

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP

Form F-3/A

October 13, 2004

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As filed with the Securities and Exchange Commission on October 13, 2004

Registration No. 333-119352

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Amendment No. 1 to**  
**FORM F-3**

**REGISTRATION STATEMENT**

*UNDER THE*  
*SECURITIES ACT OF 1933*

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

(Exact name of Registrant as specified in its charter)

Basic Sanitation Company

of the State of São Paulo-Sabesp

(Translation of the Registrant's name into English)

Federative Republic of Brazil

(State or other jurisdiction of incorporation or organization)

Not Applicable

(I.R.S. Employer Identification No.)

Rua Costa Carvalho, 300

05429-900 São Paulo, SP, Brazil

(55-11) 3388-8000

(Address and Telephone Number of Registrant's Principal Executive Offices)

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CT Corporation System

111 Eighth Avenue, New York, New York 10011

(212) 894-8400

(Name, Address, Including Zip Code and Telephone Number, Including Area Code, of Agent for Service of Process)

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*With copies to:*

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New York, New York 10036

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

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**CALCULATION OF REGISTRATION FEE**

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Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per ADS (each representing 250 common shares)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common shares, without par value <sup>(1)</sup>	6,063,162,187 <sup>(2)</sup>	\$ 11.955 <sup>(3)</sup>	\$ 289,940,416 <sup>(2)(3)</sup>	36,736 <sup>(4)</sup>

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- (1) A separate Registration Statement on Form F-6 (file number 333-86118) was filed for the registration of American depositary shares ( ADSs ) issuable upon deposit of the common shares registered hereby and became effective on May 9, 2002. Each ADS represents 250 common shares.
  - (2) Includes common shares to be offered in a Brazilian offering but which may be resold from time to time in the United States in transactions requiring registration under the Securities Act, and common shares, which can be in the form of ADSs, which the underwriters may purchase solely to cover over-allotments, if any.
  - (3) Estimated solely for purposes of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act based on the average of the high and low prices of the common shares represented by ADSs on the New York Stock Exchange on October 7, 2004.
  - (4) The Registrant previously paid \$27,000 in connection with the initial filing on September 28, 2004.
- 

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED OCTOBER 13, 2004**

**PROSPECTUS**

**American Depositary Shares**

**Companhia de Saneamento Básico  
do Estado de São Paulo Sabesp**

**Representing Common Shares**  
**\$ per ADS**

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The selling shareholders are selling \_\_\_\_\_ shares in the form of American depositary shares, or ADSs. Each ADS represents the right to receive 250 common shares. The selling shareholders are concurrently offering common shares in Brazil through Brazilian underwriters using a Portuguese-language prospectus. We will not receive any proceeds from the sale of the ADSs and common shares in these offerings. Each of these offerings is conditioned upon the closing of the other.

The selling shareholders have granted Citigroup Global Markets Inc., as global coordinator for the offerings, an option to purchase up to \_\_\_\_\_ additional common shares, which can be in the form of ADSs, to cover over-allotments, if any.

The ADSs are listed on the New York Stock Exchange under the symbol **SBS** and the common shares are listed on the São Paulo Stock Exchange under the symbol **SBSP3**. On October 11, 2004, the last reported sale price of the ADSs on the New York Stock Exchange was \$11.91

per ADS and the last reported sale price of the common shares on the São Paulo Stock Exchange was R\$133.5 per 1,000 shares, equivalent to a price of \$11.79 per ADS, assuming an exchange rate of R\$2.8318 per US dollar.

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**Investing in our ADSs involves risks. See Risk Factors beginning on page 10.**

The offering of common shares in Brazil will be registered with the Brazilian Securities Commission. Neither the Securities and Exchange Commission, nor any state securities commission, nor the Brazilian Securities Commission, has approved or disapproved the distribution of the ADSs and common shares or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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	<u>Per 1,000 common shares</u>	<u>Per ADS</u>	<u>Total</u>
Public Offering Price	\$	\$	\$
Underwriting Discount	\$	\$	\$
Proceeds to the Selling Shareholders (before expenses)	\$	\$	\$

The underwriters expect to deliver the common shares and the ADSs to purchasers against payment on or about \_\_\_\_\_, 2004.

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**Global Coordinator and Sole Book Runner**

**Citigroup**

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**Unibanco**

, 2004

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You should rely only on the information contained in or incorporated by reference in this prospectus. Neither we nor the selling shareholders have authorized anyone to provide you with different information. This document may only be used where it is legal to sell these securities. The information in this prospectus is accurate only as of the date of this prospectus, regardless of when this prospectus is delivered or when any sale of the ADSs or of our common shares occurs.



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**PRESENTATION OF FINANCIAL AND STATISTICAL INFORMATION**

In this prospectus, references to *real*, *reais* or R\$ are to the Brazilian *real*, the official currency of Brazil. All references to US dollars, US\$ are to United States dollars. Solely for the convenience of the reader, we have translated some of the *real* amounts contained in this prospectus into US dollars at a rate equal (unless otherwise indicated) to R\$3.1075 per US\$1.00, the commercial selling rate as of June 30, 2004 as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank. The commercial selling rate as of June 30, 2004 may not be indicative of current or future exchange rates. Therefore, you should not read these translations as representations that any such amounts have been, could have been or could be converted into US dollars at that or at any other exchange rate. See Exchange Rates for information regarding exchange rates applicable to the Brazilian currency since January 1, 1999.

Our audited financial statements as of December 31, 2002 and 2003 and for the years ended December 31, 2001, 2002 and 2003 and our unaudited interim consolidated financial statements as of June 30, 2004 and for the six months ended June 30, 2003 and 2004 are included in this prospectus. Our financial statements are presented in *reais* and are prepared in accordance with the Brazilian Corporate Law Method, which is based on the Brazilian Corporate Law (Law No. 6,404/76, as amended), the rules and regulations issued by the Brazilian Securities Commission (*Comissão de Valores Mobiliários*, or CVM) and the accounting standards issued by the Brazilian Institute of Independent Auditors (*Instituto dos Auditores Independentes do Brasil*, or IBRACON), referred to in this prospectus as the Brazilian Corporate Law Method.

Like other Brazilian companies, we have the option of presenting our primary financial statements on the basis of accounting principles established in accordance with the Brazilian Corporate Law Method with a reconciliation to generally accepted accounting principles in the United States of America, or US GAAP. Unless otherwise indicated, our financial statements and all financial data included in this prospectus have been prepared in accordance with the Brazilian Corporate Law Method. The Brazilian Corporate Law Method differs in significant respects from US GAAP. Note 24 to our financial statements provides a description of the differences between the Brazilian Corporate Law Method and US GAAP as they relate to our financial statements and a reconciliation from the Brazilian Corporate Law Method to US GAAP, for periods presented therein, of our net income (loss) and of our shareholders' equity. The reconciliation from the financial statements prepared in accordance with the Brazilian Corporate Law Method to US GAAP includes, among others, adjustments for differences related to the accounting for past revaluations of property, plant and equipment, historical inflation accounting and accounting for pension and other employee benefits.

We do not have any subsidiaries.

Some figures included in this prospectus and in our annual report have been rounded. Therefore, figures in certain tables may not total.

Market data and other statistical information used in this prospectus are based on independent industry publications, government publications, publicly available information or other published independent sources. Some data is also based on the estimates of our management, which are derived from its review of internal surveys, and industry knowledge, as well as from independent sources. Although we believe these sources to be reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness.



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**INCORPORATION OF CERTAIN INFORMATION BY REFERENCE**

The Securities and Exchange Commission, or the SEC, allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and some later information that we file with or furnish to the SEC will automatically be deemed to update and supersede this information. We incorporate by reference the following documents that have been filed with the SEC:

The Annual Report on Form 20-F we filed with the SEC on June 28, 2004 for the fiscal year ended December 31, 2003, which we refer to as our Form 20-F.

The Report on Form 6-K we furnished to the SEC on August 18, 2004 relating to our results for the six months ended June 30, 2004.

We also incorporate by reference into this prospectus any future filings on Form 20-F made with the SEC pursuant to the Exchange Act of 1934, as amended, which we refer to as the Exchange Act, after the date of this prospectus and prior to the consummation of this offering, and to the extent designated therein, future reports on Form 6-K furnished to the SEC.

Any statement contained in a document, all or a portion of which is incorporated or deemed to be incorporated by reference herein, shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this prospectus.

We will provide without charge to each person, including any beneficial owner of our common shares or of ADSs, to whom a copy of this prospectus is delivered, upon the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated herein by reference, other than exhibits to such documents (unless such exhibits are specifically incorporated by reference in such documents). Requests should be directed to the Investor Relations Department, Rua Costa Carvalho, 300, 05429-900 São Paulo, SP, Brazil (telephone no: (55 11) 3388-9135).

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**FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things:

- the interests of our controlling shareholder, the State of São Paulo;
- our ability to collect amounts owed to us by our controlling shareholder and by municipalities;
- existing and future governmental regulation, including taxes on, and charges to, us;
- our lack of formal concessions for the City of São Paulo and other municipalities;
- municipalities' ability to terminate our existing concessions;
- our ability to obtain additional concessions and to renew current concessions when they come due;
- limitations on our ability to increase tariffs;
- our capital expenditure program and other liquidity and capital resources requirements;
- our level of indebtedness and limitations on our ability to incur additional indebtedness;
- droughts, water shortages and/or climate events;
- our costs relating to compliance with environmental laws and potential penalties for failure to comply with such laws;
- the outcome of our pending or future legal proceedings;
- general economic, political and other conditions in Brazil and in other emerging market countries;
- inflation and currency devaluation in Brazil;
- changes to tax laws in Brazil;

power shortages, rationing or instability of electricity supply;

our management's expectations and estimates concerning our future financial performance;

the size and growth of our customer base; and

other risk factors as set forth in the "Risk Factors" section.

The words "believes," "may," "will," "estimates," "continues," "anticipates," "intends," "expects" and similar words are intended to identify forward-looking statements. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this prospectus might not occur. Our actual results could differ substantially from those anticipated in our forward-looking statements.

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### SUMMARY

*This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including Risk Factors and our financial statements included in this prospectus, before making an investment decision.*

#### **Sabesp**

We believe we are the largest water and sewage company in Latin America based on net revenue and customers in 2003. We provide water and sewage services in the State of São Paulo, in which the City of São Paulo, Brazil's largest city, is located. According to the Brazilian Institute of Geography and Statistics, the State of São Paulo is Brazil's most populous and economically productive state. We serve a broad range of residential, commercial, industrial and governmental customers in the area we refer to as the São Paulo Metropolitan Region, which comprises 33 municipalities in the metropolitan area of the City of São Paulo, and in the area we refer to as the Regional Systems, which comprises 335 municipalities in the interior and coastline regions of the State of São Paulo, for a total of 368 of the 645 municipalities in the State of São Paulo as of the date of this prospectus. We also supply water on a wholesale basis to six municipalities in the São Paulo Metropolitan Region in which we do not operate water systems. The São Paulo Metropolitan Region and the Regional Systems accounted for 74.0% and 26.0% of our net revenue from sales and services for the six months ended June 30, 2004, respectively.

As of June 30, 2004, we distributed water to approximately 22.2 million people, which we believe includes 60.0% of the urban population of the State of São Paulo, through 57,976 kilometers of water pipes and mains to more than 6.3 million water connections. As of June 30, 2004, we provided sewage services to approximately 18.0 million people, or a sewage coverage ratio of 78.0%, through 35,692 kilometers of sewer lines to approximately 4.7 million sewage connections. In addition, we currently sell water on a wholesale basis to six municipalities having an estimated total population of approximately 3.1 million in the aggregate.

We had net revenue from sales and services of R\$4,130.8 million (US\$1,329.3 million) in 2003 and R\$2,126.3 million (US\$684.2 million) for the six months ended June 30, 2004. We had total assets of R\$16,441.5 million (US\$5,290.9 million) and shareholders' equity of R\$7,580.9 million (US\$2,439.5 million) as of June 30, 2004.

The State of São Paulo, our controlling shareholder, is required by our by-laws and by State law to own at least one-half plus one of our voting (common) shares. After giving effect to the ADS and Brazilian offerings, the State of São Paulo will own 50.3% of our outstanding common shares assuming the over-allotment option is exercised in full.

#### **Our Strengths**

We believe that our strong business position, development and future prospects are reflected by the following strengths:

*Well-established Business with Significant Size and Scale.* We believe we are the largest water and sewage company in Latin America. We are the sole provider of water and sewage services in our areas of operations. We provide water services to

approximately 22.2 million people and sewage services to approximately 18.0 million people, or a sewage coverage ratio of 78.0%. We have a track record of consistent revenue growth and strong cash flows that fund a considerable portion of our capital expenditures, as well as regular dividends to our shareholders. The size of our operations enables us to achieve economies of scale which positively impact our business.

*Operations in Brazil's Most Populous and Wealthy State.* The State of São Paulo, part of the most developed and economically active region of Brazil, is the most populous state in Brazil, with an

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estimated population of 39.3 million as of June 30, 2004. The City of São Paulo had an estimated population of 10.7 million as of June 30, 2004, with 18.9 million inhabitants in the greater metropolitan region. The gross domestic product (GDP) of the State of São Paulo was approximately R\$401.0 billion as of 2001, representing approximately 33.4% of Brazil's total GDP, making it the largest economy of any state in Brazil, based on GDP.

*Visible Growth Opportunities.* We currently have a sewage coverage ratio of 78%, and plan to increase this ratio to 85% by 2008 by adding over 835,000 sewage connections. In addition, there are municipalities in the State of São Paulo in which we currently do not operate water or sewage concessions or to which we currently supply water solely on a wholesale basis. This represents a total population of approximately 15 million. Since January 1, 1997, we have obtained concessions for 33 additional municipalities (representing a total population of 1.4 million).

