Construction                | 672,330           | 1,621,042         | 564,853           | 1,559,708         |
| Sales taxes                               | <u>(149,150)</u>  | <u>(438,691)</u>  | <u>(140,902)</u>  | <u>(409,172)</u>  |
| Net revenue                               | <u>2,591,262</u>  | <u>7,225,668</u>  | <u>2,353,254</u>  | <u>6,788,886</u>  |

|   | CONSOLIDATED      |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | <u>3rd qtr/11</u> | <u>Jan-Sep/11</u> | <u>3rd qtr/10</u> | <u>Jan-Sep/10</u> |
| Gross revenues from sales and/or services | 2,069,629         | 6,047,683         | 1,929,303         | 5,638,350         |
| Revenues from Construction                | 672,361           | 1,621,183         | 564,853           | 1,559,708         |
| Sales taxes                               | <u>(149,191)</u>  | <u>(438,811)</u>  | <u>(140,902)</u>  | <u>(409,172)</u>  |
| Net revenue                               | <u>2,592,799</u>  | <u>7,230,055</u>  | <u>2,353,254</u>  | <u>6,788,886</u>  |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

**ITR - QUARTERLY INFORMATION 09/30/2011 CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO****18. OPERATING COSTS AND EXPENSES**

| Description  | HOLDING           |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | <u>3rd qtr/11</u> | <u>Jan-Sep/11</u> | <u>3rd qtr/10</u> | <u>Jan-Sep/10</u> |
| Cost of sales and services provided:                   |                   |                   |                   |                   |
| Wages and taxes  | 294,815           | 845,892           | 247,824           | 733,073           |
| Pension obligations (i)                                | 11,885            | 35,330            | 7,835             | 17,294            |
| Construction costs                                     | 656,029           | 1,581,757         | 551,599           | 1,523,861         |
| General supplies                                       | 39,288            | 105,469           | 33,777            | 94,400            |
| Treatment supplies                                     | 37,258            | 118,823           | 31,581            | 98,720            |
| Party services   | 195,299           | 497,985           | 136,855           | 438,946           |
| Electricity  | 143,447           | 435,264           | 131,834           | 390,779           |
| General expenses                                       | 95,178            | 269,927           | 87,068            | 109,433           |
| Depreciation and amortization                          | <u>161,314</u>    | <u>549,557</u>    | <u>133,628</u>    | <u>411,939</u>    |
|  | <u>1,634,513</u>  | <u>4,440,004</u>  | <u>1,362,001</u>  | <u>3,818,445</u>  |
| <b>Selling expenses</b>                                |                   |                   |                   |                   |
| Wages and taxes  | 50,110            | 148,359           | 45,528            | 137,326           |
| Pension obligations (i)                                | 1,886             | 5,806             | 1,399             | 3,509             |
| General supplies                                       | 2,028             | 5,679             | 1,622             | 4,611             |
| Party services   | 24,232            | 133,521           | 55,509            | 167,235           |
| Electricity  | 136               | 471               | 184               | 586               |
| General expenses                                       | 19,050            | 56,889            | 21,235            | 52,428            |
| Depreciation and amortization                          | 1,555             | 5,703             | 1,322             | 3,789             |
| Allowance for doubtful accounts, net of recoveries     |                   |                   |                   |                   |
| (note7(c))   | <u>17,222</u>     | <u>93,329</u>     | <u>41,397</u>     | <u>129,663</u>    |
|  | <u>116,219</u>    | <u>449,757</u>    | <u>168,196</u>    | <u>499,147</u>    |
| <b>Administrative expenses:</b>                        |                   |                   |                   |                   |
| Wages and taxes  | 40,762            | 116,022           | 31,213            | 104,113           |
| Pension obligations (i)                                | 27,587            | 244,267           | 50,419            | 142,115           |
| General supplies                                       | 1,168             | 3,067             | 942               | 3,957             |
| Party services   | 25,595            | 77,673            | 28,868            | 104,991           |
| Electricity  | 345               | 819               | 243               | 916               |
| General expenses                                       | 79,967            | 151,808           | 57,822            | 113,032           |
| Depreciation and amortization                          | 5,322             | 17,254            | 6,209             | 17,189            |
| Tax expenditure  | <u>11,571</u>     | <u>49,108</u>     | <u>11,711</u>     | <u>50,530</u>     |
|  | <u>192,317</u>    | <u>660,018</u>    | <u>187,427</u>    | <u>536,843</u>    |
| <b>Costs, and selling and administrative expenses:</b> |                   |                   |                   |                   |
| Wages and taxes  | 385,687           | 1,110,273         | 324,565           | 974,512           |
| Pension obligations (i)                                | 41,358            | 285,403           | 59,653            | 162,918           |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|
| Construction costs                                 | 656,029          | 1,581,757        | 551,599          | 1,523,861        |
| General supplies                                   | 42,484           | 114,215          | 36,341           | 102,968          |
| Treatment supplies                                 | 37,258           | 118,823          | 31,581           | 98,720           |
| Party services                                     | 245,126          | 709,179          | 221,232          | 711,172          |
| Electricity  | 143,928          | 436,554          | 132,261          | 392,281          |
| General expenses (ii)                              | 194,195          | 478,624          | 166,125          | 274,893          |
| Depreciation and amortization (iii)                | 168,191          | 572,514          | 141,159          | 432,917          |
| Tax expenditure                                    | 11,571           | 49,108           | 11,711           | 50,530           |
| Allowance for doubtful accounts, net of recoveries |                  |                  |                  |                  |
| (note7(c))   | <u>17,222</u>    | <u>93,329</u>    | <u>41,397</u>    | <u>129,663</u>   |
|  | <u>1,943,049</u> | <u>5,549,779</u> | <u>1,717,624</u> | <u>4,854,435</u> |

