

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

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

*Financial Statements for the Years Ended
December 31, 2006 and 2005 and
Independent Auditors' Report -
Restated*

Deloitte Touche Tohmatsu Auditores Independentes

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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 sheets of Companhia de Saneamento Básico do Estado de São Paulo - SABESP (the "Company") as of December 31, 2006 and 2005, and the related statements of income, changes in shareholders' equity, and changes in financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of Company's management. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with auditing standards in Brazil and comprised:
(a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company,
(b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and
(c) evaluating the significant accounting practices and estimates adopted by management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Companhia de Saneamento Básico do Estado de São Paulo - SABESP as of December 31, 2006 and 2005, and the results of its operations, the changes in shareholders' equity, and the changes in its financial position for the years then ended in conformity with Brazilian accounting practices.
4. Our audits were conducted for the purpose of forming an opinion on the basic financial statements referred to in paragraph 1 taken as a whole. The accompanying statements of cash flows and value added are presented for purposes of additional analysis and are not a required part of the basic financial statements in conformity with Brazilian accounting practices. Such information has been subjected to the auditing procedures described in paragraph 2 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the years ended December 31, 2006 and 2005 taken as a whole.

5. As mentioned in Note 6, the Company is negotiating with the State of São Paulo Government the reimbursement of the amounts for supplementary retirement and pension paid by the Company and the future flow of these payments to be reimbursed by the State of São Paulo Government. Due to the present stage of the negotiations between the Company and the State of São Paulo Government, it is not possible to determine the outcome of this matter. The conclusion of these negotiations may result in a change to the amount recorded by the Company as reimbursable from the State of São Paulo Government.
6. We had previously issued an opinion on the financial statements for the year ended December 31, 2006, dated March 30, 2007, containing a scope limitation regarding the balance of the caption “Unidentified Collections”, included in the account group “Accounts Receivable”, as the reconciliation work had not been concluded. As mentioned in note 26, Company’s management concluded the reconciliation of this account and identified the need for an adjustment in the amount of approximately R\$93 million, which was made in the income for 2006, as charge to the caption “Selling Expenses”. The effects of this adjustment are disclosed in the referred note.
7. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, March 30, 2007, except for note 26, as to which the date is June 21, 2007.

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Marco Antonio Brandão Simurro
Engagement Partner