*High Quality Operations.* We believe that our company adheres to high standards of service and utilizes the best available technology in the sanitation business. Five of our water quality laboratories in the São Paulo Metropolitan Region have received ISO 9001/2000 certification and three in the Regional Systems have received ISO 17025 certification. We have also received ISO 9001/2000 certification for the maintenance of our pumps and quality of our sewage collection services in the São Paulo Metropolitan Region. We believe our technology enhances the efficiency and quality of our operations.

*Access to Attractive Financing.* We benefit from long-term financing from domestic and international multilateral agencies and development banks at attractive interest rates. Our capital expenditures are funded by this financing in addition to our cash flows from operations.

*Strong Corporate Governance Practices.* In 2002, we joined and currently are the only mixed capital company in the *Novo Mercado* segment of the São Paulo Stock Exchange. We are committed to abide by certain corporate governance practices and disclosure requirements in addition to those already required under Brazilian law. These corporate governance practices require us to increase shareholders' rights and to enhance the quality of information provided to shareholders.

## **Our Strategy**

Our mission is to improve the quality of life of the population of the State of São Paulo and, in particular, to meet the growing demand for water and sewage services in an environmentally responsible manner. We are seeking to expand and improve our operations so that we can fulfill our mission and at the same time enhance shareholder value.

In order to achieve our objectives, we have defined the following key strategic initiatives:

*Continue to Expand Our Water and Sewage Services in Our Existing Service Area.* Our goal is to maintain universal coverage of water services and to increase penetration of sewage collection and treatment services in our existing service areas of operation. We aim to continue providing universal water coverage and meet population growth by adding 795,000 water connections by 2008. We also intend to increase our sewage coverage ratio to 85% by adding 835,000 sewage connections by 2008.

*Maintain our Existing Concession Base and Obtain Additional Municipal Concessions and Operations.* Our goal is to renew all of our existing concessions as they expire. We have assembled a special task force to address concession expiration in a timely and effective manner. In addition, we regularly explore the possibility of obtaining additional water and sewage concessions and operations in municipalities in the State of São Paulo in which we currently have no operations or to which we currently supply water solely on a wholesale basis.



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*Set Our Tariffs to Cover Our Costs of Operations and to Provide a Return on Investment.* We periodically adjust our tariffs for water and sewage services using a transparent formula which accounts for inflation, covers our operating costs and other expenses and provides for return on investment. We generally adjust our tariffs once a year during the month of August for a period of at least 12 months. Our most recent adjustment was a 6.8% increase effective as of August 29, 2004.

*Continue to Reduce Operating Costs and to Increase Productivity.* We are continuing our efforts to lower operating costs and to increase our productivity mainly through a head count reduction program and through an outsourcing and automation strategy. During the six months ended June 30, 2004, we reduced our total number of employees by 4%. Water and sewage connections per employee consequently increased from 566 to 615 in the same period.

*Improve Operating Efficiency and Reduce Water Losses.* Our central efficiency goal is to reduce physical water losses throughout our water system primarily through the replacement and repair of water mains and pipes and the installation of probing and other equipment, including strategically located pressure-regulating valves. We also aim to reduce non-physical water losses by upgrading and replacing inaccurate water meters and by increasing outsourcing of meter reading activities to third-party contractors outside the São Paulo Metropolitan Region. We aim to reduce water losses in the São Paulo Metropolitan Region and in the Regional Systems from 32% and 33%, respectively, to 26% in both regions by 2008.

*Improve Collection of Overdue Accounts Receivable.* We are continuing our efforts to improve our collection of overdue accounts receivable from municipalities to which we provide water on a wholesale basis, from the State of São Paulo and from other governmental entities. We are actively pursuing the amounts overdue and in some cases exploring opportunities to swap the amounts overdue in exchange for the rights and infrastructure to operate the water and sewage systems of certain municipalities. For example, we have recently acquired the right to operate the water and sewage services in the Municipality of São Bernardo do Campo through the transfer of all related assets from the municipality to us in partial exchange for overdue accounts receivable.

*Diversify Sources of Financing.* Our goal is to continue to identify and secure diverse sources of financing, both public and private, with an emphasis on borrowing in local currency to reduce our exposure to exchange rate fluctuations and on borrowing long-term funds to match the duration of our long-term assets.

*Maintain Close Relationships with Municipal Governments and with Customers.* We meet regularly with the mayors of municipalities and organize regional management commissions comprised of mayoral representatives and of our officers to discuss water and sewage services, capital expenditures, tariffs and other issues. We are also working to improve customer relations by shortening response times for customer installations as well as through a focused public relations program to enhance our image. We believe that these activities enhance our ability to obtain renewal of concessions or additional concessions in the future.

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We are a mixed capital company (*sociedade de economia mista*), a corporation organized under the laws of Brazil of which a majority of the voting capital must be owned by the Federal Government, a state government or a municipality. Our principal executive offices are located at Rua Costa Carvalho, 300, 05429-900 São Paulo, SP, Brazil and our telephone number is (55-11) 3388-8000. Our website address is [www.sabesp.com.br](http://www.sabesp.com.br). The information on our website is not incorporated by reference in this prospectus and does not constitute a part of this prospectus.



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**The Offerings**

Issuer	Companhia de Saneamento Básico do Estado de São Paulo Sabesp.
Selling shareholders	State of São Paulo and Companhia Paulista de Parcerias CPP, a company wholly owned by the State of São Paulo.
ADS offering	ADSs representing common shares are being offered through the underwriters in the United States and in other countries outside Brazil.
Brazilian offering	common shares are being offered by Brazilian underwriters in a public offering in Brazil pursuant to a Portuguese-language prospectus filed with the Brazilian Securities Commission.
Reallocation between offerings	The number of ADSs to be offered in the ADS offering and the number of common shares to be offered in the Brazilian offering are subject to reallocation, without any limitation, between the offering outside Brazil and the offering in Brazil, as may be determined by Citigroup Global Markets Inc.
The ADSs	Each ADS represents 250 common shares. ADSs will be evidenced by American Depository Receipts, or ADRs. ADSs will be issued under a deposit agreement, dated as of May 9, 2002, among us, The Bank of New York, as Depositary, and the owners and holders of ADSs issued thereunder.
Offering price	The public offering price for the ADS offering is US\$ per ADS. The offering price for the Brazilian offering is R\$ per 1,000 common shares, which is the approximate <i>real</i> equivalent of the offering price per ADS in the ADS offering, adjusted to reflect the ratio of 250 common shares to one ADS.
Over-allotment option	The selling shareholders have granted Citigroup Global Markets Inc., as global coordinator for the ADS and Brazilian offerings, an option to purchase additional common shares, which can be in the form of ADSs, within 30 days from the date of this prospectus, solely to cover over-allotments, if any.
Use of Proceeds	We will not receive any proceeds from the sale of ADSs and common shares being offered in the ADS and Brazilian offerings. The selling shareholders will receive all of the net proceeds from the sale of ADSs and common shares in these offerings.
Outstanding share capital	We will have 28,479,577,827 common shares outstanding immediately prior to and after the ADS and Brazilian offerings. We do not have any other class of share capital.
Voting rights	Holders of our common shares and ADSs have voting rights; however, it may be difficult for holders of ADSs to exercise these rights. See Description of Capital Stock Rights of Common Shares and Description of American Depository Shares Voting Rights.



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Tag-along rights	Holder of our common shares and ADSs have tag-along rights, which enable them to, upon the sale of a controlling interest in us, receive 100.0% of the price paid per common share of the controlling block. However, US holders of common shares and ADSs may not be able to exercise these rights unless a registration statement under the US Securities Act of 1933 is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available.
Preemptive Rights	Holder of our common shares and ADSs have a general preemptive right to subscribe for shares in any capital increase according to the proportion of their holdings, as well as to subscribe for any convertible debentures, rights to acquire our shares and subscription warrants that we may issue. However, US holders of common shares and ADSs may not be able to exercise these rights unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available.
Dividends	<p>Under the Brazilian Corporate Law and our by-laws, we are required to distribute dividends in an aggregate amount of not less than 25.0% of our annual net income, subject to adjustments and exceptions. The holders of ADSs will be entitled to receive dividends as of the date of the acquisition of such ADSs to the same extent as the owners of the common shares, subject to the deduction of any fees and charges of the Depositary for the ADSs. Dividends may be made in the form of interest on shareholders' equity. See Description of Share Capital and Dividends and Dividend Policy.</p> <p>Purchasers of ADSs will not be entitled to receive the dividend declared by our Board of Directors in February 2004, which will be paid subsequent to the offerings.</p>
Taxation	Dividend distributions with respect to common shares or ADSs are not currently subject to withholding of Brazilian income tax. However, payment of interest on shareholders' equity is currently subject to withholding of Brazilian income tax. Gains from the sale or other disposition of ADSs outside of Brazil among individuals or corporations not domiciled in Brazil may be subject to Brazilian income tax. Such withholding tax may or may not be applicable to the holders of our common shares. See Taxation Brazilian Tax Considerations.
Lock-up	We, our officers and directors and the selling shareholders have agreed with the underwriters for the ADS offering, subject to certain exceptions, not to sell, offer or agree to sell, grant any option to sell or otherwise dispose of, directly or indirectly, any common shares, ADSs or securities convertible into or exchangeable or exercisable for common shares or ADSs or warrants or other rights to purchase

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common shares or ADSs during the 90-day period following the date of the underwriting agreement without prior written consent of Citigroup Global Markets, Inc. on behalf of the underwriters.

Market for common shares and ADSs

Our ADSs began trading on the New York Stock Exchange on May 10, 2002 in connection with the initial offering of our equity securities in the United States. Our common shares are listed and traded on the *Novo Mercado* segment of the São Paulo Stock Exchange.

Listing

The existing ADSs are listed on the New York Stock Exchange under the symbol SBS. The New York Stock Exchange has approved the listing of ADSs being offered in the ADS offering. Our common shares are listed on the São Paulo Stock Exchange under the symbol SBSP3. We will apply for the listing of the common shares being offered in the Brazilian offering on the São Paulo Stock Exchange under the same symbol.

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This prospectus relates to ADSs being offered in the ADS offering. The registration statement, of which this prospectus is a part, also relates to common shares that are being offered in the Brazilian offering, but that may be resold in the form of ADSs from time to time in the United States.

**Table of Contents****Summary Financial Information**

The following summary financial and operating data should be read in conjunction with our financial statements included in this prospectus and information under the captions Presentation of Financial Information, Exchange Rates, Management's Discussion and Analysis of Financial Condition and Results of Operations and Selected Financial Data. Our financial statements have been prepared in accordance with the Brazilian Corporate Law Method, which differs in significant respects from US GAAP. Solely for the convenience of the reader, *real* amounts as at and for the year ended December 31, 2003 and the six months ended June 30, 2004 have been translated into US dollars at the commercial selling rate as of June 30, 2004 of R\$3.1075 to US\$1.00.

	As of and for the Year				As of and for the Six Months		
	Ended December 31,				Ended June 30,		
	2001	2002	2003	2003	2003	2004	2004
(in millions, except per share and per ADS data)							
<b>Brazilian Corporate Law Method</b>							
	R\$	R\$	R\$	US\$	R\$	R\$	US\$
<b>Statement of Operations Data:</b>							
Net revenue from sales and services	3,434.8	3,767.1	4,130.8	1,329.3	1,965.9	2,126.3	684.2
Cost of sales and services	(1,590.4)	(1,815.0)	(2,067.1)	(665.2)	(980.8)	(1,082.9)	(348.5)
Gross profit	1,844.3	1,952.2	2,063.6	664.1	985.2	1,043.4	335.8
Selling expenses	(332.6)	(385.1)	(297.5)	(95.7)	(186.2)	(231.3)	(74.4)
Administrative expenses	(203.1)	(226.0)	(254.1)	(81.8)	(107.5)	(138.8)	(44.7)
Financial income (expenses), net	(1,105.2)	(2,276.3)	(346.5)	(111.5)	86.5	(568.6)	(183.0)
Income (loss) from operations <sup>(1)</sup>	203.4	(935.3)	1,165.5	375.1	778.0	104.7	33.7
Non-operating income (expenses)	(76.9)	(3.4)	(54.5)	(17.5)	(32.0)	(11.5)	(3.7)
Income (loss) before taxes on income	126.5	(938.7)	1,111.1	357.6	745.9	93.2	30.0
Income tax and social contribution tax	89.7	323.3	(242.6)	(78.1)	(223.9)	(33.5)	(10.8)
Extraordinary item, net of income and social contribution taxes <sup>(2)</sup>		(35.1)	(35.1)	(11.3)	(17.6)	(17.6)	(5.7)
Net income (loss)	216.2	(650.5)	833.3	268.2	504.5	42.2	13.6
Net income (loss) per thousand common shares	7.59	(22.84)	29.26	9.4	17.71	1.48	0.5
Net income (loss) per ADS		(5.71)	7.32	2.4	4.43	0.37	0.1
Dividends and interest on shareholders' equity per thousand common shares	17.20	3.80	17.70	5.7	5.56	1.38	0.4
Dividends and interest on shareholders' equity per ADS		0.95	4.43	1.4	1.39	0.34	0.1
Number of common shares outstanding at year end (in thousands of shares)	28,479,578	28,479,578	28,479,578	28,479,578	28,479,578	28,479,578	28,479,578
<b>Balance Sheet Data:</b>							
Cash and cash equivalents	460.2	414.7	281.0	90.4	1,068.0	102.9	33.1
Customer accounts receivable, net	787.0	820.5	996.8	320.8	839.0	970.5	312.3
Reimbursement for pension benefits paid	326.3	403.9	491.0	158.0	442.7	527.6	169.8
Short- and long-term receivables from shareholders, net <sup>(3)</sup>	378.3	423.7	164.2	52.8	421.2	215.3	69.3
Property, plant and equipment, net	13,510.0	13,670.8	14,063.2	4,525.6	13,633.3	14,029.9	4,514.9
Total assets	15,917.9	16,348.7	16,530.7	5,319.6	16,861.1	16,441.5	5,290.9
Total short-term loans and financing	549.3	1,332.5	997.0	320.8	1,189.7	1,116.4	359.3
Total long-term loans and financing	5,920.6	6,545.2	6,267.3	2,016.8	6,648.7	6,202.0	1,995.8
Total liabilities	7,921.2	9,102.2	8,953.7	2,881.3	9,267.8	8,860.6	2,851.4
Shareholders' equity	7,996.7	7,246.5	7,576.9	2,438.3	7,593.2	7,580.9	2,439.5
<b>Other Financial Information:</b>							
Cash provided by operating activities <sup>(4)</sup>	1,657.0	1,764.8	1,655.3	532.7	880.5	811.1	261.0
Cash provided by (used in) <sup>(4)</sup> investing activities	(709.5)	(597.2)	(650.8)	(209.4)	(226.3)	(317.6)	(102.2)
Cash used in financing activities <sup>(4)</sup>	(763.6)	(1,165.7)	(1,138.2)	(366.3)	(47.5)	(671.6)	(216.1)
Adjusted EBITDA <sup>(5)</sup>	1,785.9	1,860.1	2,076.5	668.2	960.9	966.1	310.9
Capital expenditures <sup>(4)</sup>	694.6	586.0	641.3	206.4	222.3	317.7	102.2

