

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP

Form 6-K

April 29, 2004

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

FORM 6-K

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

FOR April 28, 2004

(Commission File No. 1-31317)

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

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

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

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

Form 20-F Form 40-F

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

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

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

Yes No

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

Federal Public Service
 CVM Brazilian Securities and Exchange Commission
 DFP FINANCIAL STATEMENTS Base date 12/31/2003 Corporate Legislation
 Commercial Companies, Industrial Companies, and others

The registration with the CVM does not imply any evaluation whatsoever of the Company, whose officers are responsible for the accuracy of the information provided.

01.01 IDENTIFICATION

| | | |
|-----------------------|--|------------------------------|
| 1 CVM CODE 01444-3 | 2 company's name CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO | 3 CNPJ 43.776.517/0001-80 |
| 4 NIRE 35300016831 | | |

01.02 HEAD-OFFICE

| | | | | |
|---|--------------------------|------------------------------------|--------------------------|----------|
| 1 full address Rua Costa Carvalho, 300 | | 2 borough or district Pinheiros | | |
| 3 zip code 05429-900 | 4 city São Paulo | | 5 state SP | |
| 6 area code 011 | 7 telephone 3388-8000 | 8 telephone 3388-8200 | 9 telephone 3388-8201 | 10 TELEX |
| 11 area code 011 | 12 FAX 3813-0254 | 13 FAX - | 14 FAX - | |
| 15 E-MAIL dalmonogueira@sabesp.com.br | | | | |

01.03 INVESTORS' RELATIONS OFFICER (Company's Mail Address)

| | | | | |
|---|--------------------------|------------------------------------|---------------|----------|
| 1 name Rui de Britto Álvares Affonso | | | | |
| 2 full address Rua Costa Carvalho, 300 | | 3 borough or district Pinheiros | | |
| 4 zip code 05429-900 | 5 city São Paulo | | 6 state SP | |
| 7 area code 011 | 8 telephone 3388-8247 | 9 telephone | 10 telephone | 11 TELEX |
| 12 area code 011 | 13 FAX 3815-4465 | 14 FAX - | 15 FAX - | |
| 16 E-MAIL raffonso@sabesp.com.br | | | | |

01.04 REFERENCE / AUDITOR

| | | | |
|---|-------------|---|------------|
| Fiscal year | 1 beginning | 2 end | |
| 1 Last | | 01/01/2003 | 12/31/2003 |
| 2 next to last | | 01/01/2002 | 12/31/2002 |
| 3 last but two | | 01/01/2001 | 12/31/2001 |
| 4 Auditor's Name/Corporate name Deloitte Touche Tohmatsu Auditores Independentes | | 5 CVM code 00385-9 | |
| 6 Person in charge for the auditing company Marco Antonio Brandão Simurro | | 7 CPF of person in charge 755.400.708-44 | |

01.05 CAPITAL COMPOSITION

| | | | |
|--|--|--|--|
| | | | |
|--|--|--|--|

| Number of shares (thousand) | 1 12/31/2003 | 2 12/31/2002 | 3 12/31/2001 |
|--------------------------------|-----------------|-----------------|-----------------|
| Paid-up Capital | | | |
| 1 Common Shares | 28,479,577 | 28,479,577 | 28,479,577 |
| 2 Preferred Shares | 0 | 0 | 0 |
| 3 Total | 28,479,577 | 28,479,577 | 28,479,577 |
| Treasury Shares | | | |
| 1 Common Shares | 0 | 0 | 0 |
| 2 Preferred Shares | 0 | 0 | 0 |
| 6 Total | 0 | 0 | 0 |

01.06 COMPANY S DATA

| |
|--|
| 1 Type of company Commercial, Industrial and Other Companies |
| 2 Type of status Operating |
| 3 Nature of stockholding control State-owned |
| 4 activity code 1990300 Water, Sanitation and Gas Services |
| 5 Main activity Water treatment, processing and distribution; Sewer collection and processing |
| 6 Type of consolidated Not submitted |

01.07 COMPANIES NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

| | | |
|--------|--------|------------------|
| 1 Ítem | 2 CNPJ | 3 company s name |
|--------|--------|------------------|

01.08 CASH INCOME DELIBERATED AND/OR PAID

| 1 - Ítem | 2 event | 3 approval | 4 income | 6 - beginning of the payment | 7 Share type | 8 income per share |
|----------|---------|------------|----------------------|---------------------------------|--------------|--------------------|
| 01 | RCA | 04/24/2003 | Interests on capital | 06/30/2004 | ON | 0.0014100000 |
| 02 | RCA | 05/29/2003 | Interests on capital | 06/30/2004 | ON | 0.0041500000 |
| 03 | RCA | 11/20/2003 | Interests on capital | 06/30/2004 | ON | 0.0054400000 |
| 04 | RCA | 01/08/2004 | Interests on capital | 06/30/2004 | ON | 0.0067000000 |

01.09 INVESTORS' RELATIONS OFFICER

| | |
|----------------------|-------------|
| 1 Date 03/29/2004 | 2 Signature |
|----------------------|-------------|

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

02.01 Balance sheet - Assets (thousand reais)

| 1 - Account code | 2 - Account description | 3 12/31/2003 | 4 - 12/31/2002 | 5 - 12/31/2001 |
|------------------|---|--------------|----------------|----------------|
| 1 | Total assets | 16,530,670 | 16,348,651 | 15,870,452 |
| 1.01 | Current assets | 1,157,721 | 1,608,900 | 1,323,649 |
| 1.01.01 | Cash and cash equivalents | 281,013 | 414,671 | 412,788 |
| 1.01.01.01 | Cash, banks and temporary cash investments | 252,441 | 412,650 | 328,744 |
| 1.01.01.02 | Foreign currency | 26,590 | 0 | 82,181 |
| 1.01.01.03 | Others cash and cash equivalents | 1,982 | 2,021 | 1,863 |
| 1.01.02 | Credits | 811,701 | 911,235 | 811,736 |
| 1.01.02.01 | Accounts receivable | 811,701 | 911,235 | 811,736 |
| 1.01.03 | Inventories | 22,308 | 22,642 | 21,887 |
| 1.01.03.01 | Operating storage inventory | 22,308 | 22,642 | 21,887 |
| 1.01.04 | Others | 42,699 | 260,352 | 77,238 |
| 1.01.04.01 | Accounts receivable from shareholder | 0 | 116,990 | 19,740 |
| 1.01.04.02 | Taxes to be carried forward | 1,140 | 64,181 | 27,415 |
| 1.01.04.03 | Deferred income and social contribution taxes | 29,684 | 58,502 | 0 |
| 1.01.04.04 | Other accounts receivables | 11,875 | 20,679 | 30,083 |
| 1.02 | Long term assets | 1,260,010 | 1,018,550 | 920,462 |
| 1.02.01 | Sundry credits | 1,260,010 | 1,018,550 | 920,462 |
| 1.02.01.01 | Accounts receivable | 185,090 | 12,409 | 11,017 |
| 1.02.01.02 | Indemnities receivable | 148,794 | 148,794 | 148,794 |
| 1.02.01.03 | Escrow deposits | 17,576 | 23,507 | 16,092 |
| 1.02.01.04 | GESP agreement | 484,800 | 607,374 | 649,057 |
| 1.02.01.05 | Receivables from shareholder | 170,363 | 0 | 0 |
| 1.02.01.06 | Deferred income and social contribution taxes | 222,804 | 206,033 | 91,340 |
| 1.02.01.07 | Other receivables | 30,583 | 20,433 | 4,162 |
| 1.03 | Permanent assets | 14,112,939 | 13,721,201 | 13,626,341 |
| 1.03.01 | Investments | 740 | 740 | 740 |
| 1.03.01.03 | Other investments | 740 | 740 | 740 |
| 1.03.01.03.01 | Shares in other companies | 669 | 669 | 669 |
| 1.03.01.03.02 | Shares in other companies with tax incentive | 49 | 49 | 49 |
| 1.03.01.03.03 | Compulsory deposits Eletrobrás | 22 | 22 | 22 |
| 1.03.02 | Property, plant and equipment | 14,063,248 | 13,670,781 | 13,509,950 |
| 1.03.02.01 | Property, plant and equipment in use | 11,871,106 | 11,177,642 | 11,106,128 |
| 1.03.02.02 | Construction in progress | 2,192,142 | 2,493,139 | 2,403,822 |
| 1.03.03 | Deferred assets | 48,951 | 49,680 | 115,651 |
| 1.03.03.01 | Organizational and reorganizational expenses | 48,951 | 49,680 | 115,651 |

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

02.02 Balance Sheet - Liabilities (thousand reais)

| 1 - Account code | 2 - Account description | 3 12/31/2003 | 4 - 12/31/2002 | 5 - 12/31/2001 |
|------------------|---|--------------|----------------|----------------|
| 2 | Total liabilities | 16,530,670 | 16,348,651 | 15,870,452 |
| 2.01 | Current liabilities | 1,728,322 | 2,085,466 | 1,518,559 |
| 2.01.01 | Loans and Financing | 500,537 | 1,300,661 | 546,076 |
| 2.01.02 | Debêntures | 496,461 | 31,808 | 3,246 |
| 2.01.02.01 | Debentures 3rd issue | 366,465 | 0 | 0 |
| 2.01.02.02 | Debentures 4th issue | 100,001 | 0 | 0 |
| 2.01.02.03 | Interest on debentures | 29,995 | 31,808 | 3,246 |
| 2.01.03 | Suppliers | 51,934 | 36,611 | 81,023 |
| 2.01.04 | Taxes, fees and contributions | 84,488 | 85,921 | 80,189 |
| 2.01.04.01 | PAES/ REFIS Program | 33,201 | 63,193 | 57,274 |
| 2.01.04.02 | Cofins and Pasep | 23,428 | 7,934 | 5,898 |
| 2.01.04.03 | Income tax | 4,396 | 0 | 0 |
| 2.01.04.04 | Social Security (INSS) | 15,055 | 12,910 | 10,121 |
| 2.01.04.05 | Other | 8,408 | 1,884 | 6,896 |
| 2.01.06 | Provisions | 19,266 | 179,935 | 166,240 |
| 2.01.06.01 | Cofins/Pasep Law 9718/98 | 0 | 170,494 | 111,035 |
| 2.01.06.02 | Finsocial | 7,872 | 7,872 | 51,753 |
| 2.01.06.03 | For contingencies with costumers | 11,394 | 1,569 | 3,452 |
| 2.01.08 | Others | 575,636 | 450,530 | 641,785 |
| 2.01.08.01 | Payroll and related charges | 135,294 | 85,751 | 75,313 |
| 2.01.08.02 | Services | 47,580 | 39,987 | 35,499 |
| 2.01.08.03 | Interest on capital | 242,524 | 235,255 | 528,341 |
| 2.01.08.04 | Deferred income and social contribution taxes | 45,502 | 86,169 | 0 |
| 2.01.08.05 | Agreement São Bernado do Campo | 100,526 | 0 | 0 |
| 2.01.08.06 | Others liabilities | 4,210 | 3,368 | 2,632 |
| 2.02 | Long-term liabilities | 7,225,405 | 7,016,709 | 6,355,203 |
| 2.02.01 | Loans and financing | 5,636,641 | 5,458,407 | 5,207,535 |
| 2.02.02 | Debentures | 630,624 | 1,086,780 | 665,662 |
| 2.02.02.01 | Debentures 3rd issue | 0 | 365,627 | 365,662 |
| 2.02.02.02 | Debentures 4th issue | 199,999 | 300,000 | 300,000 |
| 2.02.02.03 | Debentures 5th issue | 430,625 | 421,153 | 0 |
| 2.02.03 | Provisions | 384,571 | 237,370 | 76,625 |
| 2.02.03.01 | Provisions for labor indemnities | 24,195 | 19,131 | 15,267 |
| 2.02.03.02 | Civil | 20,031 | 11,329 | 2,566 |
| 2.02.03.03 | Social securities charges | 6,594 | 6,000 | 4,874 |
| 2.02.03.04 | With suppliers | 157,832 | 107,380 | 53,418 |
| 2.02.03.05 | With customers | 169,773 | 89,066 | 0 |
| 2.02.03.06 | Other | 6,146 | 4,464 | 500 |

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

02.02 Balance Sheet - Liabilities (thousand reais)

| 1 - Account code | 2 - Account description | 3 12/31/2003 | 4- 12/31/2002 | 5 - 12/31/2001 |
|------------------|---|--------------|---------------|----------------|
| 2.02.05 | Others | 573,569 | 234,152 | 405,381 |
| 2.02.05.01 | Deferred income and social contribution taxes | 121,117 | 75,880 | 256,839 |
| 2.02.05.02 | PAES/ REFIS Program | 282,214 | 73,725 | 124,093 |
| 2.02.05.03 | Social security charges | 145,540 | 68,336 | 8,238 |
| 2.02.05.04 | Other payables | 24,698 | 16,211 | 16,211 |
| 2.05 | Shareholders equity | 7,576,943 | 7,246,476 | 7,996,690 |
| 2.05.01 | Capital | 3,403,688 | 3,403,688 | 3,403,688 |
| 2.05.02 | Capital reserves | 50,739 | 49,503 | 40,979 |
| 2.05.02.01 | Aid for works | 34,959 | 33,723 | 25,199 |
| 2.05.02.02 | Incentive reserves | 15,780 | 15,780 | 15,780 |
| 2.05.03 | Revaluation reserves | 2,723,720 | 2,857,965 | 2,953,806 |
| 2.05.03.01 | Owned assets | 2,723,720 | 2,857,965 | 2,953,806 |
| 2.05.04 | Profit reserves | 1,398,796 | 935,320 | 1,598,217 |
| 2.05.04.01 | Legal reserve | 146,340 | 104,674 | 104,674 |
| 2.05.04.07 | Other profit reserves | 1,252,456 | 830,646 | 1,493,543 |
| 2.05.04.07.01 | Investment reserve | 1,252,456 | 830,646 | 1,493,543 |

03.01 INCOME STATEMENT

| 1 - Account code | 2 - Account description | 3 01/01/2003 | 4- 01/01/2002 | 5 - 01/01/2001 |
|------------------|---|--------------|---------------|----------------|
| 3.01 | Gross revenue from sales and/or services | 4,307,534 | 3,962,436 | 3,543,508 |
| 3.02 | Gross revenue deductions | (197,650) | (195,289) | (108,741) |
| 3.03 | Net revenue from sales and/or services | 4,109,884 | 3,767,147 | 3,434,767 |
| 3.04 | Cost of assets and/or services | (2,046,834) | (1,814,976) | (1,590,435) |
| 3.05 | Gross profit | 2,063,050 | 1,952,171 | 1,844,332 |
| 3.06 | Operating expense/income | (897,517) | (2,887,456) | (1,640,884) |
| 3.06.01 | Selling expenses | (297,302) | (385,139) | (332,597) |
| 3.06.02 | General and administrative expenses | (253,738) | (226,024) | (203,135) |
| 3.06.03 | Financial | (346,477) | (2,276,293) | (1,105,152) |
| 3.06.03.01 | Financial income | 291,502 | 142,753 | 99,938 |
| 3.06.03.02 | Financial expenses | (637,979) | (2,419,046) | (1,205,090) |
| 3.07 | Operating income | 1,165,533 | (935,285) | 203,448 |
| 3.08 | Non-operating expense | (54,455) | (3,424) | (76,920) |
| 3.08.01 | Income | 8,341 | 16,646 | 11,590 |
| 3.08.02 | Expenses | (62,796) | (20,070) | (88,510) |
| 3.08.02.01 | Loss on disposal of property, plant and equipment | (61,654) | (16,479) | (84,948) |
| 3.08.02.02 | Other | (1,142) | (3,591) | (3,562) |
| 3.09 | Income before tax/participations | 1,111,078 | (938,709) | 126,528 |
| 3.10 | Income and social contribution taxes | (216,089) | (2,842) | (21,477) |
| 3.10.01 | Income tax | (168,083) | (2,842) | (21,477) |
| 3.10.02 | Social contribution tax | (48,006) | 0 | 0 |
| 3.11 | Deferred income and social contribution taxes | (26,547) | 326,157 | 111,176 |
| 3.11.01 | Deferred income tax | (7,588) | 60,531 | 36,090 |
| 3.11.02 | Deferred social contribution tax | (18,959) | 86,358 | 27,805 |
| 3.11.03 | Deferred income tax reversal | 0 | 179,268 | 47,281 |
| 3.12 | Statutory participations / contributions | (35,122) | (35,122) | 0 |
| 3.12.01 | Participations | 0 | 0 | 0 |
| 3.12.02 | Contributions | (35,122) | (35,122) | 0 |
| 3.12.02.01 | Extraordinary item | (35,122) | (35,122) | 0 |
| 3.13 | Reversal of interest on capital | 0 | 0 | 0 |
| 3.15 | Net income/ loss | 833,320 | (650,516) | 216,227 |
| | Number of shares, ex-treasury shares (thousands) | 28,479,577 | 28,479,577 | 28,479,577 |
| | Earning per share | 0.02926 | | 0.00759 |
| | Loss per share | | (0.02284) | |

04.01 STATEMENTS OF CHANGES IN FINANCIAL POSITION (Thousands Reais)

| Account code | Account description | 01/01/2003 to 12/31/2003 | 01/01/2002 to 12/31/2002 | 01/01/2001 to 12/31/2001 |
|---------------|--|-----------------------------|-----------------------------|-----------------------------|
| 4.01 | Sources | 2,533,589 | 1,515,711 | 1,444,602 |
| 4.01.01 | From operations | 1,472,219 | 1,032,948 | 1,106,518 |
| 4.01.01.01 | Net income/ loss | 833,320 | (650,516) | 216,227 |
| 4.01.01.02 | Items not affecting working capital | 638,899 | 1,683,464 | 890,291 |
| 4.01.01.02.01 | Depreciation and amortization | 564,455 | 519,075 | 477,329 |
| 4.01.01.02.02 | Disposal of property, plant and equipment | 61,657 | 16,479 | 85,513 |
| 4.01.01.02.03 | Write-off of deferred charges | 984 | 0 | 0 |
| 4.01.01.02.04 | Monetary variations on long-term assets | (9,437) | (263) | (398) |
| 4.01.01.02.05 | Provision for contingencies | 147,201 | 160,744 | 49,009 |
| 4.01.01.02.06 | Social security charges | 77,204 | 60,098 | (293) |
| 4.01.01.02.07 | Interest and monetary and exchange variations on long-term liabilities - Taxes payable | 17,165 | 10,092 | 13,922 |
| 4.01.01.02.08 | Interest and monetary and exchange variations on long-term liabilities - Loans and financing | (248,796) | 1,202,987 | 376,385 |
| 4.01.01.02.09 | Deferred income and social contribution taxes on noncurrent assets | (16,771) | (114,693) | (58,922) |
| 4.01.01.02.10 | Deferred income and social contribution taxes on long-term liabilities | 45,237 | (171,055) | (52,254) |
| 4.01.03 | From third parties | 1,061,370 | 482,763 | 338,084 |
| 4.01.03.01 | Decrease in non current assets | 0 | 16,868 | 0 |
| 4.01.03.02 | Loans and financing, long-term | 860,323 | 457,371 | 327,907 |
| 4.01.03.03 | Changes in long-term liabilities | 199,811 | 0 | 8,339 |
| 4.01.03.04 | Donations | 1,236 | 8,524 | 1,838 |
| 4.02 | Uses | 2,627,624 | 1,797,367 | 2,374,528 |
| 4.02.01 | Changes in non current assets | 215,252 | 0 | 647,335 |
| 4.02.02 | Changes in long-term liabilities | 0 | 9,903 | 0 |
| 4.02.03 | Permanent assets - Property, plant and equipment | 1,009,365 | 619,191 | 719,027 |
| 4.02.04 | Permanent assets - Deferred charges | 9,469 | 11,223 | 16,336 |
| 4.02.05 | Transfer from long-term to current liabilities - Loans and financing | 889,449 | 988,367 | 447,161 |
| 4.02.06 | Transfer from long-term to current liabilities - Taxes payable | 0 | 60,461 | 54,821 |
| 4.02.07 | Interest on capital | 504,089 | 108,222 | 489,848 |
| 4.03 | Increase/Decrease | (94,035) | (281,656) | (929,926) |
| 4.04 | Changes in | (451,179) | 285,251 | (200,869) |
| 4.04.01 | Current assets - At beginning of year | 1,608,900 | 1,323,649 | 1,524,518 |
| 4.04.02 | Current assets - At end of year | 1,157,721 | 1,608,900 | 1,323,649 |
| 4.05 | Changes in | (357,144) | 566,907 | 729,057 |
| 4.05.01 | Current liabilities - At beginning of year | 2,085,466 | 1,518,559 | 789,502 |
| 4.05.02 | Current liabilities - At end of year | 1,728,322 | 2,085,466 | 1,518,559 |

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

05.01 STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY FROM 01/01/2003 TO 12/31/2003 (Thousand Reais)

| Account code | Account description | Capital | Capital Reserve | Revaluation Reserve | Profit Reserve | Net income (loss) | Total |
|--------------|------------------------------------|-----------|-----------------|---------------------|----------------|-------------------|-----------|
| 5.01 | At beginning of year | 3,403,688 | 49,503 | 2,857,965 | 935,320 | 0 | 7,246,476 |
| 5.04 | Realization of reserve | 0 | 0 | (134,245) | 0 | 134,245 | 0 |
| 5.04.01 | Realization of revaluation reserve | 0 | 0 | (134,245) | 0 | 134,245 | 0 |
| 5.06 | Net income (loss) | 0 | 0 | 0 | 0 | 833,320 | 833,320 |
| 5.07 | Allocation | 0 | 0 | 0 | 463,476 | (967,565) | (504,089) |
| 5.07.01 | Legal reserve | 0 | 0 | 0 | 41,666 | (41,666) | 0 |
| 5.07.02 | Interest on capital | 0 | 0 | 0 | 0 | (504,089) | (504,089) |
| 5.07.03 | Investment reserve | 0 | 0 | 0 | 421,810 | (421,810) | 0 |
| 5.08 | Others | 0 | 1,236 | 0 | 0 | 0 | 1,236 |
| 5.08.01 | Donations | 0 | 1,236 | 0 | 0 | 0 | 1,236 |
| 5.09 | At end of year | 3,403,688 | 50,739 | 2,723,720 | 1,398,796 | 0 | 7,576,953 |

05.02 STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY FROM 01/01/2002 TO 12/31/2002 (Thousand Reais)

| Account code | Account description | Capital | Capital Reserve | Revaluation Reserve | Profit Reserve | Net income (loss) | Total |
|--------------|------------------------------------|-----------|-----------------|---------------------|----------------|-------------------|-----------|
| 5.01 | At beginning of year | 3,403,688 | 40,979 | 2,953,806 | 1,598,217 | 0 | 7,996,690 |
| 5.04 | Realization of reserve | 0 | 0 | (95,841) | 0 | 95,841 | 0 |
| 5.04.01 | Realization of revaluation reserve | 0 | 0 | (95,841) | 0 | 95,841 | 0 |
| 5.06 | Net income (loss) | 0 | 0 | 0 | 0 | (650,516) | (650,516) |
| 5.07 | Allocation | 0 | 0 | 0 | (662,897) | 554,675 | (108,222) |
| 5.07.02 | Interests on capital | 0 | 0 | 0 | 0 | (108,222) | (108,222) |
| 5.07.03 | Investment reserve | 0 | 0 | 0 | (662,897) | 662,897 | 0 |
| 5.08 | Others | 0 | 8,524 | 0 | 0 | 0 | 8,524 |
| 5.08.01 | Donations | 0 | 8,524 | 0 | 0 | 0 | 8,524 |
| 5.09 | At end of year | 3,403,688 | 49,503 | 2,857,965 | 935,320 | 0 | 7,246,476 |

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

05.03 STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY FROM 01/01/2001 TO 12/31/2001 (Thousand Reais)

| Account code | Account description | Capital | Capital Reserve | Revaluation Reserve | Profit Reserve | Net income (loss) | Total |
|--------------|------------------------------------|-----------|-----------------|---------------------|----------------|-------------------|-----------|
| 5.01 | At beginning of year | 3,403,688 | 39,141 | 3,083,658 | 1,741,986 | 0 | 8,268,473 |
| 5.04 | Realization of reserve | 0 | 0 | (129,852) | 0 | 129,852 | 0 |
| 5.04.01 | Realization of revaluation reserve | 0 | 0 | (129,852) | 0 | 129,852 | 0 |
| 5.06 | Net income (loss) | 0 | 0 | 0 | 0 | 216,227 | 216,227 |
| 5.07 | Allocation | 0 | 0 | 0 | (143,769) | (346,079) | (489,848) |
| 5.07.01 | Legal reserve | 0 | 0 | 0 | 10,811 | (10,811) | 0 |
| 5.07.02 | Interests on capital | 0 | 0 | 0 | 0 | (489,848) | (489,848) |
| 5.07.03 | Investment reserve | 0 | 0 | 0 | (154,580) | 154,580 | 0 |
| 5.08 | Others | 0 | 1,838 | 0 | 0 | 0 | 1,838 |
| 5.08.01 | Donations | 0 | 1,838 | 0 | 0 | 0 | 1,838 |
| 5.09 | At end of year | 3,403,688 | 40,979 | 2,953,806 | 1,598,217 | 0 | 7,996,690 |

Federal Public Service
CVM Brazilian Securities and Exchange Commission
DFP FINANCIAL STATEMENTS
Commercial Companies, Industrial Companies, and others

Corporate Legislation
Base date 12/31/2003

01444-3

CIA SANEAMENTO BÁSICO ESTADO DE SÃO PAULO

43.776.517/0001-80

09.01 INDEPENDENT AUDITORS REPORT - UNQUALIFIED

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS REPORT

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

1. We have audited the accompanying balance sheet of Companhia de Saneamento Básico do Estado de São Paulo - SABESP (the Company), as of December 31, 2003, and the related statements of operations, changes in shareholders' equity, and changes in financial position for the year then ended, entitled Corporate law , all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
2. Our audit was conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Companhia de Saneamento Básico do Estado de São Paulo - SABESP as of December 31, 2003, and the results of its operations, the changes in shareholders' equity, and the changes in its financial position for the year then ended in conformity with Brazilian accounting practices.
4. The supplementary information for the year ended December 31, 2003, consisting of the financial statements in constant purchasing power currency, prepared in accordance with the criteria described in Note 17, and the statements of cash flows and value added, is presented for purposes of permitting additional analyses and is not a required part of the basic financial statements. This supplementary information was audited by us in accordance with the auditing procedures mentioned in paragraph 2 and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.
5. The financial statements for the year ended December 31, 2002, as well as the supplementary information for the year then ended, presented for comparative purposes, were audited by other independent auditors, whose report thereon, dated March 12, 2003, was unqualified.
6. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, March 25, 2004

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Marco Antonio Brandão Simurro
Engagement Partner

Federal Public Service
CVM Brazilian Securities and Exchange Commission
DFP FINANCIAL STATEMENTS
Commercial Companies, Industrial Companies, and others

Corporate Legislation
Base date 12/31/2003

01444-3

CIA SANEAMENTO BÁSICO ESTADO DE SÃO PAULO

43.776.517/0001-80

10.01 MANAGEMENT REPORT

The Management of Companhia de Saneamento Básico do Estado de São Paulo (SABESP) presents for its shareholders the Management Report and financial statements for the year ended December 31, 2003, together with the reports of the Independent Auditors and the Fiscal Council.