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| Description  | CONSOLIDATED      |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | <u>3rd qtr/11</u> | <u>Jan-Sep/11</u> | <u>3rd qtr/10</u> | <u>Jan-Sep/10</u> |
| Cost of sales and services provided:                   |                   |                   |                   |                   |
| Wages and taxes  | 294,970           | 846,338           | 247,824           | 733,073           |
| Pension obligations (i)                                | 11,885            | 35,330            | 7,835             | 17,294            |
| Construction costs                                     | 656,241           | 1,582,560         | 551,599           | 1,523,861         |
| General supplies                                       | 39,318            | 105,586           | 33,777            | 94,400            |
| Treatment supplies                                     | 37,289            | 118,910           | 31,581            | 98,720            |
| Party services   | 195,546           | 498,567           | 136,855           | 438,946           |
| Electricity  | 143,709           | 436,019           | 131,834           | 390,779           |
| General expenses                                       | 95,392            | 270,360           | 87,068            | 109,433           |
| Depreciation and amortization                          | <u>161,331</u>    | <u>549,581</u>    | <u>133,628</u>    | <u>411,939</u>    |
|  | <u>1,635,681</u>  | <u>4,443,251</u>  | <u>1,362,001</u>  | <u>3,818,445</u>  |
| <b>Selling expenses</b>                                |                   |                   |                   |                   |
| Wages and taxes  | 50,110            | 148,444           | 45,528            | 137,326           |
| Pension obligations (i)                                | 1,886             | 5,806             | 1,399             | 3,509             |
| General supplies                                       | 2,028             | 5,679             | 1,622             | 4,611             |
| Party services   | 24,231            | 133,535           | 55,509            | 167,235           |
| Electricity  | 136               | 471               | 184               | 586               |
| General expenses                                       | 19,053            | 56,895            | 21,235            | 52,428            |
| Depreciation and amortization                          | 1,555             | 5,703             | 1,322             | 3,789             |
| Allowance for doubtful accounts, net of recoveries     |                   |                   |                   |                   |
| (note7(c))   | <u>17,308</u>     | <u>93,416</u>     | <u>41,397</u>     | <u>129,663</u>    |
|  | <u>116,307</u>    | <u>449,949</u>    | <u>168,196</u>    | <u>499,147</u>    |
| <b>Administrative expenses:</b>                        |                   |                   |                   |                   |
| Wages and taxes  | 41,393            | 117,948           | 31,286            | 104,371           |
| Pension obligations (i)                                | 27,587            | 244,267           | 50,419            | 142,115           |
| General supplies                                       | 1,203             | 3,164             | 944               | 3,963             |
| Party services   | 26,111            | 79,114            | 28,896            | 105,057           |
| Electricity  | 346               | 823               | 243               | 916               |
| General expenses                                       | 80,104            | 152,260           | 57,835            | 113,079           |
| Depreciation and amortization                          | 5,331             | 17,272            | 6,210             | 17,191            |
| Tax expenditure  | <u>11,603</u>     | <u>49,240</u>     | <u>11,729</u>     | <u>50,548</u>     |
|  | <u>193,678</u>    | <u>664,088</u>    | <u>187,562</u>    | <u>537,240</u>    |
| <b>Costs, and selling and administrative expenses:</b> |                   |                   |                   |                   |
| Wages and taxes  | 386,473           | 1,112,730         | 324,638           | 974,770           |
| Pension obligations (i)                                | 41,358            | 285,403           | 59,653            | 162,918           |
| Construction costs                                     | 656,241           | 1,582,560         | 551,599           | 1,523,861         |
| General supplies                                       | 42,549            | 114,429           | 36,343            | 102,974           |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the