Depreciation and amortization	477.3	519.1	564.5	181.6	269.4	292.7	94.2
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	As of and for the Year				As of and for the Six Months		
	Ended December 31,				Ended June 30,		
	2001	2002	2003	2003	2003	2004	2004
	(in millions, except per share and per ADS data)						
	R\$	R\$	R\$	US\$	R\$	R\$	US\$
<b>US GAAP</b>							
<b>Statement of Operations Data:</b>							
Net revenue from sales and services	3,434.8	3,767.1	4,130.8	1,329.3	1,965.9	2,126.3	684.3
Gross profit	1,613.8	1,820.1	1,853.3	596.4	898.2	956.3	307.7
Selling expenses	(349.9)	(393.6)	(323.4)	(104.1)	(198.4)	(240.3)	(77.3)
Administrative expenses	(214.8)	(328.8)	(276.3)	(89.0)	(123.7)	(143.3)	(46.1)
Income (loss) from operations <sup>(6)</sup>	951.1	1,086.5	1,136.5	365.7	496.9	541.9	174.4
Financial income (expenses), net	(1,107.1)	(2,284.5)	(329.4)	(106.0)	102.4	(581.6)	(187.2)
Net income (loss) for the period	16.7	(847.6)	642.6	206.8	418.0	(26.4)	(8.5)
Net income (loss) per thousand shares basic and diluted	0.59	(29.76)	22.56	7.3	14.68	(0.93)	(0.3)
Net income (loss) per ADS-basic and diluted	0.15	(7.44)	5.64	1.8	3.67	(0.23)	(0.1)
Weighted average number of common shares outstanding (in thousands of shares)	28,479,578	28,479,578	28,479,578	28,479,578	28,479,578	28,479,578	28,479,578
<b>Balance Sheet Data:</b>							
Property, plant and equipment, net	15,656.0	15,666.0	15,955.5	5,134.5	15,537.8	15,858.2	5,103.2
Total assets	17,581.8	17,625.6	17,630.4	5,673.5	18,066.9	17,423.0	5,606.8
Short-term loans and financing	549.3	1,753.6	997.0	320.8	1,617.3	1,408.7	453.3
Long-term loans and financing	5,873.2	6,124.0	6,267.3	2,016.8	6,174.4	5,909.7	1,901.8
Total liabilities	10,688.5	11,679.8	11,544.8	3,715.1	11,860.9	11,401.9	3,669.2
Shareholders' equity	6,893.3	5,945.8	6,085.6	1,958.4	6,206.1	6,021.1	1,937.6

	As of and for the Year Ended			As of and for the Six Months Ended June 30,	
	December 31,				
	2001	2002	2003	2003	2004
<b>Operating Data (at period end):</b>					
Number of water connections (in thousands)	5,717	5,898	6,044	5,975	6,285
Number of sewage connections (in thousands)	4,128	4,304	4,462	4,385	4,673
Percentage of population with water connections (%)	100.0	100.0	100.0	100.0	100.0
Percentage of population with sewer connections (%)	76.0	77.0	78.0	78.0	78.0
Volume of water billed during period (in millions of cubic meters)	1,698.0	1,770.0	1,765.0	888.6	837.9
Water loss percentage (average) (%) <sup>(7)</sup>	32.6	31.7	33.0	32.5	33.5
Number of employees	18,159	18,505	18,546	18,355	17,807

- (1) Includes financial expenses, net.
- (2) The extraordinary item charged to income in the years ended December 31, 2002 and 2003 and the six months ended June 30, 2003 and 2004 relates to the amortization (over a five-year period) of the actuarial liability recorded on December 31, 2001 upon first time recognition of the defined benefits pension plan. The presentation of the charge as an extraordinary item is consistent with the instructions of the Brazilian Securities Commission and the Brazilian Corporate Law Method. For purposes of US GAAP, the pension expense has been treated as a payroll expense from the first year presented.
- (3) Short- and long-term receivables from shareholders, net represent amounts due from the State Government for water and sewage services. Amounts as of December 31, 2003 and June 30, 2004 are reflected net of R\$401.7 million and R\$347.0 million, respectively, of amounts due to the State Government related to interest on shareholders' equity which has been designated for reciprocal offset under the terms of the agreement executed among the parties, as amended. See note 6 to our financial statements.
- (4) Based on the statements of cash flows for the years ended December 31, 2002 and 2003 and for the six months ended June 30, 2003 and 2004 included in note 26 to our financial statements.





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- (5) Adjusted EBITDA means net income (loss) before financial expenses, net, income tax and social contribution tax (a federal tax on income), depreciation and amortization, non-operating income (expenses), net and extraordinary item, net of income tax and social contribution tax. Adjusted EBITDA is not a measurement recognized under Brazilian accounting principals, does not represent cash flow for the periods presented and should not be considered as an alternative to net income (loss), as an indicator of our operating performance or as an alternative to cash flows as an indicator of liquidity. Our definition of Adjusted EBITDA may not be comparable with EBITDA as recognized under Brazilian accounting principals. Although Adjusted EBITDA, as defined above, does not provide a measurement of operating performance as accepted under the Brazilian Corporate Law Method, our management uses it to measure our operating performance and it is commonly used by financial analysts in evaluating our business. Adjusted EBITDA is calculated as follows:

	As of and for the				As of and for the		
	Year Ended December 31,				Six Months Ended June 30,		
	2001	2002	2003	2003	2003	2004	2004
			(in millions)				
	R\$	R\$	R\$	US\$	R\$	R\$	US\$
<b>Brazilian Corporate Law Method</b>							
Net income (loss)	216.2	(650.5)	833.3	268.2	504.5	42.2	13.6
Add:							
Financial expenses (income), net	1,105.2	2,276.3	346.5	111.5	(86.5)	568.6	183.0
Income tax and social contribution tax	(89.7)	(323.3)	242.6	78.1	223.9	33.5	10.8
Depreciation and amortization	477.3	519.1	564.5	181.6	269.4	292.7	94.2
Extraordinary item, net of income and social contribution taxes		35.1	35.1	11.3	17.6	17.6	5.7
Subtotal	1,709.0	1,856.7	2,022.0	650.7	928.9	954.6	307.2
Non-operating expenses, net	76.9	3.4	54.5	17.5	32.0	11.5	3.7
Adjusted EBITDA	1,785.9	1,860.1	2,076.5	668.2	960.9	966.1	310.9

- (6) Under US GAAP, income from operations is determined before financial expenses, net.
- (7) Includes both physical and non-physical losses. Water loss percentage represents the quotient of (a) the difference between (i) the total amount of water produced by us (after excluding certain non-physical water losses set out below) less (ii) the total amount of water invoiced by us to customers divided by (b) the total amount of water produced (after excluding certain non-physical water losses set out below) by us. We exclude from our calculation of water losses the following: (1) water discharged for periodic maintenance of water mains and water storage tanks; (2) water supplied for municipal uses such as firefighting; (3) water we consume in our facilities; and (4) estimated water losses associated with water we supply to *favelas* (shantytowns).

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**RISK FACTORS**

*Prior to making an investment decision, prospective purchasers should consider carefully all of the information set forth in this prospectus and, in particular, the risk factors applicable to us and relating to investments in Brazil that are not normally associated with investments in other countries and with other issuers.*

**Risks Relating to our Control by the State of São Paulo**

*We are controlled by the State of São Paulo, whose interests may be contrary to the interests of other holders of our common shares and ADSs.*

The State of São Paulo, through its ownership of our common shares, has the ability to control the election of a majority of the members of our Board of Directors, the appointment of our senior management, and our operations and strategy. After giving effect to the ADS and Brazilian offerings, the State of São Paulo will own 50.3% of our outstanding common shares assuming the over-allotment option is exercised in full.

The State of São Paulo has from time to time in the past used, and may in the future use, its controlling interest in our company to direct that we engage in certain business activities and make certain expenditures which are designed primarily to promote the political, economic or social goals of the State of São Paulo and not necessarily to enhance our business and results of operations. Our capital expenditure budget is subject to approval by the legislature of the State of São Paulo and is approved in conjunction with the budget of the Energy, Water Resources and Sanitation Secretariat of the State of São Paulo (*Secretária de Energia, Recursos Hídricos e Saneamento*) and of the State of São Paulo as a whole. The Governor of the State of São Paulo has the power to modify our capital expenditure budget after it has been approved. In addition, there is no express requirement under Brazilian law or our by-laws that the terms of our transactions with the State of São Paulo be arm's length or otherwise fair to us or to our other shareholders. As a result, actions taken by the State of São Paulo in relation to us could be contrary to the interests of the other holders of our common shares and ADSs, according to Article 238 of the Brazilian Corporate Law.

*Most of our Board of Directors and senior management are political appointees of the Governor of the State of São Paulo, who are subject to periodic change unrelated to our business needs.*

Newly-elected Governors of the State of São Paulo typically make significant changes in our Board of Directors and senior management and, historically, the Chairman of our Board of Directors has been the Secretary of the Energy, Water Resources and Sanitation Secretariat of the State of São Paulo. In 2002, the current Governor, Mr. Geraldo Alckmin, appointed new senior officials for his administration, including Mr. Mauro Guilherme Jardim Arce as the new Secretary of the Energy, Water Resources and Sanitation Secretariat of the State of São Paulo. Mr. Arce was also elected as Chairman of our Board of Directors. In May 2003, Mr. Dalmo do Valle Nogueira Filho was appointed as our Chief Executive Officer and in July 2003, Mr. Rui de Britto Álvares Affonso was appointed as our Economic and Financial Officer and Investor Relations Officer. In addition, during 2003 our Board of Directors appointed the current technology and planning officer, metropolitan officer and regional systems officer.

Changes in government or government policy could lead to changes in our senior management which in turn could have a material adverse effect on our business strategy, cash flows, results of operations, financial condition or prospects.

*We have accounts receivable owed by the State of São Paulo and some State entities, as well as a substantial amount of recently negotiated long-term receivables owed by the State of São Paulo, and we cannot assure you as to when or whether the State of São Paulo will pay amounts owed to us.*

Historically, the State of São Paulo and some State entities have had substantial overdue accounts payable to us relating to (1) the provision of water and sewage services and (2) State-mandated special retirement and pension payments that we make to some of our former employees for which the State of São Paulo is required to reimburse us. As of June 30, 2004, we had accounts receivable due from the State of São Paulo and some State

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entities relating to the provision of water and sewage services totaling approximately R\$176.9 million, net of R\$347.0 million of amounts applied in respect of dividends due to the State Government and R\$38.4 million to mature in the future. In addition, as of June 30, 2004, we had R\$527.6 million in reimbursements due from the State of São Paulo in respect of State-mandated special retirement and pension payments to some of our former employees. However, the State of São Paulo has not agreed with these amounts. Under a federal law enacted in December 1996, we are not permitted to write off any amounts due to us from the State of São Paulo, our controlling shareholder, or entities controlled by the State of São Paulo. Accordingly, we have not established any provisions for any amounts due to us by the State of São Paulo.

In September 1997, December 2001 and March 2004, we entered into agreements with the State of São Paulo to settle these overdue amounts payable to us. Under the terms of these agreements, the amounts may be settled through the application of dividends payable by us to the State of São Paulo and by the transfer to us of certain reservoirs in the Alto Tietê System which we use, but which are owned by the State of São Paulo. However, the agreements do not require the State of São Paulo to apply all dividends payable by us to them to the repayment of amounts owed to us. Since the State of São Paulo entered into these agreements it has applied some, but not all, of the dividend received from us to the repayment of amounts it owes to us.

Under the December 2001 agreement, we converted a substantial amount of overdue accounts receivable due from the State of São Paulo and some State entities into long-term accounts receivable. According to the March 2004 agreement, which amended the December 2001 agreement, the State of São Paulo recognized a debt with us in the amount of R\$581.8 million regarding unpaid receivables up to February 29, 2004 and we recognized an amount owed to the State of São Paulo as dividends declared in the form of interest on shareholders' equity totaling R\$518.7 million.