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

In 2003, SABESP celebrated its 30th anniversary. Over the course of its history, constant investments in large scale construction projects and the application of new technologies ensure that the Company continues providing water and sewage services to over 25 million people in the State of São Paulo.

In December 2003, the Company's area of operations was expanded with the acquisition of the water and sewage system of the Municipality of São Bernardo do Campo, the fourth largest municipality in the State of São Paulo. This acquisition has quite positive aspects, involving the resolution of the debt that the municipality had with SABESP, minimizing these risks, with positive effects on the costs of financing, as well as providing gains of scale through the dilution of fixed costs.

This transfer of services allows SABESP to evolve in integrating the water and sanitary sewage systems of the ABC region, with positive impacts on the Tietê River Depollution Program and greater effectiveness in actions to protect wellsprings in the region, which will result in social and environmental benefits.

With the São Bernardo do Campo operation, SABESP expands its market in the São Paulo Metropolitan Region by approximately 5%.

In the economic-financial scenario, 2003 was marked by the continuity of austere economic policy, postponing expectations of economic growth to 2004. Control of inflation, the beginning of structural reforms and extraordinary gains in the trade balance were important factors that contributed to reducing Brazil's sovereign risk and stabilizing the local currency. The Brazilian real appreciated in relation to the US dollar, significantly contributing to the Company's financial results to match the good performance of results from operations.

Net income for the year, totaling R\$ 833.3 million, was the result of increased operating revenue, the effect of the Brazilian real's appreciation in relation to the US dollar during the period, and better operating performance.

Mauro Guilherme Jardim Arce
Chairman of the Board of Directors

1. THE COMPANY

The Company is engaged in providing water supply and sewage collection and treatment services for the population of 368 of the 645 municipalities of the State of São Paulo, including the municipality of Itapira, which was assumed by SABESP in February 2004. In addition, it is responsible for the sale of treated water and makes its sewage treatment system available to 6 municipalities of the São Paulo Metropolitan Region, not directly operated by SABESP.

In the municipalities where it operates, the water distribution network totals approximately 57,000 km, and the sewage network, nearly 36,000 km.

In 2003, SABESP brought treated water to 165,000 new homes, accompanying the population's natural growth and including an additional 171,000 to its sewage collection network, maintaining universal supply, raising the collection rate to 78% and treating over 60% of collected sewage.

2 OPERATING REVENUE

Gross operating revenue reached R\$ 4.3 billion, up 8.7%, and net revenue totaled R\$ 4.1 billion, an increase of 9.1% compared to 2002. This growth was influenced by the across-the-board tariff adjustment of 18.95%, effective on August 29, 2003, except for the population registered under the categories Social and Shantytown, whose adjustment was 9%, benefiting approximately 1.9 million people.

The percentage of SABESP's adjustment in 2003 was established with the use of the new formula for calculating the Tariff Adjustment Index (IRT), better reflecting the changes in costs and expenses incurred in water supply and sewage collection services.

3 RESULTS FROM OPERATIONS

Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) reached R\$ 2.1 billion, representing a growth of 11.6% in relation to 2002. Consequently, the EBITDA margin went from 49.4% in 2002 to 50.5% in 2003.

4. NET INCOME

Net income for the year was R\$ 833.3 million, as a result of the increase in operating revenue, and the effect of the Brazilian real's appreciation in relation to the US dollar during the year.

5. PAYMENTS TO SHAREHOLDERS

In 2003, the Company's Board of Directors approved the payment of interest on capital in the amount of R\$ 504 million. The amounts announced related to results for 2003 are as follows.

| 2003 Period | Interest on Capital (R\$/thousand shares) |
|-----------------------|--|
| First Quarter | 1.41 |
| April | 4.15 |
| October | 5.44 |
| November and December | 6.70 |
| Total | 17.70 |

6. EVOLUTION OF PERFORMANCE AND INDEBTEDNESS

At the end of 2003, total indebtedness (54.2%) was practically at the same level as the prior year, while the ratio of debt to EBITDA returned to the same level as 2001.

Short-term debt versus total debt decreased to 13.7%, indicating the maintenance of an equilibrium in the total debt structure.

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Net operating revenue (R\$ million) | 1,910 | 2,411 | 2,902 | 3,101 | 3,236 | 3,356 | 3,435 | 3,767 | 4,110 |
| Net income (loss) (R\$ million) | 26 | 58 | 280 | 542 | (235) | 521 | 216 | (651) | 833 |
| EBITDA (R\$ million) | 974 | 1,156 | 1,376 | 1,638 | 1,873 | 1,868 | 1,786 | 1,860 | 2,076 |
| EBITDA margin - % | 51.0 | 47.9 | 47.4 | 52.8 | 57.9 | 55.7 | 52.0 | 49.4 | 50.5 |
| Debt / EBITDA - x | 3.1 | 3.1 | 3.1 | 3.0 | 3.1 | 3.2 | 3.6 | 4.2 | 3.5 |
| Short-term Debt / Total Debt - % | 5.5 | 15.5 | 17.6 | 17.5 | 14.3 | 6.4 | 8.5 | 16.9 | 13.7 |
| Total Liabilities / Total Assets - % | 34.1 | 37.0 | 39.6 | 42.3 | 45.3 | 45.6 | 49.8 | 55.7 | 54.2 |

7. OPERATING INDICATORS

The volume of retail water billed, in 2003, declined 0.8% in relation to the prior year, while the volume of sewage grew 0.4%, as shown in the tables below.

Atypical meteorological conditions in 2003, which continued for the third year in a row, led to the need for institutional campaigns encouraging the saving and rational use of water, which resulted in a reduction in the volume of water billed.

On the other hand, the growth in the volume of sewage billed demonstrates an improvement in operational efficiency, optimization of the system and the Company's efforts to expand sanitary sewage services.

| Volume of Retail Water and Sewage Billed by Customer Category (millions of m ³) | | | | | | |
|--|---------|---------|-------|---------|---------|-------|
| User Category | Water | | | Sewage | | |
| | 2002 | 2003 | Var. | 2002 | 2003 | Var. |
| Residential | 1,204.8 | 1,199.1 | (0.5) | 913.6 | 918.9 | 0.6 |
| Commercial | 146.7 | 142.5 | (2.9) | 127.4 | 125.6 | (1.4) |
| Industrial | 31.2 | 30.8 | (1.3) | 27.8 | 29.2 | 5.0 |
| Public | 47.9 | 46.4 | (3.1) | 36.7 | 36.0 | (1.9) |
| Total Retail | 1,430.6 | 1,418.8 | (0.8) | 1,105.5 | 1,109.7 | 0.4 |

| Volume of Retail Water and Sewage Billed by Region (millions of m ³) | | | | | | |
|---|---------|---------|-------|---------|---------|-------|
| Region | Water | | | Sewage | | |
| | 2002 | 2003 | Var. | 2002 | 2003 | Var. |
| SP Metropolitan Region | 936.3 | 932.0 | (0.5) | 734.5 | 741.0 | 0.9 |
| Regional Systems* | 494.3 | 486.8 | (1.5) | 371.0 | 368.7 | (0.6) |
| Total Retail | 1,430.6 | 1,418.8 | (0.8) | 1,105.5 | 1,109.7 | 0.4 |

(*) Comprising the Coastal and Interior regions of the State.

The Company continues to expand its services, as can be observed in the following table, through the evolution of the number of water and sewage connections and the population served.

| Operating Indicators | | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003(5) | 03/02 |
|-----------------------|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|---------|--------|
| Water connections(1) | | 4,111 | 4,324 | 4,601 | 4,946 | 5,242 | 5,535 | 5,717 | 5,898 | 6,044 | 2.5% |
| Sewage connections(1) | | 2,870 | 3,019 | 3,277 | 3,559 | 3,763 | 3,976 | 4,128 | 4,304 | 4,462 | 3.7% |
| Population served | water(2) | 17.4 | 17.6 | 18.5 | 19.1 | 19.4 | 20.6 | 20.9 | 21.2 | 21.3 | 0.5% |
| | sewage(2) | 12.9 | 13.1 | 14.0 | 14.8 | 15.1 | 15.9 | 16.2 | 16.8 | 17.2 | 2.4% |
| Billed volume | bulk water(3) | 315 | 357 | 368 | 388 | 393 | 318 | 322 | 339 | 346 | 2.1% |
| | retail water(3) | 1,323 | 1,348 | 1,409 | 1,429 | 1,396 | 1,413 | 1,376 | 1,431 | 1,419 | (0.8%) |
| | sewage(3) | 975 | 993 | 1,036 | 1,066 | 1,058 | 1,070 | 1,054 | 1,105 | 1,110 | 0.4% |

| | | | | | | | | | | |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------|
| No. of employees | 18,861 | 18,467 | 19,129 | 19,340 | 18,324 | 18,048 | 18,159 | 18,505 | 18,546 | 0.2% |
| Operating productivity(4) | 370 | 398 | 412 | 440 | 491 | 527 | 542 | 551 | 566 | 2.7% |

Notes:

- (1) In thousands of units at the end of the period
 - (2) In millions of inhabitants at the end of the period (not including bulk supply)
 - (3) In millions of m³
 - (4) Number of water and sewage connections per employee
 - (5) Not including the Municipality of São Bernardo do Campo
- 8 FINANCING AND LOANS

Financing

For the feasibility of the Multiyear Investment Plan, SABESP negotiated, in 2003, with various financial agents, among which we can highlight:

General Federal Budget (Non-Repayable Funds)

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

The construction work refers to the Main Trunk Sewer of the municipalities of Ribeirão Pires and Rio Grande da Serra, in the São Paulo Metropolitan area, for reversal of sewage from these watersheds to the ABC Sewage Treatment Plant .

The total investment is R\$ 27.5 million, of which R\$ 17.3 million is repassed by the Federal Government through two agreements for the years 2002 and 2003.

FGTS Severance Fund

In 2003, SABESP signed 16 financing agreements for water and sewage construction work with FGTS funds, whose financial agent is the federal savings bank - Caixa Econômica Federal, subject to interest of 8.0% p.a. + Reference Rate (TR) for water, and 6.5% p.a. + TR for sewage, with a maximum grace period of 36 months and an amortization period of 180 months. Funds in the amount of R\$ 324.5 were financed for a R\$ 361 million investment, of which R\$ 36.5 million was provided from the Company's own funds.

FEHIDRO State Water Resources Fund

In 2003, funds were contracted from FEHIDRO for 13 projects, totaling R\$ 5.9 million in investments, of which R\$ 2.8 million was without financial cost and without repayment obligation, and R\$ 3.1 million was provided from the Company's own funds.

In 2003, FEHIDRO disbursed a total of R\$ 518,300 for 28 ongoing projects.

PRODES National Watershed Depollution Program of the National Water Agency (ANA)

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

Of these agreements, construction work in Pindamonhangaba (Moreira Cesar) was completed in 2003, and certification began in March 2004. The other construction work is in progress, with the exception of Itatiba, where the bidding is in the final phase.

In 2003, two agreements were signed related to sewage collection and treatment plants in the municipalities of Arujá and Biritiba Mirim (R\$ 3.3 million), totaling nearly R\$ 19.5 million for the eight contracts signed.

Japan Bank for International Cooperation (JBIC)

SABESP concluded negotiations with the JBIC (Japan Bank for International Cooperation) to obtain financing in the amount of ¥ 21,320 million, equivalent to R\$ 571.5 million, for the Environmental Recovery Program of the Santos Metropolitan Region, a project involving ¥ 39,221 million, equivalent to R\$ 1,051.4 million, with SABESP contributing ¥ 17,901 million, equivalent to R\$ 479.9 million.

The Legislature of the State of São Paulo passed Law # 10,820/01, granting a counter-guarantee to the Federal Government's guarantee. The financing has already been approved by COFIEX (Foreign Financing Commission), the Federal Government body that reviews and approves credit operations with foreign government agencies.

In August 2003, the Note Exchange Agreement was signed between the representatives of the governments of Brazil and Japan, which is pending approval in the National Congress by the Chamber of Deputies and the Federal Senate (Presidential Message No. 700/2003).

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

The process related to the granting of the guarantee by the Federal Government to the JBIC will be submitted for approval by the Federal Senate. The respective process is undergoing final analysis in the National Treasury Secretariat (STN) and the Attorney General of the National Treasury (PGFN).

The program was included in the State's budget for fiscal year 2004, Law # 11,607, of December 29, 2003, and the Budget Guidelines Law, for fiscal year 2004, Law # 11,437, of July 16, 2003.

The operation's financial conditions have already been accepted by the Company. The main future events are the signing of the financing agreement between SABESP and JBIC, scheduled for May 2004, following the finalization of the process of contracting the Program Manager.

Sanitation Program - 2004

SABESP has filed with the Ministry of Cities, through Caixa Econômica Federal - financial agent of the FGTS, a request to obtain financing for 40 new projects in the amount of R\$ 714.2 million (total investment of R\$ 794.6 million), under the Water and Institutional Development formats. The consultation letters referring to the 40 projects are with the Ministry of Cities (FGTS fund management body) in Brasília for qualification, organization and selection, seeking to contract the credit operation by the end of April 2004, in accordance with National Monetary Council Resolution # 3153 of December 11, 2003.

BNDES

In August 2002, SABESP signed a financing agreement with the BNDES and four private banks that operate as lending agents of the BNDES system, in the amount of R\$ 240 million, for the federal government's contribution to the Tietê Project - Phase II. Of this total, R\$ 100 million has already been disbursed.

SABESP is concluding all the procedures for the signing, by April 30, 2004, of R\$ 300 million in new financing, of which R\$ 140 million is allocated for payment of the federal government's contribution to the Environmental Recovery Program of the Santos Metropolitan Region, which will be financed by the JBIC for sewage projects, and R\$ 160 million to finance water projects contractually agreed upon by the JBIC for the Santos Metropolitan Region. The payment conditions will be 3% p.a. + TJLP (Long-Term Interest Rate) for water, and 1% p.a. + TJLP for sewage, with a 10-year term, including a 3-year grace period.

Loans

SABESP has taken the following initiatives to refinance its obligations with the local and international capital markets:

Debentures

In March 2003, SABESP fully renegotiated the third issuance of debentures in the amount of R\$ 413 million. Of this total, R\$ 367 million is traded on the financial market and R\$ 46 million is in the Company's treasury.

In October 2003, SABESP renegotiated the fifth issuance of debentures in the amount of R\$ 400 million.

Eurobonds

In June 2003, SABESP raised US\$ 225 million on the international market through the issuance of securities with the main purpose of settling US\$ 200 million in Eurobonds maturing on July 15, 2003. The remaining US\$ 25 million was applied for the amortization of installments of other dollar-denominated debt, including with the Inter-American Development Bank (IDB) and the World Bank.

9. INVESTMENTS

During 2003, R\$ 594 million was invested in the municipalities in the Company's operating area. The table below shows the investments in water and sewage in the São Paulo Metropolitan area and Regional Systems, in addition to the amount of the recent acquisition of the municipality of São Bernardo do Campo's system.

| INVESTMENT BY REGION (R\$ million) | | | |
|------------------------------------|-------|--------|-------|
| REGION | WATER | SEWAGE | TOTAL |
| SP METROPOLITAN REGION | 90 | 309 | 399 |
| REGIONAL SYSTEMS | 72 | 123 | 195 |
| TOTAL | 162 | 432 | 594 |
| Assumption of São B. do Campo | - | - | 415 |
| GRAND TOTAL | 162 | 432 | 1,009 |

New water and sewage connections and the benefited populations are as follows:

Water and Sewage Connections Performed and Benefited Population 2003

| | | SP METRO REGION | REGIONAL SYSTEMS | TOTAL |
|--------|--|--------------------|---------------------|-------|
| WATER | Number of new connections ¹ | 91 | 65 | 156 |
| | Benefited population ² | 370 | 180 | 550 |
| SEWAGE | Number of new connections ¹ | 94 | 68 | 162 |
| | Benefited population ² | 400 | 220 | 620 |

⁽¹⁾ In thousands of units

⁽²⁾ In thousands of inhabitants

Notes: 1999 - not including assumption of the municipality of Osasco (R\$ 231 million)
2003 - not including the transfer of the municipality of São Bernardo do Campo (R\$ 415 million)

São Paulo Metropolitan Region

In 2003, investments in the São Paulo Metropolitan Region totaled R\$ 399 million, distributed among various programs for the production and distribution of water, and collection and treatment of sewage, directly serving a population of 14.3 million with water services and 11.4 million with a sewage collection network.

Water

In 2003, meteorological conditions were atypical, with monthly rainfall below long-term historical averages, for the third year in a row, especially in the rainy periods of the year (Jan.-March and Oct.-Dec.). This led to a reduction in the natural flow of the tributaries of the wellsprings that make up the production systems that supply the São Paulo Metropolitan Region. Despite this situation, in 2003, a rationing plan was only conducted in the Alto Cotia System. SABESP made every effort to improve the production systems' operating conditions in order to avoid, as much as possible, actions that could compromise supply to the population.

Sewage

For the expansion of the sewage collection systems, approximately 94,000 new connections were made in the São Paulo Metropolitan Region. Simultaneously, SABESP expanded sewage treatment in the São Paulo Metropolitan Region, with the start of construction of a new sanitary sewage system, through the reversal of the sewage collected in the municipalities of Ribeirão Pires, Rio Grande da Serra and Mauá, and industries located at the southern end of the city of Santo André, to the ABC Sewage Treatment Plant.

Estimated at R\$ 27.4 million, the system will be one of the first projects in which SABESP, through the Ministry of Cities, will use funds from the General Federal

Budget, responsible for financing 80% of the project, with the Company providing 20% from its own funds.

In the Tietê Project - Phase II, financed by funds from the Inter-American Development Bank (IDB), in 2003, approximately R\$ 215 million in funds were used in the construction of 14 km of interceptors, 42 km of mains, 448 km of collection networks and 52,000 new household connections.

Operational Development

In the management of the loss reduction program in the São Paulo Metropolitan Region, we can highlight the following achievements in 2003:

- Installation of 132 pressure-reducing valves, expanding the area under control to 30.3% of the distribution network, and providing savings of 3,150 l/s due to the reduction in loss due to leaks.
- Survey of 11,240 km of the distribution network to detect unseen leaks.
- Completion of 441,440 repairs to leaks in the distribution network, averaging 1,200 repairs/day.
- Replacement of 163,800 low-capacity water meters (approximately 5% of the total water meters in the São Paulo Metropolitan Region) and 2,760 high-capacity water meters in 2003, through a Risk Contract, maintaining the average age of total water meters at 4.3 years.
- Identification of 8,800 frauds in water connections, taking the appropriate administrative, operational and commercial measures.
- Continuation of fieldwork to determine actual losses in the water distribution network more adequately, in accordance with guidelines of the IWA (International Water Association).

Regional Systems

SABESP is present in 329 municipalities in Interior and Coastal Region of São Paulo, and in 2003 it made approximately R\$ 195 million in investments, with the execution of nearly 65,000 water connections and 68,000 sewage connections, benefiting 180,000 and 220,000 inhabitants in those regions, respectively.

Continuing with the Operational Development Program (PDO), SABESP implemented various actions in municipalities, ranging from automation to refurbishment of operating units, equipment and training, focusing on loss control, micro measurement and automation. Approximately R\$ 17 million was invested in this program.

The Loss Control Program in the Coastal and Interior regions is planned through December 2004, mainly comprising sectorization with adequate pressures, survey and repair of leaks, macro and micro measurement, and other actions, based on standardization and training.

Investments were also made in complementing facilities and equipment in sanitary laboratories, acquisition of water meters and equipment, and adjustments in the operational areas, promoting improvements in working conditions and quality of services provided.

10. BUSINESS MANAGEMENT

Business Results Maximization Program

In January 2003, an institutional program was structured with the purpose of increasing business results through management actions. By increasing revenues, reducing expenses and optimizing assets, the Business Results Maximization Program made significant accomplishments, surpassing R\$ 73 million in 2003.

Respect for Customers

In 2003, SABESP's ombudsman office adopted a pro-active stance, always anticipating customers' demands whenever possible. Thus, it developed various actions to improve capacity to serve the population, such as: identification, evaluation and enhancement of standards for service by SABESP and the ombudsman office, increasing the number of work stations in the ombudsman office's call center from 3 to 5, resulting in easier access and greater service capacity; partnerships with small claims courts, together with other areas of SABESP and other public utility companies, in the Experimental Differentiated Service Project for amicable solutions to customer complaints, before judgment of lawsuits.

The application of new technologies in customer service and monitoring of cases in the government's Consumer Protection Department (Procon) gained momentum with the improvement of tools such as the ombudsman office's Customer Relationship Management (CRM) system, which generates benefits for the Company's operational and commercial system, and the possibility of accompanying the customer complaint process, from start to final resolution.

The ombudsman office recognized and registered 17,932 complaints in 2003, of which 17,276 had been resolved and closed as of December 31, 2003.

In Procon, 1,837 complaints were filed referring to SABESP. Of these, 1,451 had been resolved and closed by December 31, 2003.

New Tariff Adjustment Formula

On August 29, 2003, SABESP's IRT (Tariff Adjustment Index) began being calculated through a formula in which the costs and expenses of basic sanitation services are grouped into two portions (A and B), to reflect their changes more adequately. The A portion encompasses expenses accounted for as: electric energy; treatment materials; municipal, state and federal taxes and fees, including the CPMF (tax on bank transactions) and COFINS/PASEP (taxes on revenue); and financial charges from the operation of water resources for public supply purposes. Adjustment of this index is determined by the variation in this group of expenses over the 12 months prior to the application of the adjustment. The B portion includes all other costs, and is adjusted through the IPCA (Extended Consumer Price Index), published by the IBGE (Brazilian Institute of Geography and Statistics).

