

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP

Form 20-F

April 28, 2014

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 20 F**

**o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**p ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**

**OR**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**OR**

**o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report \_\_\_\_\_**

**Commission file number 001 31317**

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

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

**Federative Republic of Brazil**  
(Jurisdiction of incorporation or organization)

**Rua Costa Carvalho, 300  
05429 900 São Paulo, SP, Brazil**  
(Address of principal executive offices)

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Rua Costa Carvalho, 300 05429 900 São Paulo, SP, Brazil

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Shares <sup>1</sup> , without par value	New York Stock Exchange <sup>2*</sup>
American Depositary Shares, evidenced by American Depositary Receipts, each representing one Common Share	New York Stock Exchange

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1 On April 22, 2013, our shareholders approved a stock split, following which each common share represented three new common shares.

2 Until January 23, 2013, each American Depositary Share represented two common shares. As of January 24, 2013, each American Depositary Share represents one Common Share.

\* Not for trading purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

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Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

683,509,869 Shares of Common Stock

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer



Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  
 Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No



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## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### General

We maintain our books and records in *reais*. We prepare our financial statements in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or the IASB. Our financial statements as of December 31, 2013 and 2012 and for the three years ended December 31, 2013 have been audited, as stated in the report appearing herein, and are included in this annual report on Form 20-F.

We restated our financial statements as of and for the years ended December 31, 2012 and 2011 as a result of the adoption, as of January 1, 2013, of two new standards issued by the IASB: IAS 19 (Employee Benefits – as revised in 2011) and IFRS 11 (Joint Arrangements). These new standards were applied retrospectively to 2012 and 2011 pursuant to IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) for comparison purposes. The adoption of these new standards impacted several line items of our financial statements. One of these impacts relates to the method of accounting for the results of joint-ventures, which are now recognized using the equity method of accounting instead of the proportional consolidation method we used prior to the adoption of the IFRS 11. See note 4.1 to our financial statements for a description of these standards and their impact on our financial statements.

### Convenience Translations

We have translated some of the *real* amounts contained in this annual report into U.S. dollars. The rate used to translate such amounts in respect of the year ended December 31, 2013 was R\$2.3426 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect on December 31, 2013, as reported by the Central Bank. The U.S. dollar equivalent information presented in this annual report is provided solely for the convenience of the reader and should not be construed as implying that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at the above rate. See “Item 3.A. Selected Financial Data—Exchange Rates” for more detailed information regarding the Brazilian foreign exchange system and historical data on the exchange rate of the *real* against the U.S. dollar.

### Rounding

Some percentages and numbers included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

### Other Information

In this annual report, unless the context otherwise requires, references to “we,” “us,” “our,” “Company,” or “SABESP” refer to Companhia de Saneamento Básico do Estado de São Paulo – SABESP.

In addition, references to:

- “*real*,” “*reais*” or “R\$” are to the Brazilian *real*, the official currency of Brazil;
- “U.S. dollars” or “US\$” are to the United States dollar, the official currency of the United States;
- “Brazil” are to the Federative Republic of Brazil;

- “State” are to the State of São Paulo, which is also our controlling shareholder;
- “federal government” and “Brazilian government” are to the federal government of the Federative Republic of Brazil and “state government” are to the state government of the State of São Paulo;
- “São Paulo metropolitan region,” with respect to our operations, are to the area where the Metropolitan executive office operates, comprising 37 municipalities, including the city of São Paulo;

- “Regional systems” are to the area where the Regional systems executive office operates, comprising 326 municipalities in the interior and coastline regions of the State of São Paulo;
- “water coverage ratio” are to the ratio between the number of residences connected to the water supply network, divided by the number of urban residences in a certain area; and
- “sewage coverage ratio” are to the ratio between the number of residences connected to the sewage collection network, divided by the number of urban residences in a certain area.

Information in this annual report related to liters, water and sewage volumes, number of employees, kilometers, water and sewage connections, population served, operating productivity, water production rate, sewage lines (in kilometers), savings achieved and investment in improvement programs has not been audited.

### ***Market Information***

We make statements in this annual report about our market share and other information relating to Brazil and the industry in which we operate. We have made these statements on the basis of information from third party sources and publicly available information that we believe is reliable, such as information and reports from the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, and the State Data Analysis System Foundation (*Fundação Sistema Estadual de Análise de Dados*); or SEADE, among others. We have no reason to believe any of this information is inaccurate in any material respect.