We cannot assure you as to when or if the State of São Paulo will pay overdue amounts due to us by them and by some State-controlled entities. Furthermore, due to the State's history of not making timely payments to us in respect of services provided by us and of not reimbursing us in a timely manner for the State of São Paulo-mandated special retirement and pension payments, we cannot assure you that the amount of accounts receivable owed to us by the State of São Paulo and some State entities will not significantly increase in the future. If the State does not pay the amounts it owes us, our cash flows, results of operations and financial condition will be adversely affected.

*We expect that a portion of long-term accounts payable by the State of São Paulo to us will be settled by the transfer to us of State-owned reservoirs in the Alto Tietê System, but we cannot assure you of the value to be given to these reservoirs or of the timing or legality of these transfers.*

Under the terms of the December 2001 agreement referred to above, the State of São Paulo agreed to transfer the reservoirs in the Alto Tietê System to us in exchange for the cancellation of a portion of the accounts receivable due from the State of São Paulo and of reimbursements due from the State of São Paulo for State-mandated special pension payments we have made. Under the terms of the agreement, the value of these reservoirs will be determined by an appraisal process prior to their transfer and amounts owed to us from the State of São Paulo are subject to an audit by a State-appointed auditor.

In July and August 2002, a State-owned construction company, on behalf of the State of São Paulo, and an independent appraisal firm, on our behalf, presented their valuation reports relating to the reservoirs. The appraisals contained in these reports were in the amounts of R\$335.8 million and R\$341.2 million, respectively. Under the terms of the December 2001 agreement, the arithmetic average of these appraisals will be deemed to be the fair value of the reservoirs. Because we had already made investments in these reservoirs by then, the arithmetic average of the appraisals submitted to our Board of Directors by August 2002, R\$300.9 million, was net of a percentage corresponding to these investments. Our Board of Directors approved the valuation reports which may be submitted for approval by an extraordinary general meeting of shareholders. However, we cannot assure you as to when such meeting will take place and a final determination as to the fair value of these reservoirs will be made, or when the reimbursement will take place.



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In addition, on October 29, 2003, the Public Attorney of the State of São Paulo (*Ministério Público do Estado de São Paulo*), on behalf of the people of the State of São Paulo, brought a civil public action in a Trial Court of the State of São Paulo (*12a Vara de Fazenda Pública do Estado de São Paulo*) alleging that a transfer to us of ownership of the Alto Tietê System reservoirs from the State Department of Water and Energy of the State of São Paulo would be illegal. In October 2004, the court ruled in favor of the Public Attorney of the State of São Paulo, which ruling we currently believe relates only to the illegality of the transfer of the reservoirs. We and the State of São Paulo intend to appeal this decision. In our appeal we also plan to request the suspension of the court's decision until final judgment is reached by the Court of Appeals of the State of São Paulo (*Tribunal de Justiça do Estado de São Paulo*). We are unable to predict whether we will succeed in appealing such decision and cannot assure you as to whether the transfer of these reservoirs will occur.

***The State of São Paulo has agreed to reimburse us for pension benefits owed to us; however, if agreement is not reached with respect to the amounts of these reimbursements or if the State of São Paulo delays in making these payments, our cash flows, results of operations and financial condition could be adversely affected.***

The December 2001 agreement also provided that the State of São Paulo's legal advisors would carry out specific analyses, which have commenced, to ensure agreement among the parties as to the methodology employed in determining the amount of reimbursement for pension benefits owed to us by the State of São Paulo. The commencement of reimbursement payments with respect to pension amounts owed to us by the State of São Paulo has been postponed until these analyses are completed, the appraisal report is approved and the credit assignments relating to the transfer of the reservoirs in the Alto Tietê System are formalized. In addition, the transfer of these reservoirs is currently being disputed and we are not certain whether such transfer will be legally allowed, as discussed above. Under the December 2001 agreement, the original first payment was to be made in July 2002, but no payment in this respect has been made as of the date of this prospectus. We cannot assure you as to when agreement among the parties will be reached or when the State of São Paulo will commence making payments in respect of these pension amounts. If an agreement among the parties is not reached or if the State of São Paulo delays or fails to make such payments, our cash flows, results of operations and financial condition could be adversely affected.

***We may be required to acquire reservoirs that we use and that are owned by a State of São Paulo-controlled company, and we may be required to pay substantial fees to the owner in the form of rent and additional operational and maintenance expenses with respect to our use of such reservoirs.***

In connection with the provision of water services, we use the Billings and Guarapiranga reservoirs that are owned by a State-controlled company. The State of São Paulo, through its control of our Board of Directors, could require us to acquire the Billings and Guarapiranga reservoirs. As a result of these acquisitions, our cash position and overall financial condition could be adversely affected. In addition, since we are not currently charged for the use of these reservoirs, we are uncertain as to whether in the future we will continue to be able to use the reservoirs without paying a fee, or what the likely fee scale would be, if imposed. We may also be required to pay additional maintenance and operational costs for our use of the Billings and Guarapiranga reservoirs. If we were required to pay substantial fees to the owner or additional maintenance or operational costs for these properties, our cash flows, results of operations and financial condition could be adversely affected.

## **Risks Relating to Our Business**

***The basic sanitation sector is not specifically regulated in Brazil and the approval of any proposed regulations for the water and sewage industry may negatively affect our operations in the São Paulo Metropolitan Region, as well as in other areas that we serve.***

The Brazilian Federal Congress has, from time to time, discussed proposals for regulation, which would establish directives for basic sanitation services. Any proposed regulation, when and if approved, could establish a new municipal regulatory authority for our industry that may, in part, preempt the existing state regulatory authorities under which we operate.

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Law Project No. 4,147, for example, has been under the analysis of the Brazilian Federal Congress since February 21, 2001. This proposed new legislation and regulatory regime would, for instance, grant the new regulatory authorities the power to deny renewals of our concessions after they expire or to cancel existing ones under certain conditions. In addition, the proposed new legislation could modify the way we charge for our water and sewage services businesses, as well as our capital expenditure program. Any of these changes could have an adverse effect on our revenue, by causing us to lose concessions we currently hold, or on our operating margins, by limiting our ability to pass our costs on to our customers. In addition, some changes have been introduced to the proposed legislation by which the State would share authority with municipalities comprising the São Paulo Metropolitan Region. These changes could negatively affect our operations in the São Paulo Metropolitan Region as well as other metropolitan areas which we serve.

As of the date of this prospectus, neither Law Project No. 4,147 nor any other proposed federal regulation for the water and sewage industry has been voted by the Brazilian Federal Congress or been sent to the Brazilian Senate for debate. However, representatives of the Federal Government have repeatedly informed the press that new regulation is expected to be proposed to the Brazilian Federal Congress in the near future. Our Board of Directors has recently become aware that such new regulation, if proposed to the Brazilian Federal Congress in the form presented to us, could have a negative effect on our operations in the São Paulo Metropolitan Region, as well as in other areas that we serve. We cannot anticipate when, in what terms, or if, Law Project No. 4,147 or any other proposed federal regulation will become effective.

***We may become subject to substantial water-related and sewage-related charges imposed by governmental water agencies of the State of São Paulo and of the Federal Government.***

Governmental water agencies of the State of São Paulo may be, and the Federal Government is, authorized to collect fees from entities, including us, that either abstract water from, or dump sewage into, water resources controlled by these agencies. The fees collected by these agencies are to be used to sponsor studies, programs, projects and constructions provided for in the Water Resources Plan (*Plano de Recursos Hídricos*) and for the payment of expenses concerning the creation of the Federal System for Water Resources Managing (*Sistema Nacional de Gerenciamento de Recursos Hídricos*), as well as administrative costs regarding the bodies and entities pertaining thereto and they may be loaned or provided as grants or subsidies to governmental agencies and corporations, including us, for use in the development and maintenance of water resources. The legislature of the State of São Paulo is also urgently debating new legislation that would establish procedures for the collection of these fees. In addition, the Federal Government enacted legislation under which we must pay fees to the Federal Government or an agency in respect of the use of water from specified sources. We are uncertain as to the likely fees that may be assessed, or whether we will be able to pass on the cost of any of these fees to our customers.

***We may experience difficulty in collecting substantial overdue accounts receivable due from municipalities.***

As of June 30, 2004, we had accounts receivable totaling R\$554.0 million from municipalities to which we provide water on a wholesale basis. Of this amount, R\$87.9 million was 90 to 360 days overdue and R\$419.4 million was more than 360 days overdue. In some cases, the Brazilian courts have required that we continue to provide water on a wholesale basis to municipalities, even if they fail to pay our invoices. Additionally, as of June 30, 2004, we had accounts receivable in the amount of R\$300.3 million, owed to us by municipalities to which we render water and sewage services, including R\$227.2 million owed by the Municipality of the City of São Paulo.

Although we have entered into negotiations with municipalities to reschedule such accounts receivable and have also filed legal proceedings against municipalities to collect the overdue amounts, some municipalities are currently not paying our invoices in full or on a timely basis. In addition, some governmental entities located in municipalities we serve are also not paying us on a regular basis. We cannot assure you as to whether or when these municipalities will resume making regular payments or pay overdue amounts owing to us. If these municipalities and government agencies do not pay amounts they owe us, our cash flows, results of operations and financial condition will be adversely affected.





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***We do not hold formal concessions for the City of São Paulo and several other municipalities that we serve, and therefore we may not be able to enforce our rights to continue to provide services in these municipalities.***

We do not hold formal concessions in the City of São Paulo, which accounts for 55.6% of our sales and services rendered, or in 41 other municipalities in the State of São Paulo. We believe, however, that we have a vested or implied right to provide water and sewage services in these municipalities based upon, among other things, our ownership through our predecessor entities of the water and sewage systems serving these areas and also upon certain rights of succession resulting from our predecessor companies. Because we do not hold concessions or formal contract rights to provide services in these municipalities, we may not be able to effectively enforce our right to continue to provide services or to be paid for the services we provide. In the future, our rights in respect of the City of São Paulo and these other municipalities could be modified or adversely affected by Brazilian federal, state or local governmental actions or other factors.

From time to time, mayors of the City of São Paulo, including the present Mayor, have initiated or proposed discussions with the State of São Paulo regarding entering into a formal concession contract with us to provide water and sewage services in the City of São Paulo. The City of São Paulo legislature approved Law 13,670 of November 25, 2003 that regulates articles 148 and 149 of the Organic Law of the City of São Paulo (*Lei Orgânica do Município de São Paulo*) in relation to public water supply and sewage services. The law establishes the Municipal System for the Regulation of Public Water Supply and Sewage Services (*Sistema Municipal de Regulação dos Serviços de Abastecimento de Água e Esgotamento Sanitário*), creates and provides for the organization and operation of the São Paulo Regulatory Authority for Public Water Supply and Sewage Services (*Autoridade Reguladora dos Serviços de Abastecimento de Água e Esgotamento Sanitário de São Paulo*), and establishes the Municipal Sanitation Plan (*Plano Municipal de Saneamento*). Following the enactment of Law No. 13,670, the Governor of the State of São Paulo filed a legal action alleging that the law is unconstitutional, as a result of which the enforcement of Law No. 13,670 has been suspended. The merits of this lawsuit have not yet been judged. We cannot assure you when or if the suspension of Law 13,670 will end, or if its renewed application would result in the City of São Paulo granting us a formal concession contract, or the terms of any concession contract.

***Municipalities for which we hold concessions may choose not to renew their concessions to us.***

We provide water and sewage services in 325 municipalities pursuant to concessions granted by the municipalities. Substantially all of these concessions have 30-year terms: 273 of these concessions expire between October 15, 2004 and 2010, of which 128 are scheduled to expire in 2006; and the rest expire between 2011 and 2034. The Botucatu concession, one of our significant concessions, will expire on October 18, 2004 and we are in discussions to renew this concession for 30 years. A majority of these concessions are automatically renewable for a period equal to its initial term, although we often renegotiate terms and conditions, unless we or the municipality exercise the right to terminate the concession prior to the six-month period ending on the expiration date of the concession. Although the relevant municipality would have to pay us the non-amortized book value of our assets relating to that concession and assume any related indebtedness, exclusive of any amounts paid to us by such municipality upon any termination or non-renewal of a concession, this termination payment may not be paid and any termination could adversely affect our cash flows, results of operations and financial condition. In addition, the municipalities hold elections for the office of Mayor every four years. If certain municipalities choose not to renew their concessions, it could adversely affect our cash flows, results of operations and financial condition. Even if they choose to renew these concessions, we cannot assure you that we will obtain the same terms that we currently have.

***Municipalities may terminate our concessions for any good public reason or if we fail to meet our contractual obligations.***

Municipalities may terminate our concessions under some circumstances, including if we fail to comply with our obligations under the relevant concession contracts. In addition to contractual termination provisions in concession contracts, municipalities have the inherent power under Brazilian law to terminate concessions prior



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to their contractual expiration dates for any good public reason. The meaning of good public reason has not been defined by Brazilian law or conclusively determined by Brazilian courts. In the event of the termination of a concession, we may receive inadequate compensation from the concessionaire municipality. We may also incur material litigation costs related to termination of concessions and compensation. The Constitution of the State of São Paulo establishes that the municipalities in which we operate as water and sewage service providers may, in the course of granting authority over these services, create their own autonomous entities to render such services in their territories instead of continuing to use our services, with the obligation to indemnify us for the termination of the concession with us over a term of up to 25 years rather than at the time the concession is terminated. The State of São Paulo obtained an injunction in a legal action alleging this indemnification to be unconstitutional. As a result, this indemnification has been suspended. In the event that this injunction is stayed and/or the outcome of the legal action is not favorable to us, the indemnification over a term of 25 years may adversely affect our operational results and financial condition. In 1997, the Municipality of Santos enacted a law expropriating our water and sewage systems in Santos. In response, we filed an action seeking an injunction against this expropriation which was denied by the lower court. This decision was later reversed by the Court of Appeals of the State of São Paulo, which issued a preliminary order suspending that law. On August 2, 2002, a decision on this matter was rendered in our favor by a lower court. This decision is still subject to appeal, and we cannot assure you that the ultimate determination will be favorable to us. Despite the pending lawsuit, we continue to provide water and sewage services to Santos.