As a result of the application of the new formula, water supply and/or sewage collection service tariffs were adjusted by 18.95% in August 2003, except Residential - Social and Residential - Shantytown tariffs, which were adjusted by 9.00%.

Quality Actions

In 2003, SABESP had 12 ISO 9001 certifications, one ISO 14001 certification and two ISO 17025 accreditations.

Optimization of Supply System

Various initiatives were carried out to optimize the supply system, among which we can highlight SABESP's development of a Vendor Managed Inventory (VMI) pilot project, through which we share precise information with our suppliers, in real time, to reduce inventories, optimize logistics, reduce costs and improve customer service, release requests for bids, register suppliers and send electronic invitations to bid (via Internet), in addition to the implementation of in-person bidding (system for monitoring in-person bidding) and SABESP's online bidding, among others.

Rationalization and Reduction of Electric Energy Costs

Continuing the Energy Efficiency Program, the Company implemented projects developed through agreements with concessionaires: Elektro, Bandeirante and Eletropaulo, in the total amount of R\$ 10.5 million, invested by these concessionaires, with the return on the investment made by SABESP coming from the reduction in electric energy bills. In addition, an energy efficiency program was developed through an agreement with the IDB, which will invest US\$ 150,000 (interest free), and the renegotiation of electric energy supply contracts, in order to reduce costs.

Information Technology

Implementation of the Georeferenced Information System (GIS Project) was begun, which will allow for a significant improvement in the management and operation of water and sewage networks and facilities in the São Paulo Metropolitan Region. This process of modernizing systems was supported by the evolution of technological platforms, growth in installed infrastructure, the application of new work methods, aligned with the best practices identified in the market, and the enhancement of contracted service management.

It is worth pointing out that the expansion of installed technological infrastructure was accompanied by the growth of the voice and data communication networks and was made in combination with the adoption of new technologies and the implementation of new services and procedures.

SABESP Online Bidding

In October, SABESP launched its online bidding system for purchasing and contracting. The advantages of this system, in which SABESP is one of the pioneers in the State of São Paulo, include cost savings, speed, transparency and easy access, for both SABESP and the suppliers participating in the process, without having to leave their offices.

11. RESEARCH AND DEVELOPMENT

New Business and New Products

Reusable water

Reusable water is the product resulting from the treatment of discharge from sewage plants, provided by SABESP for non-potable purposes such as irrigation of green areas, fire fighting, washing of streets, lots and sidewalks, unclogging of storm sewer networks, industrial equipment

cooling and other activities that do not require the use of potable water.

To ensure quality after treatment at the plants, SABESP also disinfects the water with chlorine, in order to avoid any problem in possible human contact with the product.

SABESP has signed a one-year agreement with the Municipal Government of São Paulo for the supply of approximately 22.4 million liters of reusable water per month. The water will be used to clean streets where street markets are held, clean public squares, water gardens and clean municipal buildings.

Assistance to Municipalities Not Operated by SABESP

As a support body for the State Secretariat of Energy, Water Resources and Basic Sanitation (SERHS), SABESP provides technical assistance to municipalities whose water supply and sewage system concessions are not operated by SABESP. This assistance involves services in the designs and operation of systems and the repassing of resources from SERHS for the construction work. In 2003, six agreements were signed, totaling approximately R\$ 530,000. These activities also include evaluating these municipalities' funds requests for basic sanitation construction work, issuing 154 technical-financial reports on these requests in 2003.

Technological Development - Water and Sewage

Among the various major technological developments that are part of the Company's normal operations, the following stand out:

Aqualog - SABESP has signed an agreement with the US company Signet Scientific Company to expand the technology for water treatment plant automation systems, Aqualog, developed by SABESP. The system allows for enhancement of water and discharge treatment system operations, with lower operating costs and the possibility of full supervision of the treatment process' phases.

Currently, in the Ribeira Valley, there are 19 automated plants and 18 more plants are scheduled to be implemented in the São Paulo Metropolitan Region. In Caraguatatuba, Ubatuba, Iguape, Ilha Comprida, Iporanga and Jujutiba, this technology is already being developed for sewage treatment, and has already been implemented in autonomous systems in the States of Santa Catarina and Bahia.

Use of Water Treatment Plant Sludge in Ceramics Industry - Studies and actual scale tests conducted with sludge from the Cubatão Water Treatment Plant in the ceramics industry were finalized and the manufacture of red ceramics (bricks, roof tiles and pipes) using water treatment plant sludge may be part of the operational production routine. Regular supply of sludge to industry was made feasible through the signing of an agreement for the transportation of water treatment plant sludge to ceramics manufacturers. The IPT (Technological Research Institute) was contracted to monitor the emission of gases generated in the ceramics industry.

Use of Discharge from Stabilization Ponds in Agriculture, in the city of Lins - The final report from the agreement signed between SABESP, USP, FINEP (PROSAB Project) and FAPESP was released, presenting the results of studies conducted in the experimental field in the municipality of Lins, created with the purpose of conducting research and sustainable using treated discharge from stabilization ponds.

Implantation of SGM (Maintenance Management System), in almost all the Company's operating areas, with the training of nearly 400 employees.

Implementation of CEL (Electric Energy Control System), a web-based corporate software program, integrated with the Company's financial systems, for management of SABESP's electric energy bills and supply agreements.

12. AWARDS

In recognition of the efficiency and quality of the services provided by SABESP, the Company won various awards, among which we can highlight:

Transparency Trophy - awarded by ANEFAC-FIPECAFI-SERASA. SABESP is the only company selected among the 10 finalists in the award's seven years of existence.

National Basic Sanitation Quality Award (PNQS), awarded by the Brazilian Sanitary and Environmental Engineering Association (ABES), the most important award in the basic sanitation sector in Latin America, was won by the Northern Business Unit of SABESP's Metropolitan Distribution Division, Level II.

São Paulo Management Quality Award (PPQG), awarded by the São Paulo Institute of Management Excellence, to the following units of SABESP:

- Governor's Trophy, awarded to the Eastern Business Unit of the Metropolitan Distribution Division, Level II - Mixed Economy category;
- Gold Medal, awarded to the Central Business Unit and the Western Business Unit of the Metropolitan Distribution Division, Sewage Treatment Unit of the Production and Technology Division;
- Bronze Medal, to the Lorena Sector of SABESP's Regional Systems Division.

2002 Quality Standard Award in B2B (Business to Business) in the Public Services Category - Public Concessionaires, for Clubinho SABESP (children's club) and the Bidding Management System, awarded and promoted by Padrão Editorial, Boucinhas & Campos, with the support of Câmara E-Net. This recognition is for SABESP being one of the companies that adopt best information technology practices, with transparency and modernity in their processes.

Top of HR Award: Award granted by the Brazilian Association of Sales and Marketing Executives (ADVB), for the case Competency-Based Compensation: Personal Progress Incentive Integrated with the Business .

Top S Environmental Award 2003: Awarded by the Brazilian Institute of Construction and Housing Outsourcing and Services (IBSTH), in recognition of the Rational Water Use Program (PURA).

3rd Annual Commercial and Industrial Award of São Manuel in the Category Best Basic Sanitation Company : 1st place in the category public preference and liking for SABESP in São Manuel, awarded by the Commercial and Industrial Association of São Manuel (ACISM), after a survey of the municipality's population.

Water and City Award, in the Services category - 2003 Highlight: For the Rational Water Use Program (PURA), to the Eastern Business Unit.

APARH/Revista Vencer! Award for Creativity in Companies Awarded by the São Paulo Human Resources Association in partnership with Revista Vencer magazine, in three categories: Case of Creativity, Popular Vote and Creative Presentation. SABESP won the second edition of the award in the category Creative Presentation with the case Human Resources and the Environment, a partnership that works in the minimization and responsible disposal of waste. In the winning presentation, SABESP had the partnership of the ICC (Child Citizens Institute), which presented the case in the form of a play.

13. INVESTOR RELATIONS

In 2003, SABESP maintained its commitment to providing clear and comprehensive information, with the practice of personalized service to local and international investors through meetings and conference calls after disclosing results. Since SABESP's shares are listed on the NYSE, the Company is required to comply with SEC (Securities and Exchange Commission) standards. One obligation is the filing of an annual report - Form 20-F, which in 2003 was filed on June 2.

This report included the 2002 financial statements, in accordance with corporate law, reconciliation with US GAAP (United States Generally Accepted Accounting Principles), and physical data and risk factors. The report was accompanied by the CEO and CFO certifications, a requirement introduced by the Sarbanes-Oxley Act (U.S. legislation) of 2002.

14. CAPITAL MARKET

At the end of 2003, SABESP's shares were quoted at R\$ 163.20 per thousand shares (12/31/02, R\$ 92.00). Its American Depositary Receipts also appreciated considerably, ending 2003 at US\$ 13.90 (12/31/02, US\$ 6.45).

Over the course of 2003, 14.8 billion SABESP shares were traded on the Bovespa (São Paulo stock exchange), representing an average daily volume of R\$ 6.5 million. Over 77,000 trades were conducted and SABESP shares were present in 100% of the trading sessions.

SABESP has been listed on Bovespa since June 1997, it has been part of Bovespa's Novo Mercado since April 2002, and its shares have been listed on the NYSE since May 2002. The Company presents its financial statements in accordance with Brazilian and US accounting standards, and complies with the regulations of the Brazilian Securities Commission (CVM), and the US Securities and Exchange Commission (SEC).

SOCIAL BALANCE SHEET

Sabesp is a company closely identified with social responsibility. Its products and services and its operations area alone may be considered social responsibility. Environmental sanitation is social responsibility.

Since it was established, 30 years ago, SABESP has assumed the role of a socially-responsible company, due to the basic characteristic of its service, as well as the tendency of its employees, who saw in their everyday work an instrument of social development and progress. Thus, in each business unit, a series of actions began to be performed, focusing on the environment, the community, culture, education, volunteerism and many others, for both the internal public, the employees, as well as for society, including partnerships with government bodies and support for NGOs.

In SABESP's Strategic Planning for 2004-2008, the Balanced Score Card (BSC) is in the implementation phase, where two strategic objectives stand out: being recognized by society as a civically responsible company, through the social responsibility process, and preparing the organization to achieve environmental excellence and act with social responsibility. In addition, in the Company's management strategy, two guiding principles of SABESP's mission were made clear: the importance of ethical action and focus on customers, in a competitive environment and the commitment to social and environmental responsibility.

SABESP also has an Institutional Environmental Policy that establishes principles, criteria, guidelines and concepts that guide the Company in attitudes and actions related to the environmental issue and the relationship with government bodies and related institutions, the market and society. This relationship should be guided by: ethics, transparency, spirit of cooperation and synergy, positive and constant dialog, pro-active actions regarding the environment and in the formulation and enhancement of environmental legislation.

In line with the environmental policy, the Household Discharge Treatment System of the municipality of Salesópolis - District of Remédios, and the Sewage Pumping Station of Salesópolis obtained ISO 14000 certification.

The year 2003 was a milestone, when a consensus was reached that it was time to evolve, to improve, to achieve better and higher results. Thus, combining professionals from all areas and divisions, the Technical Social Responsibility Committee was established, with the role of proposing the bases to implement the Institutional Social Responsibility Program in SABESP, as an initiative aligned with the management model and business strategies and policies, in order to contribute to sustained development.

Accordingly, in November 2003, the 1st Annual SABESP Social Responsibility Exposition was held, whose purpose was to: provide knowledge and institutional exchange of social programs, in which 130 social responsibility programs being developed by the Company were presented.

In 2003, SABESP obtained the Empresa Amiga da Criança (Friend of Children Company) seal, granted by Fundação Abrinq to organizations that conduct social action programs for children and adolescents, especially in the prevention and eradication of child labor.

Thirteen social responsibility projects by SABESP were selected and published in Exame magazine's 2003 Good Corporate Citizen Guide: Education Category Caracol Project, Child and Adolescent Support Category Changing Paths and Educar Leste (educational program), Environment Category Jaguari Environmental Education Center, Rational Water Use Program (PURA), Educating for Citizens Participation, Culture Category Clubinho SABESP children's club, A Gota Borradeira cartoon character, Idea Multipliers, Unemployment Reduction Category Needy Children Learning Program, Anti-Hunger Program Interactive Urban Ecology Program Implementation of Community Gardens, Elderly Support Category Elderly Support.

Currently, SABESP manages social projects for both the internal community and the external community, as described below:

SOCIAL INVESTMENT IN THE INTERNAL COMMUNITY

People: Projects targeting employees, their families, service providers and suppliers, in order to provide: a safe and healthy work environment, prevention of accidents and harm to health, training on health and safety, free association, right to collective bargaining, compensation and working hours in conformity with legal parameters, guidelines for improved quality of life and social responsibility, and monitoring of formal agreements with suppliers and service providers.

Regarding the internal community, SABESP considers its employees its greatest asset. According to this premise, the Competency-Based People Management model was adopted in the Company, recognized both in the internal environment and in the market, such as through the 2003 Top of HR Award by the ADVB. This model's premise is to provide the Company with professionals that have the essential competencies to ensure obtaining significant results and adding value to the business.

It is characterized by a logic that provides coherence, direction and integration of the adopted HR and quality management practices.

Selection/Civil Service Exam is the first of the four pillars that support the competency-based management model. It is the process of selecting people that make the difference, with talent and potential to lift the organization to a new level of results.

Since SABESP is a company indirectly administered by the State of São Paulo, and a public service concessionaire, it is required to hold civil service exams, and it has managed these processes through the contracting of a specialized company, providing parameters for selection to be as appropriate as possible, allowing the participation of a large number of people from the labor market.

In this context, in addition to the specific knowledge necessary for the performance of duties, hiring through civil service exams evaluates and identifies general competencies in all candidates participating in the process, being an important instrument in assisting managers in tracking the individual development of future employees. It also allows for greater knowledge of professionals' potential and profile, for career planning at the time of hiring.

The Competency-Based Evaluation System, the second pillar, is a management instrument whose purpose is to identify the degree of development of individual competencies defined by the Company. In 2003, a broad evaluation process was conducted, involving all employees and managers, outlining the commitments that generated the Development Plan for 2004. This system encouraged employees to improve their competencies to obtain better performance in their activities, and therefore maximize business results.

Competency-Based Compensation, the third pillar, is a plan conceived in accordance with labor market trends and aligned with SABESP's organizational objectives. It provides the opportunity to recognize and orient the capacity and individual development of each employee, focusing on multiple functions. For the college-graduate category, a Y-shaped career is used, going in two directions, one technical and the other managerial, in order to allow for mobility and development of employees according to their competencies and personal characteristics. Managers are responsible for career planning, together with the employee. Competency evaluations allow for salary progression linked to the increase in the competency, and meet the requirements of each position.

SABESP Corporate University (UES), the fourth pillar, is a consolidation of a new direction for SABESP's educational actions. It provides conditions for self-development, as well as career guidance, suggesting actions to improve the necessary competencies, in addition to conducting classroom and virtual programs in partnership with a wide range of renowned entities in the market.

In 2003, believing in the importance of professional qualification for business challenges, UES invested a total of R\$ 4 million for classroom education, training and refresher programs. This provided for 41,700 participations in classroom training and development activities, for a total of 358,157 person-hours. Of the employees trained, 98% belonged to core-business areas, and 2% to top management, distributed among all categories of positions.

In order to ensure greater development of professionals with a high degree of specialization in strategic business matters, UES subsidized advanced degree and MBA programs for 178 professionals in 2003.

Another aspect of UES's work that stands out, due to the way in which it has been disseminated among employees to seek self-development, is distance learning, based on modern technological solutions.

In 2003, there were 4,350 participations in virtual activities, considering distance learning courses and corporate TV activities, with an investment of R\$ 331,813.

Also in 2003, SABESP provided other actions for its internal public, among which we point out:

SABESP Educational Agreement, which offers employees and their dependents alternatives for the development of their formal education, through partnerships with private learning institutions to grant special discounts. The agreements are comprehensive, including undergraduate and graduate studies, elementary, high school and vocational education, pre-school education, languages, general equivalency diploma classes and literacy classes.

The Life Promotion Program (PPV) has the purpose of disseminating preventive actions, promoting cultural change and awareness of safety and health in the workplace.

The main reason for the program's success is its diversity of actions, backed by institutional commitment in governing, standardizing, orienting and disseminating the concepts and guidelines for prevention throughout the Company, supporting and protecting the lives and health of its employees, contracted service providers and the environment, defining and establishing concepts, general rules and responsibilities in compliance with current legislation.

Concerned about reducing the job accident rate, in 2003, Sabesp signed a Conduct Adjustment Commitment Agreement, proposed by the Office of the Attorney General and the Ministry of Labor, to establish technical measures and parameters.

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

The A Day at SABESP Program is intended to create proximity between employees' children and SABESP, providing them with information on the Company, preservation of the environment and rational use of water through visits to installations, talks and interactive activities. The program targets children between the ages of 7 and 16, and takes place twice a year, always during school-year vacations. In 2003, visits were made to the Guaraú water treatment plant, the Operational Control Center, the PURA Program house, the SABESP showroom, the Salesópolis Springs Park and the Ponte Nova Dam. The children were also presented to the president of SABESP and the event was concluded with the presentation of the play "The Mother Ship".

The Employee Service and Recovery Program (PA-RE) has the purpose of collaborating with employees in their recovery, reintegrating them to their professional and personal activities, and preparing preventive campaigns and seminars.

The Waste Minimization and Responsible Disposal Program has the following objectives: reduce generation of SABESP's waste, reuse materials and send them for recycling; reduce pollution and the volume of refuse sent to the municipal landfill; promote change in behavior based on reflection on the problem of garbage and each person's role to the solution, in accordance with guidelines from the National Basic Sanitation Quality Program (PNQS). This project is developed in SABESP's Ponte Pequena complex, in the city of São Paulo, and reaches approximately 1,200 people. In 2003, it was recognized through the APARH/Revista Vencer award.

The Life Award was established as a form of demonstrating to employees their importance as essential players in the Company's history, in its continuity and strengthening. It has been awarded annually since 1998, recognizing and paying tribute to employees who have worked for SABESP for 10, 15, 20, 25 and 30 years. There are various regional celebrations, with awards ceremonies for these employees.

Other relevant projects: Profit Sharing, SABESP Memory Project, Elementary and High School GED Courses, Anti-Smoking Group, On-the-job Exercise, The Veterans' Retiree Group, New Employee Integration Program, HR Moment, Professional Distinction Program, Production Improvement Program, Living Well Program, Trainee Wednesday, Multifunctional Groups' Lecture Cycle, Elderly Support Program.

In addition, concerned about contributing to its employees, SABESP subsidizes part of some benefits, such as Medical Assistance, Pension Plan, Basket of Food Staples and Meal Tickets, and others provided for by law, with the subsidy mentioned in the attached table.

Another highlight of 2003 is the contribution of R\$ 12,725,000 to Fundação SABESP de Seguridade Social (SABESPREV), a non-profit pension and assistance entity. Its mission is based on contributing to the quality of life of employee clients, in the present and the future, through excellence in pension plan and healthcare services. Sabesprev's main products are the pension plan and secondary pension plan, health plan, dental plan and life insurance.

SABESP also contributed to the development of the SABESP Association's activities. This entity was founded over 30 years ago, and currently has 11,500 members - with their dependents, reaching nearly 50,000 people.

The SABESP Association's purpose is mainly leisure, with cultural, social and sporting activities. There are over 180 clubs, and 6 vacation camps throughout the State of São Paulo. The SABESP Association has various agreements, such as with gyms, high schools, insurance agents, language courses, and others.

SOCIAL INVESTMENT IN THE EXTERNAL COMMUNITY

SABESP maintains 141 social responsibility projects for the external community.

Education: Projects to promote and encourage all forms of education for children, adolescents and adults, such as formal and informal education, literacy, citizen development and others.

In this category, SABESP has 34 ongoing projects. Their main focus is to promote environmental education, providing notions of the environment, basic sanitation and rational use of water, in an enjoyable and interactive format through theater, dance, music, miming, games, fables, children's stories, drawing workshops, textbooks with characters, etc.

Most of these projects are intended for children and adolescents, public and private school students, teachers and the needy population. They are made possible through the work of teams of SABESP employees. Among the projects, the following stand out: Helping Preserve Life, Clubinho SABESP, Contribution to Reducing School Evasion Rates, Leak Survey Course, Sanitary and Environmental Education Program, Budget Education, My City has SABESP, Caracol Project, Colorful SABESP, SABESP Coloring Tomorrow, SABESP Teaches, Institutional Visits Program, Futuraguá Project, Clean Water in the Community, Sanitary and Environmental Education Project - Gleba do Pêssego, A Gota Borralheira, Integrate Paths of Life, Clown in the Schools, Selective Collection, Teacher Training Program to Disseminate PURA Project, Education: Factor for Inclusion, SABESP: Educating for Citizenship, Educar Leste (educational project), Environmental Phone, Throw Trash in the Trash, Lectures on the Water Cycle in SABESP, Development and Implementation of Environmental Education and Community Projects, Environmental Education Group of the Metropolitan Region, Seminars in Communities, Schools and Companies, Discover SABESP Project,

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

Visits to Water and Sewage Treatment Plants , Relationship Marketing Projects with the concession authority, through the development of programs with environmental education actions in the eastern region.

Culture: Projects to promote and encourage culture in fields such as literature, plastic arts, music, dance, theater, circus, film, preservation of cultural heritage, etc.

In this category, SABESP has five projects. They are for the community in general, which, through artistic and social activities, is stimulated and made aware of the plurality of the national culture, focusing on environmental awareness, sustainable development and society's memory .

In this focus, the Puppet Theater Project stand out which, through the story of an astronaut in his journey through space, seeks to raise awareness about preserving the environment, consumption of treated water, proper use of the sewage collection network and the lack of water on the planet. This project essentially encompasses public and private schools, so far reaching over 180,000 children per year, in 580 presentations.

Other projects that have been developed in this category are: Incentive for Brazilian Cultural and Artistic Production, SABESP in the Square, Landmarking: An Act of Social Responsibility, and the Idea Multipliers Program.

Environment: Projects to develop the awareness and critical thinking of the population and other companies regarding the environmental issue, as well as projects that support, in some form, experiments in environmental conservation and sustainable development. They also include actions by the Company to minimize damage to, and maintain and improve, the environment.

In this category, SABESP has 44 projects. For the most part, they target the population in general through municipal governments, industries, school systems, family and neighborhood communities, and members of watershed communities. Their main focus ranges from actions and practices for environmental conservation and recovery, through sustainable development. Many of them use educational practices, identifying critical areas with environmental risks around water and sewage treatment plants and wellsprings.

Among the various projects, the Rational Water Use Program (PURA) stands out, which encompasses the entire population of the State of São Paulo and whose purpose is to avoid water shortages in the short and medium terms, providing for landscape changes and technological interventions for reuse. Its primary objective is the population's awareness regarding conservation of water resources, with cultural changes regarding waste and public health. As a result, PURA provided savings of 10% in consumption in the São Paulo Metropolitan Region, in addition to minimizing the need for rationing.

The PURA Project won the 2003 Top S Environmental Award, from the Brazilian Institute of Construction and Housing Outsourcing and Services (IBSTH), and the Water and City Award services category 2003 highlight: Eastern Business Unit.

Other relevant projects are: Selective Collection, Reusable Water, Biosolids, Nazaré Paulista and Jaguari Environmental Education Centers, Environmental Technologies Education and Dissemination Center, Environmental Education Program for the Municipality of Embu das Artes Selective Collection, Ecotourism and Environmental Monitoring, Pollutants Emission Reduction through Vehicular Natural Gas, Metropolitan Environmental Management Implementation Group, Social Mobilization of Families Residing Near Sewage Pumping Stations , ISO 14001 Certification in the Environmental Management System in the Vila dos Remédios Sewage Treatment Plant and the Salesópolis Sewage Pumping Station, Minimization and Responsible Disposal of Waste, Saber Viver Solid Residue Minimization Project, Environmental Preservation through Wellsprings Watch Teams, Water Treatment Plant Sludge Recycling in the São Paulo Metropolitan Region in Ceramic Products, Stabilization Pond Discharge Reuse Project, Every Day is Environment Day Project, Green Neighborhood Project, Basic Sanitation and Health Promotion Flamingo Shantytown, Prosanear Program, Proper Use of Sludge from Taiacupeba, Landscape, Landscaping and Gardening Project; Environmental Education Project in the Ribeirão Pires APAE (Association of Parents and Friends of Special People), Restoration of Degraded Areas, Rational Use of Small Thermoelectric and Hydroelectric Plant Energy, Green Life Program, Removal of Garbage from the Jundiá Reservoir, International Water Symposium Water: the Essence of Life, Actions Celebrating Water Week, SABESP Painting Health, International Beach Clean-up Day, Trash Clean-up Iguape, Recycling Ideas, Agenda 21 in the Neighborhood, Commemorative Events: Water Day / Environment Day / Tietê River Day, Paths to Sustainability Workshop, Recycling, Reuse of Water, Seminar: Water, Challenge of the Millennium, Electric Energy Reduction Program, Monitoring and Control Program for Spillage of Domestic and Non-Domestic Discharge into Gullies and Underground Passages, At-Risk Area Mapping Program for Reduction of Occurrences of Damage to Water/Sewage Systems and Preparation of Emergency Action Plan.