References to urban and total population in this annual report are estimated based on a research prepared by SEADE: “Projections for the State of São Paulo – Population and Residences until 2025” (*Projeções para o Estado de São Paulo – População e Domicílios até 2025*).

### ***Our contracts and the Municipalities We Serve***

Throughout this document, we refer to the 363 municipalities we serve and to our 365 water contracts. This difference results from the fact that we have two partial water contracts with the municipality of Mogi das Cruzes. These contracts are partial because pursuant to them we serve only two neighborhoods of this municipality and, as a result, do not include Mogi das Cruzes in the total of municipalities we serve.



## CAUTIONARY STATEMENTS ABOUT FORWARD LOOKING STATEMENTS

This annual report includes forward looking statements, mainly in Items 3 through 5. 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 factors:

- general economic, political, demographical and other conditions in Brazil and in other emerging market countries;
- changes in applicable laws and regulations, as well as the enactment of new laws and regulations, including those relating to environmental, tax and employment matters in Brazil;
- fluctuations in inflation, interest rates and exchange rates in Brazil;
- the interests of our controlling shareholder;
- our ability to collect amounts owed to us by our controlling shareholder and by municipalities;
- our ability to continue to use certain reservoirs under current terms and conditions;
- our capital expenditure program and other liquidity and capital resources requirements;
- droughts, water shortages, intensive rain and other climatic events;
- our exposure to probable increases in the frequency of extreme weather conditions;
- power shortages, rationing of energy supply or significant changes in energy tariffs;
- the effects of the agreement for provision of water and sewage services in the City of São Paulo, which we executed with the State and the City of São Paulo;
- the lack of formal agreements between our company and certain municipalities to which we provide water and sewage services, including cities comprising metropolitan regions, and the fact that the State and municipal governments share competency regarding these services;
- the municipalities' ability to terminate our existing concession agreements prior to their expiration date and our ability to renew such agreements;
- our ability to provide water and sewage services in additional municipalities and to maintain the right to provide the services for which we currently have contracts;
- the size and growth of our customer base;
- our ability to comply with the requirements regarding water and sewage service levels included in our agreements with municipalities;

- our level of debt and limitations on our ability to incur additional debt;
- our ability to access financing with favorable terms in the future;
- the costs we incur in complying with environmental laws and any penalties for failure to comply with these laws;
- the outcome of our pending or future legal proceedings;
- our management's expectations and estimates relating to our future financial performance;

- the regulations issued by the São Paulo State Sanitation and Energy Regulatory Agency, or ARSESP, regarding several aspects of our business, including limitations on our ability to set and adjust our tariffs;
- the impacts on our business of the water consumption reduction incentive program and of any other measures we may need to take until the level of our reservoirs is normalized and sufficient to supply the customers in the São Paulo metropolitan region;
- decisions by the São Paulo State Department of Water and Energy (DAEE) and the National Water Agency (ANA) limiting the volume of water that may be drawn from the Cantareira System, the main water system we use to serve the São Paulo Metropolitan Region, and the measures that we may be required to take to ensure the provision of water to our customers; and
- other risk factors as set forth under “Item 3.D. Risk Factors.”

The words “believe,” “may,” “estimate,” “continue,” “anticipate,” “plan,” “intend,” “expect” and similar words are intended to forward looking statements. In light of these risks and uncertainties, the forward looking events and circumstances discussed in this annual report might not occur. Our actual results could differ substantially from those anticipated in our forward looking statements. Forward looking statements speak only as of the date they were made and we do not undertake any obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, unless required by law. Any such forward looking statements are not an indication of future performance and involve risks.

## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. Selected Financial Data

The following selected financial data should be read in conjunction with our financial statements (including the notes thereto), “Item 5. Operating and Financial Review and Prospects” and “Presentation of Financial and Other Information.”

The selected financial data as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 have been derived from our financial statements, prepared in accordance with IFRS, and included in this annual report. As described above and in further detail in note 4.1 to our audited financial statements, our financial data as of and for the years ended December 31, 2012 and 2011 was restated as a result of the retrospective adoption of certain new accounting standards. The selected financial data as of and for the years ended December 31, 2010 and 2009 have been derived from our financial statements, prepared in accordance with IFRS, which is not included in this annual report. Because these financial statements, and the financial data derived therefrom, were not restated to reflect the adoption of the new standards described above, they are not comparable to our financial statements, and the financial data derived therefrom, as of and for the years ended December 31, 2013, 2012 and 2011 (see note 4.1 to our audited financial statements).