We cannot assure you that other municipalities will not seek to terminate their concessions. Exercise of concession termination rights by substantial numbers of municipalities could have a material adverse effect on our cash flows, results of operations and financial condition.

*We may be required to compete through a public bidding process in order to obtain new or renew existing concessions.*

Substantially all of our concessions were granted without a public bidding process. Under current Brazilian Federal and State law, however, for any new concession we may be required to participate in a bidding process. In addition, if a public entity from which we hold a concession granted prior to the enactment of the concession laws determines that in order to comply with such laws it must engage in a public bidding process, we could be required to compete in order to renew our existing concession. While we may be able to obtain concessions without participating in a bidding process, we cannot assure you that the Brazilian courts will continue to interpret the concessions laws to permit municipalities to grant concessions without a public bidding process or that we will be able to secure all new water and sewage concessions that we may wish to obtain.

In the event we are obligated to participate in public bidding processes in order to renew our existing concessions or to obtain new ones, our failure to outbid our competitors for our existing concessions may adversely impact our cash flows, results of operations and financial condition.

*The conditions attached to the renewal of our authorizations to abstract water may be burdensome and could result in an increase in costs and higher capital expenditure requirements.*

We may abstract water from rivers or reservoirs only to the extent permitted by the Department of Water and Energy of the State of São Paulo (*Departamento de Águas e Energia Elétrica do Estado de São Paulo*). Under some circumstances, depending on the geographic location of the relevant river basin or reservoir, the approval of the National Water Agency (*Agência Nacional de Águas* ANA) is also required. The term of these authorizations will vary depending on the granting authority, and their renewal must be approved by their original grantors.

The conditions upon which such governmental authorities will renew our authorizations to abstract water are not known. If we are unable to renegotiate any burdensome condition imposed by such governmental authorities we may be exposed to increased costs and capital expenditures, which may negatively affect our cash flows, results of operations and financial condition.



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*We may be unable to increase customer tariffs in line with increases in inflation and operating expenses.*

Our results of operations and financial condition are highly dependent upon our ability to set and collect adequate tariffs for our water and sewage services. Although we generally have broad power to establish tariffs, this power is, in practice, subject to political and legal constraints. From mid-1999 until mid-2001 we did not raise our tariffs, due to a State policy of not increasing tariffs for public services. In June 2001, we increased our average tariffs by approximately 13.1% which was broadly in line with the prevailing inflation rates in Brazil since mid-1999 and, in August 2002 we raised our tariffs by approximately 8.2%. In August 2003 we raised our tariffs for water and sewage services by approximately 18.9%, and in August 2004 we raised our tariffs for water and sewage services by approximately 6.8%. Tariffs with respect to the residential social (which includes residences of low-income families that live in sub-standard conditions, residences of persons unemployed for up to 12 months and collective living residences) and *favela* (shantytown) categories, are not always increased at the same rate as other tariffs. For example, in August 2003, these tariffs were increased by only 9.0%. Also in August 2003, a new readjustment formula was approved by our Board of Directors, although we are not certain if we will be able to use this formula in the future. We will continue to rely upon tariff revenue to provide funds for our capital expenditure program in addition to our financing activities and to meet our debt service requirements. However, we cannot assure you when and if a new tariff policy will be implemented or if such implementation will meet our expectations. Any failure to establish or maintain tariffs commensurate with these and our other needs could have an adverse effect on our cash flows, results of operations and financial condition.

*We have substantial liquidity and capital resource requirements, and any failure to obtain new financing may have a material adverse effect on the operation and development of our business.*

Our capital expenditure program calls for expenditures of approximately R\$4.3 billion in the period from 2004 through 2008, including approximately R\$883.0 million in 2004 and R\$880.0 million in 2005. We spent approximately R\$300.0 million on our capital expenditure program during the six months ended June 30, 2004. We plan to fund these expenditures and our other liquidity and capital resource needs out of funds generated by operations and domestic and foreign currency borrowings on acceptable terms. We are currently negotiating with Brazilian Economic and Social Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES, and Caixa Econômica Federal for additional loans to finance portions of our capital expenditure program. If these negotiations are unsuccessful or do not result in financing on acceptable terms, our ability to finance our capital expenditure program may be impaired.

Historically, a significant portion of our financing needs has been funded by financing provided by lenders controlled by the Federal Government. If the policies of the Federal Government regarding the financing of water and sewage services change, our ability to finance our capital expenditure program may be impaired.

We cannot assure you that we will be able to obtain sufficient funds to complete our capital expenditure program or satisfy our other liquidity and capital resources requirements. Failure to obtain the requisite funds could delay or prevent completion of our capital expenditure program and other projects, which may have a material adverse effect on the operation and development of our business.

*Brazilian regulations as well as contractual provisions may limit our ability to incur indebtedness in the future.*

Because we are controlled by the State of São Paulo we are subject to special credit rules for the public sector published by the Brazilian monetary authorities. As a general rule, financial institutions and other institutions authorized to provide credit by the Central Bank may only provide loans to public sector entities, such as us, up to a certain percentage of such entities' net equity. In addition, new loans in connection with certain water and sewage activities may only be given up to certain pre-established amounts. Because of these limitations on our ability to obtain

credit from private financial institutions, our options for raising funds, other than the cash generated by our operations, consist principally of borrowing from state-owned financial institutions or development agencies and issuing bonds and other publicly traded obligations. These limitations on obtaining credit could adversely affect the development of our business, our ability to meet our obligations or continue our capital expenditure program, and our cash flows, results of operations and financial condition.

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Under our existing debt instruments, we are subject to covenants limiting our ability to incur additional indebtedness, whether denominated in *reais* or foreign currency. Under these covenants, we would have been able to borrow up to an additional R\$615.5 million as of June 30, 2004. If, however, these and other limitations prevent us from completing our capital expenditure program or executing our business plans generally, we may be unable to satisfy all of our liquidity and capital resources requirements, which could have a material adverse effect on our cash flows, results of operations and financial condition.

*Droughts and our water consumption reduction program may result in a decrease in the volume of water billed and the revenue from water supplies, which may have a material adverse effect on our company.*

We experience decreases in our water supply from time to time due to droughts. In the event of prolonged drought, the volume of water provided by us may be reduced, although the impact that droughts have may vary across our different water supply systems. Throughout 2003, rain levels were below average resulting in a weak replenishment of our reservoirs, particularly in the Cantareira System, the largest system in the São Paulo Metropolitan Region. In order to minimize the effects of this drought, in March 2004 we approved a water consumption reduction incentive program based on a bonus system, pursuant to which customers that achieved their consumption reduction goal would be entitled to a 20.0% discount on their water bill. This incentive program ended on September 15, 2004 and encompassed most of the customers in the São Paulo Metropolitan Region. We cannot assure you that any drought in the future will not materially adversely affect our water supply and, accordingly, our cash flows, results of operations and financial condition.

*Potential costs of environmental compliance as well as potential environmental liability may have a material adverse effect on our company.*

Our facilities are subject to many Brazilian federal, state and local laws and regulations relating to the protection of health and the environment. We have made, and will continue to make, substantial expenditures to comply with these provisions. In addition, because environmental laws and their enforcement are becoming more stringent, our capital expenditures and expenses for environmental compliance may increase substantially in the future. The amount of investments that we make in any given year is subject to limitations imposed by the State Government. Expenditures required for compliance with environmental regulation may result in reductions in other strategic investments that we have planned, which could negatively affect our profitability. We could also be exposed to criminal and administrative penalties, in addition to indemnification obligations, for possible damage for non-compliance with environmental laws and regulations. Any material unforeseen environmental costs and liabilities may have a material adverse effect on our future financial performance.

*Any substantial monetary judgment against us in legal proceedings may have a material adverse effect on our company.*

We are a party to a number of legal proceedings involving significant monetary claims. These legal proceedings include, among others, tax, labor, condemnation and other proceedings. A substantial monetary judgment against us in one or more of these legal proceedings may have a material adverse effect on our business or financial condition. Based on advice we received from our lawyers, we have provisioned a total aggregate amount of R\$442.1 million as of June 30, 2004 to cover losses related to legal proceedings considered probable. This provision does not cover, however, all legal proceedings involving monetary claims filed against us. Any unfavorable judgment in relation to these proceedings may have an adverse effect on our cash flows, results of operations and financial condition.

*Because we are not insured for all business-related and environmental-related contingencies, the occurrence of any such event may have a material adverse effect on our future financial performance.*



We do not have insurance coverage for business interruption risk or for liabilities arising from contamination or other problems involving our water supply to customers. In addition, we do not have insurance coverage for liabilities relating to non-compliance with environmental laws and regulations relating to our sewage services. As a result, any major business interruption or environmental-related liability may have a material adverse effect on our future financial performance.

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### **Risks Relating to Brazil**

*Brazilian economic, political and other conditions may have a material adverse effect on our business and the market price of our common shares and ADSs.*

The Brazilian economy has been characterized by significant involvement on the part of the Brazilian government, which often changes monetary, credit and other policies to influence Brazil's economy. The Brazilian government's actions to control inflation and affect other policies have often involved wage and price controls, currency devaluations, increases in the Central Bank's base interest rates, capital controls and limits on imports, as well as other measures, such as the freezing of bank accounts.

Actions taken by the Brazilian government concerning the economy may have important effects on Brazilian corporations and other entities, including us, and on market conditions and prices of Brazilian securities, including our equity and debt securities. Our financial condition and results of operations may be adversely affected by the following factors or the Brazilian government's response to them:

currency devaluation and other exchange rate movements;

inflation;

currency exchange control policies;

social instability;

price instability;

energy shortages;

interest rates;

liquidity of domestic capital and lending markets;

the upcoming municipal elections in Brazil;

tax policy; and

other political, diplomatic, social and economic developments in or affecting Brazil.

Brazil's President, Luiz Inacio Lula da Silva took office on January 1, 2003. In the period leading up to his election and for a period of time thereafter, there was substantial uncertainty relating to the policies that the new government would pursue, including the potential implementation of macroeconomic policies that differed significantly from those of the prior administration. This uncertainty resulted in a lower level of confidence in the Brazilian currency and capital markets, contributing to the rapid depreciation of the *real* against the US dollar during that period. Although the Government has not departed significantly from policies of the previous administration, and the *real* appreciated 22.3% against the US dollar during 2003 before depreciating by 7.0% during the first six months of 2004, there remains concern about the policies of the current Brazilian government. Uncertainty over whether current policies will be continued or whether the Brazilian government will adopt different policies in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad that are supported by Brazilian issuers. In addition, the next municipal elections and State elections are scheduled to occur in October 2004 and October 2006, respectively. We cannot predict the outcome of the elections, the policies that current or future administrations may adopt, or the effect those policies may have. Any substantial negative reaction to the policies adopted by the Brazilian Federal or State Government from time to time could adversely affect our cash flows, results of operations and financial condition and the market price of our common shares and ADSs.

*Any further devaluation of the real could adversely affect our ability to service our foreign currency-denominated debt, and could lead to a decline in the market price of our common shares and ADSs.*

The Brazilian currency has been devalued frequently during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and utilized various exchange rate policies,

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including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, multiple exchange rate markets and a floating exchange rate system. From time to time, there have been significant fluctuations in the exchange rates between the Brazilian currency and the US dollar and other currencies. For example, in 2000, 2001 and 2002, the *real* devalued 8.5%, 15.7% and 34.3% respectively, while appreciating 22.3% in 2003 and depreciating 7.0% for the six months ended June 30, 2004 against the US dollar.

In the event of a significant devaluation of the *real* in relation to the US dollar or other currencies, our ability to meet our foreign currency-denominated obligations could be adversely affected, particularly because our tariff revenue and other sources of income are based solely in *reais*. In addition, because we have substantial foreign currency-denominated indebtedness, any significant devaluation of the *real* during a financial period will increase our financial expenses as a result of foreign exchange losses that we must record. We had total foreign currency-denominated indebtedness of R\$3,147.8 million as of June 30, 2004, and we anticipate that we may incur substantial amounts of foreign currency-denominated indebtedness in the future. For example, our overall results of operations for 2003 were significantly positively affected by 65.0% due to the appreciation of the *real* against the US dollar in 2003 and negatively affected by 7.0% due to the depreciation of the *real* against the US dollar during the six months ended June 30, 2004. We do not currently have any hedging instruments in place to protect us against a devaluation of the *real* in relation to any foreign currency.

A devaluation would also reduce the US dollar value of distributions and dividends on our common shares and ADSs and could reduce the market price of our common shares and ADSs.

***The Brazilian government's actions to combat inflation and public speculation about possible future action may contribute significantly to economic uncertainty in Brazil and cause the price of our equity and debt securities to fall.***

Historically, Brazil has experienced high rates of inflation. Inflation itself as well as governmental efforts to combat inflation have had significant negative effects on the Brazilian economy in general. Inflation, action taken to combat inflation and public speculation about possible future action has also materially contributed to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

Inflation, as measured by the General Price Index-Market, or the IGP-M (*Índice Geral de Preços de Mercado*), was 20.1% in 1999, 10.0% in 2000, 10.4% in 2001, 25.3% in 2002, 8.7% in 2003 and 6.8% during the six months ended June 30, 2004. There can be no assurance that levels of inflation in Brazil will not increase in future years and have a material adverse effect on our cash flows, results of operations or financial condition.