Health: Projects to promote and encourage public and personal health, both preventive and remedial, in order to improve quality of life.

Five projects are maintained in this category, encompassing various communities and special situations. Their focus is basically campaigns on public health, practices and integrated actions to improve the population's quality of life. The projects are: Collaboration with Epidemic Campaigns, Programs Encouraging Blood Donation, Partnership with Health Department / Health Surveillance Center in Itaquaquecetuba, Family Health Program, and Cooperation Agreement with Santa Marcelina Healthcare Center.

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

Community: Work focusing on activities benefiting the community that do not qualify under one of the categories described above, such as:

- a) Anti-hunger Projects that are part of the federal government's campaign to collect food and other products that may benefit and promote sustenance of needy people and areas at various levels;
- b) Violence reduction Projects directly focused on reducing violence, ranging from large cities to small local communities, promoting and encouraging awareness and educational actions with specific publics: inmates, juvenile offenders, the homeless and public and private institutions;
- c) Unemployment reduction Projects to stimulate and increase jobs, as well as specific actions in professional training;
- d) Stimulation and encouragement of associations;
- e) Actions to improve infrastructure (e.g.: construction of small parks, basic sanitation, housing);
- f) Promotion of sports;
- g) Assistance to communities harmed by critical situations, such as floods, droughts, epidemics, etc.

This category includes 34 projects. They have various purposes, and each project targets a specific population, with appropriate activities directed toward them. They are normally highly relevant to the public they serve, since they permeate large and diversified groups such as public and private schools, organized civil associations, religious movements, neighborhood communities, etc. Some highlights are:

Differentiated Tariff Policy

SABESP's tariff policy provides a fairer form of billing that is more adequate to the needs of less favored classes, in order to guarantee access by the low-income population to basic sanitation services, contributing to public health and quality of life.

With these objectives, the Company offers three types of tariffs: Social Residential Tariff, Shantytown Residential Tariff and Non-Profit Assistance Entity Commercial Tariff.

The social tariff is approximately 34% of the normal tariff, and the tariff for shantytowns is around 26%.

In order to assist entities that provide non-profit services, such as nursing homes, orphanages and hospitals, SABESP applies the Non-Profit Assistance Entity Tariff, corresponding to 50% of the normal commercial tariff.

The Social and Shantytown tariffs were not adjusted in 2001 and 2002. In 2003, they were adjusted by 9%, while for other consumer categories, the adjustment was 18.95%.

This practice reinforces the social responsibility that SABESP imprints on the services it provides to the population.

SABESP as a Co-maintaining Company of the Instituto da Criança Cidadã (Child Citizens Institute): In 2003, SABESP became a co-maintainer of ICC (Child Citizens Institute), providing approximately R\$ 1,312,000 in funding. The institute serves an average of 7,500 people between children, youth and adults from low-income families in 15 Educational Units, in the periphery of the cities of Guarulhos and São Paulo. Its activities encompass pre-school daycare, a vocational preparation center, literacy classes for youth and adults, and the "Our Community" project. It also has three circus schools in locations that are highly needy, using circus arts to integrate children and youth into society.

Summer 2003/2004 Operation: Starting November 15, SABESP and the Fire Department carried out the "Summer 2003/2004 Operation" with the purpose of preventing and reducing accidents near reservoirs in the Cantareira System, which are used by the population for leisure. Implemented at the end of the 90s, in the areas of the Paiva Castro Reservoir and the Juqueri Canal, due to the 221 occurrences of drowning registered per year, this operation included actions such as: installation of 24-hour watch posts, orientation signs for users, mobile surveillance with patrol along the entire canal, rigorous enforcement regarding the use of jet-skis and motorboats, among other activities.

SABESP participated in the 8th Annual Kids and Teens Festival, in celebration of Children's Week, providing the booth's visitors with access to computers to navigate in Clubinho SABESP, a special site for children between the ages of 6 and 13, with educational tips and online giveaways, and that can be accessed free of charge through the site. This action's purpose is to seek loyalty and awareness of future generations regarding the importance of water.

Other projects that deserve mention: Global Action, Citizenship Caravan, Citizen's Council, Collective Occupation, Make a Difference Day, Cachoeirinha Conviviality and Social Integration Space, Community Gardens, Promotion of Economic Development with Conservation of the Environment, Agribusiness Warehouse, Community Participation, Madre Teodora Home for the Elderly, "My Neighborhood, My Home", Integrated Anti-Violence Action Program, Environmental Action Support and Incentive Program, Areião/SABESP Project, Walk Itape Project, Changing Directions Project, Collective Work Project, Partnership with Senac Social Network, Relationship with the Community, Revitalization of Shantytowns, Treatment of Phreatic Wells with Diffusion Bottles, Controlled Social Use of Natural Resources in the Municipality of Joanópolis, Use of SABESP Areas by the Community, Social Use and Environmental Conservation - Sand Field in the Lava-pés Neighborhood,

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

Green Water Neighborhood Project, Meeting with Communities, Partnership with the PUERAS NGO, Environmental Conservation and Protection for the Capivari-Monos Environmental Protection Area, and SABESP Serves Program (Paraisópolis).

Volunteerism: This encompasses the support given by the Company to volunteer actions by its employees, through structured programs. It means uniting the Company's technical and financial resources with the work and talent of its employees to improve the life of the community. It includes support for community entities (children and adolescents, the elderly, people with disabilities): social inclusion activities, reestablishment of dignity and recovery of citizens' participation, such as technical support, volunteer work, financial contributions, donations of various material resources, etc.

There are 19 projects in this category, encompassing several social, cultural, sports and health campaigns and actions, with the purpose of covering deficiencies such as food, shelter, toys, warm clothing, etc.

SABESP surpasses warm clothing collection target: SABESP held a ceremony concluding its participation in the 2003 Warm Clothing Campaign, an action of Fundo Social de Solidariedade, which in 2003 had one of the best results in its history.

With 32% of the total collected throughout the State of São Paulo, and 51% above the target established by the state secretariat, the level reached by SABESP in 2003 is higher than that of the entire Warm Clothing Campaign in 2002, with 2.2 million items. The result demonstrated the Company's force and the effectiveness of the actions that occurred through caravans, actions in all the municipalities served, and a strong internal campaign, which involved a large portion of its 18,000 employees.

7th Annual Christmas Party for Special Children: Christmas party given by employees of the State Legislature, involving 18 entities assisting needy children and children with HIV, cancer and cerebral palsy. The celebration was attended by 1,100 children. SABESP donated R\$ 4,000, distributed caps to the children and brought the characters Super H₂O and Purinha.

Among the projects, the following stand out: Social Inclusion through Sports Activities, Volunteer Program, Adopt a Child, Toy Campaign, Donation of Non-Perishable Foods, Doing Good, Hands of Solidarity Group, Solidarity Week Action in the Nursing Homes, Thirst for Doing Good Program, Christmas Without Hunger, Support for the Elderly and Wellness, Satisfaction of the Elderly in the Raiar do Sol Nursing Homes, Human Warmth Project, Padrinho Noel, Circus School Project, Industrial Kitchen Projects and Save a Life Project.

SABESP also provides institutional support to various entities in the communities where it operates, focusing on events related to education, culture, health and basic sanitation.

| 1 Calculation Basis | 2003 amount (R\$ 000) | | | 2002 amount (R\$ 0000) | | |
|---------------------------------------|-----------------------|------|------|------------------------|------|------|
| Net revenue (NR) | 4,109,884 | | | 3,767,147 | | |
| Results from operations (RO) | 1,165,533 | | | -935,285 | | |
| Gross payroll (GP) | 589,462 | | | 502,938 | | |
| 2 Internal Social Indicators | R\$ 000 | % GP | % NR | Amount (000) | % GP | % NI |
| Meals | 62,603 | 11% | 2% | 54,965 | 11% | 1% |
| Compulsory payroll charges | 97,393 | 17% | 2% | 83,838 | 17% | 2% |
| Pension plan | 70,810 | 12% | 2% | 50,995 | 10% | 1% |
| Health plan | 61,240 | 10% | 1% | 55,675 | 11% | 1% |
| Occupational safety and medicine | 2,586 | 0% | 0% | 1,990 | 0% | 0% |
| Education | 516 | 0% | 0% | 401 | 0% | 0% |
| Culture | 7,009 | 1% | 0% | 5,183 | 1% | 0% |
| Professional training and development | 4,009 | 1% | 0% | 5,848 | 1% | 0% |
| Daycare or daycare allowance | 792 | 0% | 0% | 719 | 0% | 0% |

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

| | | | | | | |
|----------------------------------|---------|-----|----|---------|-----|----|
| Profit sharing | 40,256 | 7% | 1% | 34,740 | 7% | 1% |
| Other | 6,673 | 1% | 0% | 5,369 | 1% | 0% |
| Total Internal social indicators | 354,433 | 60% | 9% | 299,723 | 60% | 8% |

| 3 - External social indicators | Amount (000) | % over RO | % over NR | Amount (000) | % over RO | % over NR |
|------------------------------------|--------------|-----------|-----------|--------------|-----------|-----------|
| Education | 697 | 0% | 0% | 80 | 0% | 0% |
| Culture | 5,713 | 0% | 0% | 0 | 0% | 0% |
| Health and basic sanitation | 1,068 | 0% | 0% | 60 | 0% | 0% |
| Sports | 223 | 0% | 0% | 0 | 0% | 0% |
| Anti-hunger and food security | 4 | 0% | 0% | 0 | 0% | 0% |
| Other | 555 | 0% | 0% | 300 | 0% | 0% |
| Total contributions to society | 8,260 | 1% | 0% | 440 | 0% | 0% |
| Taxes (excluding payroll charges) | 615,409 | 53% | 15% | 0 | 0% | 0% |
| Total - External social indicators | 623,669 | 54% | 15% | 440 | 0% | 0% |

| 4 - Environmental Indicators | Amount (000) | % over RO | % over NR | Amount (000) | % over RO | % over NR |
|--|---|-----------|-----------|---|-----------|-----------|
| Investments related to the Company's production/operation | 9 | 0% | 0% | 28 | 0% | 0% |
| Investments in external programs and/or projects | 5,198 | 0% | 0% | 10,762 | -1% | 0% |
| Total Investments in the environment | 5,207 | 0% | 0% | 10,790 | -1% | 0% |
| Regarding the establishment of annual targets to minimize waste, consumption in general in production/operation, and to increase efficiency in the use of natural resources, the Company | () does not have targets () meets 51 to 75% () meets 0 to 50% (x) meets 76 to 100% | | | () does not have targets () meets 51 to 75% () meets 0 to 50% (x) meets 76 to 100% | | |

5 - Personal Indicators

| | | |
|--|--------|--------|
| N° of employees at end of period | 18,546 | 18,505 |
| N° of hires during the period | 352 | 815 |
| N° of outsourced personnel | 0 | 0 |
| N° of interns trainees | 813 | 879 |
| N° of employees above the age of 45 | 7,359 | 6,832 |
| N° of women working in the Company | 3,376 | 3,373 |
| % of management positions held by women | 13.00% | 14.00% |
| N° of blacks working in the Company | 2,433 | 2,424 |
| % of management positions held by blacks | 11.43% | 11.43% |
| N° of employees with disabilities or special needs | 27 | 27 |

6 - Relevant information regarding business responsibility

2003

2004 Targets

| | | | | | | |
|--|---|--|--|---|--|--|
| Ratio between highest and lowest compensation in the Company | | 25.26 | | | Not determined | |
| Total number of on-the-job accidents | | 326 | | | Index is defined by unit | |
| The social and Environmental projects developed by the Company were defined by: | <input type="checkbox"/> directors | <input checked="" type="checkbox"/> directors / managers | <input type="checkbox"/> all employees | <input type="checkbox"/> directors | <input checked="" type="checkbox"/> directors / managers | <input type="checkbox"/> all employees |
| Safety and health standards in the workplace were defined by: | <input type="checkbox"/> directors / managers | <input type="checkbox"/> all employees | <input checked="" type="checkbox"/> all + committee | <input type="checkbox"/> directors / managers | <input type="checkbox"/> all employees | <input checked="" type="checkbox"/> all + committee |
| Regarding union freedom, the right to collective bargaining and the internal representation of workers, the Company: | <input type="checkbox"/> not involved | <input type="checkbox"/> follows ILO standards | <input checked="" type="checkbox"/> encourages / follows ILO | <input type="checkbox"/> not involved | <input type="checkbox"/> follows ILO standards | <input checked="" type="checkbox"/> encourages / follows ILO |
| The pension plan includes: | <input type="checkbox"/> directors | <input type="checkbox"/> directors / managers | <input checked="" type="checkbox"/> all employees | <input type="checkbox"/> directors | <input type="checkbox"/> directors / managers | <input checked="" type="checkbox"/> all employees |
| Profit sharing includes: | <input type="checkbox"/> directors | <input type="checkbox"/> directors / managers | <input checked="" type="checkbox"/> all employees | <input type="checkbox"/> directors | <input type="checkbox"/> directors / managers | <input checked="" type="checkbox"/> all employees |
| In selecting suppliers, the same ethical and social responsibility and environmental standards adopted by the Company: | <input type="checkbox"/> not considered | <input type="checkbox"/> recommended | <input checked="" type="checkbox"/> required | <input type="checkbox"/> not considered | <input type="checkbox"/> recommended | <input checked="" type="checkbox"/> required |
| Regarding employee participation in voluntary work programs, the Company: | <input type="checkbox"/> not involved | <input type="checkbox"/> supported | <input checked="" type="checkbox"/> organizes / encourages | <input type="checkbox"/> not involved | <input type="checkbox"/> supported | <input checked="" type="checkbox"/> organizes / encourages |
| Total number of consumer complaints and criticisms: | in the Company 17932 | in Procon 2094 | in Court 1350 | in the Company not determined | in Procon not determined | in Court not determined |
| % of claims and criticisms handled or solved: | in the Company 98.9% | in Procon 89.9% | in Court not determined | in the Company not determined | in Procon not determined | in Court not determined |
| Total distributable added value (in R\$ 000) : | in 2003: 3,023,830 | | | in 2002: 2,570,468 | | |
| Distribution of Added Value: | 19.2% | 32.3% | | 0.1% | 31.3% | |
| | government | employees | | government | employees | |
| | 27.5% | 21% 3rd | 0% withheld | 25.3% | 93.9% 3rd | 0% withheld |
| | shareholders | parties | | shareholders | parties | |

Federal Public Service
 CVM Brazilian Securities and Exchange Commission
 DFP FINANCIAL STATEMENTS
 Commercial Companies, Industrial Companies, and others

Corporate Legislation
 Base date 12/31/2003

01444-3

CIA SANEAMENTO BÁSICO ESTADO DE SÃO PAULO

43.776.517/0001-80

11.01 NOTES TO THE FINANCIAL STATEMENTS

(Convenience Translation into English from the Original Previously Issued in Portuguese)

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

1. OPERATIONS

Companhia de Saneamento Básico do Estado de São Paulo - SABESP is engaged in the operation of public water and sewage systems in the State of São Paulo, Brazil, providing water and sewage services to a broad range of residential, commercial, industrial and public-sector customers. The Company also provides water on a bulk basis to certain municipalities in the São Paulo Metropolitan Region that do not have water production systems.

The Company provides water and sewage services in 367 municipalities in the State of São Paulo, nearly all of which are through concessions granted by the municipalities. Most of these concessions have 30-year terms, one of which expires in 2004 and the rest between 2005 and 2030. Each of these concessions is automatically renewable for a period equal to its initial term, unless the municipality or SABESP exercises the right to terminate the concession, through notification by either party at least six months prior to its expiration date.

The Company does not have a formal concession to provide water and sewage services in the City of São Paulo, which accounts for a substantial portion of the sales and services rendered. In Santos, a municipality in the Santos Coastal Area which also has a large population, SABESP operates based on a public authorization, like in some other municipalities in the Santos Coastal Area and the Ribeira Valley, where the Company started operating after the merger of the companies that formed SABESP.

On December 19, 2003, SABESP entered into an Agreement for Transfer of Public Sanitation Services and Asset Ownership with the municipality of São Bernardo do Campo, becoming responsible for providing water and sewage services to the 4th largest city in the State of São Paulo, which was a major step forward in the public sanitation services management in metropolitan regions.

2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Brazilian accounting practices and standards of the Brazilian Securities Commission - CVM. These financial statements are identified by the term Corporate law.

Supplementary information is also presented, identified as In constant purchasing power currency, prepared in conformity with the methodology described in Note 17.

The financial statements and supplementary information for the year ended December 31, 2002 have been reclassified for better comparability with the financial statements and supplementary information for the year ended December 31, 2003, as follows:

- a) From Current assets to Long-term liabilities : debentures held in treasury.
- b) From Deferred charges to Property, plant and equipment : leasehold improvements.
- c) In Current liabilities : from Income and Social Contribution Taxes to Deferred Income and Social Contribution Taxes referring to COFINS and PASEP (taxes on revenue).

d) From Property, plant and equipment in service to Property, plant and equipment in progress in supplementary information in constant purchasing power currency, to better reflect the activity.

3. SIGNIFICANT ACCOUNTING PRACTICES

a) Determination of results of operations

(i) Revenues from sales and services

Revenues are recorded as the services are provided. Unbilled revenue from water supply and sewage collection and treatment services are measured and recorded in accounts receivable, so that costs can be matched against revenues for the year.

(ii) Financial income and expenses

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

(iii) Income and social contribution taxes

Recorded on the accrual basis of accounting.

The provisions for income tax and deferred income tax on tax losses and temporary differences are calculated at the base rate of 15%, plus a 10% surtax. Provisions for social contribution tax and deferred social contribution tax on tax losses and on temporary differences are calculated at the rate of 9%.

(iv) Other income and expenses

Recognized on the accrual basis.

b) Temporary cash investments

Stated at invested amounts plus income earned (on a pro rata basis) to the balance sheet dates.

c) Allowance for doubtful accounts

Recognized in an amount considered sufficient to cover probable losses on the realization of receivables. The allowance is recorded in the statement of operations under the caption selling expenses .

d) Inventories

Inventories of materials used in operations and in the maintenance of the water and sewage systems are stated at average cost or realizable value, and are classified in current assets.

Inventories for capital projects are classified under property, plant and equipment and recorded at average cost.

e) Other current and noncurrent assets

Stated at cost or realizable value plus income earned, when applicable.

f) Permanent assets

Stated at cost, monetarily restated through December 31, 1995, together with the following:

Depreciation of property, plant, and equipment is calculated under the straight-line method at the annual rates indicated in Note 8.

The revaluation of property items, carried out in two stages in 1990 and 1991, was based on an appraisal report issued by independent appraisers and is realized through depreciation, sale, and disposal of the respective assets, with an offsetting credit to Retained earnings .

Deferred charges comprise costs for projects and technical studies, and are amortized under the straight-line method over 5 years starting on the date benefits begin to be generated.

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

g) Loans and financing

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

h) Accrued vacations

Accrued vacations and the related charges are recognized as incurred.

i) Reserve for contingencies

Recorded to cover losses on labor, tax, civil, and commercial lawsuits, at administrative and judicial levels, which are considered by legal counsel to be probable and estimable as of December 31.

j) Environmental costs

Costs relating to ongoing environmental programs are expensed as incurred. Ongoing programs are designed to minimize the environmental impact of the operations and to manage the environmental risks inherent in the activities. Accruals for these costs are recorded when they are considered to be probable and reasonably estimable.

k) Actuarial liability

The Company sponsors a private defined benefit pension plan. CVM Resolution No. 371 of December 13, 2000, requires the recognition of actuarial liabilities in excess of plan assets. As permitted by this regulation, these liabilities are being recognized over a period of five years starting in 2002.

l) Other current and long-term liabilities

Stated at their known or payable amounts, including, when applicable, charges and monetary variations.

m) Interest on capital

This interest has been recorded in accordance with Law No. 9249/95 for tax deductibility purposes, calculated on a daily pro rata basis based on the Long-term Interest Rate (TJLP), and recorded in conformity with CVM Resolution No. 207/96.

n) Earnings (loss) per thousand shares

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

o) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the reporting periods. Actual results may differ from those estimates.

4. CASH AND CASH EQUIVALENTS

| | | Supplementary information | |
|---------------|------|---------------------------------------|------|
| | | In constant purchasing power currency | |
| Corporate law | | | |
| 2003 | 2002 | 2003 | 2002 |
| | | | |

| | | | | |
|----------------------------|---------|---------|---------|---------|
| Cash and banks | 68,004 | 70,306 | 68,004 | 76,416 |
| Temporary cash investments | 186,419 | 344,365 | 186,419 | 374,292 |
| Foreign currency | 26,590 | - | 26,590 | - |
| | <hr/> | | | |
| | 281,013 | 414,671 | 281,013 | 450,708 |
| | <hr/> | | | |

Temporary cash investments refer mainly to investment funds (FIF) and bank CDs and are available immediately.

The amount shown under the heading Foreign currency refers to the purchase of US\$2,067,000 and 5,660,000 for payment of loans and financing, as described in Note 9 (k).

5. ACCOUNTS RECEIVABLE

Amounts receivable, except for agreements to refinance past-due accounts receivable, do not include interest, fines or any other charges on past-due bills, summarized as follows:

a) Balance sheet amounts

| | Supplementary information | | | |
|---|---------------------------|-----------|--|-----------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| Current assets: | | | | |
| Private - sector customers: | | | | |
| General customers (i) | 453,730 | 256,323 | 453,730 | 278,599 |
| Special customers (ii) | 118,147 | 97,005 | 118,147 | 105,435 |
| Agreements (iii) | 50,317 | 43,474 | 50,317 | 47,252 |
| | 622,194 | 396,802 | 622,194 | 431,286 |
| Government entities: | | | | |
| Municipal - São Paulo | 216,833 | 163,688 | 216,833 | 177,914 |
| Municipal - other | 96,005 | 155,776 | 96,005 | 169,314 |
| State | - | 65,458 | - | 71,147 |
| State - GESP Agreement | - | 37,706 | - | 40,983 |
| Federal | 9,045 | 10,619 | 9,045 | 11,542 |
| | 321,883 | 433,247 | 321,883 | 470,900 |
| Bulk sale customers - Municipal authorities: | | | | |
| Guarulhos | 14,855 | 178,379 | 14,855 | 193,881 |
| Mauá | 2,032 | 45,077 | 2,032 | 48,994 |
| Mogi das Cruzes | 2,332 | 3,163 | 2,332 | 3,438 |
| Santo André | 4,508 | 153,242 | 4,508 | 166,560 |
| São Bernardo do Campo | - | 144,489 | - | 157,046 |
| São Caetano do Sul | 2,519 | 2,154 | 2,519 | 2,341 |
| Diadema | 950 | 38,511 | 950 | 41,858 |
| | 27,196 | 565,015 | 27,196 | 614,118 |
| Unbilled amounts | 192,160 | 200,601 | 192,160 | 218,034 |
| Subtotal | 1,163,433 | 1,595,665 | 1,163,433 | 1,734,338 |
| Allowance for doubtful accounts: | | | | |
| Private and government sectors | (351,732) | (270,187) | (351,732) | (293,668) |
| Bulk sales | - | (414,243) | - | (450,243) |
| | (351,732) | (684,430) | (351,732) | (743,911) |
| Adjustment to present value | - | - | (3,395) | (3,238) |
| Total | 811,701 | 911,235 | 808,306 | 987,189 |

Noncurrent assets:

Private - sector customers:

| | | | | |
|--|-----------|---------|-----------|-----------|
| Agreements | 23,676 | 12,409 | 23,676 | 13,487 |
| <hr/> | | | | |
| Bulk sale customers - Municipal authorities: | | | | |
| Guarulhos | 199,036 | - | 199,036 | - |
| Mauá | 55,375 | - | 55,375 | - |
| Mogi das Cruzes | 1,194 | - | 1,194 | - |
| Santo André | 175,681 | - | 175,681 | - |
| Diadema | 47,827 | - | 47,827 | - |
| <hr/> | | | | |
| Subtotal | 479,113 | - | 479,113 | - |
| <hr/> | | | | |
| Allowance for doubtful accounts: | | | | |
| Bulk sales | (317,699) | - | (317,699) | - |
| <hr/> | | | | |
| Total | 185,090 | 12,409 | 185,090 | 13,487 |
| <hr/> | | | | |
| Total | 996,791 | 923,644 | 993,396 | 1,000,676 |
| <hr/> | | | | |

Receivables from private - sector customers refer to:

(i) General customers - residential and small and medium-sized businesses.

