

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP
Form 20-F
April 28, 2010

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

FORM 20-F

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

OR

**ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008**

OR

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

For the transition period from _____ to _____

OR

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

Title of each class	Name of each exchange on which registered
Common Shares, without par value	New York Stock Exchange*
American Depositary Shares, evidenced by American Depositary Receipts, each representing 2 Common Shares ⁽¹⁾	New York Stock Exchange

* 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.

⁽¹⁾ Until June 8, 2007, each American Depositary Share, evidenced by American Depositary Receipts, represented 250 Common Shares.

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.

227,836,623 Common Shares, without par value, as of December 31, 2008

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 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).

Yes No

Indicate by check mark whether the registrant has been subject to such filing requirements for the past 90 days.

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 Other

by the International Accounting Standards Board

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 x

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 x

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Presentation of Financial and Other Information

Our audited financial statements as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007, 2006 are included in this annual report. The selected financial data as of December 31, 2006, 2005 and 2004 and for the years ended December 31, 2005 and 2004 is derived from our audited financial statements included in previously filed annual reports.

Our financial statements are presented in Brazilian *reais* and are prepared in accordance with accounting practices adopted in Brazil (Brazilian GAAP), which is based on Brazilian Corporate law No. 6,404 of December 15, 1976, as amended, including the provisions of Law No. 11,638/2007 and Provisional Measure No. 449/2008, converted into Law No. 11,941, dated May 27, 2009); accounting standards issued by the Brazilian Institute of Independent Auditors (*Instituto dos Auditores Independentes do Brasil*), or IBRACON; accounting standards issued by the Brazilian Federal Accounting Council (*Conselho Federal de Contabilidade*), or the CFC; accounting standards issued by the Accounting Standards Committee (*Comitê de Pronunciamentos Contábeis*) or the CPC, and the rules and regulations issued by the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the CVM.

Similar to other Brazilian companies, we have the option of presenting our primary financial statements under Brazilian GAAP with a reconciliation to accounting principles generally accepted in the United States of America, or U.S. GAAP. Unless otherwise indicated, our financial statements and all financial data included in this annual report have been prepared in accordance with Brazilian GAAP.

The Brazilian Central Bank and the CVM set 2010 as the deadline for adoption of International Financial Reporting Standards, or IFRS, for the consolidated financial statements of financial institutions and publicly-held companies. On December 28, 2007, Law No. 11,638/07 was enacted, amending the Brazilian corporate law regarding the accounting practices adopted in Brazil. When we present our financial statements under IFRS to comply with this requirement and as Brazilian GAAP migrates towards IFRS, our financial statements under IFRS may be materially different from those actually presented under Brazilian GAAP.

Our Brazilian GAAP financial statements as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 reflect the changes introduced by Law 11,638/07 and the new accounting standards issued by the CPC in 2008, which we retroactively applied beginning on January 1, 2006. Selected financial information presented as of and for the years ended December 31, 2005 and 2004 has not been represented on the basis of the new accounting policies introduced in 2008, as permitted by Brazilian GAAP. As a result, such information is not comparable to the financial information reported herein as of and for the years ended December 31, 2008, 2007 and 2006.

Brazilian GAAP differs in significant respects from U.S. GAAP. Note 28 to our financial statements provides a description of the differences between Brazilian GAAP and U.S. GAAP as they relate to our financial statements and a reconciliation from Brazilian GAAP to U.S. GAAP, for the periods presented therein, of our net income and shareholders' equity. This reconciliation includes, among other changes, adjustments for differences related to the accounting for past revaluations of property, plant and equipment, historical inflation accounting, accounting for pension and other employee benefits and account receivables from our controlling shareholder with respect to benefits granted according to law No. 4,819 of August 26, 1958.

All information 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 have not been audited.

In this annual report, references to *real*, *reais* or R\$ are to the Brazilian *real*, the official currency of Brazil. All references to U.S. dollars or US\$ are to the United States dollar, the official currency of the United States. As a result of the recent fluctuations in the *real*/U.S. dollar exchange rate, the commercial selling rate may not be indicative of current or future exchange rates. See *Item 3.A. Selected Financial Data Exchange Rates* for information regarding the *real*/U.S. dollar exchange rate since January 1, 2002.

Other Information

On August 15, 2008, we established a special purpose company called SESAMM – Serviços de Saneamento de Mogi Mirim S/A to provide sewage treatment services to the municipality of Mogi-Mirim. The company has a period of duration of 30 years from the date of execution of the concession agreement with the municipality of Mogi-Mirim. We have 36.0% of SESAMM's capital stock, which as of December 31, 2008 amounted to R\$10.7 million divided into 10,669,549 common shares with no par value.

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. Brazil refers to the Federative Republic of Brazil and State refers to the State of São Paulo, which is also our controlling shareholder. The terms federal government and Brazilian government refer to the federal government of the Federative Republic of Brazil and State government refers to the state government of the State of São Paulo.

In this annual report, the São Paulo metropolitan region means the area where the Metropolitan executive office operates, comprising 38 municipalities, including the city of São Paulo. The term Regional systems means the area where the Regional systems executive office operates, comprising 328 municipalities in the interior and coastline regions of the State of São Paulo. As of the date of this annual report, we provide water supply and sewage services to a total of 366 of the 645 municipalities in the State of São Paulo.

References to water coverage ratio in this annual report mean the ratio between the number of residences connected to the water supply network, divided by the number of urban residences in a certain area. References to sewage coverage ratio mean the ratio between the number of residences connected to the sewage collection network, divided by the number of urban residences in a certain area.