|  |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|
| Treatment supplies                                 | 37,289           | 118,910          | 31,581           | 98,720           |
| Party services                                     | 245,888          | 711,216          | 221,260          | 711,238          |
| Electricity  | 144,191          | 437,313          | 132,261          | 392,281          |
| General expenses (ii)                              | 194,549          | 479,515          | 166,138          | 274,940          |
| Depreciation and amortization (iii)                | 168,217          | 572,556          | 141,160          | 432,919          |
| Tax expenditure                                    | 11,603           | 49,240           | 11,729           | 50,548           |
| Allowance for doubtful accounts, net of recoveries |                  |                  |                  |                  |
| (note7(c))   | <u>17,308</u>    | <u>93,416</u>    | <u>41,397</u>    | <u>129,663</u>   |
|  | <u>1,945,666</u> | <u>5,557,288</u> | <u>1,717,759</u> | <u>4,854,832</u> |

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(i) Increase occurred in social security obligations due to the increase in the actuarial liability related to the benefits of supplement to retirement and pension granted by State Law nr. 4819/58 (Plan G0) in the amount of R\$157,527 with impact in January 1st, 2011.

(ii) Increase in general expenses in the group “cost of sales and services provided” was caused by the participation of 7.5% of the gross revenue, of the municipality of Sao Paulo, as provided in the contract with the municipality.

(iii) Increase resulting from the amortization calculated by the useful life of the asset of duration of the contract, whichever is lower.