(ii) Special customers - large consumers, commercial, industries, condominiums and special billing consumers (industrial waste, wells, etc.).

(iii) Agreements - to refinance past-due receivables.

b) Aging summary

| | Supplementary information | | | |
|---------------------------------|---------------------------|-----------|---------------------------------------|-----------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| Current | 541,752 | 493,137 | 541,752 | 535,993 |
| Past due: | | | | |
| Up to 30 days | 144,612 | 127,977 | 144,612 | 139,099 |
| From 31 to 60 days | 56,983 | 57,820 | 56,983 | 62,845 |
| From 61 to 90 days | 34,038 | 28,733 | 34,038 | 31,230 |
| From 91 to 120 days | 33,927 | 27,061 | 33,927 | 29,413 |
| From 121 to 180 days | 60,957 | 45,228 | 60,957 | 49,158 |
| From 181 to 360 days | 82,232 | 131,440 | 82,232 | 142,863 |
| For more than 360 days | 711,721 | 696,678 | 711,721 | 757,224 |
| <hr/> | | | | |
| Subtotal | 1,666,222 | 1,608,074 | 1,666,222 | 1,747,825 |
| Allowance for doubtful accounts | (669,431) | (684,430) | (669,431) | (743,911) |
| Adjustment to present value | - | - | (3,395) | (3,238) |
| <hr/> | | | | |
| Total | 996,791 | 923,644 | 993,396 | 1,000,676 |
| <hr/> | | | | |
| Current | 811,701 | 911,235 | 808,306 | 987,189 |

| | | | | |
|------------|---------|--------|---------|--------|
| Noncurrent | 185,090 | 12,409 | 185,090 | 13,487 |
|------------|---------|--------|---------|--------|

Bulk sales receivables have been reclassified to noncurrent assets in the net amount of R\$161,414, of which R\$479,113 refers to receivables and R\$317,699 to allowance for doubtful accounts.

c) Allowance for doubtful accounts

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

| | Supplementary information | | | |
|--|---------------------------|---------|--|-------------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| Beginning balance | 684,430 | 623,351 | 743,911 | 848,919 |
| Private - sector customers/ government entities | 22,525 | 14,618 | 22,688 | 18,033 |
| Bulk sales | (37,524) | 46,461 | (35,740) | 58,452 |
| Additions (reversals) for the year | (14,999) | 61,079 | (13,052) | 76,485 |
| Gains and losses | - | - | (61,428) | (181,493) |
| Ending balance | 669,431 | 684,430 | 669,431 | 743,911 |
| Current | 351,732 | 684,430 | 351,732 | 743,911 |
| Noncurrent | 317,699 | - | 317,699 | - |

(ii) In results

The Company recorded probable losses on accounts receivable from 2003 in the amount of R\$37,625 (net of recoveries, including from São Bernardo do Campo, in the amount of R\$129,118), directly in income, under Selling expenses . In 2002, these losses amounted to R\$162,915.

| | Supplementary information | | | |
|------------------------------------|---------------------------|------------|--|------------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| Allowances (over R\$5,000) | (151,532) | (76,534) | (154,903) | (96,851) |
| Recoveries (over R\$5,000) | 147,062 | 15,455 | 148,427 | 20,367 |
| Direct write-offs (under R\$5,000) | (81,642) | (156,352) | (83,716) | (204,864) |
| Recoveries (under R\$5,000) | 48,487 | 54,516 | 9,874 | 70,102 |
| Expenses (Note 21) | (37,625) | (162,915) | (40,318) | (211,246) |

The Company's accounting policy for recognizing the allowance for doubtful accounts is summarized below. The amounts determined are considered by management to be sufficient to cover possible losses.

(*) Accounts receivable (except from the State Government) R\$5,000 and less than R\$30,000 past due for more than 360 days are included in the allowance.

(**) Accounts receivable (except from the State Government) over R\$30,000 past due for more than 360 days, for which collection lawsuits have been initiated, are included in the allowance.

(***) Accounts receivable (except from the State Government) under R\$5,000 past due for more than 180 days are written off through a direct charge to Selling expenses .

d) Bulk supply (Municipal authorities)

Accounts receivable from bulk supply refer to the sale of treated water to certain municipalities, which distribute, bill, and charge the final consumers.

| Changes or the year | Supplementary information | | | |
|------------------------------|---------------------------|-----------|---------------------------------------|-----------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| Beginning balance | 565,015 | 460,583 | 614,118 | 627,251 |
| Billing | 268,222 | 230,477 | 274,932 | 250,507 |
| Collections for current year | (139,222) | (119,736) | (142,109) | (130,142) |
| Collections for prior year | (187,706) | (6,309) | (188,950) | (6,857) |
| Losses | - | - | (51,682) | (126,641) |
| Ending balance | 506,309 | 565,015 | 506,309 | 614,118 |

| | | | | |
|-----------|---------|---------|---------|---------|
| Current | 27,196 | 565,015 | 27,196 | 614,118 |
| Long-term | 479,113 | - | 479,113 | - |

São Bernardo do Campo - On December 19, 2003, the Company entered into an Agreement for the Transfer of Basic Public Sanitation Services - Water Distribution, Sewage Collection and Treatment - and of Ownership of Assets Required for Such Services with the municipality of São Bernardo do Campo, for the purchase of the assets, transfer of basic sanitation services, and settlement of the debt for bulk water supply. The amount of R\$415,471 established for the transaction was based on an Appraisal Report and the debt for bulk water supply was R\$265,432. The difference between the Appraisal and the total debt is R\$150,039, of which R\$49,513 was amortized in December 2003 and the remaining balance, recorded in current liabilities under Other payables, will be paid by November 2004.

The losses presented as supplementary information arise from the lack of monetary restatement on receivables.

| Changes or the year | Supplementary information | | | |
|---|---------------------------|-----------|---------------------------------------|-----------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| Beginning balance | 65,458 | 20,071 | 71,147 | 27,334 |
| Billings | 253,415 | 247,705 | 259,863 | 316,762 |
| Collections | (169,701) | (202,318) | (173,613) | (255,103) |
| Balance included in the agreement amendment (Note 6(i)) | (149,172) | - | (149,613) | - |
| Losses | - | - | (7,784) | (17,846) |
| Ending balance | - | 65,458 | - | 71,147 |

The losses presented as supplementary information arise from the lack of monetary restatement on receivables.

6. RELATED-PARTY TRANSACTIONS

| | 2003 | 2002 |
|--|-------------|-----------|
| Current assets: | | |
| Cash, banks and temporary cash investments with financial institutions controlled by the State Government - Nossa Caixa S.A. | 216,982 | 377,593 |
| State Government customers (Note 5): | | |
| Providing of services, water supply and sewage collection | - | 65,458 |
| GESP Agreement (i) | - | 37,706 |
| | - | 103,164 |
| Receivables from shareholder: | | |
| Retirement benefit (ii) | - | 83,240 |
| GESP Agreement (i) | - | 33,750 |
| | - | 116,990 |
| Noncurrent assets: | | |
| Accounts receivable - retirement benefits (ii) | 170,363 | - |
| GESP Agreement - retirement benefits (i) | 320,623 | 286,873 |
| Agreement amendment (i) | 164,177 | 320,501 |
| Permanent assets: | | |
| Property, plant and equipment - DAEE Agreement (iii) | 64,723 | 62,412 |
| Current liabilities: (i) | | |
| Interest on capital through 2002 | 117,020 | 130,501 |
| Interest on capital accrued in 2003 | - | 77,431 |
| Gross revenue from sales and services: (*) | | |
| Water sales | 141,912 | 138,714 |
| Sewage services | 111,503 | 108,991 |
| Collections | (169,701) | (202,318) |
| Financial income: | | |
| Temporary cash investments - Nossa Caixa S.A. | 67,799 | 67,061 |
| Agreement amendment: (i) | | |
| Bills past due to November 2001 | 324,563 | 358,207 |
| Bills past due from December 2001 to December 2003 | 182,816 | - |
| Monetary restatement | 58,510 | - |
| GESP agreement | 565,889 | 358,207 |
| Offset with interest on capital for 2003 | (360,667) | - |
| Offset with interest on capital for 2001 | (41,045) | - |
| | (401,712) | - |
| Agreement balance | 164,177 | 358,207 |

(*) Refers to sales transactions to State Government entities carried out under conditions considered by management as usual in the market, except for the form of settlement of receivables, which may be made under the following conditions:

(i) First Amendment to the Agreement for Debt Acknowledgement, Payment Commitment and Other Clauses

The first Amendment, signed on March 22, 2004, consolidates the State's debt to SABESP, which covers water supply and sewage collection services accounts due to February 2004, in the amount of R\$581,779, monetarily restated based on the Referential Rate (TR) at the end of each year to February 2004. This amount will be audited by the State within 180 days.

SABESP acknowledged a debt to the State for interest on capital related to results for years prior to 2003 in the amount of R\$158,065, restated based on the annual change in the Consumer Price Index (IPC/FIPE) to December each year in which the interest on capital became due, and to February 2004, and of the portion related to results for 2003 in the amount of R\$360,667, which becomes due after the next Annual

Shareholders' Meeting, totaling R\$518,732.

The State and SABESP will provide reciprocal offset of their receivables up to the limit of R\$360,667, by means of monthly and consecutive installments from June to December 2004. The remaining balance of R\$221,111 of the State's consolidated debt will be paid in 60 equal and consecutive monthly installments, the first of which falling due on May 30, 2004. Part of the interest on capital for the years prior to 2003 will be offset against the first 12 installments, at the nominal amount of R\$44,222. The remaining portion of this amount will be subject to monetary restatement based on the monthly Expanded Consumer Price Index (IPCA-IBGE) plus 0.5% per month, starting in March 2004 and until the month when the respective payment is made or offset, and will be used for settling the water supply and sewage collection bills.

The debt in the amount of R\$320,623, which refers to the reimbursement for supplementary retirement and pension benefits in the period from March 1986 to November 2001, as established in State Law No. 200/74, is under discussion as set forth in the agreement and will be partially resolved by the transfer of the Alto Tietê Reservoir System, in the amount of R\$300,880.

The amounts stated in the balance sheet consider the accounts due and monetary restatement up to December 2003.

(ii) Receivables from shareholder

These receivables refer to supplementary pensions and paid leave benefits paid by the Company to former employees of the state-owned companies which were merged to form SABESP. These amounts should be reimbursed by the State Government, which is responsible for fulfilling these obligations, established by State Law No. 200/74. These receivables amounted to R\$170,363 as of December 31, 2003. In 2002, these receivables amounted to R\$83,240 and were classified in current assets. They were reclassified to noncurrent assets under the heading Accounts receivable .

(iii) Agreement with the Department of Water and Electric Power (DAEE)

This agreement, signed April 24, 1997, between DAEE and SABESP has the purpose of establishing joint operations for interconnecting the Tietê River with the Biritiba Reservoir and the interconnection of this Reservoir to the Jundiá Reservoir, for optimizing the Alto Tietê Basin by adding 5.0 m³ /s of water. DAEE grants a concession to SABESP for the use of the water for a 30-year period.

7. INDEMNITIES RECEIVABLE

The Municipalities of Diadema and Mauá terminated the concessions for water supply and sewage collection at the beginning of 1995.

In December 1996, the Company filed claims to seek compensation for investments made during the terms of the concession agreements. Although the Company has not yet been compensated for these investments, water is still supplied on a bulk basis to these municipalities, which currently operate their own water distribution and sewage collection systems.

The net book value of property, plant, and equipment relating to the Municipality of Diadema, written off in December 1996, amounted to R\$75,231, and the claim balance and other receivables from the municipality amounting to R\$62,876 are recorded under noncurrent receivables as Indemnities receivable .

The net book value of property, plant and equipment relating to the Municipality of Mauá, written off in December in 1999, amounted to R\$103,763, and the claim balance of R\$85,918 is recorded under noncurrent receivables as Indemnities receivable .

Both claims are pending court decisions, although the legal counsel conducting the litigation expects a favorable outcome for the Company.

As regards the Municipality of Mauá , in a hearing held in February 2003, SABESP objected to the questions asked by the Municipality of Mauá and the Mauá Basic Sanitation Company to the court-appointed expert in view of the claim's preclusion. The expert presented the comments of his technical assistant and, after this step, both parties presented their arguments and the case is awaiting a final decision.

As regards the Municipality of Diadema , there are various claims challenging the settlement reached by the parties, including a class action and an action for annulment, both of which were judged in favor of SABESP.

8. PROPERTY, PLANT AND EQUIPMENT

| | | Corporate law | | | |
|-----------------------------------|-------------------------------|---------------|---|------------|------------|
| | | 2003 | | 2002 | |
| | Annual depreciation rates - % | Cost | Accumulated depreciation and amortization | Net | Net |
| In use: | | | | | |
| Water systems: | | | | | |
| Land | - | 928,115 | - | 928,115 | 916,689 |
| Buildings | 4 | 2,588,762 | (1,099,538) | 1,489,224 | 1,513,731 |
| Connections | 5 | 742,245 | (261,298) | 480,947 | 490,600 |
| Water meters | 10 | 252,221 | (113,336) | 138,885 | 141,123 |
| Networks | 2 | 3,017,482 | (783,181) | 2,234,301 | 2,210,242 |
| Equipment | 10 | 223,634 | (116,671) | 106,963 | 60,224 |
| Other | 2 to 20 | 429,664 | (154,373) | 275,291 | 268,908 |
| | | 8,182,123 | (2,528,397) | 5,653,726 | 5,601,517 |
| Sewage systems: | | | | | |
| Land | - | 347,938 | - | 347,938 | 339,953 |
| Buildings | 4 | 1,284,208 | (391,134) | 893,074 | 858,162 |
| Connections | 5 | 766,106 | (258,211) | 507,895 | 508,875 |
| Networks | 2 | 4,093,213 | (843,134) | 3,250,079 | 3,072,855 |
| Equipment | 10 | 415,725 | (241,183) | 174,542 | 166,796 |
| Other | 2 to 20 | 25,712 | (18,287) | 7,425 | 13,313 |
| | | 6,932,902 | (1,751,949) | 5,180,953 | 4,959,954 |
| General use: | | | | | |
| Land | - | 102,527 | - | 102,527 | 102,527 |
| Buildings | 4 | 115,873 | (54,987) | 60,886 | 62,172 |
| Transportation equipment | 20 | 130,566 | (107,402) | 23,164 | 31,480 |
| Furniture, fixtures and equipment | 10 | 267,309 | (135,984) | 131,325 | 113,402 |
| Free lease land | - | 25,312 | - | 25,312 | 25,312 |
| Free lease assets | 2 to 20 | 9,618 | (3,027) | 6,591 | 5,552 |
| | | 651,205 | (301,400) | 349,805 | 340,445 |
| | | 15,766,230 | (4,581,746) | 11,184,484 | 10,901,916 |
| Construction in progress: | | | | | |
| Water systems | - | 579,650 | - | 579,650 | 795,459 |
| Sewage systems | - | 1,590,264 | - | 1,590,264 | 1,673,402 |
| Other | - | 22,228 | - | 22,228 | 24,278 |
| | | 2,192,142 | - | 2,192,142 | 2,493,139 |
| Intangible assets (e) | - | 729,209 | (42,587) | 686,622 | 275,726 |
| Total | | 18,687,581 | (4,624,333) | 14,063,248 | 13,670,781 |

Supplementary information

In constant purchasing power currency

2003

2002

| | Annual depreciation rates - % | 2003 | | 2002 | |
|-----------------------------------|-------------------------------|------------|---|------------|------------|
| | | Cost | Accumulated depreciation and amortization | Net | Net |
| In use: | | | | | |
| Water systems: | | | | | |
| Land | - | 2,196,470 | - | 2,196,470 | 2,174,556 |
| Buildings | 4 | 6,053,330 | (2,596,295) | 3,457,035 | 3,544,759 |
| Connections | 5 | 1,703,268 | (610,971) | 1,092,297 | 1,122,516 |
| Water meters | 10 | 439,638 | (228,515) | 211,123 | 232,312 |
| Networks | 2 | 6,948,706 | (1,845,302) | 5,103,404 | 5,190,245 |
| Equipment | 10 | 467,578 | (262,608) | 204,970 | 120,998 |
| Other | 2 to 20 | 1,019,780 | (529,996) | 489,784 | 416,942 |
| | | 18,828,770 | (6,073,687) | 12,755,083 | 12,802,328 |
| Sewage systems: | | | | | |
| Land | - | 806,352 | - | 806,352 | 790,791 |
| Buildings | 4 | 2,963,325 | (917,399) | 2,045,926 | 1,995,850 |
| Connections | 5 | 1,730,534 | (599,942) | 1,130,592 | 1,148,371 |
| Networks | 2 | 9,365,625 | (1,982,620) | 7,383,005 | 7,088,969 |
| Equipment | 10 | 942,628 | (561,631) | 380,997 | 411,039 |
| Other | 2 to 20 | 48,062 | (45,013) | 3,049 | 18,980 |
| | | 15,856,526 | (4,106,605) | 11,749,921 | 11,454,000 |
| General use: | | | | | |
| Land | - | 243,671 | - | 243,671 | 243,671 |
| Buildings | 4 | 272,067 | (130,177) | 141,890 | 146,143 |
| Transportation equipment | 20 | 260,104 | (228,234) | 31,870 | 44,560 |
| Furniture, fixtures and equipment | 10 | 562,958 | (395,409) | 167,549 | 152,956 |
| Free lease land | - | 60,165 | - | 60,165 | 60,165 |
| Free lease assets | 2 to 20 | 22,860 | (7,177) | 15,683 | 13,160 |
| | | 1,421,825 | (760,997) | 660,828 | 660,655 |
| | | 36,107,121 | (10,941,289) | 25,165,832 | 24,916,983 |
| Construction in process: | | | | | |
| Water systems | - | 789,103 | - | 789,103 | 1,268,055 |
| Sewage systems | - | 2,164,959 | - | 2,164,959 | 2,741,658 |
| Other | - | 30,442 | - | 30,442 | 40,436 |
| | | 2,984,504 | - | 2,984,504 | 4,050,149 |
| Intangible assets (e) | - | 945,501 | (69,960) | 875,541 | 470,523 |
| Total | | 40,037,126 | (11,011,249) | 29,025,877 | 29,437,655 |

a) Depreciation

All assets were revalued in 1990 and 1991 and are being depreciated at annual rates which take into consideration the remaining economic useful lives of the assets presented in the appraisal reports which are generally within the above rates.

b) Disposals of property, plant, and equipment:

In 2003, the Company wrote off property, plant and equipment items in the amount of R\$61,657, which resulted in a loss of R\$61,654 (2002 - R\$16,479), of which R\$49,379 (2002 - R\$13,962), refers to items in use, due to obsolescence, theft and sale, and R\$12,275 (2002 - R\$2,517) to construction in progress, due to projects not considered economically feasible.

c) Capitalization of interest and financial charges

In compliance with CVM Resolution No. 193/96, in 2002, the Company capitalized R\$17,902 of financial charges, mainly exchange variation, related to financing of construction in progress. In 2003, with the appreciation of the Brazilian real in relation to the dollar, R\$1,559 was reversed.

d) Construction in progress

Refers mainly to new projects and operating improvements. In 2003, write-offs increased R\$495,252, net (2002 - R\$471,807) and transfers from construction in progress to property, plant and equipment in use totaled R\$796,249 (2002 - R\$382,490).

Investments in construction projects already contracted are estimated at R\$776,000 starting in 2004 (2003 - R\$890,000) (unaudited).

Supplementary information

| | Corporate law : | | In constant purchasing power currency | |
|--------------------------|-----------------|-----------|--|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| Water systems: | | | | |
| Networks and connections | 239,297 | 229,206 | 325,765 | 340,292 |
| Transmission | 60,318 | 146,397 | 82,114 | 217,350 |
| Water treatment | 89,289 | 125,474 | 121,553 | 186,285 |
| Sub-transmission | 90,177 | 140,411 | 122,762 | 208,461 |
| Production and storage | 79,443 | 125,591 | 108,149 | 186,460 |
| Other | 21,126 | 28,380 | 28,760 | 42,135 |
| Total water systems | 579,650 | 795,459 | 789,103 | 1,180,983 |
| Sewage systems: | | | | |
| Collection | 1,237,310 | 1,255,363 | 1,684,453 | 2,119,683 |
| Treatment | 261,714 | 338,657 | 356,293 | 571,823 |
| Other | 91,240 | 79,382 | 124,213 | 134,037 |
| Total sewage systems | 1,590,264 | 1,673,402 | 2,164,959 | 2,825,543 |
| Other | 22,228 | 24,278 | 30,442 | 43,623 |
| Total | 2,192,142 | 2,493,139 | 2,984,504 | 4,050,149 |

e) Intangible assets

Starting in 1999, negotiations for new concessions are made on the basis of the economic and financial results of the transaction determined in appraisal reports issued by independent experts.

The amount defined in the respective contract, after the transaction is closed with the municipal authorities, with payment through Company shares or in cash, is recorded in this account and amortized over the 30-year concession period.

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

| Municipalities | Supplementary information | | | |
|-------------------------|---------------------------|---------|---------------------------------------|---------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| Agudos | 6,165 | 6,375 | 11,164 | 11,577 |
| Bom Sucesso do Itararé | 66 | 59 | 79 | 81 |
| Campo Limpo Paulista | 9,589 | 9,593 | 15,806 | 16,048 |
| Conchas | 1,869 | 1,938 | 3,041 | 3,154 |
| Duartina | 898 | 891 | 1,390 | 1,403 |
| Estância de Serra Negra | 3,425 | 3,486 | 5,130 | 5,239 |
| Itararé | 4,324 | 4,435 | 8,248 | 8,509 |
| Marabá Paulista | 286 | 297 | 456 | 474 |
| Miguelópolis | 3,261 | 3,384 | 6,301 | 6,550 |
| Osasco | 218,812 | 222,212 | 366,377 | 375,130 |
| Paraguaçu Paulista | 11,582 | 12,017 | 23,083 | 23,971 |
| Paulistânia | 119 | 118 | 160 | 160 |
| Sandovalina | 167 | 167 | 272 | 275 |
| Santa Maria da Serra | 737 | 729 | 1,212 | 1,222 |
| São Bernardo do Campo | 415,471 | - | 416,515 | - |
| Várzea Paulista | 9,851 | 10,025 | 16,307 | 16,730 |
| | 686,622 | 275,726 | 875,541 | 470,523 |

f) Expropriations

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

The amount of compensation to be paid starting in 2004 is estimated at approximately R\$189,000 (unaudited) which will be paid with internal funds. The assets to be received as a result of these negotiations will be recorded as property, plant, and equipment after the transaction is completed. In 2003, the total recorded as property, plant and equipment from expropriations was R\$5,499 (2002 - R\$3,465).

g) Tax effects on the revaluation of assets

As permitted by CVM Instruction No. 197/93, the Company did not record accruals for the tax effects (deferred taxes) on the revaluation write-up recorded as a result of the revaluations of property, plant, and equipment carried out in 1990 and 1991. Had this effect been accounted for, the unrealized amount as of December 31, 2003 would be R\$526,900 (2002 - R\$572,582). For 2003, the realization of the revaluation reserve amounted to R\$134,245 (2002 - R\$95,841).

h) São Bernardo do Campo

On December 19, 2003, the Company entered into an Agreement for the Transfer of Basic Public Sanitation Services - Water Distribution, Sewage Collection and Treatment - and of Ownership of Assets Required for Such Services with the municipality of São Bernardo do Campo.

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

The economic value of the transaction, in the amount of R\$415,471, was as stated in the appraisal report issued by independent experts.

i) The Company has assets in the amount of R\$249,034 provided as guarantee under the Special Tax Debt Refinancing Program - PAES (Note 11).