If Brazil experiences significant inflation in the future, our costs and expenses may rise, we may be unable to increase our tariffs to counter the effects of inflation, and our overall financial performance may be adversely affected. In addition, a substantial increase in inflation may weaken investor confidence in Brazil and lead to a decline in the market price of our equity and debt securities.

***Brazilian law might permit claims directly against our shareholders for harm to the environment.***

Brazilian law might permit claims directly against our shareholders for harm to the environment. Brazilian Law No. 9,605 of February 12, 1998 provides that the liability protection associated with the corporate structure of a company may be disregarded if it impedes recovery for undue harm to the environment. We cannot assure you that, in the case of claim for environmental damage under this law, liabilities would be limited

to shareholders capable of exercising control over the company at the time of the environmental damage. Accordingly, if we were unable to redress claims against us for environmental damages, which might happen, for example, if we were to become insolvent, our shareholders and the members of our management might become liable for those claims. We are not aware of any successful assertion of claims against any shareholders of any Brazilian corporation under this law and cannot predict the circumstances in which this might happen.

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*The relative volatility and illiquidity of the Brazilian securities market may substantially limit a holder's ability to sell the common shares underlying our ADSs at the prices and time he or she desires.*

The Brazilian securities markets are substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States and other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The relatively small market capitalization and illiquidity of the Brazilian equity markets may substantially limit a holder's ability to sell the common shares underlying our ADSs at the price and time he or she desires.

*Developments in other emerging market countries may adversely affect the Brazilian economy and, therefore, the market prices of our common shares and ADSs, as well as of our debt securities.*

In the past, the Brazilian economy and the securities of Brazilian companies have been, to varying degrees, influenced by economic and market conditions in other emerging market countries as well as investors' responses to those conditions.

In addition, although economic conditions are different in each country, investors' reactions to adverse developments in one country may affect the market price of securities of issuers in other countries, including Brazil. For example, the 1997 Asian economic crisis, the 1998 Russian debt moratorium and devaluation of the Russian currency and the recent economic crises in Argentina and Venezuela triggered market volatility in Latin America and securities markets in other emerging market countries. Accordingly, adverse developments in other emerging market countries could lead to a reduction in the demand for, and market prices of, our common shares and ADSs.

*The Federal Government is making changes to tax laws and these changes may increase the taxes applicable to Brazilian companies.*

The Federal Government is implementing changes to the tax laws and these changes may increase the tax rates applicable to Brazilian companies such as us. If these changes result in an increase in our tax burden, we may not be able to pass the cost of this increase to our customers and our results of operations and financial condition may be adversely affected as a consequence.

*Because electrical power is essential to our operations, power shortages or rationing or instability of the electricity supply may adversely affect our business.*

We are one of the major power consumers in the State of São Paulo and the use of electrical power is essential to our operations. In May 2001, the Federal Government announced measures to reduce power consumption in several regions of Brazil, including areas where we operate. We were not subject to such measures because we render essential services. However, instability of the power supply has caused and may cause in the future material damages to our water and sewage systems which could adversely affect our business. In addition, material shortages or reduction in the power supply (including those due to rationing programs) may adversely impact our results of operations and financial condition.

## **Risks Relating to our Common Shares and ADSs**

*Restrictions on the movement of capital out of Brazil may impair the ability of holders to receive dividends and distributions on, and the proceeds of any sale of, the common shares underlying our ADSs.*

The Brazilian government may impose temporary restrictions on the conversion of Brazilian currency into foreign currencies and on the remittance to foreign investors of the proceeds of their investments in Brazil. Brazilian law permits the Government to impose these restrictions whenever there is a serious imbalance in Brazil's balance of payments or there are reasons to foresee a serious imbalance.

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The Brazilian government imposed remittance restrictions for approximately six months in 1990. Similar restrictions, if imposed, would impair or prevent the conversion of dividends, distributions, or the proceeds from any sale of common shares, as the case may be, from *reais* into US dollars and the remittance of the US dollars abroad. We cannot assure you that the Brazilian government will not take similar measures in the future. In such a case, the Depositary for our ADSs will hold the *reais* it cannot convert for the account of the ADR holders who have not been paid. The Depositary will not invest the *reais* and it will not be liable for interest.

***Holders of our common shares and ADSs may not receive any dividends or interest on shareholders' equity.***

According to our by-laws, we must generally pay our shareholders at least 25.0% of our annual net income as dividends or interest on shareholders' equity, as determined and adjusted under the Brazilian Corporate Law Method. This adjusted income may be capitalized, used to absorb losses or otherwise appropriated as allowed under the Brazilian Corporate Law Method and may not be available to be paid as dividends or interest on shareholders' equity. We may not pay dividends or interest on shareholders' equity to our shareholders in any particular fiscal year if our Board of Directors determines that such distributions would be inadvisable in view of our financial condition.

***If a holder exchanges ADSs for common shares, he or she risks losing the ability to remit foreign currency abroad and Brazilian tax advantages.***

The Brazilian Custodian for the common shares underlying our ADSs must obtain a certificate of registration from the Central Bank to be entitled to remit US dollars abroad for payments of dividends and other distributions relating to our common shares or upon the disposition of our common shares. If a holder decides to exchange his or her ADSs for the underlying common shares, he or she will be entitled to continue to rely for five business days from the date of exchange on the Custodian's certificate of registration. After that period, the holder may not be able to obtain and remit US dollars abroad upon the disposition of our common shares, or distributions relating to our common shares, unless he or she obtains his or her own certificate of registration or registers under Resolution No. 2,689, of January 26, 2000, of the National Monetary Council, which entitles registered foreign investors to buy and sell on the Brazilian stock exchanges. If the holder does not obtain a certificate of registration or register under Resolution No. 2,689, he or she will generally be subject to less favorable tax treatment on gains with respect to our common shares. We may face difficulties in distributing the proceeds from the sale of our common shares abroad.

If a holder attempts to obtain his or her own certificate of registration, he or she may incur expenses or suffer delays in the application process, which could delay his or her ability to receive dividends or distributions relating to our common shares or the return of his or her capital in a timely manner. We cannot assure you that the Custodian's certificate of registration or any foreign capital registration obtained by a holder may not be affected by future legislative changes, or that additional restrictions applicable to the holder, the disposition of the underlying common shares or the repatriation of the proceeds from disposition will not be imposed in the future.

***A holder of common shares or ADSs may face difficulties in protecting his or her interests as a shareholder, because we are subject to different corporate rules and regulations as a Brazilian company and holders may have fewer and less well-defined shareholders' rights despite the fact that we are listed on the Novo Mercado.***

Despite the fact that we are listed on the *Novo Mercado* segment of the São Paulo Stock Exchange, our corporate affairs are governed by our by-laws and the Brazilian Corporate Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the State of Delaware or the State of New York, or in other jurisdictions outside Brazil. In addition, the rights of holders of our ADSs or common shares under the Brazilian Corporate Law to protect their interests relative to actions by our Board of Directors may be fewer and less well-defined than under the laws of those other jurisdictions.





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Although insider trading and price manipulation are crimes under Brazilian law, the Brazilian securities markets are not as highly regulated and supervised as the US securities markets or markets in some other jurisdictions. In addition, rules and policies against self-dealing and regarding the preservation of shareholder interests may be less well-defined and enforced in Brazil than in the United States, putting holders of our common shares and ADSs at a potential disadvantage. Corporate disclosures may be less complete or informative than what may be expected of a US public company.

*A holder of common shares or ADSs may face difficulties in protecting his or her interests as a shareholder because we are a Brazilian company.*

We are a mixed capital company (*sociedade de economia mista*) organized under the laws of Brazil, and all of our directors and officers and our controlling shareholder reside in Brazil. All of our fixed assets and those of these other persons are located in Brazil. As a result, it may not be possible for a holder to effect service of process upon us or these other persons within the United States or other jurisdictions outside Brazil or to enforce against us or these other persons judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of US courts for civil liabilities based upon the US federal securities laws may only be enforced in Brazil if certain requirements are met, a holder may face more difficulties in protecting his or her interests in the case of actions by our directors, officers or our controlling shareholder than would shareholders of a corporation incorporated in a state or other jurisdiction of the United States. In addition, under Brazilian law, none of our assets which are essential to our ability to render public services are subject to seizure or attachment. Furthermore, the execution of a judgment against our controlling shareholder may be delayed as payment of such judgment must be made pursuant to the State's budget in a subsequent fiscal year. None of the public property of our controlling shareholder is subject to execution or attachment, either prior to or after judgment.

*The protections afforded to minority shareholders in Brazil are different from those in the United States and other jurisdictions, and may be more difficult to enforce.*

Under Brazilian law, the protections afforded to minority shareholders are different from those in the United States and other jurisdictions. In particular, the case law with respect to shareholder disputes is less developed under Brazilian law than under US law and the laws of other jurisdictions and there are different procedural requirements for bringing shareholder lawsuits, such as shareholder derivative suits. As a result, in practice it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholder than it would be for shareholders of a non-Brazilian company.

*Actual or anticipated sales of a substantial number of our common shares could decrease the market prices of our common shares and ADSs.*

Sales of a substantial number of our common shares, or the perception that such sales may occur, could decrease the trading price of our common shares and ADSs. After giving effect to the ADS and Brazilian offerings, we will have 28,479,577,827 common shares outstanding, including 14,313,511,872 shares held by the State of São Paulo assuming that the over-allotment option is exercised in full. As a consequence of the issuance of common shares or sales by the State of São Paulo or by other existing shareholders, the market price of our common shares and, by extension, our ADSs may decrease significantly. As a result, a holder may not be able to sell his or her common shares at or above the price he or she paid for them.

*Mandatory arbitration provisions in our by-laws may limit the ability of a holder of our ADSs to enforce liability under US securities laws.*

Under our by-laws, any disputes among us, our shareholders and our management with respect to the application of *Novo Mercado* rules, the Brazilian Corporate Law and the application of the rules and regulations regarding Brazilian capital markets, will be resolved by arbitration conducted pursuant to the São Paulo Stock Exchange Arbitration Rules in the São Paulo Stock Exchange Arbitration Chamber. Any disputes among

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shareholders, including holders of ADSs, and disputes between us and our shareholders, including holders of ADSs, will also be submitted to arbitration. The State of São Paulo is currently not permitted by law to sell its control shares. As a result, a court in the United States might require that a claim brought by a holder of ADSs predicated upon the US securities laws be submitted to arbitration in accordance with our by-laws. In that event, a purchaser of ADSs would be effectively precluded from pursuing remedies under the US securities laws in the US courts.

*A holder of our common shares or ADSs might be unable to exercise preemptive rights and tag-along rights with respect to common shares.*

US holders of common shares and ADSs may not be able to exercise the preemptive rights and tag-along rights relating to common shares unless a registration statement under the US Securities Act of 1933 is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to our common shares relating to these rights, and we cannot assure you that we will file any such registration statement. Unless we file a registration statement or an exemption from registration is available, a holder may receive only the net proceeds from the sale of his or her preemptive rights and tag-along rights or, if these rights cannot be sold, they will lapse and the holder will receive no value for them.

*A holder of our ADSs may find it more difficult than a holder of our common shares to exercise his or her voting rights at our shareholders meetings.*

Holders may exercise voting rights with respect to the common shares represented by our ADSs only in accordance with the deposit agreement relating to our ADSs. There are no provisions under Brazilian law or under our by-laws that limit the exercise by ADS holders of their voting rights through the Depositary with respect to the underlying common shares. However, there are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with these holders. For example, our common shareholders will receive notice of shareholders meetings through publication of a notice in an official government publication in Brazil and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. ADS holders, by comparison, will not receive notice directly from us. Instead, in accordance with the deposit agreement, we will provide the notice to the Depositary, which will, in turn, as soon as practicable thereafter mail to holders of ADSs the notice of the meeting and a statement as to the manner in which instructions may be given by holders, but only if we request the Depositary to do so. To exercise their voting rights, ADS holders must instruct the Depositary as to voting the common shares represented by their ADSs. Due to these procedural steps involving the Depositary, the process for exercising voting rights may take longer for ADS holders than for holders of common shares. ADSs for which the Depositary does not receive timely voting instructions will not be voted at any meeting.

*Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of the ADSs.*

According to Law No. 10,833, enacted on December 29, 2003, the disposition of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. In the event that the disposition of assets is interpreted to include a disposition of the ADSs, this tax law could result in the imposition of withholding taxes on a disposition of ADSs by a non-resident of Brazil to another non-resident of Brazil. Due to the fact that Law No. 10,833 has been recently enacted and no judicial guidance as to its application yet exists, we are unable to predict whether an interpretation applying such tax laws to dispositions of ADSs between non-residents could ultimately prevail in the courts of Brazil.

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**USE OF PROCEEDS**

We will not receive any proceeds from the sale of ADSs and common shares being offered in the ADS and Brazilian offerings. The selling shareholders will receive all of the net proceeds from the sale of ADSs and common shares in these offerings.

**Table of Contents****EXCHANGE RATES**

There are two principal legal foreign exchange markets in Brazil, the commercial rate exchange market and the floating rate exchange market. Most trade and financial foreign-exchange transactions are carried out on the commercial rate exchange market. These transactions include the purchase or sale of common shares or the payment of dividends or interest with respect to common shares. Foreign currencies may only be purchased through a Brazilian bank authorized to operate in these markets. In both markets, rates are freely negotiated but may be strongly influenced by intervention from the Central Bank.