**19. OPERATING INCOME AND EXPENSES**

| <u>Description</u>   | HOLDING           |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | <u>3rd qtr/11</u> | <u>Jan-Sep/11</u> | <u>3rd qtr/10</u> | <u>Jan-Sep/10</u> |
| Cost of sales and services provided:                           |                   |                   |                   |                   |
| Interest and charges on loans and financing - local currency   | (77,800)          | (273,729)         | (100,823)         | (283,719)         |
| Interest and charges on loans and financing - foreign currency | (23,155)          | (60,303)          | (11,675)          | (39,156)          |
| Other financial expenses                                       | (34,198)          | (71,452)          | (66,479)          | (135,316)         |
| Income tax on shipping abroad                                  | (2,316)           | (6,828)           | (654)             | (2,294)           |
| Monetary variation on loans and financing                      | (7,862)           | (42,689)          | (15,438)          | (64,275)          |
| Other Monetary variation                                       | (18,909)          | (24,065)          | (27,850)          | (41,753)          |
| Financial Provisions for contingencies                         | <u>6,033</u>      | <u>(38,137)</u>   | <u>126,397</u>    | <u>14,071</u>     |
| Total financial expenses                                       | <u>(158,207)</u>  | <u>(517,203)</u>  | <u>(96,522)</u>   | <u>(552,442)</u>  |
| Financial income:  |                   |                   |                   |                   |
| Monetary variation gains                                       | 17,386            | 64,784            | 20,090            | 90,954            |
| Income from financial investments                              | 70,767            | 212,289           | 43,527            | 89,748            |
| Interest and others  | <u>25,355</u>     | <u>61,957</u>     | <u>17,171</u>     | <u>59,268</u>     |
| Total financial income   | 113,508           | 339,030           | 80,788            | 239,970           |
| Financial net before the exchange rate changes                 | <u>(44,699)</u>   | <u>(178,173)</u>  | <u>(15,734)</u>   | <u>(312,472)</u>  |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

Exchange rate changes, net:

|   |                  |                  |               |               |
|---|------------------|------------------|---------------|---------------|
| Exchange variation on loans and financing (i) | (466,324)        | (322,976)        | 78,644        | 36,021        |
| Other Exchange rate changes                   | (61)             | (69)             | (18)          | (178)         |
| Active Exchange variation                     | <u>386</u>       | <u>(14,564)</u>  | <u>25</u>     | <u>154</u>    |
|   | <u>(465,999)</u> | <u>(337,609)</u> | <u>78,651</u> | <u>35,997</u> |
| Net financial                                 | (510,698)        | (515,782)        | 62,917        | (276,475)     |

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| <u>Description</u>   | CONSOLIDATED      |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | <u>3rd qtr/11</u> | <u>Jan-Sep/11</u> | <u>3rd qtr/10</u> | <u>Jan-Sep/10</u> |
| Cost of sales and services provided:                           |                   |                   |                   |                   |
| Interest and charges on loans and financing - local currency   | (77,991)          | (274,159)         | (100,823)         | (283,719)         |
| Interest and charges on loans and financing - foreign currency | (23,155)          | (60,303)          | (11,675)          | (39,156)          |
| Other financial expenses                                       | (34,273)          | (71,548)          | (66,479)          | (135,316)         |
| Income tax on shipping abroad                                  | (2,316)           | (6,828)           | (654)             | (2,294)           |
| Monetary variation on loans and financing                      | (7,862)           | (42,689)          | (15,438)          | (64,275)          |
| Other Monetary variation                                       | (18,909)          | (24,065)          | (27,850)          | (41,753)          |
| Financial Provisions for contingencies                         | <u>6,033</u>      | <u>(38,137)</u>   | <u>126,397</u>    | <u>14,071</u>     |
| Total financial expenses                                       | <u>(158,473)</u>  | <u>(517,729)</u>  | <u>(96,522)</u>   | <u>(552,442)</u>  |
| Financial income:  |                   |                   |                   |                   |
| Monetary variation gains                                       | 17,386            | 64,794            | 20,090            | 90,954            |
| Income from financial investments                              | 70,859            | 212,438           | 43,548            | 89,807            |
| Interest and others  | <u>25,356</u>     | <u>61,980</u>     | <u>17,171</u>     | <u>59,268</u>     |
| Total financial income   | 113,601           | 339,212           | 80,809            | 240,029           |
| Financial net before the exchange rate changes                 | <u>(44,872)</u>   | <u>(178,517)</u>  | <u>(15,713)</u>   | <u>(312,413)</u>  |
| Exchange rate changes, net:                                    |                   |                   |                   |                   |
| Exchange variation on loans and financing (i)                  | (466,324)         | (322,977)         | 78,644            | 36,021            |
| Other Exchange rate changes                                    | (61)              | (69)              | (18)              | (178)             |
| Active Exchange variation                                      | <u>386</u>        | <u>(14,561)</u>   | <u>25</u>         | <u>154</u>        |
|  | <u>(465,999)</u>  | <u>(337,607)</u>  | <u>78,651</u>     | <u>35,997</u>     |
| Net financial  | (510,871)         | (516,124)         | 62,938            | (276,416)         |