We have included information with respect to the dividends and/or interest attributable to shareholders’ equity paid to holders of our common shares since January 1, 2009 in *reais* and in U.S. dollars translated from *reais* at the commercial market selling rate in effect as of the payment date under the caption “Item 8. Financial Information—Dividends and Dividend Policy—Payment of Dividends.”

The following tables present our selected financial data as of and for each of the periods indicated.

#### IFRS Summary Financial Data

	Year ended December 31,				
2013	2013	2012 <sup>(3)</sup>	2011 <sup>(3)</sup>	2010 <sup>(4)</sup>	2009 <sup>(4)</sup>
(in millions of U.S. dollars)	(in millions of reais, except per share and per ADS <sup>(1)</sup> data)				

**Statement of operations data:**

Net operating revenues	4,830.3	11,315.6	10,737.6	9,927.4	9,231.0	8,579.5
Cost of sales and services	(2,909.7)	(6,816.3)	(6,449.9)	(6,018.7)	(5,194.5)	(5,087.3)
Gross profit	1,920.6	4,499.3	4,287.7	3,908.7	4,036.5	3,492.2
Selling expenses	(272.0)	(637.1)	(697.3)	(619.3)	(712.9)	(614.4)
Administrative expenses	(311.2)	(729.1)	(717.4)	(683.6)	(653.2)	(717.1)
Operating profit	1,339.9	3,138.8	2,843.3	2,512.0	2,672.2	2,120.3
Financial income (expenses), net	(206.3)	(483.2)	(295.7)	(633.0)	(379.4)	(10.0)
Net income	821.1	1,923.6	1,911.9	1,380.9	1,630.5	1,507.7
Earnings per share – basic and diluted <sup>(1)</sup>	1.20	2.81	2.80	2.02	2.39	2.21
Earnings per ADS – basic and diluted <sup>(*)</sup> (2)	1.20	2.81	2.80	2.02	2.39	2.21
Dividends and interest on shareholders' equity per share <sup>(2)</sup>	0.29	0.67	0.66	0.43	0.57	0.58
Dividends and interest on shareholders' equity per ADS <sup>(*)</sup> (2)	0.29	0.67	0.66	0.43	0.57	0.58
Weighted average number of common shares outstanding <sup>(2)</sup>		683,509,869	683,509,869	683,509,869	683,509,869	683,509,869

(1) American Depositary Shares, or ADSs.

(2) On April 22, 2013, our shareholders approved a stock split, following which each common share represented three new common shares. Therefore, per share information in the selected financial data has been revised to give effect to the stock split retrospective to all periods presented.

(3) Data for 2012 and 2011 have been restated in application of IAS 19 – Employee Benefits (as revised in 2011) and IFRS 11 – Joint Arrangements, as described in note 4.1 to our financial statements. With respect to IAS 19 – Employee Benefits, the principal adjustment is the change in the accounting record method of actuarial gains and losses, such that accumulated differences between actuarial estimates and actual obligations are recognized in Other Comprehensive Income when they occur. With respect to IFRS 11 – Joint Arrangements, the results of the joint-ventures Sesamm – Serviços de Saneamento de Mogi Mirim S/A, Águas de Andradina, Águas de Castilho, Saneaqua Mairinque, Aquapolo Ambiental and Attend Ambiental are recognized using the equity method of accounting in 2013, 2012 and 2011 rather than through proportional consolidation as previously.

(4) Data for 2010 and 2009 have not been restated in application of IAS 19 – Employee Benefits (as revised in 2011) and IFRS 11 – Joint Arrangements, described in note 4.1 to our financial statements. In particular, data for 2010 and 2009 reflect the results of the joint-ventures Sesamm – Serviços de Saneamento de Mogi Mirim S/A, Águas de Andradina, Águas de Castilho, Saneaqua Mairinque, Aquapolo Ambiental and Attend Ambiental through proportional consolidation in 2010 and 2009, as opposed to the equity method of accounting applicable in 2013, 2012 and 2011.

(\*) On January 10, 2013, the ratio of American Depositary Receipts (“ADRs”) to common shares changed from 1:2 to 1:1. We have adjusted the earnings per ADS and dividends and interest on shareholders' equity per ADS for prior years for comparison purposes on the table above.

<b>2013</b>	<b>2013</b>	<b>As of December 31,</b>	
		<b>2012<sup>(3)</sup></b>	<b>2011<sup>(3)</sup></b>