9. LOANS AND FINANCING

| Financial institution | Corporate law | | | | | |
|--|---------------|-----------|-----------|-----------|-----------|-----------|
| | 2003 | | | 2002 | | |
| | Current | Long-term | Total | Current | Long-term | Total |
| In local currency: | | | | | | |
| Federal Government/Banco do Brasil | 156,592 | 2,293,260 | 2,449,852 | 137,478 | 2,341,027 | 2,478,505 |
| Debentures 3rd Issue | 366,465 | - | 366,465 | - | 365,627 | 365,627 |
| Debentures 4th Issue | 100,001 | 199,999 | 300,000 | - | 300,000 | 300,000 |
| Debentures 5th Issue | - | 430,625 | 430,625 | - | 421,153 | 421,153 |
| Caixa Econômica Federal | 36,415 | 486,282 | 522,697 | 28,380 | 493,130 | 521,510 |
| Brazilian Economic and Social Development Bank - BNDES | - | 102,181 | 102,181 | - | 4,060 | 4,060 |
| Other | 2,285 | 25,528 | 27,813 | 2,236 | 24,149 | 26,385 |
| Interest and charges | 51,942 | - | 51,942 | 52,401 | - | 52,401 |
| | 713,700 | 3,537,875 | 4,251,575 | 220,495 | 3,949,146 | 4,169,641 |
| In foreign currency: | | | | | | |
| International Bank for Reconstruction and Development (IBRD): | | | | | | |
| US\$29,849,000 (2002 - US\$56,340,000) | 53,789 | 32,452 | 86,241 | 104,132 | 94,934 | 199,066 |
| Société Générale: 2,746,000 (2002 - 3,469,000) | 2,971 | 7,055 | 10,026 | 2,675 | 10,165 | 12,840 |
| Interamerican Development Bank (IDB): US\$449,155,000 (2002 US\$425,642,000) | 110,199 | 1,187,499 | 1,297,698 | 125,969 | 1,377,952 | 1,503,921 |
| Eurobonds: US\$500,000,000 (2002 - US\$475,000,000) | - | 1,444,600 | 1,444,600 | 706,660 | 971,658 | 1,678,318 |
| Deutsche Bank Luxembourg: US\$40,000,000 (2002 US\$60,000,000) | 57,784 | 57,784 | 115,568 | 70,666 | 141,332 | 211,998 |
| Interest and charges | 58,555 | - | 58,555 | 101,872 | - | 101,872 |
| | 283,298 | 2,729,390 | 3,012,688 | 1,111,974 | 2,596,041 | 3,708,015 |
| Total | 996,998 | 6,267,265 | 7,264,263 | 1,332,469 | 6,545,187 | 7,877,656 |

Exchange rate as of December 31, 2003: US\$- R\$2.8892; - R\$3.65059.

Supplementary information

Constant purchasing power currency

| Financial institution | 2003 | | | 2002 | | |
|--|---------|-----------|-----------|-----------|-----------|-----------|
| | Current | Long-term | Total | Current | Long-term | Total |
| In Brazilian currency: | | | | | | |
| Federal Government/Banco do Brasil | 156,592 | 2,293,260 | 2,449,852 | 149,426 | 2,544,477 | 2,693,903 |
| Debentures 3rd Issue | 366,465 | - | 366,465 | - | 397,402 | 397,402 |
| Debentures 4th Issue | 100,001 | 199,999 | 300,000 | - | 326,072 | 326,072 |
| Debentures 5th Issue | - | 430,625 | 430,625 | - | 457,754 | 457,754 |
| Caixa Econômica Federal | 36,415 | 486,282 | 522,697 | 30,847 | 535,986 | 566,833 |
| BNDES | - | 102,181 | 102,181 | - | 4,413 | 4,413 |
| Other | 2,285 | 25,528 | 27,813 | 2,430 | 26,248 | 28,678 |
| Interest and charges | 51,942 | - | 51,942 | 56,954 | - | 56,954 |
| | 713,700 | 3,537,875 | 4,251,575 | 239,657 | 4,292,352 | 4,532,009 |
| In foreign currency: | | | | | | |
| International Bank for Reconstruction and Development (IBRD): | | | | | | |
| US\$29,849,000 (2002 - US\$56,340,000) | 53,789 | 32,452 | 86,241 | 113,182 | 103,184 | 216,366 |
| Société Générale: 2,746,000 (2002 - 3,469,000) | 2,971 | 7,055 | 10,026 | 2,907 | 11,048 | 13,955 |
| Interamerican Development Bank (IDB): US\$449,155,000 (2002 - US\$425,642,000) | 110,199 | 1,187,499 | 1,297,698 | 136,917 | 1,497,704 | 1,634,621 |
| Eurobonds: US\$500,000,000 (2002 - US\$475,000,000) | - | 1,444,600 | 1,444,600 | 768,073 | 1,056,101 | 1,824,174 |
| Deutsche Bank Luxembourg: US\$40,000,000 (2002 - US\$60,000,000) | 57,784 | 57,784 | 115,568 | 76,807 | 153,615 | 230,422 |
| Interest and charges | 58,555 | - | 58,555 | 110,725 | - | 110,725 |
| | 283,298 | 2,729,390 | 3,012,688 | 1,208,611 | 2,821,652 | 4,030,263 |
| Total | 996,998 | 6,267,265 | 7,264,263 | 1,448,268 | 7,114,004 | 8,562,272 |

Exchange rate as of December 31, 2003: US\$- R\$2.8892; - R\$3.65059.

a) Federal Government/Banco do Brasil

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

b) Debentures

3rd Issue

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

In March 1999, the Company made a public placement of non-convertible debentures. This resulted in the placement of 413,094 debentures with a face value of R\$1 each, totaling R\$413,094, as follows:

- 1st, 2nd and 3rd series - R\$115,000 each series
- 4th series - R\$51,666
- 5th series - R\$16,428

In December 2002, the Company had 47,290 debentures in treasury, of which 793 were replaced in April 2003, and 46,497 debentures remain in treasury, amounting to R\$46,629, classified as a reduction of current liabilities.

In March 2003, the yield for the five series was renegotiated, and the rate of CDI + 1.5% was changed to CDI + 2.85% per year; payments continue being made on a quarterly basis.

In 2003, the Company accrued interest of R\$99,851 (2002 - R\$80,204), which was paid in quarterly installments, except for a remaining balance of R\$1,172, which is recorded under Loans and Financing in current liabilities.

4th Issue

On April 1, 2001, 30,000 registered, non-convertible debentures, in a single series, were issued with a face value of R\$10 each, in the total amount of R\$300,000. The placement of these debentures in the local market occurred through an auction held on June 8, 2001.

These debentures are redeemable in 12 quarterly installments starting March 15, 2004, with final maturity on December 15, 2006.

These debentures bear interest at the average rate paid on one-day interbank deposits (DI), calculated and disclosed by the Clearinghouse for the Custody and Financial Settlement of Securities (CETIP), plus a spread of 1.20% per year. Interest is paid quarterly, and the first payment was made on June 15, 2001.

The funds raised were used to pay debt maturing in the year of placement.

In 2003, the Company accrued interest in the amount of R\$68,297 (2002 - R\$57,295). The remaining balance of R\$2,163 is recorded under Loans and Financing in current liabilities.

5th Issue

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

The funds raised were used to pay debt maturing in 2002.

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

| | 1 st series | 2 nd series |
|-----------------------|---|---|
| Placement date | May 16, 2002 | May 16, 2002 |
| Quantity | 31,372 | 8,628 |
| Face value - Issue | R\$313,720 | R\$86,280 |
| Interest - original | CDI + 1.85% p.a. | IGP-M + 13.25% p.a. |
| Interest payment form | Quarterly, except last installment on March 1, 2007 | Annual, except last installment on March 1, 2007 |
| Repayment | 3 installments on April 1, 2005, April 1, 2006 and March 1, 2007 | 3 installments on April 1, 2005, April 1, 2006 and March 1, 2007 |

In October 2003, returns on the two series were renegotiated; the rate for the 1st series was changed from CDI + 1.85% per year to CDI + 2% per year, and the rate for the 2nd series was changed from IGPM + 13.25% per year to IGPM + 12.70% per year.

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

Due to this renegotiation, the Company repurchased 4,714 debentures in the amount of R\$55,477, which were held in treasury until December 2003, when they were replaced for R\$57,499.

In 2003, the Company accrued interest in the amount of R\$73,653 (2002 - R\$47,182) for the 1st series, paid quarterly, and R\$15,993 (2002 - R\$10,683) for the 2nd series, paid annually. The remaining balances of R\$15,257 (2002 - R\$16,876) of the 1st series, and R\$11,403 (2002 - R\$10,683) of the 2nd series, are recorded under Loans and Financing in current liabilities.

c) Caixa Econômica Federal

Pro-Sanitation Program

(i) Water and Sewage

Several loan agreements were signed in 1996, 1997 and 1998 under the Pro-Sanitation Program with a view to expanding and improving the water supply and sewage systems of several municipalities of the State of São Paulo and of the City of São Paulo. The loans are collateralized by the collections of the daily billings from water supply and sewage services up to the total amount of the debt.

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

The balance as of December 31, 2003 is R\$505,278 (2002 - R\$507,181), and the unused amount of these loans, which are in the grace period, is R\$6,269 (2002 - R\$8,324).

The contractual charges are:

| | Contract signed in | | |
|------------------------------|---|--------------------------------------|--|
| | 1996 | 1997 | 1998 |
| Interest rate | 9.5% p.a. | 6.5% to 8.0% p.a. | 6.5% to 8.0% p.a. |
| During the grace period: | | | |
| Risk rate | 1.0% on the amount drawn down | 1.0% on the amount drawn down | 0.6% p.a. on the outstanding balance |
| Administration fee | 0.12% per month on the contract amount | 2.0% p.a. on the amount drawn down | 2.0% p.a. on the amount drawn down |
| During the repayment phase : | | | |
| Administration fee | Difference between the installment at 10.5% p.a. and at 9.5% p.a. | 1.0% p.a. on the outstanding balance | 1.0% p.a. on the outstanding debit balance |

(ii) Pró-Sanear Program

In 1997 and 1998, contracts were signed under the Pró-Sanear Program for the improvement of water and sewage services, with the participation of the communities receiving the services, in several municipalities of the Metropolitan São Paulo. The loans are collateralized by collections of the daily billings from water supply and sewage services up to the total amount of the debt. Repayments will be made in 180 months after the beginning of collections. As of December 31, 2003, the balance is R\$17,419 (2002 - R\$14,329), and the amount available for use from these loans, for projects already in progress, is R\$15,925 (2002 - R\$20,367).

The financial charges are:

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

Covenants:

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

Through the Agreement for Performance Improvement, targets are established for financial indicators (operating margin, personnel expense margin, and revenue evasion index), as well as operating indicators that, based on the last two years, are projected on a six-month basis for the next two years.

d) BNDES

Contract 01.2.619.3.1 - signed in August 2002, for the total amount of up to R\$60,000, for the purpose of financing part of the Company's contribution to the Tietê River Pollution Abatement Project - Stage II, related to loan agreement 1212/OC - BR with the Inter-American Development Bank (IDB). The related project is in the execution stage, and the total drawn down in 2003 was R\$24,026; the outstanding balance as of December 31, 2003 was R\$25,545.

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

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

The related project is in the execution stage; the total drawn down in 2003 was R\$72,077 and the outstanding balance as of December 31, 2003 was R\$76,636. The funds are passed on from BNDES to the agents and from the latter to SABESP. The onlending agreement has the same purpose as the agreement between BNDES and SABESP, and the same interest and repayment terms, as follows:

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

Repayment - In 84 monthly installments, the first due in September 2005 and the last in August 2012.

The agreements are collateralized by part of the revenues from water supply and sewage services.

Covenants:

Current ratio: higher than 1.0.

EBITDA/Net Operating Revenue: equal to or higher than 38%.

Total connections (water and sewage)/own employees: equal or higher than 520.

EBITDA/Debt Service: equal to or higher than 1.5.

Shareholders' Equity/Total Liabilities: equal to or higher than 0.8.

e) International Bank for Reconstruction and Development (IBRD)

Loan Agreement 3102 - Signed in February 1990, for US\$280 million, to finance improvements in the Company's operating efficiency. Repayments began in September 1994 and the loan bears interest at 0.5% above the cost of the amounts drawn down qualified in the prior six-month period, with final maturity in March 2004. The Federative Republic of Brazil signed a guarantee contract with IBRD on the same date, guaranteeing the funds for the fulfillment of the contractual obligations. As of December 31, 2003, the outstanding balance was US\$14,124,000, R\$40,808 (2002 - R\$134,764).

Loan Agreement 3504 - In March 1993, the State of São Paulo and SABESP signed an onlending agreement to transfer the funds covered by the basic agreement signed between the State of São Paulo and IBRD in December 1992 to finance the environmental clean-up of the Guarapiranga Basin. In the same month, the Federative Republic of Brazil signed a guarantee contract with IBRD guaranteeing the funds for the fulfillment of the contractual obligations. Semiannual repayments started in October 1997, with final maturity in April 2007. The interest rate is 0.5% per

annum above IBRD's cost of funding. As of December 31, 2003, the outstanding balance was US\$15,725,000, R\$45,433 (2002 - R\$64,302).

f) Inter-American Development Bank (IDB)

Loan Agreement 229 - In June 1987, the Company signed a loan agreement with the IDB for US\$163 million to finance a sewage program for Metropolitan São Paulo. Semiannual repayments started in January 1994, with annual interest of 7.7% and final maturity in July 2007. In June 1987, the Federative Republic of Brazil signed a guarantee contract with IDB guaranteeing the funds for the fulfillment of the contractual obligations. As of December 31, 2003, the outstanding balance was US\$53,536,000, R\$154,675 (2002 - R\$218,585).

Loan Agreement 713 - In December 1992, the Company signed a loan agreement with the IDB for US\$400 million to finance the first stage of the Tietê River Pollution Abatement Project. Semiannual repayments started in June 1999, with final maturity in December 2017. Interest varies according to the cost of loans of the Bank in each six-month period. In December 1992, the Federative Republic of Brazil signed a guarantee contract with the IDB guaranteeing the funds for the fulfillment of the contractual obligations. The outstanding balance as of December 31, 2003 was US\$307,724,000, R\$889,075 (2002 - R\$1,086,565).

Loan Agreement 896 - In December 1992, the Company signed a loan agreement for US\$50 million, also for the first stage of the Tietê River Pollution Abatement Project. Semiannual repayments started in June 1999, with annual interest of 3% and final maturity in December 2016. In December 1992, the Federative Republic of Brazil signed a guarantee contract with the IDB guaranteeing the funds for the fulfillment of the contractual obligations. As of December 31, 2003, the outstanding balance was US\$36,111,000, R\$104,332 (2002 - R\$137,406).

Loan Agreement 1212 - In July 2000, the Company signed a loan agreement with the IDB for US\$200 million to finance the second stage of the Tietê River Pollution Abatement Project. The project is in the execution stage. The amount drawn down in 2003 was US\$34,417,000 and the unused balance is US\$148,215,000.

The loan will be repaid semiannually; the first installment is due six months after the date established for the last withdrawal and final maturity is July 2025. Interest is being paid on a semiannual basis, based on daily balances, at an annual variable rate according to the costs of loans of the Bank in the preceding six-month period, plus a spread, and changes every six months. The outstanding balance as of December 31, 2003 was US\$51,784,000, R\$149,616 (2002 - R\$61,365).

Covenants

Loan Agreement 229: Long-term indebtedness cannot exceed 1.5 times shareholders' equity.

Loan Agreements 713, 896 and 1212:

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

g) Eurobonds

(i) In July 1997, the Company carried out a foreign loan transaction of US\$275 million led by UBS - Securities LLC, with Deutsche Morgan Grenfell and BB Securities as co-leaders. This loan is subject to interest of 10% p.a., paid semiannually, and final maturity is in July 2005. The funds were used for the advance redemption of debentures.

(ii) In June 2000, the Company issued Eurobonds abroad in the amount of US\$200 million. The issue was led by Deutsche Bank and Salomon Smith Barney (City Group). The interest rate was 12% p.a., paid semiannually, and final maturity was July 2003, when the contract was fully settled. The funds were used to refinance the Company's existing financial obligations.

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

Covenants (in constant purchasing power currency)

Limitation against incurring new debt when the debt to adjusted capitalization (*) ratio is higher than 0.42.

Interest coverage cannot be lower than 2.5 (adjusted EBITDA (**)/financial expenses).

Loans to the controlling shareholder are limited to the amount of the respective accounts receivable.

h) Syndicated loans

Deutsche Bank Luxembourg

In October 2000, the Company signed a loan agreement for US\$100 million, to refinance existing obligations. The paying agent of the loan was Deutsche Trust Bank Limited and the arranger was Brazilian American Merchant Bank. The loan is being repaid in 10 semiannual installments of principal and interest for the period at 11.13% p.a., with final maturity in October 2005. Two installments totaling US\$20 million, plus interest for the period, were paid in 2003.

Covenants (in constant purchasing power currency)

Limitation against incurring new debt when the debt to adjusted capitalization (*) ratio is greater than 0.42.

Interest coverage cannot be less than 2.5 (adjusted EBITDA (**)/financial expenses).

Loans to the controlling shareholder are limited to the amount of the respective accounts receivable.

(*) Adjusted capitalization excludes from shareholders' equity the past-due receivables from the São Paulo State, Government and also from bulk water supply to municipal authorities in Metropolitan São Paulo.

(**) Adjusted EBITDA is calculated by excluding uncollected water sales and sewage services to the São Paulo State Government and uncollected bulk water sales to independent utilities in the São Paulo Metropolitan area (non-accounting information).

i) Covenants

The covenants are being met and, accordingly, the balances of loans and financings are duly classified into current and long-term, in accordance with the contractual maturities.

j) Maturities

Loans and financing fall due as follows:

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 and beyond | Total |
|---------------------|---------|-----------|---------|---------|-----------|---------|-----------------|-----------|
| In local currency | 713,700 | 459,064 | 487,718 | 407,512 | 285,240 | 307,572 | 1,590,769 | 4,251,575 |
| In foreign currency | 283,298 | 978,827 | 134,384 | 124,170 | 729,082 | 79,012 | 683,915 | 3,012,688 |
| | 996,998 | 1,437,891 | 622,102 | 531,682 | 1,014,322 | 386,584 | 2,274,684 | 7,264,263 |

k) Foreign currency purchase

In December 2003, the Company carried out transactions for the advance purchase of foreign currencies in accordance with Circular 2926/99 dated September 8, 1999, issued by the Central Bank of Brazil. The amounts purchased, US\$2,067,000 (R\$5,969) and 5,660,000 (R\$20,621), totaling R\$26,590, will be used for paying an installment of Loan Agreement 229 to the IDB. As of December 31, 2003, these amounts are restated based on the respective exchange variations and are recorded under the caption "Cash and cash equivalents" in current assets (Note 4).

10. DEFERRED INCOME AND SOCIAL CONTRIBUTION TAXES

a) Balance sheet and income statement amounts

Supplementary information

Corporate law

| | | | In constant purchasing power currency | |
|---------------------------------------|-----------|---------|--|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| In current assets: (i) | | | | |
| Deferred income tax | 2,849 | 43,016 | 2,849 | 46,754 |
| Deferred social contribution tax | 26,835 | 15,486 | 26,835 | 16,832 |
| | 29,684 | 58,502 | 29,684 | 63,586 |
| In noncurrent assets: (ii) | | | | |
| Deferred income tax | 133,354 | 92,734 | 133,354 | 100,794 |
| Deferred social contribution tax | 89,450 | 113,299 | 89,450 | 123,145 |
| | 222,804 | 206,033 | 222,804 | 223,939 |
| In current liabilities: (iii) | | | | |
| Deferred PASEP (tax on revenue) | 15,850 | 26,766 | 15,850 | 29,092 |
| Deferred COFINS (tax on revenue) | 29,652 | 49,500 | 29,652 | 53,802 |
| Deferred income tax | - | 9,903 | - | 10,764 |
| | 45,502 | 86,169 | 45,502 | 93,658 |
| In long-term liabilities: (iv) | | | | |
| Deferred income tax | 63,751 | 59,110 | 3,340,063 | 3,276,985 |
| Deferred social contribution tax | 18,440 | 16,770 | 1,197,912 | 1,174,813 |
| Deferred PASEP | 13,812 | - | 13,812 | - |
| Deferred COFINS | 25,114 | - | 25,114 | - |
| | 121,117 | 75,880 | 4,576,901 | 4,451,798 |
| In results of operations: | | | | |
| For the year: | | | | |
| Income tax | (168,083) | (2,842) | (170,843) | (4,125) |
| Deferred income tax | (17,491) | 60,531 | 43,914 | (71,902) |
| Reversal of deferred income tax | 9,903 | 179,268 | 9,932 | 206,635 |
| Deferred income tax, net | (7,588) | 239,799 | 53,846 | 134,733 |
| | (175,671) | 236,957 | (116,997) | 130,608 |
| For the year: | | | | |
| Social contribution tax | (48,006) | - | (48,892) | - |
| | (18,959) | 86,358 | 2,982 | 47,151 |
| Deferred social contribution tax | (66,965) | 86,358 | (45,910) | 47,151 |

(i) In current assets

Mainly calculated on temporary differences totaling R\$11,395 (2002 - R\$172,064). As of December 31, 2003, social contribution tax loss carryforwards are R\$286,776 (2002 - recorded in noncurrent assets).

(ii) In noncurrent assets

Mainly calculated on temporary differences totaling R\$533,417 (2002 - R\$370,936) related to income tax, and R\$545,340 (2002 - R\$294,957) related to social contribution tax.

The Company is claiming in court the right to fully offset the tax loss carryforwards without the 30% annual limitation imposed by Law No. 8,981/95; however, the portion offset in the year was within the limitation established in this law. As of December 31, 2003, social contribution tax loss carryforwards total R\$448,548 (2002 - R\$963,923).

In compliance with CVM Resolution No. 273/98 and CVM Instruction No. 371/02, the realization of credits arising from tax loss carryforwards and temporary differences should occur by the end of 2006, based on budget projections, as follows:

| Year | Realization |
|-------|-------------|
| 2004 | 40% |
| 2005 | 48% |
| 2006 | 12% |
| Total | 100% |

(iii) In current liabilities

Recorded at the rate of 25% of the balance of inflationary profit and supplementary price-level restatement (difference between the Consumer Price Index (IPC) and the National Treasury Fiscal Bond (BTNF) rate), with realization of R\$9,903 in 1993 (2002 - R\$179,268).

(iv) In long-term liabilities

- Income and social contribution taxes

Mainly calculated on temporary differences totaling R\$255,003 (2002 - R\$236,441) related to income tax and R\$204,897 (2002 - R\$186,335) related to social contribution tax.

- PASEP and COFINS

Mainly calculated on temporary differences totaling R\$837,114.