(i) Increase in foreign exchange variance on external loans and financings generating positive impact as a result of the appreciation of the US dollar in 2011 against a depreciation in 2010

**20. OTHER OPERATING INCOME (EXPENSES), NET**

The break-down of “other operating income (expenses), net” is the following:

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|  | HOLDING    |            |            |            |
|--|------------|------------|------------|------------|
|  | 3rd qtr/11 | Jan-Sep/11 | 3rd qtr/10 | Jan-Sep/10 |
| Other operating income (i)             | (2,434)    | 63,889     | 11,016     | 30,369     |
| Cofins e pasep                         | 303        | (5,831)    | (1,607)    | (3,866)    |
| Other operating income net             | (2,131)    | 58,058     | 9,409      | 26,503     |
| Other operating expenses               | (10,540)   | (19,346)   | (4,922)    | (18,375)   |
| Other operating income (expenses), net | (12,671)   | 38,712     | 4,487      | 8,128      |

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|  | 3rd qtr/11 | CONSOLIDATED |            | Jan-Sep/10 |
|--|------------|--------------|------------|------------|
|  |            | Jan-Sep/11   | 3rd qtr/10 |            |
| Other operating income (i)             | (2,406)    | 63,975       | 11,016     | 30,369     |
| Cofins e pasep                         | 303        | (5,831)      | (1,607)    | (3,866)    |
| Other operating income net             | (2,103)    | 58,144       | 9,409      | 26,503     |
| Other operating expenses               | (10,540)   | (19,346)     | (4,922)    | (18,375)   |
| Other operating income (expenses), net | (12,643)   | 38,798       | 4,487      | 8,128      |

Other operating income are comprised by sale of fixed assets, sales of public notices, as well as indemnifications and reimbursement of expenses, lease of real estate, water for reuse, Pura and Aqua log's projects and services.

Other operating expenses are substantially comprised by write-off of fixed assets due to obsolescence, discontinued works, non productive wells, economic unviable projects and loss of fixed assets.

(i) Other operating revenue presented an increase mainly due to the adherence to the contract for Alienation of Exclusivity Right of deposits of payments of the employees of Sabesp with Nossa Caixa and Banco do Brasil.

**21. BUSINESS SEGMENT INFORMATION**

The Company's management has defined operating segments based on account balances in Brazilian GAAP, used for making strategic decisions.

The Company's management considers the deal as providing water and sewer service. No operating segment was added.

Information by business segment for the period ended September 30, 2011 are as follows:

**CONSOLIDATED**  
**January to September of 2011**

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|   | <b>Water</b>       | <b>Sewer</b>       | <b>Reconciliation to<br/>Financial<br/>Statements</b> | <b>Balance<br/>according to<br/>Financial<br/>Statements</b> |
|---|--------------------|--------------------|---|--|
| Gross revenue from sales and services – from external customers | 3,348,872          | 2,698,811          | 1,621,183   | 7,668,866  |
| Deductions  | <u>(242,967)</u>   | <u>(195,844)</u>   | =   | <u>(438,811)</u>   |
| Net sales and services - from external customers                | 3,105,905          | 2,502,967          | 1,621,183   | 7,230,055  |
| Costs and expenses Selling and administrative                   | <u>(2,475,864)</u> | <u>(1,498,864)</u> | <u>(1,582,560)</u>                                    | <u>(5,557,288)</u>   |
| Operating profit before other expenses                          |                    |                    |   |  |
| Net operating   | <u>630,041</u>     | <u>1,004,103</u>   | <u>38,623</u>   | <u>1,672,767</u>   |
| Other operating expenses  |                    |                    |   | <u>38,623</u>  |
| Profit from operations before financial and tax                 |                    |                    |   | <u>1,711,390</u>   |
| Depreciation and amortization                                   | 307,789            | 264,767            | -   | 572,556  |