References to urban and total population in this annual report are estimated based on a research made by the State System Foundation Data Analysis (*Fundação Sistema Estadual de Análise de Dados*), or the 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*).

Certain figures 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.

Forward-Looking Statements Contained in this Annual Report

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 and other conditions in Brazil and in other emerging market countries;
- existing and future governmental regulation, including taxes on, and charges to, us;
- changes to tax laws in Brazil;
- inflation and currency devaluation 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 ability to continue to be able to pass on to our tariffs expenses that we incur in connection with the use of water;
- our capital expenditure program and other liquidity and capital resources requirements;
- changes in the Brazilian environmental law;
- limitations on our ability to increase and readjust tariffs;
- droughts, water shortages and climate events;
- power shortages or rationing in energy supply or significant changes in energy tariffs;
- our lack of formal concession agreements for the city of São Paulo and other municipalities, including the cities comprising the São Paulo metropolitan region;
- the right municipalities have to terminate our existing concession agreements prior to their expiration date;
- our ability to provide water and sewage services in additional municipalities and to maintain rights to provide the currently contracted services;
- the size and growth of our customers base;
- our ability to maintain universalization of water coverage ratio in the municipalities to which we provide water services and to increase sewage coverage ratio in the municipalities to which we provide sewage services;
- our level of indebtedness and limitations on our ability to incur additional indebtedness;

- our ability to access financing at attractive conditions in the future;

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- our costs relating to compliance with environmental laws and potential 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 regulation issued by the São Paulo State Sanitation and Energy Regulatory Agency, or ARSESP, regarding several aspects of our business; 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 identify 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 the 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

1.A. Directors and Senior Management

Not applicable.

1.B. Advisers

Not applicable.

1.C. Auditors

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable

2.A. Offer Statistics

Not applicable.

2.B. Method and Expected Timetable

Not applicable.

ITEM 3. Key Information

3.A. Selected Financial Data

The selected financial data in this section as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 has been derived from our audited financial statements, which appear elsewhere in this annual report. The selected financial data as of December 31, 2006, 2005 and 2004 and for the years ended December 31, 2005 and 2004 has been derived from our audited financial statements, which do not appear elsewhere in this annual report.

Our financial statements have been prepared in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP (see Note 28 to our financial statements). You should read this selected financial data in conjunction with our financial statements and the related notes thereto included in this annual report.

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

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As of and for the year ended December 31,
2004 **2005** **2006(1)** **2007(1)** **2008(1)(2)**
(as adjusted) (as adjusted)
(in millions of *reais*, except per share and per ADS data)

Brazilian GAAP**Statement of operations data:**

Net revenue from sales and services	4,397.1	4,953.4	5,527.3	5,970.8	6,351.7
Cost of sales and services	(2,253.4)	(2,376.4)	(2,616.8)	(2,695.7)	(2,831.8)
Gross profit	2,143.7	2,577.0	2,910.5	3,275.1	3,519.9
Selling expenses	(502.5)	(537.8)	(719.2)	(639.6)	(718.9)
Administrative expenses	(313.6)	(349.6)	(376.9)	(552.6)	(578.6)
Other operating expenses (income), net	(33.9)	(25.4)	(50.9)	(35.1)	(1,053.0)
Financial income (expenses), net	(503.7)	(447.0)	(563.3)	(560.9)	(707.5)
Income before income taxes and extraordinary item	790.0	1,217.2	1,200.3	1,486.8	461.9
Income tax and social contribution	(241.9)	(316.5)	(375.7)	(431.6)	(398.3)
Extraordinary item, net of income and social contribution taxes ⁽³⁾	(35.1)	(35.1)	(35.1)	-	-
Net income	513.0	865.6	789.4	1,055.3	63.6
Net income per 1,000 common shares (per share in 2007 and 2008) ⁽⁴⁾	18.01	30.40	27.72	4.63	0.28
Net income per ADS	4.50	7.60	6.93	9.26	0.56
Dividends and interest on shareholders' equity per 1,000 common shares (per share in 2008)	5.37	12.23	9.51	1.32	1.30
Number of common shares outstanding at year end (in thousands of shares) ^{(5) *}	28,479,578	28,479,578	28,479,578	227,836	227,836

(1) Our Brazilian GAAP financial statements as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 reflect the changes introduced by Law 11,638/07 and the new accounting standards issued by the CPC in 2008, which we retroactively applied beginning on January 1, 2006. See Note 2(c) to our financial statements included elsewhere in this annual report for this amendment and other reclassifications to our Brazilian GAAP financial statements. Selected financial information presented as of and for the years ended December 31, 2005 and 2004 has not been represented on the basis of the new accounting policies introduced in 2008, as permitted under Brazilian GAAP. As a result, such information is not comparable to the financial information reported herein as of and for the years ended December 31, 2008, 2007 and 2006.

(2) Includes the proportional consolidation of SESAMM.

(3) The extraordinary item charged to income in the years ended December 31, 2004, 2005 and 2006 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 CVM and Brazilian GAAP. For purposes of U.S. GAAP, the pension expense has been

treated as a payroll expense from the first year presented.

(4) After June 4, 2007 our common shares have been traded taking into account a reverse stock split of 125 common shares into one common share. To convert from *reais* per 1,000 common shares to *reais* per share, for 2004, 2005, 2006 and 2007 the price per 1,000 common shares must be divided by 1,000 and multiplied by 125.

(5) In 2007, we approved a reverse stock split of 125 common shares into one common share. Under U.S. GAAP, SFAS N° 128 requires the retroactive restatement of earnings-per-share computations for stock dividends, stock splits and reverse splits (see Note 28 to our financial statements).

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