In addition, as mentioned in Note 17 (d), for purposes of financial statements in constant purchasing power currency, management calculated and recorded deferred income and social contribution taxes on the increase in the value of permanent assets arising from their price-level restatement, as follows:

| | 2003 | 2002 |
|--|------------|------------|
| Calculation basis of the price-level restatement of permanent assets (excluding Land) | 13,105,246 | 12,850,950 |
| Income tax - 25% | 3,276,312 | 3,212,738 |
| Social contribution - 9% | 1,179,472 | 1,156,586 |
| Total effect on long-term liabilities | 4,455,784 | 4,369,324 |
| Effects in the year: | | |
| On results of operations | (85,013) | 248,470 |
| On shareholders' equity | 171,473 | 715,107 |
| Total effect on shareholders' equity and long-term liabilities | 86,460 | 963,577 |

b) Breakdown of deferred tax balances

| | Supplementary information | | | |
|--|---------------------------|----------------|--|------------------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| In current assets: | | | | |
| Accruals for litigation | 3,874 | 58,502 | 3,874 | 63,586 |
| Social contribution tax loss carryforwards | 25,810 | - | 25,810 | - |
| | 29,684 | 58,502 | 29,684 | 63,586 |
| In noncurrent assets: | | | | |
| Reserve for contingencies | 172,499 | 96,190 | 172,499 | 104,550 |
| Income tax losses | - | 21,975 | - | 23,885 |
| Social contribution tax losses | 40,369 | 86,753 | 40,369 | 94,292 |
| Other | 9,936 | 1,115 | 9,936 | 1,212 |
| Total | 222,804 | 206,033 | 222,804 | 223,939 |
| In current liabilities: | | | | |
| Deferred PASEP | 15,850 | 26,766 | 15,850 | 29,092 |
| Deferred COFINS | 29,652 | 49,500 | 29,652 | 53,802 |
| Inflationary profit | - | 9,903 | - | 10,764 |
| | 45,502 | 86,169 | 45,502 | 93,658 |
| In long-term liabilities: | | | | |
| Profit from government entities | 82,191 | 75,880 | 82,191 | 82,474 |
| Billing to government entities | 38,926 | - | 38,926 | - |
| Income and social contribution taxes on price-level restatements | - | - | 4,455,784 | 4,369,324 |
| Total | 121,117 | 75,880 | 4,576,901 | 4,451,798 |

c) Reconciliation of the effective tax rate

The amount recorded as income and social contribution tax expense in the financial statements is reconciled to the statutory rates, as shown below:

| | Corporate law | | | |
|--------------------------------------|---------------|----------------------------|------------|----------------------------|
| | 2003 | | 2002 | |
| | Income tax | Social contribution tax | Income tax | Social contribution tax |
| Income (loss) before taxes on income | 1,111,078 | 1,111,078 | (938,709) | (938,709) |
| | 25% | 9% | 25% | 9% |
| Statutory rate | | | | |
| Statutory tax credit or charge | (277,770) | (99,997) | 234,677 | 84,484 |
| Reconciliation: | | | | |
| Additions: | | | | |

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

| | | | | |
|---|-----------|----------|----------|---------|
| Realization of the revaluation reserve | (33,561) | (12,082) | (23,960) | (8,626) |
| Exclusions: | | | | |
| Interest on capital | 126,022 | 45,368 | 27,056 | 9,740 |
| Other amounts | 9,638 | (254) | (816) | 760 |
| Income and social contribution taxes in the results of operations | (175,671) | (66,965) | 236,957 | 86,358 |

11. TAXES PAYABLE

| | Corporate law | | | |
|-------------------------------------|---------------|--------|-----------|--------|
| | Current | | Long-term | |
| | 2003 | 2002 | 2003 | 2002 |
| | Income tax | 4,396 | - | - |
| COFINS and PASEP (taxes on revenue) | 23,428 | 7,934 | - | - |
| Tax refinancing agreements: | | | | |
| PAES | 33,201 | - | 282,214 | - |
| REFIS | - | 63,193 | - | 73,725 |
| INSS (social security contribution) | 15,055 | 12,910 | - | - |
| Other | 8,408 | 1,884 | - | - |
| Total | 84,488 | 85,921 | 282,214 | 73,725 |

| | Supplementary information | | | |
|-------------------------------------|---------------------------------------|--------|-----------|--------|
| | In constant purchasing power currency | | | |
| | Current | | Long-term | |
| | 2003 | 2002 | 2003 | 2002 |
| Income tax | | | | |
| COFINS and PASEP (taxes on revenue) | 4,396 | - | - | - |
| Tax refinancing agreements | 23,428 | 8,624 | - | - |
| PAES | | | | |
| REFIS | 33,201 | - | 282,214 | - |
| INSS (social security contribution) | - | 68,685 | - | 80,131 |
| Other | 15,055 | 14,032 | - | - |
| Total | 8,408 | 2,047 | - | - |
| | 84,488 | 93,388 | 282,214 | 80,131 |

Breakdown of calculation basis upon enrollment in the Special Tax Debt Refinancing Program (PAES)

| Tax | Principal | Fines | Interest | Total |
|--------|-----------|--------|----------|---------|
| COFINS | 132,499 | 13,250 | 50,994 | 196,743 |
| PASEP | 5,001 | 509 | 2,061 | 7,571 |

| | | | | |
|-------|---------|--------|--------|---------|
| REFIS | 112,639 | - | - | 112,639 |
| Total | 250,139 | 13,759 | 53,055 | 316,953 |

The Company applied for enrollment in PAES on July 15, 2003, in accordance with Law No. 10,684 of May 30, 2003, and included in its application the debts related to COFINS and PASEP which were involved in a legal action challenging application of Law No. 9718/98, and the outstanding balance under the Tax Recovery Program (REFIS), amounting to R\$316,953. The debt, which is pending confirmation by the Federal Revenue Authorities, will be paid in 120 months.

After enrolling in the PAES program, from July to December 2003, the Company paid R\$16,224 and accrued R\$14,686 for charges.

The assets pledged as guarantee under the REFIS program, in the amount of R\$249,034, remain as guarantee under the PAES program.

12. EMPLOYEE ASSISTANCE AND PENSION PLANS

a) Assistance plan

The Company is the sponsor of Fundação SABESP de Seguridade Social (SABESPREV), which provides optional, freely-chosen health plans maintained by contributions from the Company and participants, which were as follows in 2003:

- Company: 6.21% (2002 - 6.57%) of payroll, on average.
- Participating employees: 3.21% of base salary and premiums, equivalent to 2.25% of gross payroll, on average.

b) Retirement and Pension Plan Benefits

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

As of December 31, 2003, based on the report of the independent actuary calculated under the Projected Unit Credit Method, SABESP had a net actuarial liability of R\$305,184 (R\$281,195 in 2002) representing the difference between the present value of the Company's obligations to the participating employees, retired employees, and pensioners, and the value of the related assets, as shown below:

(i) Reconciliation of assets and liabilities

| | 2003 | 2002 |
|--|-----------|-----------|
| Present value of actuarial liabilities | (774,126) | (666,248) |
| Fair value of plan assets | 482,881 | 380,471 |
| Deferred (gains) losses | (13,939) | 4,582 |
| Net liabilities to be recognized | (305,184) | (281,195) |

(ii) Expenses recognized in the statement of operations

| | 2003 |
|-----------------------------------|----------|
| Cost of current service | 11,324 |
| Cost of interest | 102,319 |
| Expected return on plan assets | (66,364) |
| Employee contributions | (11,678) |
| Amortization of past service cost | 53,215 |
| Total | 88,816 |

(iii) Changes in net actuarial liabilities

| | |
|--|-----------|
| Present value of net actuarial liability as of December 31, 2002 | (68,336) |
| Cost of current service | (11,324) |
| Cost of interest | (102,319) |
| Expected return on plan assets | 66,364 |
| Employee contributions | 11,678 |
| Amortization of past service cost | (53,215) |

(88,816)

Company contributions for 2003

11,612

Present value of net actuarial liability as of December 31, 2003

(145,540)

(iv) Changes in fair value of plan assets

2003

| | |
|---|----------|
| Fair value of plan assets as of December 31, 2002 | 380,471 |
| Actual income from plan assets | 99,502 |
| Actual contributions made in 2003 | 25,062 |
| Benefits paid in 2003 | (22,154) |

Fair value of plan assets as of December 31, 2003

482,881

(v) Changes in present value of liabilities

| | |
|--|----------|
| Present value of liabilities as of December 31, 2002 | 666,248 |
| Cost of current service | 11,324 |
| Cost of interest | 102,319 |
| Benefits paid in 2003 | (22,154) |
| Loss on present value of liabilities | 16,389 |

Present value of liabilities as of December 31, 2003

774,126

(vi) Estimated expenses

2004

| | |
|-----------------------------------|----------|
| Cost of current service | 11,960 |
| Cost of interest | 93,991 |
| Expected return on plan assets | (58,478) |
| Employee contributions | (13,754) |
| Amortization of past service cost | 53,215 |

Total 86,934

(vii) Actuarial assumptions

Several statistical and other factors that seek to project future events are used in calculating the expense and liability related to the plans. These factors include assumptions about the discount rate, expected return on plan assets and the rate of future salary increases as determined by SABESP, within certain internal guidelines. In addition, the actuary also uses subjective factors such as termination, turnover and mortality rates

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

to estimate these factors. The actuarial assumptions used by SABESP are reviewed on a routine basis and may differ materially from the actual results due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower termination rates or longer or shorter life spans of participants. These differences may result in a significant impact on the amount of pension expense recorded by SABESP.

The assumptions used for the actuarial valuation are the following:

| | 2003 | 2002 |
|---|-------------|--|
| Economic assumptions | | |
| Discount rate | 12.32% p.a. | 15.56% p.a. |
| Expected rate of return on plan assets | 12.06% p.a. | 17.33% p.a. |
| Future salary increases | 6.08% p.a. | 9.14% p.a. |
| Increase in social security benefits and limits | 4.00% p.a. | 7.00% p.a. |
| Capacity factor | | |
| Salaries | 98% | 98% |
| Benefits | 98% | 98% |
| Demographic assumptions for 2003 and 2002 | | |
| Mortality table | | Adjusted IBGE |
| Disabled mortality table | | RRB 1944 |
| Disability entry table | | RRB 1944 |
| Turnover table | | Prudential |
| Retirement age | | First age entitled to one of the benefits |
| % of active participants married at time of retirement | | 95% |
| Age difference between the participants and their spouses | | Wives are four years younger than husbands |

Number of active participants as of December 31, 2003 - 17,178 (17,191 in 2002).

Number of inactive participants at December 31, 2003 - 4,397 (4,419 in 2002).

The valuation of the costing plan of SABESPREV is carried out by an independent actuary, and the assumptions used differ from those applied for purposes of calculating employee benefits, established by CVM Resolution No. 371. SABESPREV's technical deficit calculated as of December 31, 2003 amounts to R\$482,414 (2002 - R\$458,087). Calculations differ substantially in relation to the actuarial method applied for determining risk benefits before retirement age, with the apportionment method used by SABESPREV versus capitalization to comply with CVM Resolution No. 371. Another significant difference is the 6% discount rate for SABESPREV and the 12.32% nominal rate under CVM Resolution No. 371, resulting from the combination of a long-term inflation rate of 4% per year plus an annual interest rate of 8%.

In 2003, the Sponsor and SABESPREV had negotiations to resolve the technical deficit by making changes to the current plan. This process is currently under review by the Sponsor, and a solution is expected to be presented in 2004.

13. VOLUNTARY TERMINATION PROGRAM

In 2003, SABESP's management approved the implementation of a voluntary termination program. Approximately 700 employees volunteered for termination, and the resulting liability for termination payments amounted to R\$34,645, recorded as expense under Payroll and related charges.

14. ACCRUAL FOR LITIGATION AND RESERVE FOR CONTINGENCIES

The Company is party to certain lawsuits arising in the normal course of business, including labor, tax, civil and commercial lawsuits brought before various courts of law, or at administrative levels.

The Company has provided for the amounts necessary to cover estimated probable losses in cases of an unfavorable outcome.

In the opinion of management, even if the outcome of such lawsuits is unfavorable to Sabesp, they will not have a material adverse effect on the Company's financial position or business.

a) In current liabilities

| | Supplementary information | | | |
|---|---------------------------|---------|--|---------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| Accrual for litigation: | | | | |
| COFINS and PASEP - Law No. 9,718/98 (i) | - | 170,494 | - | 185,311 |
| FINSOCIAL (ii) | 7,872 | 7,872 | 7,872 | 8,556 |
| Customers (b (iii)) | 11,394 | 1,569 | 11,394 | 1,706 |
| | 19,266 | 179,935 | 19,266 | 195,573 |

(i) COFINS and PASEP - Law No. 9,718/98

Amount included in the Special Tax Debt Refinancing Program - PAES, after the Company withdrew the lawsuit against the calculation methodology established by Law No. 9,718/98.

(ii) FINSOCIAL

In July 1991, an Ordinary Annulment and Declaratory Action was filed through Lawsuit No. 91.0663460-5, requesting the Finsocial debts to be declared null and void and Sabesp's obligation to contribute to Finsocial to be terminated.

Escrow deposits were made for the amounts related to the 2% tax rate, relating to the periods from April 1991 to April 1992, and the withdrawal of 75% of such deposits was authorized on August 30, 1994. The remaining 25%, representing the 0.5% tax rate, was maintained as an escrow deposit and continued as an accrual.

Since the Federal Supreme Court (STF) acknowledged the constitutionality of the Finsocial payable on gross revenues of companies that are exclusively service providers, and this, according to the Company's legal counsel, would affect consideration of the merit of SABESP's lawsuit, the Company paid the amount of R\$57,016 on July 26, 2002, equal to 1.5% of the total amount due, and requested the transfer of the total escrow deposits to the Federal Revenue Authorities, thus terminating the claim under Lawsuit No. 91.0663460-5, which was in the formalization stage.

b) In long-term liabilities

Management, based on an analysis with its lawyers, recorded a reserve for contingencies in the amount of R\$384,571 (2002 - R\$237,370), considered sufficient to cover probable losses in legal actions, as follows:

| | Supplementary information | | | |
|-----------------|---------------------------|---------|--|---------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| Labor (i) | 24,195 | 19,131 | 24,195 | 20,794 |
| Suppliers (ii) | 157,832 | 107,380 | 157,832 | 116,712 |
| Civil | 20,031 | 11,329 | 20,031 | 12,314 |
| Customers (iii) | 169,773 | 89,066 | 169,773 | 96,806 |
| Other | 12,740 | 10,464 | 12,740 | 11,373 |
| | 384,571 | 237,370 | 384,571 | 257,999 |

(i) Labor claims - the Company is a defendant in various labor claims, and a significant portion of the involved amounts is under provisional or definitive execution. This amount is thus classified as a probable loss, and a reserve has been duly recorded. The reserve refers mainly to claims concerning overtime payment, health hazard premium and others. None of the claims are for material amounts and they are currently at various court levels.

(ii) Refer to lawsuits filed by service providers arising from construction contracts, which have already been judged by lower courts and await decision on the appeals filed by SABESP.

(iii) These amounts refer to various lawsuits filed by customers seeking tariff parity, currently in trial or appellate courts, where decisions have been both favorable and unfavorable to the Company.

c) Lawsuits

The ongoing lawsuits at various administrative levels or in the courts, in which the Company is a defendant, for which losses are considered by the Company's lawyers as possible, but not probable, and for which reserves have therefore not been recognized in the financial statements, total R\$459,700 (R\$133,100 in 2002), as follows:

| | 2003 | 2002 |
|----------------|---------|---------|
| Labor | 6,000 | 4,300 |
| Suppliers | 44,750 | 31,800 |
| Civil (i) | 76,000 | 6,000 |
| Customers (ii) | 331,250 | 89,500 |
| Other | 1,700 | 1,500 |
| | 459,700 | 133,100 |

(i) The increase in 2003 refers mostly to lawsuits for land use.

(ii) Refer to lawsuits of the same nature as those referred to above in item b (iii); the increase in the amount arises from new lawsuits, as evaluated by the Company's lawyers.

d) Escrow deposits

Stated at original amounts, these refer mostly to deposits made as determined by judicial decisions on labor claims and tax and civil lawsuits in which the Company is a party.

15. PROFIT SHARING

As a result of negotiations held by the Company with entities representing the employees, a Profit Sharing Program was implemented for the period from July 2003 to June 2004, with the payment of an amount corresponding to up to one month's payroll, depending on achievement of targets.

In December 2003, the Company paid an advance of R\$20,385, equivalent to 50% of one month's payroll; the remainder, if applicable, will be paid at the end of August 2004.

16. SHAREHOLDERS EQUITY

a) Authorized capital

The Company is authorized to increase its capital up to a maximum of R\$4,100,000, corresponding to 40,000,000,000 registered common shares without par value.

b) Subscribed and paid-up capital

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

Subscribed and paid-up capital is represented by 28,479,577,827 (2002 - 28,479,577,827) registered common shares without par value, held as follows:

| Shareholders | 2003 | | 2002 | |
|---|-----------------------|---------------|-----------------------|---------------|
| | Number of shares | % | Number of shares | % |
| São Paulo State Finance Department | 20,376,674,058 | 71.54 | 20,376,674,059 | 71.54 |
| Shares held in custody by Stock Exchanges | 8,073,310,852 | 28.35 | 8,062,195,428 | 28.30 |
| Other | 29,592,917 | 0.11 | 40,708,340 | 0.16 |
| | <u>28,479,577,827</u> | <u>100.00</u> | <u>28,479,577,827</u> | <u>100.00</u> |

c) Remuneration of shareholders

Shareholders are entitled to a mandatory minimum dividend distribution of 25% of adjusted net income, calculated in conformity with Brazilian corporate law.

In 2003, the Company paid interest on capital in lieu of dividends, in the amount of R\$504,089 (2002 - R\$108,222); of this amount, R\$17,943 was withheld as income tax. Interest on capital was calculated in conformity with article 9 of Law No. 9,249/95, at the Long-term Interest Rate (TJLP); this interest was originally recorded in Financial expenses for income and social contribution tax deductibility purposes and subsequently, for presentation purposes, was reflected directly in Shareholders equity in conformity with CVM Resolution No. 207/96.

d) Capital reserve

Comprises tax incentives and donations from government entities.

e) Profit reserves

(i) Allocation of net income

| | |
|--|----------------|
| 1. Net income | 833,320 |
| (+) Realization of revaluation reserve | 134,245 |
| (-) Interest on capital | 504,089 |
| (-) Legal reserve - 5% | 41,666 |
| | <u>421,810</u> |
| Retained earnings | <u>421,810</u> |

2. Management will propose the transfer of the retained earnings balance of R\$421,810 to the Investment reserve account, to cover the needs of investments with internal funds, as planned in the Corporate Budget for 2004.

(ii) Investment reserve

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

f) Revaluation reserve

As permitted by CVM Instruction No. 197/93, the Company opted not to recognize income and social contribution taxes on the revaluation reserve for property, plant and equipment items recorded up to 1991.

The revaluation reserve is transferred to retained earnings in proportion to the depreciation and disposal of the respective assets.

17. SUPPLEMENTARY INFORMATION IN CONSTANT PURCHASING POWER CURRENCY

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

In conformity with Federal Accounting Council (CFC) Resolution 900/01 - Application of the Price Level Restatement Principle, supplementary information referring to the financial statements and respective notes prepared in constant purchasing power currency, based on the change in the restatement index, is presented below. This information was prepared in accordance with the following accounting practices:

a) Restatement index

The restatement of permanent assets, shareholders' equity, income and expense accounts, and the calculation of gains and losses on monetary items was based on the Accounting Monetary Unit (UMC), which considers as a basis the General Market Price Index (IGP-M) (8.7% in 2003 and 25.3% in 2002).

b) Balance sheet accounts

Monetary assets and liabilities shown in the financial statements in constant purchasing power currency are the same as those shown as under corporate law, except accounts receivable from customers, accounts payable to suppliers and contractors, and deferred income and social contribution taxes in long-term liabilities, which are adjusted to reflect the purchasing power or realization value in currency as of December 31, 2003, taking as a basis the rate disclosed by the National Association of Investment Banks and Securities Dealers (ANBID).

Permanent assets and shareholders' equity have been adjusted based on the monthly change in the UMC, which was restated based on the IGP-M index through December 31, 2003.

c) Income and expense accounts

All income and expense accounts were restated using the UMC from the month originally recorded, adjusted according to inflationary gains and losses calculated on the monthly beginning and ending balances of the monetary assets and liabilities generating financial income and expenses or nominal inflationary gains and losses which were considered as reductions of the income and expense accounts to which they are linked.

d) Deferred taxes

Deferred income and social contribution taxes were calculated based on the 15% tax rate plus surtaxes of 10% and 9%, respectively, on the increased value of the permanent asset items arising from their monetary restatement, in accordance with CVM instructions included in Pronouncement No. 99/006 from IBRACON (Brazilian Institute of Independent Auditors).

e) Statements of changes in shareholders' equity and of changes in financial position

These amounts are stated in constant purchasing power currency as of December 31, 2003.

f) Reconciliation of net income (loss) and shareholders' equity, determined under corporate law and in constant purchasing power currency

| | Net income (loss) | | Shareholders' equity | |
|---------------------------------------|-------------------|-------------|----------------------|-------------|
| | 2003 | 2002 | 2003 | 2002 |
| Corporate law | 833,320 | (650,516) | 7,576,943 | 7,246,476 |
| Price-level restatements: | | | | |
| Of permanent assets | 1,550,436 | 6,627,803 | 14,998,643 | 15,246,702 |
| Of shareholders' equity | (1,792,606) | (5,637,711) | - | - |
| Adjustment to present value - net | (377) | (466) | (2,802) | (2,425) |
| Reversal (provision) of taxes: | | | | |
| Income tax | 62,510 | (182,698) | (3,276,312) | (3,212,738) |
| Social contribution tax | 22,503 | (65,772) | (1,179,472) | (1,156,586) |
| In constant purchasing power currency | 675,786 | 90,640 | 18,117,000 | 18,121,429 |

g) Gains and losses on monetary items

| | 2003 | 2002 | Offset account |
|---|------------------|------------------|-----------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | (30,291) | (138,610) | Financial income |
| Accounts receivable | 111,067 | (213,210) | Financial income |
| Receivables from shareholder | (11,640) | (24,900) | Personnel expenses |
| Inventories | (1,470) | (5,356) | Expenses for supplies |
| Deferred income and social contribution taxes | (3,685) | - | Financial expenses |
| Other receivables | (10,100) | (24,007) | Financial income |
| | <u>53,881</u> | <u>(406,083)</u> | |
| Noncurrent assets: | | | |
| Accounts receivable | 7,059 | (3,903) | Financial income |
| Receivables from shareholder - GESP Agreement | (65,860) | (206,424) | Financial expenses |
| Deferred income and social contribution taxes | (18,350) | (94,675) | Financial expenses |
| | <u>(3,812)</u> | <u>(11,346)</u> | Financial expenses |
| | <u>(80,963)</u> | <u>(316,348)</u> | |
| Total losses | <u>(27,082)</u> | <u>(722,431)</u> | |
| Liabilities | | | |
| Current liabilities: | | | |
| Suppliers and contractors | 3,052 | 9,555 | Financial expenses |
| Loans and financing | 256,851 | (29,153) | Financial expenses |
| Payroll and related charges | 9,192 | 34,458 | Personnel expenses |
| Accrual for litigation | 12,778 | 47,040 | Financial expenses |
| Interest on capital | (8,621) | 99,537 | General expenses |
| Taxes payable | 15,425 | 23,933 | Financial expenses |
| Deferred income and social contribution taxes | 861 | - | Financial expenses |
| Other payables | 3,241 | 10,933 | Service expenses |
| | <u>292,779</u> | <u>196,303</u> | |
| Long-term liabilities: | | | |
| Loans and financing | 810,255 | 241,165 | Financial expenses |
| Deferred income and social contribution taxes | 6,870 | 61,113 | Financial expenses |
| Taxes payable | 10,870 | 24,521 | Financial expenses |
| Reserve for contingencies | 23,410 | 39,554 | Financial expenses |
| Social security charges | 7,936 | 15,465 | Personnel expenses |
| Other payables | 1,435 | 7,494 | Financial expenses |
| | <u>860,776</u> | <u>389,312</u> | |
| Total gains | <u>1,153,555</u> | <u>585,615</u> | |

| | | |
|--------------------------------|-----------|-----------|
| Monetary gains and losses, net | 1,126,473 | (136,816) |
|--------------------------------|-----------|-----------|

18. INSURANCE COVERAGE

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

| Type of insurance | Insured amount-R\$ |
|--|--------------------|
| Fire | 264,875 |
| Civil liability - construction | 2,776 |
| Engineering risk | 622,781 |
| Civil liability - Directors & Officers | 80,000 |
| Civil liability - operating | 1,500 |

19. FINANCIAL INSTRUMENTS

Under the terms of CVM Instruction No. 235/95, the Company evaluated the book values of its assets and liabilities in relation to market values, based on available information and appropriate valuation methodologies. However, both the interpretation of market data and the selection of valuation methodologies require considerable judgment and reasonable estimates in order to produce the most adequate realizable values. Consequently, the estimates presented do not necessarily indicate the amounts that might be realized in the current market. The use of different market approaches and/or methodologies for the estimates may have a significant effect on the estimated realizable values.

Market values and book values of the Company's financial instruments as of December 31, 2003 are as follows:

| | Book value | Market value | Unrealized gain |
|-----------------------------------|-------------|--------------|-----------------|
| Temporary cash investments (f)(i) | 186,419 | 186,419 | - |
| Foreign currency (f)(i) | 26,590 | 26,590 | - |
| Debentures (f)(ii) | (1,097,090) | (1,097,090) | - |
| Loans and financing (f)(iii) | (6,167,173) | (6,364,015) | 196,842 |
| | (7,051,254) | (7,248,096) | 196,842 |

a) Exchange rate 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 loans and financing denominated in foreign currency obtained in the market and the related financial expenses. The Company does not have hedge or swap contracts for protection against this risk, in view of the amounts, costs involved and opportunities. However, when possible, it makes advance purchases of foreign currencies and obtains funding in local currency, as a way to protect itself against exchange rate fluctuations.