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This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

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Information by business segment for the period ended September 30, 2010 are as follows:

|   | <b>CONSOLIDATED</b>                 |                    |   |  |
|---|-------------------------------------|--------------------|---|--|
|   | <b>January to September of 2010</b> |                    |   |  |
|   | <b>Water</b>                        | <b>Sewer</b>       | <b>Reconciliation to<br/>Financial<br/>Statements</b> | <b>Balance<br/>according to the<br/>Financial<br/>Statements</b> |
| Gross revenue from sales and services - from external customers | 3,266,249                           | 2,500,349          | 1,431,460   | 7,198,058  |
| Deductions  | <u>(231,758)</u>                    | <u>(177,414)</u>   | =   | <u>(409,172)</u>   |
| Net sales and services - from external customers                | <u>3,034,491</u>                    | <u>2,322,935</u>   | <u>1,431,460</u>                                      | <u>6,788,886</u>   |
| Costs and expenses Selling and administrative                   | <u>(2,151,375)</u>                  | <u>(1,206,344)</u> | <u>(1,497,113)</u>                                    | <u>(4,854,832)</u>   |
| Operating profit before other expenses                          |                                     |                    |   |  |
| Net operating   | <u>883,116</u>                      | <u>1,116,591</u>   | <u>(65,653)</u>                                       | <u>1,934,054</u>   |
| Other operating expenses  |                                     |                    |   | <u>8,128</u>   |
| Profit from operations before financial and tax                 |                                     |                    |   | <u>1,942,182</u>   |
| Depreciation and amortization                                   | 236,480                             | 202,779            | (6,340)   | 432,919  |

Operating profit of the parent totals the amount of R\$1,710,183 (Sep/2010 - R\$1,942,241), being the difference of R\$1,382 (Sep/2010 - R\$59) represented by the financial results and income tax and social contribution of controlled together.

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the



The adjustments in gross revenue from sales and services are as follows:

|  | <b>January to September</b> |             |
|--|-----------------------------|-------------|
|  | <b>2011</b>                 | <b>2010</b> |
| Reclassificação de receitas que não são consideradas virtualmente certas (a) | -                           | (128,248)   |
| Receita bruta de construção referente ao ICPC 01 (b)                         | 1,621,183                   | 1,559,708   |
|  | 1,621,183                   | 1,431,460   |

Adjustments to cost, selling expenses and administrative expenses are as follows:

|  | <b>January to September</b> |             |
|--|-----------------------------|-------------|
|  | <b>2011</b>                 | <b>2010</b> |
| Reclassification of allowance for losses (a) | -                           | 128,248     |
| Construction cost related to the ICPC 01 (b) | (1,582,560)                 | (1,523,861) |
| Other adjustments (c)                        | -                           | (101,500)   |
|  | (1,582,560)                 | (1,497,113) |

(a) Reclassification for services rendered at wholesale to municipalities in the metropolitan region of Sao Paulo, whose receipt is virtually certain and that should not be recognized as revenue for CPC / IFRS.

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(b) The revenue of construction is recognized as CPC 17, "Construction Contracts (IAS 11) using the percentage method of execution.

(c) Other adjustments relate primarily to pension plans, taxes, depreciation, amortization, capitalization of borrowing costs and donations.

**22. EQUITY**

(a) Authorized capital

The Company is authorized to increase its capital up to the limit of \$ 10,000,000 (Dec/10 - R\$10,000,000) by the Board of Directors and Audit Committee heard.