In 1999, the Central Bank placed the commercial exchange rate and the floating rate exchange market under identical operational limits, which led to a convergence in the pricing and liquidity of both markets. Since February 1, 1999, the floating market rate has been substantially the same as the commercial market rate. However, there is no guarantee that these rates will continue to be substantially the same in the future. Despite the convergence in pricing and liquidity of both markets, each market continues to be regulated separately.

Since 1999, the Central Bank has allowed the *real*/US dollar exchange rate to float freely, and during that period, the *real*/US dollar exchange rate has fluctuated considerably. In the past, the Central Bank has intervened occasionally to control unstable movement in foreign exchange rates.

At the present time, we cannot predict whether the Central Bank will continue to let the *real* float freely or whether it will intervene in the foreign exchange market through a currency band system or otherwise. The *real* may appreciate or depreciate against the U.S. dollar substantially in the near future.

As of October 11, 2004, the commercial selling rate published by the Central Bank was R\$2.8318 per US\$1.00.

The following table shows the commercial selling rate for US dollars for the periods and dates indicated. The information in the *Average* column represents the average of the exchange rates for the period indicated.

	<u>Low</u>	<u>High</u>	<u>Average</u>	<u>Period-end</u>
	(Reais per US\$1.00)			
<b>Year ended December 31,</b>				
1999	1.2078	2.1647	1.8158	1.7890
2000	1.7234	1.9847	1.8295	1.9554
2001	1.9353	2.8007	2.3522	2.3204
2002	2.2709	3.9552	2.9309	3.5333
2003	2.8219	3.6623	3.0715	2.8892
2004 (through October 11)	2.8022	3.2051	2.9685	2.8318
<b>Month ended</b>				
First Quarter	2.8022	2.9878	2.9211	2.9086
Second Quarter	2.8743	3.2051	3.0604	3.1075
January 31, 2004	2.8022	2.9409	2.8518	2.9409
February 28, 2004	2.9042	2.9878	2.9303	2.9138

March 31, 2004	2.8752	2.9410	2.9055	2.9086
April 30, 2004	2.8743	2.9522	2.9060	2.9447
May 31, 2004	2.9569	3.2051	3.1004	3.1291
June 30, 2004	3.1030	3.1651	3.1291	3.1075
July 31, 2004	2.9939	3.0747	3.0368	3.0268
August 31, 2004	2.9338	3.0637	3.0029	2.9338
September 30, 2004	2.8586	2.9361	2.8911	2.8586
October 1 through 11, 2004	2.8241	2.8518	2.8353	2.8318

Source: Central Bank of Brazil

**Table of Contents****MARKET INFORMATION****Market Price of Common Shares**

Our common shares are traded on the São Paulo Stock Exchange under the symbol SBSP3. As of September 30, 2004, we had 3,092 registered holders of common shares. All of our ADSs are held through the Depositary which is registered as one holder.

The table below sets forth, for the periods indicated, the reported high and low closing sale prices in *reais* for common shares on the São Paulo Stock Exchange. The table also sets forth prices per ADS assuming that ADSs had been outstanding on all such dates and translated into US dollars at the commercial market rate for the sale of US dollars for each of the respective dates of such quotations. In addition, the table sets forth the average daily trading volume for our common shares. See *Exchange Rates* for information with respect to exchange rates applicable during the periods set forth below.

	<i>Reais per 1,000</i>		US dollars per 250		Average daily trading volume (in lots of 1,000 common shares)
	common shares		common shares		
	Low	High	(equivalent of one ADS)		
	Low	High	Low	High	
1999	R\$ 47.0	R\$ 213.0	US\$ 8.91	US\$ 29.11	19,352
2000	128.5	211.0	17.41	29.29	20,551
2001:					
First quarter	172.01	238.60	22.14	27.71	17,515
Second quarter	151.00	194.49	16.14	21.04	15,722
Third quarter	104.50	176.89	9.51	16.56	10,337
Fourth quarter	98.00	137.50	8.95	14.87	16,363
2002:					
First quarter	121.00	141.00	12.47	15.04	21,078
Second quarter	96.60	152.00	8.65	16.33	49,444
Third quarter	74.60	101.50	6.03	8.82	42,226
Fourth quarter	74.00	92.00	4.77	6.51	44,699
2003:					
First quarter	74.60	100.90	5.21	7.62	43,677
Second quarter	84.45	117.49	6.33	10.30	68,442
Third quarter	100.80	136.51	8.20	11.77	59,222
Fourth quarter	125.39	168.00	10.91	14.29	48,800
2004:					
First Quarter	129.80	182.00	11.00	16.24	60,063
Second Quarter	117.05	153.50	9.20	13.30	50,401
January	135.00	182.00	11.48	16.24	73,437
February	129.80	154.50	11.00	13.20	69,314
March	132.85	160.00	11.35	13.82	40,613
April	134.00	153.50	11.38	13.30	46,532
May	117.05	145.00	9.20	12.24	65,352
June	120.50	134.00	9.54	10.78	39,134
July	134.98	145.93	11.04	12.15	30,420



August	127.36	147.05	10.53	12.36	28,650
September	127.80	139.90	11.01	12.20	33,230
October 1 through 11	133.10	138.40	11.76	12.36	24,040

Source: São Paulo Stock Exchange and Bloomberg.

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Our common shares have been listed on the São Paulo Stock Exchange since June 4, 1997 and since April 24, 2002 our common shares have been included on the *Novo Mercado* segment of that Exchange. Prior to June 4, 1997, our common shares were traded on *Sociedade Operadora do Mercado de Acesso* (SOMA), an over-the-counter market in Brazil.

As of October 11, 2004, the closing sale price for our common shares on the São Paulo Stock Exchange was R\$133.5 per 1,000 shares, which is equivalent to US\$11.84 per ADS when translated into US dollars at the exchange rate in effect on that date.

## **Market Price of ADSs**

Our ADSs, each of which represents 250 of our common shares, are listed on the New York Stock Exchange under the symbol SBS. Our ADSs began trading on the New York Stock Exchange on May 10, 2002 in connection with the initial offering of our equity securities in the United States. The State of São Paulo was the selling shareholder in that offering, and we did not receive any of the offering proceeds.

The table below sets forth, for the periods indicated, the reported high and low closing prices for our ADSs on the New York Stock Exchange.

	Price in US dollars per ADS		
	Low	High	Average daily trading volume
2002:			
Second quarter (commencing May 10)	US\$ 8.60	US\$ 11.90	186,311
Third quarter	4.75	8.80	42,784
Fourth quarter	4.65	6.45	25,098
2003:			
First quarter	5.29	7.80	17,014
Second quarter	6.33	10.05	30,020
Third quarter	8.20	11.9	83,056
Fourth quarter	10.92	14.47	69,912
2004:			
First quarter	11.21	16.07	116,007
Second quarter	9.24	13.45	73,831
January	11.68	16.07	135,935
February	11.21	13.18	115,879
March	11.38	13.85	98,974
April	11.45	13.45	66,381
May	9.24	12.30	95,485
June	9.64	10.93	60,657
July	10.93	12.17	54,629
August	10.55	12.35	41,891
September	11.01	12.04	41,624
October 1 through 11	11.91	12.56	50,443

Source: New York Stock Exchange

As of October 11, 2004, the closing sale price for our ADS on the New York Stock Exchange was US\$11.91 per ADS.

**Trading on the Brazilian Stock Exchanges**

In 2000, the Brazilian stock exchanges were reorganized through the execution of memoranda of understanding by the Brazilian stock exchanges. Pursuant to the memoranda, all securities are now traded only on the São Paulo Stock Exchange, with the exception of electronically traded public debt securities and

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privatization auctions, which are traded on the Rio de Janeiro Stock Exchange. Consequently, in 2001, 2002 and 2003, the São Paulo Stock Exchange accounted for 100.0% of the trading value of equity securities on all Brazilian stock exchanges.

If you were to trade in our common shares on the São Paulo Stock Exchange, your trade would settle in three business days after the trade date without adjustment of the purchase price for inflation. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. Delivery of and payment for shares are made through the facilities of the clearinghouse, or *Companhia Brasileira de Liquidação e Custódia*.

Each Brazilian stock exchange is a nonprofit entity owned by its member brokerage firms. Trading on each exchange is limited to member brokerage firms and a limited number of authorized non-members. The São Paulo Stock Exchange has two open outcry trading sessions each day from 11:00 a.m. to 1:30 p.m. and from 2:30 p.m. to 5:45 p.m. Brazil local time, except during daylight savings time in the United States. During daylight savings time in the United States, the sessions are from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 4:45 p.m. Brazil local time, to closely mirror New York Stock Exchange trading hours. Trading is also conducted between 11:00 a.m. and 6:00 p.m., or between 10:00 a.m. and 5:00 p.m. during daylight savings time in the United States, on an automated system known as the Computer Assisted Trading System (*Sistema de Negociação Assistida por Computador*) on the São Paulo Stock Exchange and on the National Electronic Trading System (*Sistema Eletrônico de Negociação Nacional*). This system is a computerized system which links electronically with the seven smaller regional exchanges. The São Paulo Stock Exchange also permits trading from 5:45 p.m. to 7:30 p.m., on an online system connected to traditional and internet brokers called the After Market. Trading on the After Market is subject to regulatory limits on price volatility and on the volume of shares transacted through internet brokers. There are no specialists or officially recognized market makers for our shares.

In order to better control volatility, the São Paulo Stock Exchange adopted a circuit breaker system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the indices of these stock exchanges fall below the limits of 10.0% or 15.0%, respectively, in relation to the index registered in the previous trading session.

The São Paulo Stock Exchange is significantly less liquid than the New York Stock Exchange or other major exchanges in the world. As of September 30, 2004, the aggregate market capitalization of the 358 companies listed on the São Paulo Stock Exchange was equivalent to approximately R\$791.4 billion (US\$276.9 billion) and the 10 largest companies listed on the São Paulo Stock Exchange represented approximately 49.5% of the total market capitalization of all listed companies. Although any of the outstanding shares of a listed company may trade on a Brazilian stock exchange, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, by governmental entities or by one principal shareholder. As of September 30, 2004, we accounted for approximately 0.5% of the market capitalization of all listed companies on the São Paulo Stock Exchange.

Trading on Brazilian stock exchanges by a holder not deemed to be domiciled in Brazil for Brazilian tax and regulatory purposes (a non-Brazilian holder) is subject to certain limitations under Brazilian foreign investment legislation. With limited exceptions, non-Brazilian holders may only trade on Brazilian stock exchanges in accordance with the requirements of Resolution No. 2,689, of January 26, 2000, of the National Monetary Council. Resolution No. 2,689 requires that securities held by non-Brazilian holders be maintained in the custody of, or in deposit accounts with, financial institutions duly authorized by the Central Bank and the Brazilian Securities Commission. In addition, Resolution No. 2,689 requires non-Brazilian holders to restrict their securities trading to transactions on Brazilian stock exchanges or qualified over-the-counter markets. With limited exceptions, non-Brazilian holders may not transfer the ownership of investments made under Resolution No. 2,689 to other non-Brazilian holders through a private transaction. See Taxation Brazilian Tax Considerations Taxation of Gains for a description of certain tax benefits extended to non-Brazilian holders who qualify under Resolution No. 2,689.

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### **Novo Mercado**

Since April 24, 2002, our shares have been listed on the *Novo Mercado*. The *Novo Mercado* is a listing segment under the São Paulo Stock Exchange designed for the trading of shares issued by companies that voluntarily undertake to abide by certain corporate governance practices and disclosure requirements in addition to those already imposed by Brazilian law. A company in the *Novo Mercado* must follow a series of corporate rules known as good practices of corporate governance. These rules generally increase shareholders' rights and enhance the quality of information provided to shareholders.

In addition to the obligations imposed by current Brazilian law, a company listed on the *Novo Mercado* is obligated to:

issue only voting shares;

hold public offerings of shares in a manner favoring diversification of the company's shareholder base and broader retail access;

maintain a minimum free float equal to 25.0% of the outstanding share capital of the company;

grant tag-along rights for all shareholders in connection with a transfer of control of the company;

limit the term of all members of the board of directors to one year;

prepare annual and quarterly financial statements, including cash flow statements, in accordance with US GAAP or International Accounting Standards;

disclose information on a quarterly basis, including insider share ownership and amount of free float of shares;

if it elects to delist from the *Novo Mercado*, hold a tender offer by the company's controlling shareholder (the minimum price of the shares to be offered will be determined by an appraisal process);

make greater disclosure of related party transactions;

adherence to the São Paulo Stock Exchange Arbitration Chamber;

disclose any shareholders' agreements and share option plans; and

make available to its shareholders a timetable of corporate events.

### **Regulation of Brazilian Securities Markets**

The Brazilian securities markets are principally governed by Law No. 6,385, of December 7, 1976, and the Brazilian Corporate Law, each as amended and supplemented, and by regulations issued by the Brazilian Securities Commission, which has regulatory authority over the stock exchanges and securities markets generally, the National Monetary Council, and by the Central Bank, which has licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. These laws and regulations, among others, provide for disclosure requirements applicable to issuers of traded securities, protection of minority shareholders and criminal penalties for insider trading and price manipulation. They also provide for licensing and oversight of brokerage firms and governance of the Brazilian stock exchanges. Nevertheless, the Brazilian securities markets are not as highly regulated and supervised as the US securities markets.

Under the Brazilian Corporate Law, a company is either public (*companhia aberta*), such as we are, or closely held (*companhia fechada*). All public companies, including us, are registered with the Brazilian Securities Commission and are subject to reporting requirements. A company registered with the Brazilian Securities Commission may have its securities traded on the Brazilian stock exchanges or in the Brazilian over-the-counter market. Our common shares are listed and traded on the São Paulo Stock Exchange and may be traded privately subject to some limitations.