A significant portion of the Company's debt is pegged to the US dollar, Euro and other foreign currencies, totaling R\$3,708,015 (Note 9). The Company's net exposure to the exchange rate risk as of December 31, 2003 is summarized as follows:

| | In thousands | |
|---------------------|--------------|---------|
| | US\$ | |
| Foreign currency | (2,067) | (5,660) |
| Loans and financing | 1,019,004 | 2,746 |

| | | |
|--|-----------|---------|
| | 1,016,937 | (2,914) |
|--|-----------|---------|

b) Interest rate risk

This risk arises from the possibility that the Company may incur losses due to interest rate fluctuations that would increase its financial expenses related to loans and financing. The Company has not entered into any derivative contract to hedge against this risk; however, it continually monitors market interest rates, in order to evaluate the possible need to replace its debt. As of December 31, 2003, the Company had R\$1,225,090 in loans and financing which were obtained at variable interest rates (CDI and TJLP, etc.).

Another risk faced by the Company is the lack of correlation between the price-level restatement indexes 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.

c) Debt acceleration risk

As of December 31, 2003, the Company had loan and financing contracts containing restrictive clauses (covenants) typically applied to such agreements, related to cash generation, debt ratios and other. The Company has complied with these restrictive clauses in full and they have not restricted its capacity to conduct its regular business.

d) Credit risk

Credit risk is mitigated by selling to a geographically dispersed customer base, including sales to municipal governments.

e) Drought risk

The atypical meteorological conditions of the past three years including 2003 resulted in the need to launch institutional campaigns to encourage economical and rational use of water and, which led to a decrease in billed water volumes.

At the same time, higher investments were required to mitigate the drought effects on the Company's water production systems. This drought period may materially impair the water supply and water volumes billed.

In October 2003, the Company launched a new campaign "Watch the Water Level", involving advertisements in all media, blitzes throughout the city, presentations and partnerships with customers, suppliers and various segments of society. The campaign's objective was to call attention to the water supply reservoirs, encouraging the rational use of water and fighting water waste, in addition to promoting increased awareness of the importance of water resources for social and economic development. In addition, in March 2004, the Company publicized the "Water Economy Bonus Program" to be implemented in the metropolitan area of São Paulo to stimulate water consumption reduction by the population, and providing a benefit to those consumers meeting a 20% consumption reduction target, as detailed in Note 25.

f) Valuation of financial instruments

The Company's main asset and liability financial instruments as of December 31, 2003, and the criteria adopted for their valuation are as follows.

(i) Cash and cash equivalents - Comprise: cash, bank accounts, temporary cash investments, and advance purchases of foreign currencies. Market value approximates the amounts stated in the Company's balance sheet.

(ii) Debentures - The Company has already settled 2 of its 5 debenture issues. These securities are negotiated in over-the-counter markets, and are stated at amounts that approximate their market value (Note 9).

(iii) Loans and financing - Market value was determined based on the discounted cash flow method, and using available interest rate projections.

20. GROSS REVENUE PER REGION

| | | Supplementary information | |
|---------------|------|---------------------------------------|------|
| Corporate law | | In constant purchasing power currency | |
| 2003 | 2002 | 2003 | 2002 |
| | | | |

| | | | | |
|--|------------------|------------------|------------------|------------------|
| Metropolitan São Paulo | 3,268,768 | 3,003,854 | 3,351,058 | 3,839,990 |
| Inland and Coastal regions of State | 1,038,766 | 958,582 | 1,065,430 | 1,225,411 |
| Adjustment to present value, accounts receivable and unbilled supply | - | - | (38,424) | (35,402) |
| Total | 4,307,534 | 3,962,436 | 4,378,064 | 5,029,999 |

21. OPERATING COSTS AND EXPENSES

| | Supplementary information | | | |
|--|---------------------------|------------------|---------------------------------------|------------------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| Cost of sales and services: | | | | |
| Payroll and related charges | 791,648 | 652,135 | 810,699 | 835,159 |
| General supplies | 77,250 | 68,355 | 79,152 | 86,926 |
| Treatment supplies | 88,610 | 77,719 | 91,218 | 100,577 |
| Outside services | 207,176 | 211,967 | 212,281 | 269,459 |
| Electric power | 321,323 | 265,013 | 329,416 | 337,963 |
| General expenses | 33,419 | 34,832 | 34,291 | 44,335 |
| Depreciation and amortization | 547,722 | 504,955 | 1,273,796 | 1,156,042 |
| PASEP tax credits | (20,314) | - | (20,820) | - |
| Adjustment to present value of suppliers and contractors | - | - | (3,853) | (4,549) |
| Gains and losses | - | - | (49) | (36,916) |
| | 2,046,834 | 1,814,976 | 2,806,131 | 2,788,996 |
| Selling expenses: | | | | |
| Payroll and related charges | 130,978 | 100,753 | 134,067 | 128,964 |
| General supplies | 5,328 | 4,324 | 5,460 | 5,510 |
| Outside services | 82,515 | 89,383 | 84,703 | 113,629 |
| Electric power | 743 | 536 | 764 | 673 |
| General expenses | 37,924 | 24,825 | 38,816 | 31,953 |
| Depreciation and amortization | 2,421 | 2,403 | 4,754 | 5,537 |
| Write-off of receivables/Allowance for doubtful accounts | 37,625 | 162,915 | 40,318 | 211,246 |
| PASEP tax credits | (232) | - | (237) | - |
| Adjustment to present value of suppliers and contractors | - | - | (888) | (1,037) |
| Gains and losses | - | - | 1,992 | (27,476) |
| | 297,302 | 385,139 | 309,749 | 468,999 |
| Administrative expenses: | | | | |
| Payroll and related charges | 110,509 | 93,436 | 113,084 | 119,793 |

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

| | | | | |
|--|---------|---------|---------|----------|
| General supplies | 3,424 | 4,134 | 3,517 | 5,280 |
| Outside services | 39,915 | 60,303 | 40,938 | 76,824 |
| Electric power | 816 | 581 | 836 | 739 |
| General expenses | 58,661 | 32,656 | 59,401 | 38,694 |
| Depreciation and amortization | 14,312 | 11,717 | 26,669 | 22,571 |
| Tax expenses | 26,423 | 23,197 | 27,126 | 29,919 |
| PASEP tax credits | (322) | - | (330) | - |
| Adjustment to present value of suppliers and contractors | - | - | (451) | (745) |
| Gains and losses | - | - | 3,899 | (34,089) |
| | 253,738 | 226,024 | 274,689 | 258,986 |

Supplementary information

| Corporate law | | In constant purchasing power currency | |
|---------------|------|---------------------------------------|------|
| 2003 | 2002 | 2003 | 2002 |

Costs, selling and administrative expenses:

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Payroll and related charges | 1,033,135 | 846,324 | 810,699 | 835,159 |
| General supplies | 86,002 | 76,813 | 326,303 | 335,683 |
| Treatment supplies | 88,610 | 77,719 | 100,195 | 111,367 |
| Outside services | 329,606 | 361,653 | 337,922 | 459,912 |
| Electric power | 322,882 | 266,130 | 331,016 | 339,375 |
| General expenses | 130,004 | 92,313 | 132,508 | 114,982 |
| Depreciation and amortization | 564,455 | 519,075 | 1,305,219 | 1,184,150 |
| Tax expenses | 26,423 | 23,197 | 27,126 | 29,919 |
| Write-off of receivables/Allowance for doubtful accounts | 37,625 | 162,915 | 40,318 | 211,246 |
| PASEP tax credits | (20,868) | - | (21,387) | - |
| Adjustment to present value - suppliers and contractors | - | - | (5,192) | (6,331) |
| Gains and losses | - | - | 5,842 | (98,481) |
| | 2,597,874 | 2,426,139 | 3,390,569 | 3,516,981 |

Financial expenses:

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Interest and other charges on loans and financing - local currency | 523,418 | 461,404 | 537,308 | 589,003 |
| Interest and other charges on loans and financing - foreign currency | 255,824 | 276,693 | 262,559 | 352,618 |
| Interest on capital (Note 16 (c)) | 504,089 | 108,222 | 510,012 | 146,695 |
| Interest on capital (reversal) | (504,089) | (108,222) | (510,012) | (146,695) |
| Other expenses on loans | 5,801 | 774 | 5,976 | 1,173 |
| Income tax on remittances abroad | 37,355 | 23,810 | 38,683 | 31,419 |
| Other financial expenses | 58,612 | 62,751 | 60,044 | 80,887 |
| Monetary variations on loans and financing | 144,689 | 103,597 | - | - |
| Exchange variations on loans and financing | (540,569) | 1,345,335 | - | - |
| Other monetary and exchange variations | 33,268 | 3,719 | - | - |
| | - | - | 5,413 | 6,761 |

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

Reversal of the adjustment to present value of accounts payable - suppliers and contractors

| | | | | |
|-------------------|----------|---------|-------------|-----------|
| Gains and losses | - | - | (1,108,746) | (317,885) |
| Provisions | 138,440 | 140,963 | 141,006 | 170,755 |
| PASEP tax credits | (18,859) | - | (19,224) | - |

| | | | | |
|--------------------------|---------|-----------|----------|---------|
| Total financial expenses | 637,979 | 2,419,046 | (76,981) | 914,731 |
|--------------------------|---------|-----------|----------|---------|

Financial income:

| | | | | |
|--|---------|--------|--------|-----------|
| Monetary variations | 203,938 | 35,350 | - | - |
| Income from temporary cash investments | 69,958 | 69,022 | 71,913 | 87,135 |
| Reversal of the adjustment to present value of accounts receivable - customers | - | - | 38,267 | 35,366 |
| Gains and losses | - | - | 23,569 | (553,182) |
| Interest | 37,450 | 42,863 | 38,340 | 55,344 |
| Other | 2 | 15 | 2 | 23 |

| | | | | |
|--|----------|---------|----------|-----------|
| Total financial income | 311,348 | 147,250 | 172,091 | (375,314) |
| COFINS and PASEP (taxes on financial income) | (19,846) | (4,497) | (20,100) | (5,912) |

| | | | | |
|-----------------------------|---------|---------|---------|-----------|
| Total financial income, net | 291,502 | 142,753 | 151,991 | (381,226) |
|-----------------------------|---------|---------|---------|-----------|

| | | | | |
|----------------------------------|---------|-----------|-----------|-----------|
| Financial expenses (income), net | 346,477 | 2,276,293 | (228,972) | 1,295,957 |
|----------------------------------|---------|-----------|-----------|-----------|

22. MANAGEMENT COMPENSATION

Compensation paid by the Company to the members of its board of directors and management in 2003 totaled R\$1,478 (2002 - R\$921).

23. OPERATING RESULTS BY SEGMENT

| | 2003 | | |
|---|--------------|---------------|-------------|
| | Water system | Sewage system | Total |
| Gross revenue from sales | 2,190,971 | 1,756,399 | 3,947,370 |
| Gross revenue from sales - bulk | 262,045 | - | 262,045 |
| Gross revenue from services | 66,110 | 32,009 | 98,119 |
| Taxes on sales and services | 2,519,126 | 1,788,408 | 4,307,534 |
| | (115,590) | (82,060) | (197,650) |
| Net revenue from sales and services | 2,403,536 | 1,706,348 | 4,109,884 |
| Cost of sales and services and operating expenses | (1,714,926) | (882,948) | (2,597,874) |
| Operating profit before financial expenses, net | 688,610 | 823,400 | 1,512,010 |

| | 2002 | | |
|--|--------------|---------------|-------|
| | Water system | Sewage system | Total |

| | | | |
|---|-------------|-----------|-------------|
| Gross revenue from sales | 2,015,206 | 1,586,181 | 3,601,387 |
| Gross revenue from sales - bulk | 230,481 | - | 230,481 |
| Gross revenue from services | 90,705 | 39,863 | 130,568 |
| | <hr/> | <hr/> | <hr/> |
| | 2,336,392 | 1,626,044 | 3,962,436 |
| Taxes on sales and services | (115,149) | (80,140) | (195,289) |
| | <hr/> | <hr/> | <hr/> |
| Net revenue from sales and services | 2,221,243 | 1,545,904 | 3,767,147 |
| Cost of sales and services and operating expenses | (1,634,227) | (791,912) | (2,426,139) |
| | <hr/> | <hr/> | <hr/> |
| | 587,016 | 753,992 | 1,341,008 |
| | <hr/> | <hr/> | <hr/> |

24. EXTRAORDINARY ITEM

As permitted by CVM Resolution No. 371, the Company opted to record, over a five-year period starting in 2002, the R\$266,074 actuarial liability determined as of December 31, 2001 and related to the pension plan for its employees.

In accordance with the aforementioned resolution, the amount related to cost of past service will be recorded as an Extraordinary item net of taxes, and presented in the statement of operations as follows:

| | 2003 | 2002 | Total |
|---|----------|----------|-----------|
| | <hr/> | <hr/> | <hr/> |
| Extraordinary item | 53,215 | 53,215 | 106,430 |
| Deferred income and social contribution taxes | (18,093) | (18,093) | (36,186) |
| | <hr/> | <hr/> | <hr/> |
| Extraordinary item, net | 35,122 | 35,122 | 70,244 |
| | <hr/> | <hr/> | <hr/> |
| Liability as of December 31, 2001 | | | 266,074 |
| Extraordinary item | | | (106,430) |
| | | | <hr/> |
| Balance to be recorded | | | 159,644 |
| | | | <hr/> |

25. SUBSEQUENT EVENT

Incentive Program for Water Consumption Reduction

SABESP has implemented the Incentive Program for Water Consumption Reduction, the purpose of which is to encourage the population of the São Paulo Metropolitan Area to reduce water use, in order to help face the water shortage caused by the low rainfall levels and the resulting low water levels in the reservoirs that supply the region.

The program will encompass the municipalities of the Metropolitan Region supplied by the metropolitan aqueduct system and will be effective for six months starting March 15, 2004.

A 20% discount on the water bill, or on the water and sewage bill, will be granted in the months when consumption is reduced by 20% in relation to the average consumption calculated by SABESP, based on the consumption in the same period of the previous year.

Supplementary information

In order to provide improved information to the market, the Company is also presenting as supplementary information its statements of cash flows prepared in accordance with IBRACON Accounting Standard No. 20, considering the principal transactions that affect the Company's cash and cash equivalents, and its statements of added value prepared in accordance with CVM Circular No. 01/00.

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

a) Statements of cash flows

| | Supplementary information | | | |
|---|---------------------------|------------------|--|------------------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| Cash flows from operating activities: | | | | |
| Net income (loss) | 833,320 | (650,516) | 675,785 | 90,640 |
| Adjustments to reconcile net income (loss) to net cash: | | | | |
| Deferred income and social contribution taxes | 16,617 | (267,984) | (73,793) | (121,871) |
| Provision for contingencies | (13,468) | 174,440 | (13,547) | 209,416 |
| Social security charges | 77,204 | 60,098 | 79,201 | 78,521 |
| Property items received as donations (Private Sector) | (2,428) | (6,786) | (2,471) | (8,516) |
| Loss on disposal of property, plant and equipment items | 61,654 | 16,479 | 145,325 | 39,170 |
| Write-off of deferred charges | 984 | - | 1,973 | - |
| Gain on sale of property, plant and equipment | (4) | - | (10) | - |
| Depreciation | 544,731 | 500,954 | 1,272,445 | 1,154,373 |
| Amortization | 19,724 | 18,121 | 32,774 | 29,777 |
| Interest payable on loans and financing | 802,976 | 752,725 | 824,591 | 961,214 |
| Monetary and exchange variations on loans and financing | (396,147) | 1,448,933 | - | - |
| Monetary variations on interest on capital | 31,098 | - | - | - |
| Allowance for doubtful accounts | 37,625 | 162,915 | 40,318 | 211,246 |
| Gains (losses): | | | | |
| Loans and financing | - | - | (1,067,106) | (212,012) |
| Deferred income and social contribution taxes | - | - | 14,304 | 33,562 |
| Provision for contingencies | - | - | (36,188) | (86,594) |
| Social security charges | - | - | (7,936) | (15,465) |
| | 2,013,886 | 2,209,379 | 1,885,665 | 2,363,461 |
| Decrease (increase) in assets: | | | | |
| Accounts receivable | 61,909 | (262,414) | 138,565 | (96,164) |
| Receivables from shareholder | 116,990 | (97,250) | 127,157 | (100,273) |
| Inventories | 334 | (755) | 2,301 | 5,199 |
| Recoverable taxes | - | 27,415 | - | 37,335 |
| Other receivables | 71,845 | (54,777) | 79,220 | (51,267) |
| Accounts receivable - noncurrent | (172,681) | (1,392) | (171,603) | 1,517 |
| Receivables from shareholder - GESP Agreement | 122,574 | 41,683 | 175,359 | 223,768 |
| Receivables from shareholder - GESP | (170,363) | - | (170,363) | - |
| Indemnities receivable | - | - | 12,931 | 40,912 |
| Escrow deposits | 5,931 | (7,415) | 7,974 | (3,635) |
| Other noncurrent receivables | (10,150) | (16,271) | (8,375) | (16,540) |
| | 26,389 | (371,176) | 193,166 | 40,852 |

| | Supplementary information | | | |
|--|---------------------------|-------------|--|-------------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| Increase (decrease) in liabilities: | | | | |
| Suppliers and contractors | 15,323 | (44,412) | 12,362 | (70,119) |
| Payroll and related charges | 49,543 | 10,438 | 42,091 | (9,363) |
| Interest on capital payable | (6,685) | - | 1,914 | (102,570) |
| Taxes payable | (1,433) | 5,732 | (8,900) | (15,819) |
| Other payables | 108,961 | 5,224 | 105,192 | (4,806) |
| Taxes payable - long-term | 208,489 | (50,368) | 202,083 | (88,867) |
| Other payables - long-term | 8,487 | - | 7,078 | (4,457) |
| | 382,685 | (73,386) | 361,820 | (296,001) |
| Net cash provided by operating activities | 2,422,960 | 1,764,817 | 2,440,651 | 2,108,312 |
| Cash flows from investing activities: | | | | |
| Additions to property, plant and equipment | (1,007,260) | (585,979) | (1,021,577) | (740,319) |
| Sales of property, plant and equipment | 7 | - | 18 | - |
| Increase in deferred charges | (9,469) | (11,223) | (9,748) | (14,011) |
| Net cash used in investing activities | (1,016,722) | (597,202) | (1,031,307) | (754,330) |
| Cash flows from financing activities: | | | | |
| Loans and financing - current: | | | | |
| Repayments | - | - | - | - |
| Loans and financing - long-term | | | | |
| Funding | 918,623 | 457,371 | 936,459 | 610,187 |
| Repayments | (1,937,286) | (1,221,794) | (1,990,396) | (1,567,669) |
| Interest on capital: | | | | |
| Interest on capital paid | (119,521) | (401,309) | (122,489) | (507,952) |
| Matching of accounts | (401,712) | - | (402,613) | - |
| Net cash used in financing activities | (1,539,896) | (1,165,732) | (1,579,039) | (1,465,434) |
| Increase (decrease) in cash and cash equivalents | (133,658) | 1,883 | (169,695) | (111,452) |
| Cash and cash equivalents - beginning of year | 414,671 | 412,788 | 450,708 | 562,160 |
| Cash and cash equivalents - end of year | 281,013 | 414,671 | 281,013 | 450,708 |

| | | | | |
|--|-----------|---------|-----------|-----------|
| Change in cash and cash equivalents | (133,658) | 1,883 | (169,695) | (111,452) |
| Supplementary cash flow information: | | | | |
| Interest and charges paid on loans and financing | 856,331 | 701,752 | 937,571 | 898,757 |
| Capitalization of interest and financial charges | (1,559) | 17,902 | (1,557) | 23,956 |
| Income and social contribution taxes paid | 130,731 | 16,595 | 132,786 | 22,265 |
| Property items received as donations and/or paid in shares | 3,664 | 15,310 | 3,742 | 18,462 |
| COFINS and PASEP taxes paid | 154,344 | 50,481 | 158,060 | 66,365 |

b) Statement of value added

| | Supplementary information | | | |
|--|---------------------------|------------------|---------------------------------------|------------------|
| | Corporate law | | In constant purchasing power currency | |
| | 2003 | 2002 | 2003 | 2002 |
| Revenues: | | | | |
| Sales of products and services | 4,307,534 | 3,962,436 | 4,378,064 | 5,029,999 |
| Write-off of receivables/ allowance for doubtful accounts | (37,625) | (162,915) | (40,318) | (211,246) |
| Nonoperating items | (54,050) | (2,864) | (138,482) | (22,390) |
| | <u>4,215,859</u> | <u>3,796,657</u> | <u>4,199,264</u> | <u>4,796,363</u> |
| Inputs purchased from third parties: | | | | |
| Raw materials consumed | 88,610 | 77,719 | 91,218 | 100,577 |
| Cost of sales and services | 629,584 | 572,663 | 643,134 | 692,147 |
| Materials, electric energy, outside services and other | 220,728 | 203,982 | 230,693 | 195,055 |
| | <u>938,922</u> | <u>854,364</u> | <u>965,045</u> | <u>987,779</u> |
| Gross value added | 3,276,937 | 2,942,293 | 3,234,219 | 3,808,584 |
| Retentions (depreciation/amortization) | 564,455 | 519,075 | 1,305,219 | 1,184,150 |
| | <u>2,712,482</u> | <u>2,423,218</u> | <u>1,929,000</u> | <u>2,624,434</u> |
| Net value added produced by the Company | | | | |
| | 2,712,482 | 2,423,218 | 1,929,000 | 2,624,434 |
| Value received from third parties: | | | | |
| Financial income | 311,348 | 147,250 | 172,091 | (375,314) |
| | <u>3,023,830</u> | <u>2,570,468</u> | <u>2,101,091</u> | <u>2,249,120</u> |
| Total undistributed value added | 3,023,830 | 2,570,468 | 2,101,091 | 2,249,120 |

| Value added distribution | % | % | % | % | | | | |
|-------------------------------|---------|------|-----------|--------|----------|-------|-----------|------|
| Personnel and payroll charges | 975,946 | 32.3 | 805,238 | 31.3 | 997,063 | 47.5 | 1,024,927 | 45.6 |
| Taxes | 580,146 | 19.2 | 2,960 | 0.1 | 509,386 | 24.2 | 227,898 | 10.1 |
| Financial and rental expenses | 634,418 | 21.0 | 2,412,786 | 93.9 | (81,143) | (3.9) | 905,655 | 40.3 |
| Net income (loss) | 833,320 | 27.5 | (650,516) | (25.3) | 675,785 | 32.2 | 90,640 | 4.0 |

01.01 IDENTIFICATION

| | | |
|-----------------------|--|------------------------------|
| 1 CVM CODE 01444-3 | 2 company's name CIA SANEAMENTO BÁSICO ESTADO SÃO PAULO | 3 CNPJ 43.776.517/0001-80 |
|-----------------------|--|------------------------------|

INDEX

| GROUP | FIGURE | DESCRIPTION | PAGE |
|-------|--------|--|--------|
| 01 | 01 | IDENTIFICATION | 01 |
| 01 | 02 | HEAD-OFFICE | 01 |
| 01 | 03 | INVESTORS RELATIONSHIP OFFICER (Company s mail address) | 01 |
| 01 | 04 | REFERENCE / AUDITOR | 01 |
| 01 | 05 | CAPITAL STOCK COMPOSITION | 02 |
| 01 | 06 | COMPANY S DATA | 02 |
| 01 | 07 | COMPANIES NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS | 02 |
| 01 | 08 | CASH INCOME DELIBERATED AND/OR PAID | 02 |
| 01 | 09 | INVESTORS RELATIONS OFFICER | 02 |
| 02 | 01 | BALANCE SHEET ASSETS | 03 |
| 02 | 02 | BALANCE SHEET LIABILITIES | 05 |
| 03 | 01 | INCOME STATEMENT | 07 |
| 04 | 01 | INCOME STATEMENT OF CHANGES IN FINANCIAL POSITION | 08 |
| 05 | 01 | STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY FROM 01/01/2003 TO 12/31/2003 | 09 |
| 05 | 02 | STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY FROM 01/01/2002 TO 12/31/2002 | 10 |
| 05 | 03 | STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY FROM 01/01/2001 TO 12/31/2001 | 11 |
| 09 | 01 | INDEPENDENT AUDITORS REPORT UNQUALIFIED | 12 |
| 10 | 01 | MANAGEMENT REPORT | 14 |
| 11 | 01 | NOTES TO THE FINANCIAL STATEMENTS | 46/102 |

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: April 28, 2004

Companhia de Saneamento Básico do Estado de São Paulo - SABESP

By: /s/ Rui de Britto Álvares Affonso

Name: Rui de Britto Álvares
Affonso
Title: Economic-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.