(b) Capital subscribed and paid

The subscribed and paid-up consists of 227,836,623 ordinary shares (Dec/10 - 227,836,623), book entry shares, without par value, as follows:

|   | <u>Number of</u><br><u>shares</u> | <u>%</u>    |
|---|-----------------------------------|-------------|
| Department of Finance   | 114,508,086                       | 50.26       |
| Brazilian Clearing and Depository                               | 50,988,965                        | 22.38       |
| The Bank Of New York ADR Department (equivalente in shares) (*) | 61,905,380                        | 27.17       |
| Other   | <u>434,192</u>                    | <u>0.19</u> |
|   | 227,836,623                       | 100.00      |

(\*) each ADR equals two shares

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

The additional dividend proposed, in the amount of R\$68,761, referring to the fiscal year of 2010, was approved in the General Shareholders' Meeting of April 28, 2011.

Further information on equity, such as remuneration to shareholders, object and purpose of reserves are found in footnote 18 of the Annual Financial Statements December 31, 2010.

### 23. EARNINGS PER SHARE

(a) Basic and diluted

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares issued during the.

|   | <u>3rd</u><br><u>3rd qtr/11</u> | <u>Jan-Sep/11</u> | <u>3rd</u><br><u>qtr/10</u> | <u>Jan-Sep/10</u> |
|---|---------------------------------|-------------------|-----------------------------|-------------------|
| Profit attributable to shareholders                                     | 67,964                          | 730,405           | 437,018                     | 1,055,512         |
| Weighted average number of common shares issued (in thousand of shares) | <u>227,836</u>                  | <u>227,836</u>    | <u>227,836</u>              | <u>227,836</u>    |
| Basic and diluted earnings per share (dollars per share)                | 0.29830                         | 3.20584           | 1.91813                     | 4.63277           |

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The Company had no potential common shares outstanding, such as debt convertible into common shares. Thus, the basic and diluted earnings per share are the same.

**24. COMMITMENTS**

(i) operational Rentals

On September 30, 2011, rents have contracted operational require minimum payments as follows:

|       |         |
|-------|---------|
| 2011  | 41,822  |
| 2012  | 60,771  |
| 2013  | 42,544  |
| 2014  | 9,184   |
| Total | 154,321 |

The rental expenses for the periods ended September 30, 2011 and 2010 were R\$7,621 and R\$7,129, respectively. The figures refer to the following accounts: real estate rentals, rental of machinery and equipment, rental of computer equipment, car rentals, automotive equipment rental and leasing of copying machines. The contracts of lease operating close in 2014.

(ii) Electricity

The Company has long-term contracts for firm commitments with suppliers of electricity for own use. On September 30, 2011 the main values of contracts of this type are as follows:

|      |         |
|------|---------|
| 2011 | 221,739 |
| 2012 | 228,450 |
| 2013 | 88,372  |
| 2014 | 83,565  |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|       |         |
|-------|---------|
| 2015  | 80,024  |
| Total | 702,150 |

The cost of electricity for the periods ended September 30, 2011 and 2010 were R\$144,035 and R\$132,315 respectively. The agreements contain strong demand in 2015.

## **25. CONTRACTING WITH THE MUNICIPALITY OF SÃO PAULO**

No change or relevant information, according to note 26 of the Annual Financial Statements December 31, 2010.

## **26. SUBSEQUENT EVENT**

9<sup>th</sup> Issue of Debentures

On 10/15/2011 the Company exercised the right to the early redemption of the totality of debentures outstanding of the first and second series of the 9<sup>th</sup> issue.

**ITR - QUARTERLY INFORMATION 09/30/2011 CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO****OTHER INFORMATION CONSIDERED MATERIAL BY THE COMPANY****1. EVOLUTION OF THE INVOLVEMENT OF DRIVER, DIRECTORS AND OFFICERS****CONSOLIDATED SHAREHOLDING POSITION OF CONTROLLING SHAREHOLDER, DIRECTORS AND OFFICERS AND OUTSTANDING SHARES**