To be listed on a Brazilian stock exchange a company must apply for registration with the Brazilian Securities Commission and the stock exchange where the head office of the company is located.

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We have the option to ask that trading in our securities on the São Paulo Stock Exchange be suspended in anticipation of a material announcement. Trading may also be suspended on the initiative of the São Paulo Stock Exchange or the Brazilian Securities Commission, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to the inquiries by the Brazilian Securities Commission or the São Paulo Stock Exchange.

The Brazilian over-the-counter market consists of direct trades between individuals in which a financial institution registered with the Brazilian Securities Commission serves as intermediary. No special application, other than registration with the Brazilian Securities Commission, is necessary for securities of a public company to be traded in this market. The Brazilian Securities Commission requires that it be given notice of all trades carried out in the Brazilian over-the-counter market by the respective intermediaries.

Trading on the São Paulo Stock Exchange by non-residents of Brazil is subject to limitations under Brazilian foreign investment and tax legislation. The Brazilian Custodian for the common shares underlying the ADSs must, on behalf of the Depositary for our ADSs, obtain registration from the Central Bank to remit US dollars abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds thereto. In the event that a holder of ADSs exchanges ADSs for common shares, the holder will be entitled to continue to rely on the Custodian's registration for five business days after the exchange. Thereafter, the holder may not be able to obtain and remit US dollars abroad upon the disposition of our common shares, or distributions relating to our common shares, unless the holder obtains a new registration.

**Table of Contents****CAPITALIZATION**

The following table sets forth our total short-term loans and financing and capitalization as of July 31, 2004 derived from our unaudited interim financial information prepared in accordance with the Brazilian Corporate Law Method. You should read this table in conjunction with Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements included elsewhere in this prospectus.

	<b>As of July 31, 2004</b>	
	<b>(in millions of reais)</b>	
<b>Short-term loans and financing<sup>(1)</sup>:</b>		
<i>Real</i> -denominated loans and financing <sup>(2)</sup> :		
Guaranteed <sup>(3)</sup>	R\$	225.8
Unguaranteed		770.3
Foreign currency-denominated loans and financing <sup>(2)</sup> :		
Guaranteed <sup>(3)</sup>		136.7
Unguaranteed		909.4
Total short-term loans and financing	R\$	2,042.2
<b>Long-term loans and financing:</b>		
<i>Real</i> -denominated loans and financing <sup>(2)</sup> :		
Guaranteed <sup>(3)</sup>	R\$	2,832.0
Unguaranteed		468.6
Foreign currency-denominated loans and financing <sup>(2)</sup> :		
Guaranteed <sup>(3)</sup>		1,273.3
Unguaranteed		711.2
Total long-term loans and financing	R\$	5,285.1
<b>Shareholders' equity:</b>		
Paid-in capital	R\$	3,403.7
Capital reserves <sup>(4)</sup>		52.0
Revaluation reserve <sup>(5)</sup>		2,658.7
Profit reserves <sup>(6)</sup>		1,398.8
Retained earnings		144.0
Total shareholders' equity	R\$	7,657.2
Total capitalization (long-term loans and financing plus shareholders' equity)	R\$	12,942.3

- (1) Includes current portion of long-term loans and financing. As of July 31, 2004, we did not have any short-term loans and financing other than the current portion of long-term loans and financing.
- (2) Of our *real*-denominated loans and financing, R\$3,057.8 million was secured and R\$1,238.9 million was unsecured as of July 31, 2004. Of our foreign currency-denominated loans and financing, R\$1,410.0 million was secured and R\$1,620.6 million was unsecured as of July 31, 2004.
- (3) Loans and financing guaranteed by either the Government of the State of São Paulo or the Federal Government of Brazil.
- (4) Capital reserves comprise tax incentives and donations from government entities. See note 17 to our financial statements.
- (5) Revaluation reserve refers to the adjustment amount in connection with the revaluation of property, plant and equipment in use to market values in 1990 and 1991 and for the effects of inflation through 1995. See note 17 to our financial statements.
- (6) Profit reserves comprise the amount by which the distributable amount exceeds the realized net income in a given fiscal year. See note 17 to our financial statements.



**Table of Contents****SELECTED FINANCIAL DATA**

The selected financial data as of December 31, 2002 and for the two years in the period ended December 31, 2002 are derived from our financial statements audited by PricewaterhouseCoopers Auditores Independentes included in this prospectus. The selected financial data as of December 31, 2003 and for the year ended December 31, 2003 is derived from our unaudited financial statements audited by Deloitte Touche Tohmatsu Auditores Independentes, also included in this prospectus. The selected financial data as of and for the six months ended June 30, 2003 and June 30, 2004 is derived from our interim financial statements included in this prospectus. The selected financial data as of December 31, 1999, 2000 and 2001 and for the two years ended December 31, 2000 is derived from our financial statements audited by PricewaterhouseCoopers Auditores Independentes, which are not included in this prospectus.

Our financial statements have been prepared in accordance with the Brazilian Corporate Law Method, which differs in significant respects from US GAAP. You should read this selected financial data in conjunction with our financial statements and the related notes thereto included in this prospectus. Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2003 and for the six months ended June 30, 2004 have been translated into US dollars at the commercial selling rate as of June 30, 2004 of R\$3.1075 per US\$1.00.

The following table presents our selected financial data as of and for each of the periods indicated.

	As of and for the								
	As of and for the Year Ended December 31,					Six Months Ended June 30,			
	1999	2000	2001	2002	2003	2003	2003	2004	2004
	(in millions, except per share and per ADS data)								
<b>Brazilian Corporate Law Method</b>	<b>R\$</b>	<b>R\$</b>	<b>R\$</b>	<b>R\$</b>	<b>R\$</b>	<b>US\$</b>	<b>R\$</b>	<b>R\$</b>	<b>US\$</b>
<b>Statement of Operations Data:</b>									
Net revenue from sales and services	3,235.7	3,355.8	3,434.8	3,767.1	4,130.8	1,329.3	1,965.9	2,126.3	684.2
Cost of sales and services	(1,364.2)	(1,474.1)	(1,590.4)	(1,815.0)	(2,067.1)	(665.2)	(980.8)	(1,082.9)	(348.5)
Gross profit	1,871.5	1,881.7	1,844.3	1,952.2	2,063.6	664.1	985.2	1,043.4	335.8
Selling expenses	(278.7)	(332.7)	(332.6)	(385.1)	(297.5)	(95.7)	(186.2)	(231.3)	(74.4)
Administrative expenses	(153.8)	(137.3)	(203.1)	(226.0)	(254.1)	(81.8)	(107.5)	(138.8)	(44.7)
Financial income (expenses), net	(1,529.9)	(737.7)	(1,105.2)	(2,276.3)	(346.5)	(111.5)	86.5	(568.6)	(183.0)
Income (loss) from operations	(90.9)	673.9	203.4	(935.3)	1,165.5	375.1	778.0	104.7	33.7
Non-operating income (expenses) <sup>(1)</sup>	(124.5)	(82.3)	(76.9)	(3.4)	(54.5)	(17.5)	(32.0)	(11.5)	(3.7)
Income (loss) before taxes on income	(215.4)	591.6	126.5	(938.7)	1,111.1	357.6	745.9	93.2	30.0
Income tax and social contribution tax	(20.2)	(70.2)	89.7	323.3	(242.6)	(78.1)	(223.9)	(33.5)	(10.8)
Extraordinary item, net of income and social contribution taxes <sup>(2)</sup>				(35.1)	(35.1)	(11.3)	(17.6)	(17.6)	(5.7)
Net income (loss)	(235.6)	521.4	216.2	(650.5)	833.3	268.2	504.5	42.2	13.6
Net income (loss) per thousand common shares	(8.28)	18.31	7.59	(22.84)	29.26	9.4	17.71	1.48	0.5
Net income (loss) per ADS				(5.71)	7.32	2.4	4.43	0.37	0.1
Dividends and interest on shareholders equity per thousand common shares		18.97	17.20	3.80	17.70	5.7	5.56	1.38	0.4
Dividends and interest on shareholders equity per ADS				0.95	4.43	1.4	1.39	0.34	0.1
	28,437,155	28,479,578	28,479,578	28,479,578	28,479,578	28,479,578	28,479,578	28,479,578	28,479,578

Number of common shares  
outstanding at year end (in  
thousands of shares)

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	As of and for the Year Ended December 31,						As of and for the Six Months Ended June 30,		
	1999	2000	2001	2002	2003	2003	2003	2004	2004
	R\$	R\$	R\$	R\$	R\$	US\$	R\$	R\$	US\$
(in millions, except per share and per ADS data)									
<b>Balance Sheet Data:</b>									
Cash and cash equivalents	185.3	232.7	460.2	414.7	281.0	90.4	1,068.0	102.9	33.1
Customer accounts receivable, net	890.5	887.4	787.0	820.5	996.8	320.8	839.0	970.5	312.3
Reimbursement for pension benefits paid	184.2	253.5	326.3	403.9	491.0	158.0	442.7	527.6	169.8
Short and long-term receivables from shareholders, net <sup>(3)</sup>	196.5	116.6	378.3	423.7	164.2	52.8	421.2	215.3	69.3
Property, plant and equipment, net	13,298.3	13,346.4	13,510.0	13,670.8	14,063.2	4,525.6	13,633.3	14,029.9	4,514.9
Total assets	15,116.9	15,192.1	15,917.9	16,348.7	16,530.7	5,319.6	16,861.1	16,441.5	5,290.9
Total short-term loans and financing	841.6	381.7	549.3	1,332.5	997.0	320.8	1,189.7	1,116.4	359.3
Total long-term loans and financing	5,023.6	5,616.1	5,920.6	6,545.2	6,267.3	2,016.8	6,648.7	6,202.0	1,995.8
Total liabilities	6,845.3	6,923.7	7,921.2	9,102.2	8,953.7	2,881.3	9,267.8	8,860.6	2,851.4
Shareholders' equity	8,271.5	8,268.5	7,996.7	7,246.5	7,576.9	2,438.3	7,593.2	7,580.9	2,439.5
<b>Other Financial Information:</b>									
Cash provided by operating activities <sup>(4)</sup>	1,874.2	1,744.1	1,657.0	1,764.8	1,655.3	532.7	880.5	811.1	261.0
Cash provided by (used in) investing activities <sup>(4)</sup>	(801.8)	(598.4)	(709.5)	(597.2)	(650.8)	(209.4)	(226.3)	(317.6)	(102.2)
Cash used in financing activities <sup>(4)</sup>	(943.4)	(1,098.3)	(763.6)	(1,165.7)	(1,138.2)	(366.3)	(47.5)	(671.6)	(216.1)
Adjusted EBITDA <sup>(5)</sup>	1,873.1	1,868.6	1,785.9	1,860.1	2,076.5	668.2	960.9	966.1	310.9
Capital expenditures <sup>(4)</sup>	790.7	596.3	694.6	586.0	641.3	206.4	222.3	317.7	102.2
Depreciation and amortization	434.1	457.0	477.3	519.1	564.5	181.6	269.4	292.7	94.2
<b>US GAAP</b>									
<b>Statement of Operations Data:</b>									
Net revenue from sales and service	3,235.7	3,355.8	3,434.8	3,767.1	4,130.8	1,329.3	1,965.9	2,126.3	684.3
Gross profit	1,691.3	1,668.6	1,613.8	1,820.1	1,853.3	596.4	898.2	956.3	307.7
Selling expenses	(295.9)	(349.6)	(349.9)	(393.6)	(323.4)	(104.1)	(198.4)	(240.3)	(77.3)
Administrative expenses	(198.5)	(184.1)	(214.8)	(328.8)	(276.3)	(89.0)	(123.7)	(143.3)	(46.1)
Income (loss) from operations <sup>(6)</sup>	963.2	983.0	951.1	1,086.5	1,136.5	365.7	496.9	541.9	174.4
Financial income (expenses), net	(1,563.2)	(740.6)	(1,107.1)	(2,284.5)	(329.4)	(106.0)	102.4	(581.6)	(187.2)
Net income (loss) for the period	(449.3)	284.4	16.7	(847.6)	642.6	206.8	418.0	(26.4)	(8.5)
Net income (loss) per thousand common shares - basic and diluted	(15.95)	10.00	0.59	(29.76)	22.56	7.3	14.68	(0.93)	(0.3)
Net income (loss) per ADS-basic and diluted	(3.99)	2.50	0.15	(7.44)	5.64	1.8	3.67	(0.23)	(0.1)
Weighted average number of common shares outstanding (in thousands of shares)	28,159,721	28,448,607	28,479,578	28,479,578	28,479,578	28,479,578	28,479,578	28,479,578	28,479,578
<b>Balance Sheet Data:</b>									
Property, plant and equipment, net	15,643.0	15,583.8	15,656.0	15,666.0	15,955.5	5,134.5	15,537.8	15,858.2	5,103.2
Total assets	17,493.2	17,381.0	17,581.8	17,625.6	17,630.4	5,673.5	18,066.9	17,423.0	5,606.8
Short-term loans and financing	816.5	381.7	549.3	1,753.6	997.0	320.8	1,617.3	1,408.7	453.3
Long-term loans and financing	5,023.6	5,612.2	5,873.2	6,124.0	6,267.3	2,016.8	6,174.4	5,909.7	1,901.8
Total liabilities	9,883.2	10,046.5	10,688.5	11,679.8	11,544.8	3,715.1	11,860.9	11,401.9	3,669.2
Shareholders' equity	7,610.0	7,334.4	6,893.3	5,945.8	6,085.6	1,958.4	6,206.1	6,021.1	1,937.6