| Shareholder                    | Position at September 30, 2011 |              | Total Number       |              |
|--------------------------------|--------------------------------|--------------|--------------------|--------------|
|                                | Number of Common Shares        | %            | of Shares          | %            |
|                                | (In units)                     |              | (In units)         |              |
| <b>Controlling Shareholder</b> |                                |              |                    |              |
| State Finance Department       | 114,508,086                    | 50.3%        | 114,508,086        | 50.3%        |
| <b>Management</b>              |                                |              |                    |              |
| Board of Directors             | 2,009                          | 0            | 2,009              | 0            |
| Executive Board                | 603                            | 0            | 603                | 0            |
| <b>Supervisory Board</b>       | -                              | -            | -                  | -            |
| <b>Treasury Shares</b>         | -                              | -            | -                  | -            |
| <b>Other Shareholders</b>      |                                |              |                    |              |
| <b>Total</b>                   | <b>114,510,698</b>             | <b>50.3%</b> | <b>114,510,698</b> | <b>50.3%</b> |
| Outstanding Shares             | 113,325,925                    | 49.7%        | 113,325,925        | 49.7%        |

**CONSOLIDATED SHAREHOLDING POSITION OF CONTROLLING SHAREHOLDER, DIRECTORS AND OFFICERS AND OUTSTANDING SHARES**

| Shareholder | Position at September 30, 2010 |   | Total Number |   |
|-------------|--------------------------------|---|--------------|---|
|             | Number of Common Shares        | % | of Shares    | % |
|             |                                |   |              |   |

This item presented increase of R\$27.0million or 19.1%, from R\$141.2 million to R\$168.2 million, resulting from the

|                                | (In units)         |              | (In units)         |              |
|--------------------------------|--------------------|--------------|--------------------|--------------|
| <b>Controlling Shareholder</b> |                    |              |                    |              |
| State Finance Department       | 114,508,085        | 50.3%        | 114,508,085        | 50.3%        |
| <b>Management</b>              |                    |              |                    |              |
| Board of Directors             | 5,210              | 0            | 5,210              | 0            |
| Executive Board                | -                  | -            | -                  | -            |
| <b>Supervisory Board</b>       | -                  | -            | -                  | -            |
| <b>Treasury Shares</b>         | -                  | -            | -                  | -            |
| <b>Other Shareholders</b>      |                    |              |                    |              |
| <b>Total</b>                   | <b>114,513,295</b> | <b>50.3%</b> | <b>114,513,295</b> | <b>50.3%</b> |
| Outstanding Shares             | 113,323,328        | 49.7%        | 113,323,328        | 49.7%        |

**ITR - QUARTERLY INFORMATION 09/30/2011 CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**

**2. SHAREHOLDING POSITION**

**SHAREHOLDING POSITION OF HOLDERS OF MORE THAN 5% OF SHARES OF EACH CATEGORY AND CLASS OF SHARES OF THE COMPANY, UP TO THE LEVEL OF INDIVIDUAL**

**Company:**

**Position at September 30, 2011**

**(In Shares)**

**CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**

| <b>Shareholder</b>       | <b>Common Shares</b> |          | <b>Total</b>  |          |
|--------------------------|----------------------|----------|---------------|----------|
|                          | <b>Number</b>        | <b>%</b> | <b>Number</b> | <b>%</b> |
| State Finance Department | 114,508,086          | 50.3     | 114,508,086   | 50.3     |

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**ITR - QUARTERLY INFORMATION 09/30/2011 CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO**

**Opinions and Statements / Report of the Special Review-Without Reservation**

Report on Review of Quarterly Information

To the Board of Directors and Stockholders

Companhia de Saneamento Básico do

Estado de São Paulo – SABESP

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city São Paulo, Brazil.

Date: December 27, 2011

**Companhia de Saneamento Básico do Estado de São Paulo - SABESP**

By: /s/ Rui de Britto Álvares Affonso

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Name: Rui de Britto Álvares Affonso  
Title: Chief Financial Officer and Investor Relations Officer

**FORWARD-LOOKING STATEMENTS**

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

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